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A new era begins

Redesigning the IT organization for a period of exponential change



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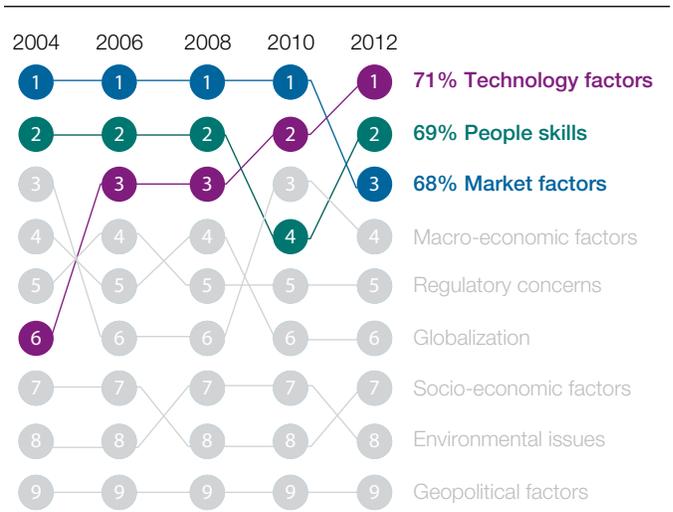
By Stephen Reiser and Andy Short

Information technology is increasingly viewed by CEOs as the “linchpin” connecting strategic intent with capabilities delivered. In light of its increased importance, companies are rethinking the fundamental design of the IT organization. A new IT model is emerging, centered on: reorganizing business and IT around “outcomes,” leveraging social communities, creating organizational transparency, rethinking job roles, as well as developing an emerging new leadership model for an increasingly connected world. Companies adopting these practices are seeing substantial benefits, ranging from more innovative and accelerated delivery, to dramatic reductions and shifts in IT spend.

Introduction

CEOs and CIOs alike are grappling with a new business era, punctuated by frequent and disruptive change. Exponentially growing social networks, the emergence of mobile as the primary channel for customer analysis/decision making, rapid product commoditization, market imperatives for service differentiation, global restructuring and deleveraging, and the rise of new regulatory frameworks are a few of the fundamental changes irreversibly changing the business landscape. IBM’s 2012 CEO study highlighted the consensus view that information technology was more critical than ever to strategic success in this era.¹

The challenge is that today’s IT organization is having increasing difficulty keeping pace with exponential change – and the gap between business and IT is actually growing rather than shrinking. The CIO’s role has become multi-faceted and at times contradictory – having to be pioneer on one hand and ruthless cost cutter on the other. Additionally, business and IT organizational structures have been relatively static – largely organized by a traditional “department” strategy. The perennial “wall” between business and IT remains – leading to disconnects and reduced effectiveness.

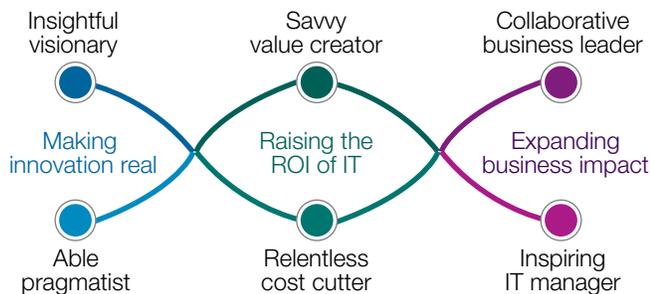


Source: IBM CEO Study 2012.

Figure 1: The rising importance of IT to business success.

