Executive Summary

Today’s IT organization has evolved to the point where its goal is to enable the business with information technology (IT). IT executives have refined the IT organizational model by increasing its standardization and performance. But business executives now expect IT to add even more value, by changing the way the business works. CIOs thus need to think about the future of IT capabilities and the role of these capabilities in the enterprise. This article surmises that one possible future of the IT organization is to become an Enterprise Capability Organization (ECO) that manages the capabilities of the enterprise to increase its performance as a whole. Experiences at a few leading-edge companies give a glimpse into this future. But, of course, there are challenges, as this article discusses.

WHAT IS THE FUTURE OF IT?2

The IT organization has been the subject of extensive research and analysis to define its responsibilities.3 The current drive toward standardization to reduce costs has pressured IT organizations to commoditize their activities, making IT’s contribution to competitive advantage difficult to measure and value.4 For IT to add value, its future must be viewed beyond the bounds of standardization and commoditization.

This new perspective arises from business expectations rather than technology requirements. Increasingly, executives look to IT to manage the way they work—that is, to improve and transform the enterprise’s capabilities.

A capability is the ability to perform a particular task or activity.5 Enterprises have multiple capabilities, some of which nest within others. IT organizations have their own capabilities, such as application development, infrastructure management, etc. In this article, capability refers to an enterprise’s business activities, while IT resources refer to the capabilities within the IT organization. Therefore an IT organization uses its resources to focuses on enterprise capabilities.

The needs of enterprises to create new capabilities, in turn, shape the future model of the IT organization. The view that this article advances is that IT’s future could be as an Enterprise Capability Organization (ECO), which combines IT and non-IT resources to manage the enterprise’s capabilities.
BUSINESS EXPECTATIONS ARE PUSHING IT BEYOND “ENABLING THE BUSINESS WITH TECHNOLOGY”

Business expectations of IT have changed over time—so have definitions of IT success. Business expectations have traditionally concentrated on IT implementing and operating applications and infrastructure to enable the business. These expectations have driven IT’s functions and services. However, two forces are changing these expectations: increasing market competition and rising executive expectations for greater value from IT. Multi-year surveys of CIOs conducted by the author illustrate this shift.6

Increasing market competition is changing business expectations of IT. Executives’ expectations of near-term growth of their companies provide a simple but clear measure of market competitiveness. The surveys over the past four years show that an increasing number of firms plan to grow faster than the market. Such expectations raise market competition, as Figure 1 illustrates.

Figure 1: Market competition increases as more firms look to grow faster than their peers.

![Graph showing market competition increase](image)

CIOs report that executives changed their expectations of IT at the same time as they shifted their plans to achieve higher market growth. Over this same period (2004–2007), businesses have expected IT to play a larger role in changing how the enterprise works, in terms of its processes, workforce effectiveness, and cost structures.

Figure 2 illustrates the shift in business priorities from 2004 to 2007, as seen by CIOs, and their projected priorities for 2010. Business expectations for IT are now more business focused. Previously, the top expectations were technology-related trends, such as data protection and privacy and security. Now, these are among the bottom five priorities in 2007 and 2010. Business leaders expect the CIO and IT to deliver on these items as a standard part of their job. This means that additional value must come from other sources than in the past.

Executives want IT to change the way the enterprise works. The top five 2007 business priorities—raising workforce effectiveness, managing enterprise-wide cost structures, increasing customer retention, and growing revenues—demonstrate that business expectations for process improvement are part of a larger goal of changing the way the enterprise works.

Figure 2: Business priorities shift from 2004 to 2007 and projected to 2010.

![Graph showing business priority shift](image)

Westerman and Weill’s analysis of more than 150 non-IT executives’ attitudes toward IT further supports this view. They identified 10 IT and 8 non-IT tasks required to garner the greatest value from IT. They found that firms receiving more value from IT have business executives who are better at oversight and identifying needs and have IT organizations that are better at application development, business process reengineering and organizational change.7 This combination of technology and process reinforces the point that executive expectations are moving from technology automation to business transformation.

