The death of traditional IT

And the rise of the new partnership model
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The first step in transforming information technology (IT) from order taker to strategic business partner is often the development of traditional demand management capabilities. Increasingly, however, the divide between demand and supply is evolving as leading-edge companies push the boundaries of generally accepted business and IT roles. With the increasing need for more and better information, more differentiating technologies, and faster time-to-market, individual business units are gaining more control over the IT they use.

Moving in this direction is a necessity for companies looking to succeed in the age of digitization. But it will require much greater differentiation in the kinds of technologies used by individual business units, as well as new skills and upgraded management and governance processes. Companies looking to make the transition must first determine whether each business unit is ready to take on the task of managing its own IT, and then design the processes and decision rights necessary for such a structure. Finally, they must rethink the role of their corporate IT function in enabling the change.
Corporate IT is on the verge of a groundbreaking transformation. A very different IT–business partnership model is arising at many companies. More and more often, the individual business unit devises its own go-to-market strategy, decides on the specific capabilities needed to support that strategy, and makes its own decisions about the technologies it needs to take its products and services to market. As a result, each business unit will increasingly determine its own technology strategy and define its own IT requirements.

Still, the corporate IT department will need to provide consistent overall strategic guidance; procure and deliver all back-office solutions; act as an integrator and tester when business units choose externally provided services; and help build the underlying architecture, operating model, and governance mechanisms to enable new technologies and business processes.

Radical as it may seem, the emerging shift will soon be a necessity for companies that want to succeed in the fully digitized world. It comes as the result of several critical changes in the business and technological environments that have accelerated the pace of commercial activities and demanded that companies get closer to customers and understand them better than ever before (see “Forces of Change,” page 11). To transition smoothly to the new partnership model, companies need to ensure that they’ve already put in place the building blocks and taken the right steps to prepare.

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This new partnership model is the culmination of a long transition that most world-class IT departments have been making from transaction-based service providers to strategic partners. Top chief information officers (CIOs) have learned to provide services in a demand management environment with the focus on deriving optimum business value from IT. They work with business units to determine what they absolutely need, as opposed to what is merely “nice to have,” and price services realistically.

The rapid digitization of virtually every industry now demands that companies close the gap between IT and business even further. Exhibit 1, next page, outlines the path that companies will likely take to put a new partnership model in place.

This represents an evolution of traditional demand management capabilities. At the same time, it means a shift in the conversation about IT from costs and service levels to the creation of value and how technology can be leveraged for innovation and competitive advantage. This will require CIOs and business unit leaders to redraw the traditional boundaries between IT supply and demand. And it will require business leaders to become comfortable making IT-related decisions and owning or managing traditional IT functions, including technology funding and sourcing, program and project management, change management, business architecture, and information management. IT and business leaders must reimagine how they work together, and lead their companies through the “creative destruction” that will enable them to do so.
### Exhibit 1
**IT–business engagement maturity path**

<table>
<thead>
<tr>
<th>Key characteristics</th>
<th>Service provider</th>
<th>Business enabler</th>
<th>Strategic partner</th>
<th>IT–business partnership model</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mission</strong></td>
<td>Service the business</td>
<td>Supply the business</td>
<td>Collaborate with the business</td>
<td>Hybrid business and technology roles, Technology innovation and value driver</td>
</tr>
<tr>
<td><strong>Relationship between IT &amp; business</strong></td>
<td>Transactional</td>
<td>Combination of transactional and consultative</td>
<td>Consultative</td>
<td>Shared/joint ownership and accountability</td>
</tr>
<tr>
<td><strong>Alignment to business</strong></td>
<td>IT functional or technical alignment</td>
<td>Combination of IT process and business unit process alignment</td>
<td>IT aligned to business unit/business processes</td>
<td>IT–business matrix around differentiated strategic capabilities or processes</td>
</tr>
<tr>
<td><strong>Resource management priorities</strong></td>
<td>Technical expertise, Back-office expertise</td>
<td>Process expertise</td>
<td>Solution/relationship expertise</td>
<td>Domain, front-office, information expertise</td>
</tr>
<tr>
<td><strong>Budgeting &amp; funding</strong></td>
<td>Fixed, annual IT budget</td>
<td>Fixed, annual IT budget and chargeback</td>
<td>Fixed, market-based funding</td>
<td>Flexible, market-based funding</td>
</tr>
</tbody>
</table>

Source: Strategy& analysis
Putting in place a new way of operating won’t be easy. If the new model is to become a reality, a few critical foundational elements must be in place.

- **Fit-for-purpose IT–business engagement model**: Rather than the traditional one-size-fits-all approach, companies need to shift to a differentiated structure with varied forms of IT and business participation based on the requirements of each business unit. This will enable them to focus primarily on the activities and services that are the most strategically important or add the highest value.

- **Enterprise architecture, governance, and service management**: The new approach requires highly mature enterprise architecture and service management capabilities. And how it is governed must also change; joint business and IT controls and decision rights must focus on how the new end-to-end processes work, not on who does what.