Our research and client work indicate that the CIO's role and the fundamentals of IT delivery are changing irreversibly. For example:

- The role of the CIO is becoming inverted, shifting from yeoman to strategic leader. For the past few decades, the CIO has been key in helping the business deliver products/services and maintaining infrastructure. Now, the CIO's role is to lead strategically (providing both insight and enablement), essentially being the pivot man between great strategy and even greater execution.
- The CIO has to walk a “tightrope” and play divergent and (at times) contradictory roles to successfully implement this multi-pronged strategy. On one hand, the CIO and his team are the brazen pioneers and venture capitalists for new business offerings (like mobile and social computing). On the other hand, they must be relentless cost cutters, consolidating applications, infrastructure – and driving costs to the bone. Alternatively, the CIO is the quintessential relationship manager, helping to frame collaborative channel strategies and shared services models across lines of business. Each of these roles by definition has different metrics, different leadership styles and a different organizational ethos.



Source: IBM CIO Study 2011.

Figure 2: The many roles of the CIO.

A new paradigm for transforming the IT organization

To deliver on a multi-pronged mandate, CIOs need to nurture innovation, allow multiple “trial and error” efforts and guide strategic projects from the vantage point of a venture capitalist. At the same time, CIOs need to be ruthless cost cutters, creating leverage in legacy platforms by consolidating applications, rationalizing hardware and sourcing services.

So how does a CIO do this – with one eye on exponential changes, another on quarterly earnings and the other ones (in the back of the head) focused on transforming the company's business model?

In research for this report, we had the opportunity to sift through scores of client organizations to understand how CIOs are redesigning their IT organizations to meet the needs of the future. What was encouraging from our research is that a small-but-growing number of CIOs are grabbing the “bull by the horns” and making the essential changes required for success ahead.

From these companies, a number of fundamental precepts are emerging:

1. Business and IT delivery are *fully integrated around “outcomes”* – the classical separation (or wall) between these groups is disappearing.
2. The core construct of the IT organization is moving *from departments to communities* – mirroring the new social order of the digital world.
3. IT delivery is becoming *fully transparent* – an “X-ray” organization is emerging as a basis for continuous improvement.

| Area of improvement | Description | Benefits |
|--|--|--|
| A. Business - IT Integration | <ul style="list-style-type: none"> Business - IT organized by value discipline (customer, product, operations) and by business service (e.g., credit management, account opening, customer intelligence, social networks) | <ul style="list-style-type: none"> Strategic integration Pervasive business focus |
| B. Social community design | <ul style="list-style-type: none"> Establishment of communities around services | <ul style="list-style-type: none"> Concentrated IT delivery Entrepreneurial, small business model Leadership driven downward in the company to a "natural level" Intensive asset reuse |
| C. Transparency | <ul style="list-style-type: none"> Transparent views into group, community, team, and individual performance (e.g., digital reputation) | <ul style="list-style-type: none"> See and resolve organizational weak points more precisely |
| D. Hybrid job roles | <ul style="list-style-type: none"> New business-IT roles emerge, reflecting integrated model (e.g., customer data specialist, business services manager) | <ul style="list-style-type: none"> More closely integrate business and IT "Dissolve" silos |
| E. New Leadership model – C ³ (candor, coaching, combining) | <ul style="list-style-type: none"> Leadership model shifts from managing departments to orchestrating communities | <ul style="list-style-type: none"> Achieve the CIO's four-pronged mandate: Leverage, expand, transform, innovate |

Figure 3: Major facets and benefits of the new IT organizational model.

4. *New hybrid job roles* are evolving, such as data scientist, business services manager, business/IT architect – reflecting a deeper partnership and intimacy between the business and IT. Career paths are also becoming more tailored around maximization of individual potential.
5. Perhaps most important – leadership models are changing in light of this community-enabled IT model, *promoting a C³ leadership style* (centered on candor, coaching and combining communities) to achieve strategic aims.

These shifts are leading to substantial improvements in IT performance – faster responsiveness, greater organizational agility, dramatically improved productivity and much greater people development, as summarized in Figure 3. In aggregate, they lead to the realization of the new CIO mandate.

The benefits of implementing this model have been dramatic. For example, clients profiled in IBM case studies have seen benefits including:

- Operational cost savings of 40 percent per annum
- Increased asset reuse of 50 percent
- Defect rate improvements of 20-30 percent
- Cycle time improvements of 30-50 percent.²

Each major facet of this new business and IT model is discussed in the following sections.