This shift in business expectations establishes new criteria for successful IT organizations, which can be summarized as:

- Expanded scope of concern beyond technology to encompass issues of business process performance, enterprise cost structures and workforce performance;
- Increased responsibility for improving the effectiveness of customer-facing operations to attract and retain customers, drive faster innovation and make the company easier to do business with for its customers and suppliers;
- Higher expectations that CIOs and the IT organization will evolve to have greater business impact by deploying new capabilities, expanding the use of information and intelligence, and opening new markets.

These expectations move IT from focusing on technology-based back office automation to

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6 This survey is the annual Executive Programs CIO survey conducted by Gartner, Inc.

delivering business-based front-office-support capabilities that deliver the competitive differences required to achieve market growth.

**IT Organizations Have Standardized Around a “Dominant Design”**

Current IT organizations look much alike because they have been rapidly standardizing—to the point of reaching a dominant design. A dominant design is an accepted market standard, reached after competing standards have faded away. The accepted market standard for an IT organization is defined by its organizational responsibilities, structures, resources and metrics. The similarities among IT organizations are striking and point to a dominant design. Consider the following:

- Enterprises recognize the IT organization as a distinct organizational entity and use consistent labels for IT functions. While individual organization charts may differ, and some functions may be distributed across business units, each function can be readily identified in the majority of enterprises.

- The careers of IT professionals have converged around a defined set of standard roles with growing bodies of knowledge, such as the Project Management Institute’s PMBOK. These roles are used by IT recruiting firms to attract and evaluate talent, and they are backed by standardized market compensation studies.

- IT processes continue to converge around industry-wide designated frameworks, such as ITIL and SEI-CMM. IT organizations are adopting these and other “best practices” backed by performance data and results. Rapidly, there are becoming one or two best ways to execute different IT processes.

- The IT outsourcing market is a multi-billion-dollar industry, and growing. This industry would not be possible without standardized functions, skills and processes. In others words, the outsourcing market would not be possible without IT reaching a dominant design.

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9 PMBOK stands for Program Management Body of Knowledge and is published by the Project Management Institute, whose membership is approaching 250,000 professionals worldwide.

10 Service providers were among the first and most avid supporters of standards-based IT because they use these standards to develop their offerings, market positions, and brand.
This dominant IT design is based on the expectation that IT’s main job is to implement and operate enabling technologies. Changing this expectation opens the door for exploring alternative designs—alternative configurations of IT and non-IT resources. But any such reorganization should reflect the business expectation that IT change the way the enterprise works. One basis for reorganizing IT and non-IT resources is “enterprise capability.”

ENTERPRISE CAPABILITY: WHAT CAPABILITY IS AND HOW IT WORKS

An enterprise works based on its capabilities. A capability consists of multiple elements, including IT-based elements, as shown in Figure 3. Capability performance is the performance of these elements, as well as the effectiveness of their element-to-element relationships. If business executives expect IT to shift its focus to “changing the way the enterprise works,” in essence, they expect IT to change its capabilities.

Figure 3: A capability consists of elements that are integrated to perform a specific task or activity.

Enterprises manage multiple capabilities to achieve their strategies and objectives. Some capabilities are ad hoc, forming and dissolving based on immediate needs. An example is providing a special service to a key customer. These ad hoc abilities are not the primary concern of management, though. Executives manage enterprise capabilities, which are the repeatable tasks and activities that achieve their strategy and operating goals.

An individual enterprise capability—such as acquiring a customer or distributing a product—reflects a specific combination of elements that define how the enterprise works. Figure 4 details the elements within a capability, showing the scope of skills needed to improve or create enterprise capabilities.

