Gartner:

Master These Core Enterprise Capabilities to Advance Your Digital Transformation

Digital transformation leaders are emerging, achieving growth and enterprisewide competitive advantage by excelling in strategy and execution. CIOs can learn about five transformative enterprise capabilities underpinning their success, as shown by our in-depth research with leading organizations.

Overview

Key Challenges

- Most enterprises have successfully deployed and scaled digital initiatives and capabilities in only small, highly focused areas.

- CEOs have high expectations for the CID role in digital transformation, yet just 29% of surveyed boards of directors have confidence in their CIOs' ability to meet those expectations.

- CEOs and CIOs want information and technology innovation to help generate enterprise growth and enterprisewide competitive advantage and, in the public sector, to more effectively deliver against their mission. Yet, few know what that means for their organizations or how to enable it.

- Our research of digital transformation leaders identifies five core enterprise capabilities that are key to digital success - yet these capabilities are lacking or embryonic in most enterprises.

Recommendations

Gartner:

CIOs executing on a digital transformation:

- Learn from digital leaders and gain proficiency with five core enterprise capabilities that enable successful strategic execution. These are continual strategy development and execution, program management across projects and products, business architecture and capability modeling, innovation capability, and deployment of cross-enterprise multidisciplinary teams.

- Exploit digital leaders' experience and expertise in nurturing these five enterprise capabilities in the IT organization, which will influence the C-suite to develop them at the enterprise level.

- Use the Gartner frameworks on strategy, business model, operating models, and program and product management to accelerate and scale your digital efforts.
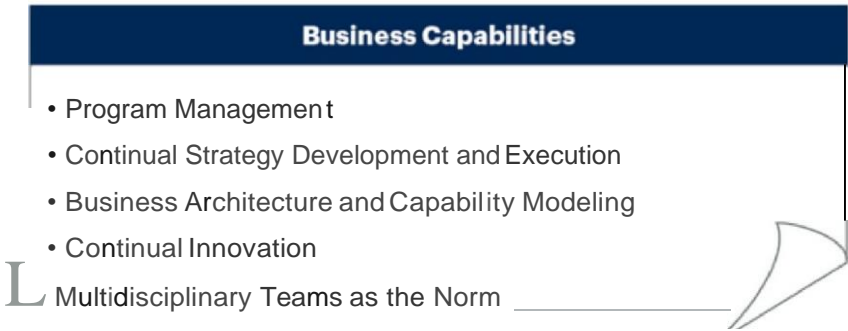
Introduction

Our research found five enterprise capabilities to be vital to digital transformation success (see Figure 1).

Figure 1. Enterprise Capabilities of Digital Transformers

Enterprise Capabilities of Digital Transformers
Transformers Excel in Five Enterprise Capabilit ies

CIOs can accelerate their enterprises' digital journey
by influencing and investing in these capabilities.

Business Capabilities

- Program Management
- Continual Strategy Development and Execution
- Business Architecture and Capability Modeling
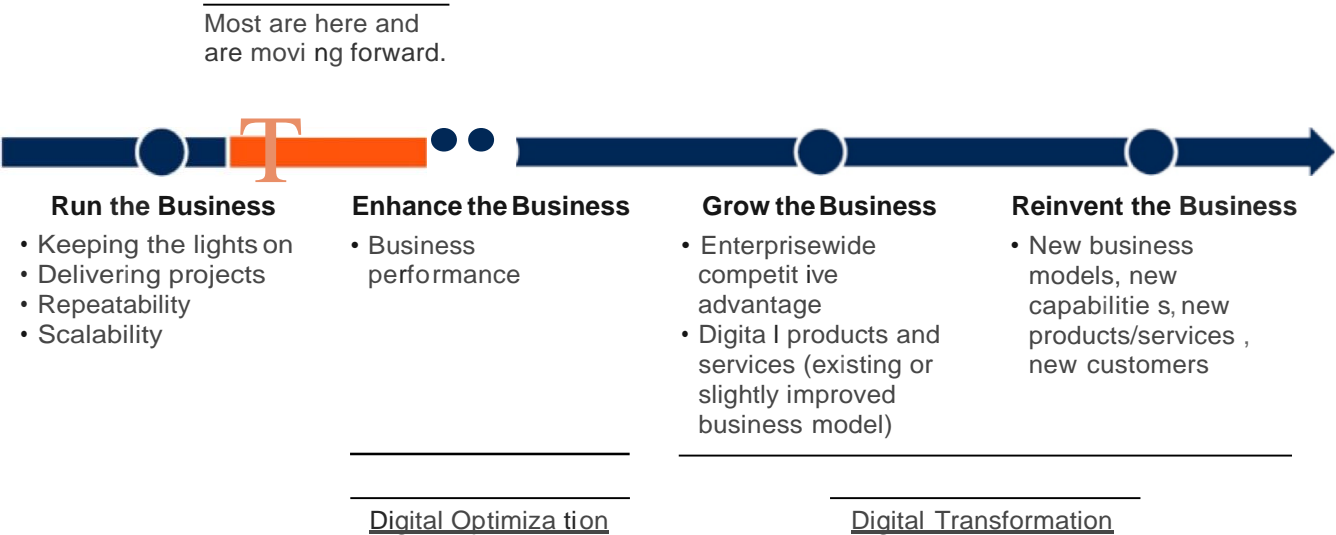- Continual Innovation
- Multidisciplinary Teams as the Norm