A. Business and IT are fully integrated around outcomes

The classic critique of IT when we speak to many business executives is as follow:

- IT is not responsive to the business
- IT does not understand our requirements
- IT is too slow to deliver
- The costs are too high
- Quality is low.

One way to approach this situation is to disaggregate business strategy into value disciplines, as shown in the left side of Figure 4.³

Succinctly put, value disciplines distill a business strategy along three fundamental dimensions – a) customer insight, b) product/service innovation, and c) delivery excellence – aligning business and IT discretely along each dimension.

Value disciplines can then be disaggregated into core business and IT services that enable their attainment. The right side of Figure 4 illustrates how this could be accomplished within a banking organization.

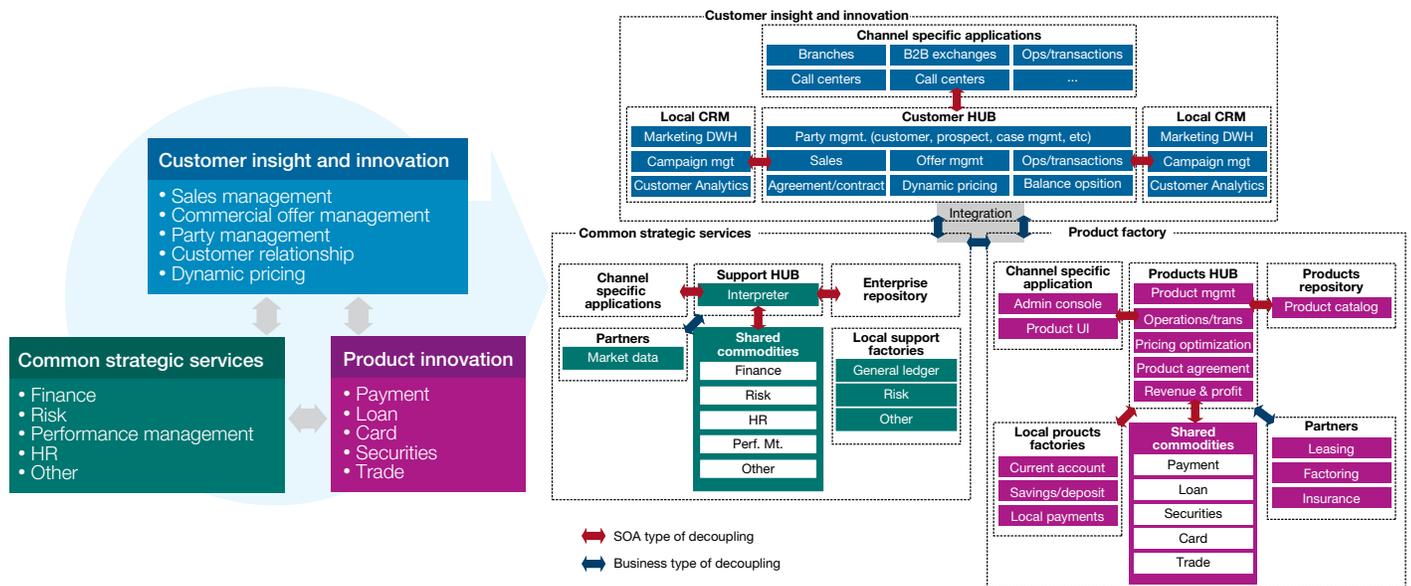
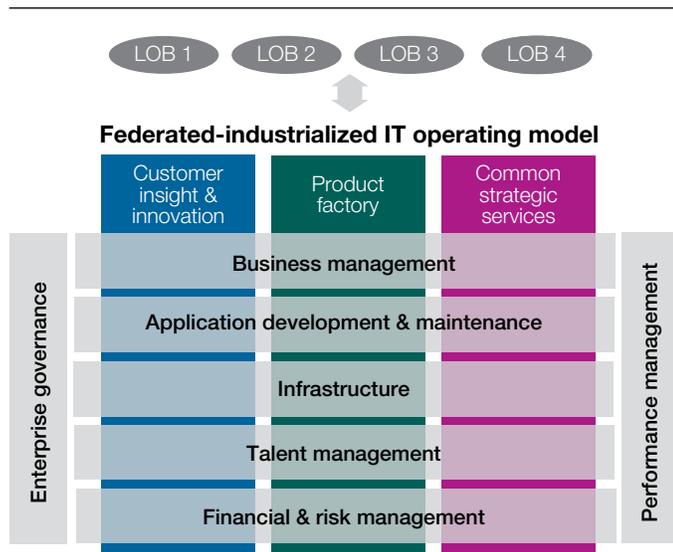