HOW AN ENTERPRISE CAPABILITY APPROACH WORKS

Managing a capability involves managing both the configuration of the elements just described and the interactions among them. Most management approaches concentrate on changing an individual element, such as information technology. A capability view, on the other hand, concentrates on the interactions among the elements, to address the management challenges of complexity, cost, performance, and such.\[1\]

The capability view uses “degrees of freedom across the elements” to address complex issues, such as the need for consolidated customer information to support a customer-centric strategy. Consolidating customer data involves consolidating the processes and systems involved in customer sales and services into a single enterprise capability. Field managers often oppose these efforts, arguing that each regional business runs itself differently; therefore they require different processes and systems. This argument puts the goal for consolidated data into conflict with the organizational structure.

Managers who view organization, data, process, and systems as individual tools face a tough decision on how to achieve the goal of a single view of the customer through enterprise-wide consolidated data. One option is to dictate a single solution, using unified processes, data, and systems to plow through regional resistance. The regional managers may give in on these demands, or they may put the goal on hold in favor of other parts of their strategy. Or they may continue to extol their regional differences with separate processes and systems but acquiesce on the data goal and work to get it as close to consistent as possible. Or they may create additional processes, systems, and tools to capture and consolidate data outside of the standard sales processes. All these alternatives are either less effective, more complicated, or more expensive than recognizing the need to redesign the capability with the right combination of elements.

This example illustrates that leaders who view these elements independently face a win-lose situation. They can have either full central control or full autonomy for the business units or a costly compromise in the middle. In contrast, leaders who design the capability as a whole can change the organizational structure in coordination with the other elements to achieve the strategy. By incorporating multiple elements (process, information, system, organization, and job), the enterprise can achieve its goal by designing a consistent sales capability that is executed by local organizations in their local context.

### Enterprise Capability Provides an Approach for Reorganizing IT Resources

A capability view gives managers greater flexibility to address strategic and implementation issues because it gives more “degrees of freedom” by encompassing all nine elements. It also extends the scope of concern for teams working on improving or creating new capabilities. If executives expect IT to play a major part in changing the way the enterprise works, then IT must take a capability view to meet those expectations.

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**Table: Elements and Descriptions**

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<thead>
<tr>
<th>Element</th>
<th>Description</th>
<th>Examples</th>
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| Specific task or activity | The result the enterprise needs to realize its strategy or operational goals and outcomes. These activities can be sourced either within the company or through partners. | • Strategic value  
• Events  
• Outcome  
• Operational scope |
| Human capital       | The skills, competencies, behaviors, and experience required to execute the processes, apply information, and utilize the facilities and technologies to deliver the outcome. | • Job design  
• Workforce competencies  
• Training and performance support |
| Organization        | The distribution of responsibilities, accountabilities, and resources across individuals required to deliver outcomes and manage work. | • Organization chart  
• Division or department responsibilities  
• Resource plans and deployment |
| Processes           | The activities and actions involved in transforming customer events into outcomes based on the capability tasks and activities. | • Activities, steps, and tasks  
• Activity rules  
• Activity, steps, and task dependencies |
| Facilities and equipment | The physical technologies used in creating and conducting the capability. | • Facilities and plant  
• Machinery and equipment  
• Logistics and geography |
| Technology          | The communications, presentation and interactive tools, assets, and infrastructure used in operating the capability. | • Technical infrastructure  
• Application systems  
• Interfaces (human and systems)  
• Communications networks |
| Applications        | The automated business logic that automates business processes, rules, and workflow | • Routines  
• Logic  
• Automated decisions |
| Information         | The insight and data involved in determining, creating, and delivering the outcome. | • Structured data  
• Unstructured data  
• Analytics  
• Geographic and presence information |
| Rules and metrics   | The operational, financial, and other indicators of capability task or activity performance. | • Business rules and dependencies  
• Performance targets and management objectives  
• Metrics definitions  
• Target definitions |
TWO EXPERIENCES IN SUPPORTING ENTERPRISE CAPABILITY

CIOs and IT executives recognize the business expectations calling for greater IT contribution to business performance and capability. To meet these expectations, several CIOs are evolving and expanding the scope of their IT organizations to manage more of the way the enterprise works. Their experiences provide indicators and lessons learned that apply to the future of IT.

