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CIO LEADERSHIP

DIGITAL CHANGE & IT SUPPLIER MANAGEMENT

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Theron LLP is an executive search firm which specialises in recruiting leadership roles in the technology, business change and operations functions. The author, Andrew Drazin, is a founding partner.

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Contents

1. BACKGROUND

Technology led change is transforming society and the way organisations interact with their customers, staff and suppliers. It is a response to consumer preference for e-commerce, communication through social media and use of online services.

Many IT functions are now less concerned with the provision of core IT services, as they have been outsourced to providers of on-demand cloud-based solutions. As a consequence, IT functions are becoming more strategic, tasked with delivering solutions that support innovation and digital transformation.

As technology functions become more involved with innovation, there is recognition that a new breed of niche IT suppliers are key to success by offering better technology more creative solutions than their larger established rivals.

2. OBJECTIVES

The aim of this paper is to explain how CIOs value the contribution from specialist suppliers and their importance in helping their organisation's innovate.

It considers the leadership role required of CIOs to ensure their organisations take advantage of the best ideas and technology when re-engineering their business processes.

It focuses on what is required of them as leaders to drive changes in procurement, IT governance and supplier management, so that relationships with specialist suppliers are nurtured.

3. METHODS

This paper presents the results of 14 in-depth interviews with senior IT executives across different industry sectors: banking, insurance, financial services, government, infrastructure, support services, leisure and telecoms.

4. RESULTS

Implications of digital change

Respondents recognised their IT functions were increasingly focused on strategic initiatives relating to innovation, product and service enhancements, and the re-engineering of established processes.

They recognised that niche suppliers frequently offered exciting ideas to take advantage of new technology and agile development approaches. The most common areas cited included web development, content management, mobile applications, customer experience, social media, collaboration tools, business intelligence and data analytics.

Niche suppliers were considered increasingly important to future success and, in some cases, they had been responsible for step-changes in capability. The realisation that closer relationships were required with these suppliers was influenced by three trends:

- **Human creativity.** In the past, innovation in enterprise IT was traditionally characterised by improved systems performance, such as faster processing speeds or higher bandwidth networks. Today, the most interesting ideas often used established technologies to create value, and respondents recognised that the most imaginative solutions tended to come

from entrepreneurial businesses which hired the best talent. So, over-reliance on large suppliers was deemed unwise.

- **Agility.** This was considered essential as today's business environment necessitated rapid systems development and deployment. For some, failure to move quickly would determine whether or not their businesses survived as competition was intense.

- **Cloud services.** Their availability has tipped the balance in favour of IT outsourcing for many organisations. Scalable solutions have reduced IT costs and channelled investment in innovation and digital change. This has encouraged smaller businesses to exploit technology that previously would have been too costly and now allowed them to compete with bigger rivals. In turn, larger organisations see digital change as the means by which they will compete in future.

"Using cloud has led to closer relationships with the business. We are more involved with product road-maps, marketing and customer initiatives than we were a few years ago."

Traditional supplier relationship issues

On innovation, most respondents felt their big IT suppliers did not compete effectively with niche competitors, despite their efforts to build capability and make acquisitions. There was an underlying impression that they had too many levels of management and that they remained sales-led organisations that were inclined to oversell the capability and readiness of their technology.

However, large financial institutions recognised that their regulatory, compliance and risk management obligations favoured large IT suppliers that could provide resources and capability on a global scale. Consequently, their use of small niche suppliers was felt more difficult to justify when there were good reasons to have fewer and bigger suppliers.

Where innovation and digital change were concerned, large suppliers were felt to be weak in important areas:

- They lacked entrepreneurial flair, creativity and detailed product knowledge to develop winning products. They were perceived to be unattractive environments for the best talent.

- They were slow to adopt agile development methodologies at a time when the speed of technology deployment became even more critical.

- They were wedded to outdated modes of working with customers, which were often governed by complex SLA based contracts and characterised by their preference for achieving short-term revenue goals rather than a risk/reward approach aimed at building longer-term partnerships.

"We talk about innovation a lot, but the reality is we are followers rather than leaders. So, our suppliers are crucial in this area".

Implications for the CIO's leadership

It was recognised that there was much inertia, in different forms, against partnerships with small suppliers, so CIOs needed to act against it by:

Leading their businesses. Digital change obliged CIOs to have new conversations with the business to encourage them to be

bolder and more ambitious in their thinking. Technology evolved so quickly that it required imagination from their business colleagues to take advantage of what was possible, otherwise change initiatives risked being piece meal rather than transformational.

Confronting internal resistance. Respondents encountered a reluctance to use new suppliers and a preference to work with established vendors. CIOs needed to challenge such complacency by influencing their stakeholders to apply more flexible governance and procurement policies, and balance the commercial benefits of smaller suppliers against a more realistic risk assessment.

Working differently with small suppliers. CIOs needed to learn how to engage with small suppliers in such a way that it did not impact the suppliers creativity and entrepreneurialism. In many cases it required a relaxation of governance and an acceptance that agile development required their organisations to work differently. It required CIOs to understand the supplier's business models in more detail, so that commercial partnerships could be tailored to each need, which could include joint ventures or part ownership through strategic investments.

Building the right internal capability. This was important because smaller suppliers were prone to mismanagement by IT executives that stifled their creativity. Some IT staff had little understanding of agile development which made their interactions with suppliers problematic, and architecture/strategy specialists could be resistant to ideas on projects that they may otherwise have ran themselves. CIOs needed to have the right commercially minded people to take full advantage of fresh thinking from suppliers as well as their

ability to fully utilise agile development. Their teams also needed to have a better understanding of new technology and how it could create value.

"My role is more interesting these days. It [technology] occupies more executive team time and colleagues are generally more committed to it. They see my team as critical to their success."

5. CONCLUSIONS

As the importance of technology is increasingly recognised by CEOs and their boards, CIOs will perform an ever increasingly strategic role as IT becomes the driving force behind innovation and change.

The increasing importance of niche suppliers is symptomatic of the changing role of enterprise IT as it becomes a more strategic function.

This shift in emphasis will require CIOs to address difficult people related issues concerning leadership, cultural change, stakeholder management, business alignment, skills development and staff engagement.

The visionary aspect of the CIO's leadership role has always been an important one, and today it is more important than ever to evangelise the benefits of new technology and for CIOs to articulate a vision for their businesses. They need to apprise their colleagues of the rapid changes in technology which create value, and to work with the best suppliers to realise its potential.

Strong leadership from the CIO is required most in organisations that lack momentum to their digital change agendas, because they either underestimate the threats they

face or they are hamstrung by the complexity of legacy systems.

CIOs will also need to overcome resistance to small suppliers, due either to complacency or a corporate mantra which favours fewer and bigger vendors. In large organisations this is difficult, but it is the CIO's responsibility to ensure the right balance is struck. The importance of this is illustrated by the trend in favour of Chief Digital Officers that have the authority to oversee change across their organisations with a wider remit than their CIO colleagues.

As organisations increasingly outsource their core IT systems, CIOs will need to re-balance their teams with the right talent to manage their suppliers optimally, and to ensure small vendors are allowed to flourish. It may require some CIOs to promote a more decentralised IT function, with pockets of technology aligned more closely with their business colleagues than has traditionally been the case.

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