Figure 4. Business strategy as a series of value disciplines and disaggregating value disciplines to business and IT “services.”

The strength of this model is that a company’s target outcomes (results) can be mapped to value disciplines (ways) and then to services (means). For example, in the banking industry, if revenue enhancement is the “result,” cross-sell is the “way,” and customer analytics is the “means,” then a “customer analytics” business and IT component is established within the value discipline called customer insight. An overall view of this operating model is shown in Figure 5. Note that IT is organized along three major value disciplines (customer, product, services) with strong horizontals in place to provide a common approach to business management, application development, talent management, financial management, etc. This model transcends a traditional line of business organizational approach. Further, delivery communities (as will be discussed) are implemented within each value discipline to provide tight integration/interlock between the business and IT around services and outcomes.

For example, a top-20 global financial institution has applied this model by establishing an enterprise-wide services organization for business and IT centered on a range of common services including customer analytics, risk management, payments – effectively moving from “line-of-business” alignment to service integration.⁴ Integration is primarily achieved at the front-end. Business liaisons, architects, and analysts are organized by major service to achieve synergies across the lines of business.

Additionally, the bank developed “strong horizontals” across these services – for example, to optimize enterprise resource deployment across “cross-LOB” strategic projects such as channel integration and data transformation. The horizontals help ensure that professional standards were achieved across all service areas. The benefit is that the bank has one of the lowest cost-to-income ratios in the world, and one of the most flexible IT architectures.⁵



B. Information Technology as a mosaic of social communities

With an outcome-driven, integrated business-IT services model established – the next shift has been to organize IT as a series of communities – leveraging the social framework of the digital marketplace. Figure 6 illustrates core elements of delivery communities, including talent management, asset reuse, cross-organizational networking and workforce optimization.

Figure 5: Business and IT by value discipline across a common delivery framework.

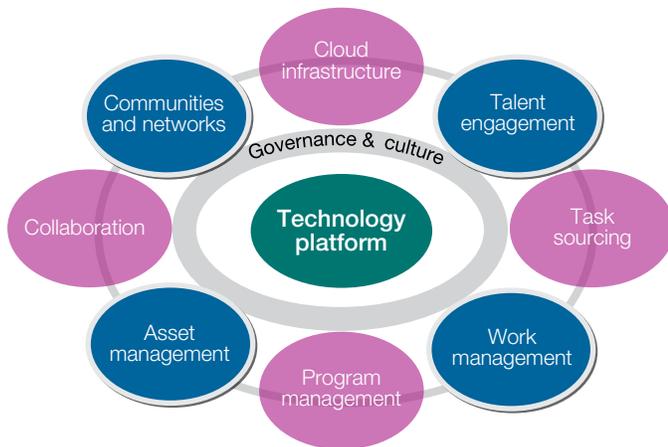


Figure 6: Highlights of delivery community design.