The CEMEX Way Defines the Company in Terms of its Enterprise Capabilities

CEMEX is a global cement and construction supply company with headquarters in Mexico. In the late 1990s, after growing by acquisition and needing to upgrade its systems for the year 2000, CEMEX decided to standardize its operations into eight core processes known as The CEMEX Way.\(^\text{12}\) These core processes formed the basis for CEMEX’s enterprise capabilities.

Implementing these core processes involved reorganizing the enterprise and creating an enterprise information systems group. The CIO was made responsible for the transformation and for improving the core processes across the enterprise. Multi-skilled teams, known as e-Groups, reported to the CIO and were responsible for identifying, integrating, and changing the way the core processes worked. They changed business processes, applications, jobs, and organizational structures. CEMEX’s organizational model is shown in Figure 5.

The e-Groups have the ability to rearrange elements when creating the enterprise capabilities. They and Cemex’s executives used the following five core principles to transform the enterprise:

- Standardize business processes and systems;
- Reorganize the company to balance the execution of global processes in local environments;
- Build Internet-enabled business processes to use information more intelligently and implement best practices that scale;
- Establish governance mechanisms to manage enterprise capability;


\(^{13}\) CEMEX’s eight core processes at the time of implementation were: commercial and logistics, Ready-Mix, planning, operations, finance, accounting, procurement, and human resources. Since that time, management has further refined and improved the processes.
The Enterprise Capability Organization

Create an environment of performance management to compare performance across the enterprise.

The CEMEX Way establishes a global business model based on managing enterprise capabilities centrally by bringing together multiple skills under a single enterprise-wide organization. Implementing The CEMEX Way highlights some challenges of formally managing enterprise capability:

- The enterprise needs active and visible executive leadership. The CEMEX Way was led from the top and was actively sponsored by the CEO.

- Bringing together multiple skills into transformation teams is powerful, when they have a clear focus.

- Flexibility comes from design options that go beyond changing only processes and systems.

- Operational performance can be raised and sustained through innovation, by identifying and deploying proven capabilities across the enterprise.

- By formally managing enterprise capability, CEMEX has gained agility. It can now identify and deploy enterprise improvements in a matter of weeks. Traditional transformation projects generally take years.

CEMEX continues to evolve and improve its performance by changing its core capabilities. Management is encouraging innovation because the company needs to develop new sources of revenue, now that the gains of standardization have been reaped. Fortunately, CEMEX has evolved its core capabilities to include new offerings that support ongoing growth. This experience of CEMEX illustrates the potential of integrating IT and non-IT resources to formally manage enterprise capability.

GlaxoSmithKline Manages Capability by Improving Business Processes

GlaxoSmithKline (GSK) is a global healthcare company based in the U.K. GSK IT is extending its contribution to the business by incorporating improvement of business processes in its work.14 When Glaxo merged with SmithKline, GSK IT started on this business-process path by focusing on improving IT’s internal processes. The IT and process staff not only improved IT’s cost and performance measures, but they also generated business confidence and credibility that IT could deliver process expertise and get results. So once IT had improved its own capabilities, IT management had the rationale and resources to supply specialized business process support. When GSK reorganized around its business processes, IT was asked to play a greater role in supporting enterprise process improvement.

GSK IT responded to these increased responsibilities by reorganizing its resources to align with the company’s core business processes. IT management wanted to better reflect the way the company worked. The reorganization involved placing three resources—business relationship, business analysis, and business architecture—into business process teams. This structure gave IT the capability to assess the operational performance of the business and propose improvement projects to raise business performance.

GSK has extended the way it works by implementing a Value Improvement Cycle known as PS3, which stands for people, strategies, services, and solutions. This cycle, shown in Figure 6, actually reflects many of the elements of enterprise capability, along with the interactions involved in improving service metrics, business KPIs and shareholder value. Using PS3, GSK IT has better engaged the business in adjusting business rules, processes, information systems, and responsibilities in a range of changes.