- **Upgraded IT and business capabilities and skills**: The scale and scope of the new engagement model will ultimately dictate the skills and capabilities required. This will result in the convergence or elimination of some traditional IT roles, such as project managers, while demanding skilled experts such as cloud specialists, user interface design architects, and collaboration and social media architects. As the focus changes from technical to business expertise, demand for skills such as business architecture, business intelligence, analytics, and information management will increase. Exhibit 2, next page, offers a framework to evaluate the location of key roles in business units and the IT function.
Exhibit 2
Location of key IT–business partnership roles

- Business architect
- Business intelligence
- Data steward
- Analytics
- Project manager

- Solution architect
- Data architect
- Integration architect
- Cloud architect
- Social networking architect
- Collaboration architect

- Application manager
- Infrastructure manager
- Network administrator
- Service desk support
- System administrator
- Quality assurance and testing

Source: Strategy& analysis
New demands

Making this move will require a careful balancing act. The IT department cannot simply dissolve its current capabilities. In fact, an extended track record of successful demand management is a prerequisite for the next stage, because the need to prioritize and manage demand across the entire company will not go away. Moreover, it is rarely possible to achieve the ideal end state without first demonstrating a successful track record of IT functional excellence, because the new approach will place even greater demands on IT in working with the business. Therefore, companies looking to move toward a stronger IT–business partnership must take the following steps to ensure success.

- **Determine business readiness**: Make sure you know the answers to a broad set of readiness questions: Do the benefits of a business unit–specific solution outweigh the benefits of a common solution across all business units? How technologically mature is the business unit under consideration? Can it choose and exploit the technology it needs to carry out its strategy? Such questions can help identify which business units can make the transformation first, and which ones should be held back.

- **Firm up processes and decision rights**: Any shift in responsibilities from IT to business units must rest on a rock-solid framework of processes, decision rights, and quality standards. There is value in being flexible in regard to who actually does the work involved in the transition — the business unit, the internal IT department, or an external vendor. But flexibility needs to be counterbalanced with common processes in executing the work. The engagement points between business units and key IT parties on issues such as architecture, vendor management, and security need to be made explicit, so that the business unit’s greater autonomy does not adversely affect its adherence to critical governing principles.

- **Pilot and learn**: The viability of the new approach must be demonstrated through a series of pilot programs in collaboration with the business unit affected. Any gaps in capabilities, processes, and talent will need to be identified, and career development and recruiting efforts may have to be revamped to meet the needs of the new design.

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Does IT have a future?

The new partnership model depends on the business taking on a much greater role in designing, building, and exploiting the technology, platforms, and data it needs to succeed. Moving past traditional demand management is a necessary step toward bringing IT closer to its true mission — the complete convergence of the business and IT agendas. Which raises a question: What is the future of the traditional IT organization?

We are already at the point where it is easy to imagine a large corporation with very little centralized IT at all. In this scenario, company-wide IT operational needs would be provisioned through infrastructure as a service via the cloud, while more specialized business needs would be supplied directly to individual business units and functions through a combination of platform- and software-as-a-service offerings. Each unit would deal directly with its own vendors, which, over time, would be expected to lower costs as their scale increases.

IT departments that actively support and further the decentralization of business technology can play a critical part in boosting the overall business value of IT, but their role will likely look very different than it has in the past. First, they must prepare the way for this effort, designing the overall enterprise architecture needed to ensure that the company-wide IT landscape is ready for change. Their job would then be to act as consultants to the individual divisions and functions, offering guidance on how best to benefit from digitization, and to provide certain essential services, such as cross-functional infrastructure needs and vendor management.

Once the transition is complete, the job of the CIO, too, will change. Rather than simply managing the day-to-day aspects of a complex technology organization — a task that has long frustrated top CIOs — he or she will be freed up to concentrate on helping the entire company develop the analytical sophistication needed to make the most of the rapid digitization of every aspect of business — effectively reasserting the importance of the “I” in CIO.
**Forces of change**

Thanks to digitization, getting closer to customers and delivering to them the products they want faster has become a necessity. Top companies are already beginning to take advantage of four key trends:

- **Information over process:** Competitive advantage from IT has gradually shifted away from process standardization and toward data, information, and analytics. The lion’s share of large-scale back-office process-standardization projects — in finance, manufacturing, and supply chains — are now in mature stages.

- **Front office over back office:** Many of the opportunities to boost value and gain a competitive advantage through IT can now be found in innovation, collaboration, sales, and marketing, areas that are heavily shaped and influenced by the needs of users and customers.

- **Technology as a service:** Business users are now increasingly influencing and driving key IT decisions, especially in areas where differentiation can produce greater value than standardization. The continuing trend toward cloud computing and the increase in virtualized, configurable, and scalable technology services have transformed how companies source, acquire, and consume IT, and made it much easier for business users to plan for and acquire their own technology.

- **Speed-to-market:** Ongoing economic uncertainty is placing more and more pressure on business leaders to produce and demonstrate value quickly. So they are looking for ways to rapidly incubate, test, and prototype new technologies, and moving away from traditional enterprise-wide technology solutions that can take years to implement. Applications are increasingly being bought at departmental levels to suit individual business agendas, a practice that will only become more common as business users and software suppliers get more sophisticated.
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