The core elements of a delivery community include:

- **Communities and networks** – a group of both business and IT professionals focused on delivering a strategic service (e.g., account opening, integrated risk management). A community is also committed to working with other communities in a networked manner to deliver integrated outcomes
- **Talent engagement** – establishing the right roles for each community member based upon competency and career interest, providing mentoring, and measuring for continuous improvement
- **Work management** – taking an initiative, disaggregating it into a series of work packets and orchestrating their delivery. Further, managing the entire series of community projects on this basis.
- **Asset management** – in terms of maintaining systematically requirements documents, coding techniques, testing scripts, to strongly promote reuse

The value of moving from departmental to community structures is immense:

1. Communities are organized by “outcome” and “service” (e.g., order-to-cash, firm reporting) rather than by “application” (e.g., application S130 or intelligent message bus). For typical clients, we have seen IT disaggregated into 50-150 communities.
2. Leadership is moved downward to its “natural level.” Rather than being forced to lead from the top (a truly exhausting process for many executives today), leadership is disaggregated into communities. Typically, each community has a business and IT leader working in partnership. In more advanced models, there is a single or “hybrid” leader (e.g., a melded business and IT leader).⁶
3. Communities, like a small business, have specific business goals and are empowered to achieve their goals.
 - Delivery communities are responsible for managing their budgets to optimize customer accounts, manage trade-offs, rationalize underlying applications, etc. The model therefore moves leadership and control downward – but more important, the model engenders entrepreneurialism – so that the community effectively optimizes and manages its “business.” For example, a risk management community may elect to invest in rationalizing disparate, cross line-of-business systems to reduce operational costs and improve “profitability,” in a manner analogous to how a small business owner might rationalize the infrastructure across franchises to improve profits.
 - Communities work in concert with the annual budgeting process. For example, IT aggregates demands of the business for projects, application support, etc., into an overall budget. This budget once approved is then allocated to various delivery communities – which can then optimize delivery across various initiatives to best manage resources and outcomes – with incentives for exceeding target goals.

4. As communities cut across traditional lines-of-business, development can be done once, yet applied many times. For example, rather than maintain 10 account opening systems, the “account opening” community ultimately maintains 1+ account opening system and minimizes duplicate application development.
5. Additionally, community performance and the performance of individual members are completely transparent (e.g., effectiveness of testers, developers, program management). Each team and each individual has his or her own digital scorecard, also called DigiRep or digital reputation). This approach drives to a “leader-of-one” model, where each IT professional’s contribution is maximized.
6. Communities leverage enabling social networking technologies to promote integration, sense of belonging and team recognition. Embedded in the community structure are emerging social networking capabilities such as blogs, connections and asset registries to promote communications both within and across communities. In many respects, each community has a Facebook-style environment, but of greater depth as the community also maintains software assets, best practices and key methodologies.

For example, a Global 1000 company implemented delivery communities as the centerpiece of creating a globally integrated enterprise.⁷ The company was seeing increasing needs for product innovation, customer service and speed-to-market, but felt that they were hindered in regard to IT being able to keep up with the pace of change.

Under a new CIO, the company developed a bold solution. It established an enterprise-wide process model for consolidating business and IT activities around outcomes (as opposed to a line of business organization). The company then restructured IT from disparate departmental groups into a single IT organization that cut across the lines of business. More than 11,000 IT professionals were organized into 140 delivery communities, with each focused upon a service area.

Communities were set up with a small business ethos and structure – with each community leader responsible for a diverse team of IT professionals and a budget for achieving targets (having relative freedom to leverage application portfolio management to streamline applications, to optimize workflow management and resource deployment across projects, to effect trade-off decisions and promote asset reuse). Community and individual digital scorecards were set up and widely adopted to make contributions explicit for every member of the team. Further, the communities were led by both business and IT to instill joint ownership and responsibility for the results.

The results of this effort were considerable. Over three years, project cycle times were reduced by more than 30 percent, defect rates were reduced by 20 percent, reuse was increased by 10 percent (with 50 percent of new applications targeted for reuse and the overall costs of component delivery being reduced by over 33 percent.)⁸

“...Establishing delivery communities and dividing up assignments enabled our IT teams to clearly see their individual role and how it supports business goals. The challenge became isolated, defined and manageable while supported by a formalized process that keeps the business and IT objectives aligned. This approach unleashed a collective innovation that produced remarkable results...”