GlaxoSmithKline’s IT organization needed to reorganize its IT resources and implement new disciplines to meet the company’s expectations for greater business process value. GSK IT’s experience demonstrates a path for evolving IT toward an enterprise capability focus:

- Build credibility and skill by improving internal IT processes and capabilities;
- Create a core group of process improvement experts;
- Reorganize IT resources along process lines to reflect changes to the enterprise’s organization;
- Adopt a measurement and metrics focus to process improvement;
- Implement a value improvement cycle that considers more than IT changes to realize results.

These two cases indicate that organizations are rethinking and experimenting with the focus of their IT functions. These experiments concentrate on creating business outcomes and managing IT in new ways. They represent first steps in broadening the IT function.

A FUTURE STRUCTURE FOR IT: THE ENTERPRISE CAPABILITY ORGANIZATION (ECO)

Moving IT from a technology focus to an enterprise capability focus changes its role and responsibilities, giving IT resources greater accountability for business performance and competitive advantage. Such responsibilities depart from IT’s concentration on enabling the business through technology.

Managing Enterprise Capability Requires New Organizational Structures

A decision to change an organizational structure needs to take into account how the new strategies and objectives will affect the allocation of responsibilities. Any re-definition of IT resources needs to be grounded in a clearly understood value proposition that executives can support, which means this new organization must address enterprise fundamentals. Those fundamentals include responsibilities for:

- Executing current strategies—delivering on current commitments to customers, investors and stakeholders by generating results and returns for shareholders;
- Leading and managing the enterprise—using governance and oversight functions that concentrate on making decisions for executing its plans, investing resources, evaluating performance and assigning rewards;
- Planning and preparing for the future—evolving enterprise capabilities to improve current operational performance and develop new capabilities to maintain or extend sources of competitive advantage.

Most enterprises organize themselves around the first two goals. They create operating departments that concentrate on delivering current commitments and plans. They likewise focus resources, such as the board of directors, finance, legal, etc., on governance and oversight requirements. However, the third goal—planning and preparing for the future—is often distributed across the enterprise, coming together only under the guise of “enterprise transformation”—as shown in Figure 7 on the left.

One approach to pulling this third responsibility together is to create an enterprise capability group to manage “transformation.” This approach has been taken in implementing ERP systems and other major enterprise-wide initiatives. Once completed, though, these groups have been disbanded.

Executives can support such a temporary, ad hoc structure when the business environment is relatively stable, enterprise change is infrequent and competitive demands can be readily met with available capabilities. But in an environment of heightened competition and shrinking cycle times, enterprises need a more formal and permanent approach to evolving their enterprise capabilities, as shown on the right in the figure. They need a new organization—an enterprise capability organization (ECO).

**An ECO Manages How the Enterprise Works**

Creating an organization focused on improving and creating enterprise capabilities would bring together IT and non-IT resources into a new configuration. An ECO represents one possible configuration. It would manage enterprise capabilities across all nine elements noted earlier. It would integrate resources now in IT, human resources, finance, and business units—all the resources and functions currently involved in monitoring, improving, and transforming enterprise capabilities. Figure 8 illustrates a sample organizational chart.

This organization chart illustrates one way to designate formal responsibility for capability development, services and performance. These three organizations within the ECO are summarized in Figure 9.

Small versions of this type of organization exist in many enterprises. But no single organization has implemented every aspect. These small versions are known as process improvement teams or Six Sigma teams—groups of specialists focused on changing business processes and systems to raise current performance. They work on individual processes. A full-scale ECO, on the other hand, would have greater scale and responsibility, working across the enterprise and on all the elements in enterprise capability.

Creating an ECO requires moving functions previously housed in business units and corporate offices into this structure. Each move requires a good business reason. Figure 10 provides a subset of the IT and non-IT resources involved and the rationale for moving them to an ECO.

