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OPINION PAPER

HOW WELL DOES THE IT STRUCTURE FIT YOUR CORPORATE STYLE?

Many HBR articles and books[1] have been written about the 'style' of the corporate centre and its associated governance. Some group CEOs choose to adopt a bearhug grip on every aspect of corporate strategy and finances. Others prefer a loser style of management, letting the business units self-determine their strategies and manage day-to-day operations. In this article, Roger Camrass, Director of Research for CIONET, describes a framework that illustrates how IT structures should align with the prevailing style of the corporate centre. It is based directly on his consulting experience over forty years.

When IT organizations become too top heavy

Some many years ago, the CEO of Koninklijke Philips N.V. called in consultants to determine whether the group IT structure was correctly aligned with the prevailing corporate style. At that time, the group employed some 3,000 IT staff who were responsible for applications development and management (ADAM) worldwide. Benchmarking Philips against other Fortune 1,000 corporations, the consultants recommended devolving this unit into the main Philips businesses to mirror the decentralised style of the corporate centre.

The CEO went one step further. His view was that a company specialising in consumer electronics and healthcare did not need to employ dedicated ADAM staff. Instead, he divested the entire unit to a commercial Dutch software firm, BSO, who relaunched under the name of ORIGIN N.V. Years later, ORIGIN merged with ATOS to form ATOS-ORIGIN.

A similar situation transpired at Unilever PLC when the Board was asked to approve an investment proposal to refresh its global IT infrastructure.

The Board reasoned that a firm whose primary business was food and beauty products should not be making investments in information technology. Instead, they ran a competition to outsource the corporate network and data centres together with the entire group IT staff. EDS won the competition and was awarded a ten-year contract to upgrade and manage the infrastructure. Thirty years later this infrastructure remains in the hands of external contractors.

These two cases illustrate that IT structures must avoid becoming too 'top heavy' when operating in more devolved business environments.

Stories from other sectors such as banking and energy confirm the dangers of concentrating IT too tightly under the group umbrella.

IT can also be too decentralised

In the early nineties, Henkel AG & Co. KGaA transitioned its business model from seventy semi-autonomous national organisations (NOs) to just five global brand divisions. The CEO, Professor Sihler appointed British consultants to review the prevailing IT structure and to recommend how this might need to be adjusted to support the global divisions that included Persil, Loctite, and Schwarzkopf. Prior to the nineties, the NOs had developed their own autonomous IT functions with a wide variety of software and hardware. The corporate centre had just two IT specialists to provide guidance to the national businesses.

The consultants recommended that an integrated IT organisation should be adopted across all seventy national organisations, with SAP as the unifying software solution and just two data centres – one based in Germany, the other in the USA. Only by adopting such a global IT model could Henkel brand managers optimise global manufacturing and logistics. At the Board meeting to review the findings, the Professor Sihler asked the consulting lead how long such an integration might take.

The response was 'five or more years. It took two decades to achieve full integration.

This case illustrates that a highly decentralised IT structure may prove to be a major obstacle when Boards of global companies decide to change their corporate styles to respond to competitive conditions.

Four corporate styles for an IT organisation

The experience of the author in his many years of consulting for Fortune 1,000 companies including the above suggests a spectrum of corporate styles for IT organisations, ranging from highly centralised to entirely autonomous. Here are four relatively stable states across this spectrum:

- Integrated IT style: the centre takes responsibility for every IT decision and owns all IT assets – software, hardware and human. This style is most common within USA organisations where corporate style is frequently 'bearhug'. It was the prevailing approach at Philips prior to the formation of ORIGIN.
- Coordinated IT style: the centre has absolute authority over corporate IT standards such as One-SAP. It also owns and operates shared resources that

the businesses must use and pay for. However, the latter have some freedom to select packages and vendors that suite their needs such as local marketing and sales.

- Guided IT style: the centre provides advice to the businesses on best practice and runs shared services, offered on a voluntary basis. Central resources often include consulting teams as well as shared facilities such as data centres and networks. CIOs within the businesses have a dotted report line to the corporate CIO.
- Autonomous IT style: just as in the case of Henkel prior to its adoption of global product divisions, local businesses have absolute freedom to select their own software, hardware and human resources. This is usually the case for conglomerates, although few such entities exist anymore.

What the author has discovered over decades of practice is that group CIOs tend to be empowered most frequently by their boards to operate in the 'guided' mode. This often confers responsibility without authority and is fraught with practical and political difficulties. Many such CIOs seek to acquire a 'coordinated' mandate that brings responsibility with the authority to act.