CIO, Global 1000 company

C. The IT organization is fully transparent – the X-ray organization is emerging

A critical aspect of the design of the next generation IT organization is “X-ray” transparency. The value is to foster continuous community and professional improvement – reinforced by a culture of candor and coaching.

Full transparency is demonstrated by:

- Community metrics being comprehensive and transparent
- “Digital scorecards” being the foundation for individual performance – being both comprehensive and a source of pride
- IT aggregate performance being readily available and transparent.

The value of transparency to strong IT organizational outcomes is immense. If a community leader has a clear view of individual performance across his team (outcomes, initiatives, productivity, training, general development) then she or he can provide tailored coaching and mentoring to maximize individual development.

Similarly, cross-comparisons of community performance provide the basis for sharing best practices. Community leaders can readily cross-compare to other communities to understand who is seeing greater asset reuse, or higher team productivity. Community leaders can then contact these best-practice exemplars to understand the reasons for the differential and move to embrace best practices in their own community.

Examples of the broad set of measures used to understand performance (qualitative and quantitative, business and technical, professional and social) are provided in Figure 7.

For most of us who have managed large IT teams in the past – typically, we find that an 80/20 rule exists in that 20 percent of the people provide 80 percent of the output. This normative skewing is the result of many factors, such as previous training, improper staff positioning and culture weak points or “white spaces.” A value of the transparent organization is that it is clear in the IT organization who is performing and why. Then, self-adjusting actions begin to occur so that performance of the entire organization trends upward.

Most important – one’s “digital reputation” is actually a source of pride for most IT professionals. Career paths are more tailored to each individual within the new organizational model, rather than the individual being tailored to a few set job descriptions, such as systems analyst (as will be discussed in more detail in the next section). IT professionals have more paths to pursue, can better choose the one that is right for them and can build up their professional eminence accordingly.

For example, the CIO of a large media and entertainment organization sought to transform third-party IT delivery from a traditional application management services model to a more innovative/responsive application delivery and application management model. The company wanted to inspire a greater level of collaboration and transparency among its internal IT and business stakeholders and its application management services organization, with the goal of eliminating delays between teams and minimizing timeframes to complete work.⁹



Figure 7: High level view of performance measurement framework.

In addition to establishing a range of delivery communities between the business and IT, and between internal IT and external partners – the company established a performance-measurement framework across the delivery ecosystem, encompassing both traditional performance measures as well as a range of reuse and socialization metrics. A key benefit of these metrics was providing a high-level transparency in the progress of solution development (e.g., real-time status, asset reuse, technical performance). Further, digital scorecards were implemented highlighting the performance of each of the community members.

“In 2011, we began to see a transformation in the Application Development and Maintenance (ADM) program. Collaboration between [our company] and our external partner globally improved. There was greater transparency in how work was planned and executed. And it was easier for ADM teams to deliver high quality service in shorter time frames. How this happened? The answer lies in the new IT delivery model framework with help of open communities, better work management and formal asset reuse process. This remains a major strategic initiative for (our company) for better ADM work management....”¹⁰

Lead IT Executive, Media and Entertainment

D. New hybrid job roles are emerging – melding business and IT

An additional dimension of the design – in addition to value disciplines, communities and lateral governing structures – is the design of job families. In our past work, we found approximately 30 fundamental job families that define an effective IT organization (e.g., frameworks engineer, product architect, portfolio manager). Providing an effective training, mentoring and banding strategy around each job role and job family maximizes professional development.

What does this mean from the standpoint of self-actualization? Quite simply, job roles and career paths are defined broadly enough that each individual can pursue the career path that is properly suited for them and can achieve proper rewards and recognition. Figure 8 illustrates a number of these different career paths.



Figure 8: Illustrative job families.