Reorganizing resources from across the enterprise into an ECO represents a significant change for any enterprise.
Figure 8: A sample enterprise capability organization (ECO) encompasses the resources required in managing the way the enterprise works.

Figure 9: An enterprise capability organization has three important duties.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Description</th>
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<tbody>
<tr>
<td>Capability Development</td>
<td>Supports “changing” the business by developing new enterprise capabilities or transforming existing capabilities.</td>
</tr>
<tr>
<td>Capability Services</td>
<td>Supports how we “run” the business by delivering business services at scale across the enterprise.</td>
</tr>
<tr>
<td>Capability Performance</td>
<td>Supports how we “run” the business by monitoring and continuously improving the performance of current capabilities, identifying the need for new capabilities, and deploying new and improved capabilities.</td>
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</tbody>
</table>

organization. This change requires reconfiguring both support functions, such as HR, finance, and corporate development, as well as line responsibilities for performance management and support.

THE CHALLENGES OF CREATING AN ECO

The ECO described above is an end-state model of the complement of resources involved in managing capability. Such a move is not without its challenges and barriers—the focus of this section.

CEMEX and GlaxoSmithKline provide examples of moving toward managing enterprise capability. Other organizations have faced similar significant challenges when they made changes such that they eventually returned to more traditional structures and practices.

For example, they placed IT resources back into a traditional role. Their experiences provide additional insight into the challenges of managing enterprise capability.

An ECO Needs Enterprise Governance Authority.

A global manufacturer illustrates the challenges that capability places on governance authority. This manufacturer reorganized its operations into enterprise capabilities as part of quality and process improvement initiatives. Its goal was to gain scale efficiencies by improving coordination across the enterprise. The company established an enterprise-wide management function with the appropriate skills, resources, and information.

Two years later, though, the group was disbanded because it did not have the governance authority to make the necessary changes to achieve its goals.
Figure 10: An enterprise capability organization encompasses the activities required to create or improve enterprise capability.

<table>
<thead>
<tr>
<th>Function</th>
<th>From / To</th>
<th>Rationale</th>
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| Corporate Planning and Development| From Corporate Office.  
To Capability Development, where it guides investments in new capabilities with strategic options. | Current corporate strategies and plans assume a clean-sheet design to achieving the strategy. Integrating corporate planning within a capability organization increases operational relevance and the practicality of corporate plans needed to execute change to achieve strategic results.                                                                                                                                                                                                                                             |
| Business Process Improvement      | From being fragmented among business units, Finance, or IT.  
To Capability Development, to develop processes in coordination with job, application, and competency designs. | Business processes work with each other to create value for the customer. Improved in isolation, one process can pass its problem onto another and increase complexity and cost while reducing flexibility.  
Business process improvement and transformation involve specialized skills that can be better deployed enterprise-wide to address performance issues in a consistent manner when they are organized at the enterprise rather than the business-unit level. |
| Application Development           | From Information Technology or fragmented in business units.  
To Capability Development, to ensure that applications support process tasks and are consistent with job responsibilities and competencies. | A capability requires integrating process, information, business rules, and workforce skills. Changing the way an enterprise works requires designing processes, applications, information, and jobs concurrently rather than sequentially.                                                                                                                                                                                                         |
| Job Design                        | From Human Resources.  
To Capability Development, to ensure consistency among job responsibilities, process activities, application functionality, and competencies. | Current job design and job management concentrate on creating jobs across comparable levels and connecting these jobs with resources available in the marketplace.  
Evolving enterprise performance requires designing jobs to achieve results rather than matching similar jobs in the industry or other departments.                                                                                                                                                                                                                                      |
| Operational Performance Reporting | From being fragmented across business units.  
To Capability Performance, to actively monitor operational performance and identify opportunities for best practice improvements. | Capabilities are leading indicators of financial performance and should be managed in a consistent manner across the enterprise.  
Establish a single point of information to support consistent and comparable measures of performance to identify best practices and benefits realization.  
Consolidation in the ECO follows the model of consolidating financial reporting under the CFO.                                                                                                                                                                                                                       |
| Workforce Enablement, Training, and Support | From Human Resources  
To Capability Performance, where training and performance support is deployed as part of performance-improvement activities. | Skill gaps are one of the most frequent causes of poor operational performance. HR-based training programs concentrate on complying with a standard curriculum.  
Capability performance management requires a stronger interventionist stance that gives poorly performing units the needed skills at their point and time of need.                                                                                                                                                                                                                       |
| Infrastructure and Operations     | From Information Technology.  
To Capability Services, where it provides and manages services to the entire enterprise. | An ECO is enterprise-wide. Infrastructure and operations provide scale efficiencies that can be managed enterprise-wide either in managing the outsourcing service providers or directly providing the infrastructure services.  
Responsibility for enterprise capability services remains with this organization, thereby providing the scale of operational responsibility to support the organization’s status as a peer organization in the business.                                                                                                         |
In other words, the ECO could not make a change that would lower one division’s performance even if that change would significantly improve the manufacturer’s performance. Without this authority, enterprise plans and changes were adopted only when they benefited everyone. Such changes were few because the manufacturer had already harvested all the “low hanging fruit.” Local product and geographic power prevented changes to the governance structure. These local power bases prevailed and placed local operations ahead of enterprise performance. So there was no way to optimize overall performance because the ECO could not sacrifice local goals.