What are the various corporate styles?

To determine the best fit between IT and corporate style, the group CIO needs to align with the current and likely direction of the corporate centre. In most cases, the CEO sets the corporate style as per BP during the era of Lord Browne who reduced staffing at the corporate centre from thousands to hundreds to reflect a 'strategic planning' approach.

According to Gould and Campbell, corporate style can range from central control (strategic and financial) through to a high degree of business unit autonomy (limited to financial control). The four main options include:

- Centralised: all decisions are taken at the centre. Strategy is undertaken by the main board on behalf of the businesses and the group functions exercise direct control over operations. Few European organisations subscribe to such a philosophy
- Strategic planning: senior managers at the centre believe that they should participate in and influence the business unit strategies. Performance targets are set more flexibly and reviewed in terms of the corporate strategy.
- Strategic control: the centre is involved in business planning but leaves much of the day-to-day initiatives to business unit management. It reviews rather than dictates strategy. Tight control is exercised over financial targets and outcomes.
- Financial control: the centre sees its main tasks as sanctioning expenditures,

agreeing targets, and taking action to reorganise management teams who are underperforming. Little to no interest is taken in strategic planning.

CIOs must assess how such styles affect their own governance models, ranging from integrated to autonomous.

Finding a happy balance

The answer to any mismatch of alignment between IT and the Centre is surprisingly obvious. The IT organisation needs to adopt a structure that is marginally more centralised than that of the prevailing corporate style. The justification for this assertion can be seen in the case of Henkel. The move by the Board to a global product organisation (strategic control) was impeded by the prevailing structure of IT reflecting a national organisation heritage (financial control). Correcting this imbalance took two decades, much to the consternation of senior brand managers and the CEO.

When Unilever tried to impose a One-SAP standard on its global organisation, Lever Brothers (the USA affiliate) begged to diverge from this corporate mandate, maintaining that IT was operating under a 'guided' regime. The CEO at that time fired the head of Lever Brothers to send an unambiguous message that IT was now operating in a 'coordinated' style in line with group strategy.

Prepare for a swing of the corporate pendulum

David Eggleton, corporate CIO of BP in the eighties held direct control over five thousand IT staff until the election of a new CEO who caused an almost complete devolution of corporate functions to the five main business streams. David and his successor John Cross were left with one secretary and a staffer responsible for regulatory affairs. McKinsey had been advising the CEO on the need to decentralise – only a decade after implementing a centralised structure. This has often been the case with McKinsey where fat consultancy fees derive from such huge swings of the corporate pendulum.

Roll-on a further decade and a newly elected Group CIO, John Leggate, persuaded the then CEO, Lord Browne to reinstate central control over all IT operating assets such as infrastructure and applications management. In addition, John obtained a half billion-dollar investment to launch dot.com start-ups under the imposing title of 'King-maker'. John's vision was a new digital business, that would run alongside current business streams. This was too ambitious, and the scheme failed as suddenly as it had been born.

What are the lessons learnt?

Being a corporate CIO can be a precarious task as corporate styles ebb and flow between strategic and financial control. However, there are two guiding principles to observe:

1. 'Coordinated' IT governance wins head and shoulders over 'Guided'. It is frequently a thankless task to own all the responsibility for IT at corporate level without the necessary authority. Rapid churn in corporate IT roles illustrates this reality
2. The most advantageous role for group IT often relates to the application of new technologies to help innovate the business units. In this sense, the Centre becomes an incubation lab for pioneering experiments. Once success is demonstrated, the CIO should 'get out of the way' by handing these experiments over to the businesses

[1] Strategies and Styles: The role of the Centre in Managing Diversified Corporations. Michael Gould and Andrew Campbell

About CIONET

CIONET is the leading community of more than 10,000 digital leaders in 20+ countries across Europe, Asia, and the Americas. Through this global presence CIONET orchestrates peer-to-peer interactions focused on the most important business and technology issues of the day. CIONET members join over a thousand international and regional live and virtual events annually, ranging from roundtables, programs for peer-to-peer exchange of expertise, community networking events, to large international gatherings. Its members testify that CIONET is an impartial and value adding platform that helps them use the wisdom of the (IT) crowd, to acquire expertise, advance their professional development, analyse and solve IT issues, and accelerate beneficial outcomes within their organisation.

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