What we are also seeing in this emerging business and IT paradigm is the emergence of “hybrid” roles, such as customer data scientist and derivatives engineer – reflecting the new confluence of business and IT delivery. Rather than having a business leader and a technology leader, we are seeing new combined roles emerging reflecting the true nature of an information intensive business model.

For example, a premier universal bank was intent on restructuring IT delivery for institutional banking encompassing a team of over 2,000 professionals. The CIO was facing very large cost and schedule overruns on several projects, including a next-generation global payments system. Improving IT discipline and delivery was viewed as essential. To improve IT delivery, a new integrated business and IT delivery model was established, including joint project planning, and integrated delivery between business and IT – using a framework called Integrated Portfolio Development (IPD).¹¹

A core element of the implementation was redefining job families and roles to better reflect industrialized, end-to-end solution delivery. New hybrid business and IT roles, such as product architect, were articulated to provide greater focus on up-front product solution design. New IT delivery roles, such as frameworks engineer, were articulated to place emphasis on the development of standard payment algorithms across over 50 countries of operation. Benefits seen by the client include much greater control and management of complex initiatives – including better project reporting, greater productivity and greater team clarity in the roles needed for delivery success.

E. Leadership models are changing to manage this community-driven IT model, promoting a C³ leadership style (candor, coaching, combining)

In today’s model of IT, managers typically run departments and direct their staff in advancing projects – with leadership therefore resident in a small group of people.

The conundrum is that while this model provides a certain degree of leadership power and control, the model can also be professionally exhausting for executives and staff alike as leadership/knowledge tends to be placed at too high a point in the organizational hierarchy (i.e., at the “executive” level) – with the IT “staff” having too little stake in the game and feeling more like workers, rather than feeling and acting like owners.

The new business-IT model seeks to create a “...thousand points of light...” in IT leadership. As mentioned earlier, IT is disaggregated into 50-150 small community businesses. Further, each individual in the community provides personal leadership in building/ maintaining their digital reputation. The model therefore moves leadership downward in the organization (i.e., to the individual level). Rather than placing the burden on a few executives, leadership is shifted to community leaders and to every individual.

So how does an executive lead in a networked community model of this nature? Essentially, those executives in charge of various IT business areas have a series of communities under their aegis. For example, the IT director of commercial banking will have delivery communities around lending operations, credit management and customer analytics. The effort is on weaving these communities together to achieve business aims, such as re-engineering the commercial lending value chain. A major added benefit of this approach is that a business executive can systematically call on a series of community “experts” when he needs to fundamentally transform a business model. It is these experts who can move faster, more productively and in a more focused manner to achieve business aims.

The leader's job is to instill a culture of candor, coaching, combining (C)₃ within this model. Because the organization is transparent – capabilities, skills, and accomplishments are transparent. Feedback, therefore, can be accurate and motivating. Because roles are defined in terms of a relatively granular set of job roles and families, individuals can migrate to their preferred choices (and receive feedback and coaching that “works” in light of their capabilities). Most important, the executive/leader can motivate and weave these communities together to create new services (a transformed business process, a new mobile offering, etc. (in the same way that a team of scientists each from their own discipline works to invent a new product, and in the same way that a film crew comes together to create a new picture).

“Leadership in a networked community is both challenging but vastly rewarding as well. Without the linear management structure, individual teams are empowered to take ownership of their piece of the whole. Underpinning these teams is a dynamic hands-on and individual experience that requires strong motivational skills coupled with the celebration of results. Seeing it come together, seeing it work, is a truly sublime experience.”¹²

CIO, Fortune 500 global technology company

Moving to action

We believe that CIOs must start now to embrace this new business and IT paradigm. Today's business and IT organizational constructs are simply not fast enough, innovative enough, or business-focused enough – to implement strategy successfully in a world of exponential change. The paradox is that the gap between business and IT is not closing but is increasing. Change is essential.

In this light, CIOs need to take a hard look at their organization and establish a tailored model required for success in the world ahead. Further, this organizational construct is not a reorganization of IT, but a rethinking of how business and IT need to jointly transform.