Managing Capability Requires Changing the Way Management Works. A national distributor illustrates that managing enterprise capability requires ongoing structural changes to the way the enterprise works rather than a single transformational project. This distributor sought to manage enterprise capability after implementing significant enterprise-wide applications and business processes. Similar to the experience at CEMEX, executives sought to use the systems change as the platform for managing current operations, innovating future offerings, and, most importantly, implementing new management regimes. The company invested in an expanded enterprise IT organization, adding business process design, information analytics, service management and innovation skills and resources. This organization’s goal was to evolve and extend enterprise-wide performance by leveraging the new systems, information and processes.

The line executives tied enterprise-wide management closely to implementing the new systems. In fact, they focused on the systems, not a new management approach. When the technology project was completed, these executives thought the transformation was complete. They began ignoring the enterprise organization’s recommendations, metrics and reporting based on the new management paradigm. Mentally and emotionally these line executives went back to their old way of managing their operations. They had new tools that changed the way they worked, but without the corresponding change in the way they managed, these executives used these new tools to produce the same old results.

An ECO Requires Enterprise Management and Technical Performance. With an enterprise capability mindset, the enterprise is managed as a system rather than as a portfolio of operations. Thus it requires business systems thinking. Without enterprise management, executives will not value the difficult tradeoffs between capabilities and elements within capabilities. And technical performance is a prerequisite for enterprise capability because it provides the scalable enterprise-wide foundation and communications platform for capabilities.

Executives manage capability when they value enterprise performance, that is, when they recognize the value of the enterprise as a whole. That value can outweigh the importance of an individual business unit or a capability. So an ECO needs the authority to redistribute responsibility, authority, and resources away from individual units. And executives must focus on the enterprise’s performance, which probably means they need to work together in new ways. Specifically, they need to:

- Have a clear business strategy and objectives, supported by the executive team, to implement the decisions that will raise performance.

- Place a higher value on enterprise performance than the performance of individual organizational units. This is often achieved through executive incentive pay systems that base the majority of compensation risk on enterprise performance.

- Recognize and reward results rather than resources managed. This requirement makes performance management an integral tool and part of being a professional manager.

- Invest authority and governance power in the ECO to monitor, improve current performance, and build new capabilities to achieve the strategy.

An ECO requires effective IT and technology operations because effective IT generates both scale efficiencies and business confidence in IT’s ability to deliver value on a broader context. But CIOs looking to lead an ECO must have skills and experience beyond leading IT. They will need to manage capability performance and improvement by:

- Delivering current and improving future IT technical performance and cost effectiveness to provide a scalable platform for operating enterprise capabilities;

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ENTERPRISE CAPABILITY IS A STEP IN THE EVOLUTION OF IT

Enterprise capability represents an extension of the evolutionary path many IT organizations are already following. As IT moves from focusing on managing its functions and services toward managing business processes, it picks up broader responsibilities and goals. Figure 11 illustrates these different stages in IT’s business objectives and scope of control.

The move toward an ECO extends IT’s scope to transforming enterprise performance. On the surface, this evolution to enterprise capability would seem to apply only to large, complex enterprises. Paradoxically, medium-sized enterprises more naturally work in terms of capabilities because IT resources are closer to the business. Staff also tends to work on projects that blend business processes, technology, and other changes because the company does not have the resources to support separate, specialized functions. Larger organizations may more readily identify the specialized skills needed to manage capability, but they have the organizational inertia that requires a major organizational change to unseat the status quo.

The Evolution to Capability Strengthens the Business Value and Need for IT Resources

IT organizational design will continue to evolve, and the goal of delivering enabling technology will remain relevant for some time. CIOs who are not yet operating effectively in the current dominant IT design have significant opportunities for improving their IT organization’s cost, performance, and contribution. A viable medium-term strategy for them is to operate a well-run technology services organization.

However, CIOs who currently manage a high-performing IT organization are beginning to see the need for change. Moving to a capability organization represents an emerging approach to deliver new levels of enterprise performance. To prepare:

- Focus on managing and improving current IT process performance by creating an IT process improvement function and communicating its improvements to the enterprise. Such a step demonstrates the CIO’s ability to manage and improve IT’s own performance and capability, increasing experience and management credibility.
- Build business awareness and skills throughout the IT organization. Improving enterprise capability involves business change that includes, but is not limited to, technology change. Making business skills the most common denominator across IT gives it the ability to engage the business and deliver broader solutions.
- Adopt a greater level of information orientation in IT because that improves enterprise performance. Specific practices can improve IT’s ability to engage with the business and deliver value.
- Focus IT projects and activities on business impact, in addition to scope, schedule, and budget. Every IT professional should be able to answer how their work will make a tangible difference in the enterprise. Every project should have the same goal. Use this difference to recognize and distribute changes across information systems, business processes, and job responsibilities.
- Attract and retain specialized skills, such as business process improvement, PMO, change management, and workforce performance. Bring these specialized skills into multi-function teams to deliver integrated capabilities.
WHERE IS THE FUTURE FOR IT?

The current IT organization reflects an optimal design for providing enabling technologies. It is part of an overall enterprise design that separates operational disciplines, such as IT, HR, and others, as a way to control complexity, cost, and quality. However, increasing business expectations for growth and the expanding demands on IT resources represent forces that are causing leading CIOs to consider a sustained change in IT resources. These forces include:

- Market forces are requiring enterprises to respond to ever-increasing customer demands and expectations for new products, services, and value propositions. At the same time, global trade and logistic capabilities are eroding tactical sources of advantage. So enterprises must accelerate their ability to change.

- Workforce forces demand new ways of working as “digital natives” enter management and executive ranks. These executives have never known the separation of product, process, technology, and information. They expect an integrated world both as customers and as employees.

- Technology forces continue to flatten organizations via communications, collaboration, and commerce technologies, including the capabilities associated with Web 2.0. This flattening reduces the value of having specialized-but-narrow functions in favor of partnering and other sourcing arrangements.

What is the future of IT? One option is an enterprise capability organization that concentrates on changing the way the enterprise works. This organization meets business needs for IT to make a greater contribution to growth and innovation. And this evolution recognizes the blurring of distinctions between business and technology and fits the pattern of IT professionals opening new lines of contribution for themselves and their organization.

Moving toward an ECO does not refute IT’s current contributions, nor the value of IT professionals and functions. Rather, it recognizes the value in expanding the scope of enterprise change and giving the enterprise a new configuration of resources to plan, manage, and build for its future by raising its performance.

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