The following steps, we believe, are essential to getting started:

1. Dissecting, distilling, diagnosing current state capabilities to understand strengths and addressable weak points
2. Establishing a new business and IT organizational vision around services-based delivery and communities, congruent with the CIO mandate
3. Using Adapt and Learn Techniques to accelerate progress while minimizing implementation risk
 - Building, nurturing, creating a pervasive leadership team (across the ecosystem) to lead the transformation
 - Implementing new capabilities by “component” rather than by “workstream”
 - Using spiral techniques to gain confidence and accelerate momentum
 - Adopting a viral strategy to build grass roots change management support
 - Maintaining and delivering against an explicit value realization plan.

These steps are briefly highlighted in Figure 9.

| Activity | Description |
|---|--|
| Dissect, distill, diagnosis current state organizational capabilities | <ul style="list-style-type: none"> • Profile the maturity level of the current IT organization against best practices (e.g., customer intelligence, solution development, solution deployment) • Identify and value the gaps |
| Establish a new IT organizational delivery model consistent with strategic imperatives | <ul style="list-style-type: none"> • Create tailored vision of the next-generation IT organization leveraging design principles and the organizational construct discussed in this document • Integrate to extent practical/possible with business model transformation (note: IT transformation has been done separately; much stronger if in tandem with business model transformation) • Reframe software development lifecycle and process architecture to align with the model • Establish competency-based job families • Align scorecards framework and incentives systems • Establish enabling/integrated platform solution • Create value case |
| Implement using “Adapt and Learn” strategies – to accelerate progress and minimize risk | <ul style="list-style-type: none"> • Build selective support with the business for the IT transformation • Build and nurture cadre of next generation IT executives to drive implementation • Implement by component (rather than by workstream), releasing holistic elements of the new organizational model with each release (e.g., platform for social collaboration, cross-organizational project management “horizontal”, etc.) • Use Adapt and Learn techniques: <ul style="list-style-type: none"> – Prototype, pilot, productize (e.g., implement small-scale test solutions on an informal basis within part of IT, refine based upon feedback, then pilot on a production basis, refine, then rollout across the organization). – Use small scale wins as a basis to build momentum • Similarly, take a “bottoms-up” approach to change management <ul style="list-style-type: none"> – Align the IT transformation program with gaps explicitly articulated by the full IT organization (leveraging surveys, jam sessions and other social group techniques) – to build understanding and buy-in – Demonstrate that the new IT organizational transformation centers on addressing “grass-roots” issues – Solicit broad organizational involvement in shaping the solution • Have a clear value case for the transformation • Use value realization as a basis for accelerating program momentum |

Figure 9: Getting started in effective IT transformation.

Conclusion

CEOs and CIOs are traversing through a new business era, punctuated by both exponential and disruptive change (i.e., a “fat tail” world). CEO’s are increasingly viewing IT as the linchpin for success.

The CIO’s role needs to change to achieve this complex business mandate – transitioning from yesterday’s yeoman to tomorrow’s strategist (and pivot man between strategic intent

and capability realization). Business and IT organizational models need to be radically overhauled to provide the innovation, speed and integration required.

A new organizational construct is emerging – integrating business and IT around outcomes, leveraging social community constructs, providing performance transparency, engendering new hybrid business and technology roles and providing a new C³ leadership style. Fully and skillfully implemented, this model is delivering outstanding results.



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3. The value discipline is in part based upon a concept discussed in the Disciple of Market Leaders by Michael Treacy and Fred Wiersema in January, 1997. However, the concept has been significantly extended and coupled to business-IT delivery in this 2013 report.
4. IBM Global Business Services client experience
5. Ibid.
6. Additionally, and as discussed in more detail later in this white paper – each individual becomes truly responsible for managing his own career and his own development, i.e., the model ultimately promotes a “leader of one” model.
7. IBM Global Business Services client experience.
8. Ibid.
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