Source: Gartner
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Digital transformation is a long, arduous journey. Few organizations have made significant headway with developing digital products, services and business models, or creating enterprisewide competitive advantage. But, by mastering these five enterprise capabilities, CIOs can accelerate that journey. This research gives CIOs the tools in the toolbox to help get digital transformation back on track.

These findings are based on 34 in-depth interviews we conducted with organizations that have undergone a companywide digital business initiative. [1] We looked for organizations where enterprisewide competitive advantage, growth and/or reinvention are the focus of the information and technology (I&T) role in the enterprise, shown in the two boxes on the right side of Figure 2.

Figure 2. Progressive Movement to Achieving Greater Value From I&T

Progressive Movement to Achieving Greater Value From I&T

Most are here and are movi ng forward.

Run the Business	Enhance the Business	Grow the Business	Reinvent the Business
• Keeping the lights on • Delivering projects • Repeatability • Scalability	• Business performance	• Enterprisewide competit ive advantage • Digita l products and services (existing or slightly improved business model)	• New business models, new capabilitie s, new products/services , new customers
	Digital Optimiza tion	Digital Transformation	

Source, Gart ner

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But it's not that easy to become a digital business. So, some interviewees were in the second box from the left, too, where they were leveraging I&T to enhance business performance (for example, making smarter and faster decisions through data and analytics). In addition, a qualifier for the study was active management of their business capabilities for competitive differentiation. Why? Because we were looking at strategic execution - enterprises that actively manage business capabilities are more successful at winning in the marketplace or successfully achieving their mission in the public sector - precisely because they know what makes them successful.

Of the 34 interviews, 14 were classified as transformers and 20 as optimizers. (We use "transformers" or "optimizers" to mean the collective set of enterprises that were classified as such based on their characteristics - see "Digital Business Ambition: Transform or Opt imize?") Optimizers leverage I&T for enhancing business performance, but not to drive top-line growth. Optimizers may have pursued digital business transformation in pockets of the enterprise, but not as an overall enterprisewide strategy. Transformers are well along in the digital transformation journey and leverage I&T for reinvention and enterprisewide competitive advantage, growth and/or reinvention.

We found that digital transformer CIOs go beyond core I&T capabilities that optimizers excel in, which include strong leadership, engagement management, proactivity in technology leadership and delivery of business value. In short, optimizer CIOs have successfully transformed the I&T operating model to one we call "service-optimized." So the I&T operating model delivers on its promise of enhanced business performance (see "Run IT Like a Business by Applying the Service-Optimizing I&T Operating Model Pattern").

One key finding from the study was that transformer CIOs didn't lead just I&T — they, along with the rest of the C-suite, led *the enterprise as a whole.* These CIOs focused on how I&T could contribute to the business capabilities necessary to win in the marketplace or succeed in the public-sector mission. In short, they influenced the transformation of the enterprise operating model (see "Scaling Digital Business Requires an Enterprise Operating Model Perspective").

We found that transformers developed and excelled at the five critical enterprise capabilities (shown in Figure 1) to enable the business in whatever it wants and needs to do — drop costs, increase growth, or get closer to customers or citizens. These capabilities help transformers execute to be successful in the marketplace or mission, no matter what the goals are.

> **It is these capabilities that you will want to replicate for your enterprise — and for your career. These five capabilities are your toolkit to move your digital transformation forward — no matter what your ambition or your "techquilibrium."**

Now, you might be asking yourself, "I'm an optimizer, and our enterprise practices some of these." What we found from the optimizers is that many invested in these capabilities, but lacked the level of proficiency when compared with transformers. So, if you are already an optimizer CIO, then you already act like an enterprise change agent, and have what it takes to influence, build or improve these five core enterprise capabilities. As you do that, you will change the enterprise from one that layers technology onto the business to one that leverages the disruptive nature of I&T to change markets, business models, products, services and capabilities — and create enterprisewide competitive advantage. When this is accomplished, you will become a peer and partner to all CxOs in your organization and meet the increasingly high expectations of the CEO and board of directors.

If you are a transformer CIO, use this research to validate that you are investing in the right enterprise capabilities to succeed. And, if you believe you are more of a run-the-business CIO, see Note 1.

Analysis

Build Enterprise Capability in *Continual* Strategy Development and Execution

Traditionally, strategy development has been executed as a long, laborious, "waterfall"-type effort with three- to five-year time frames and extensive annual processes. The focus is on the existing business model, and the strategies selected have been variants of existing strategies. This approach to strategy typically results in incremental improvement, rather than transformative disruption.
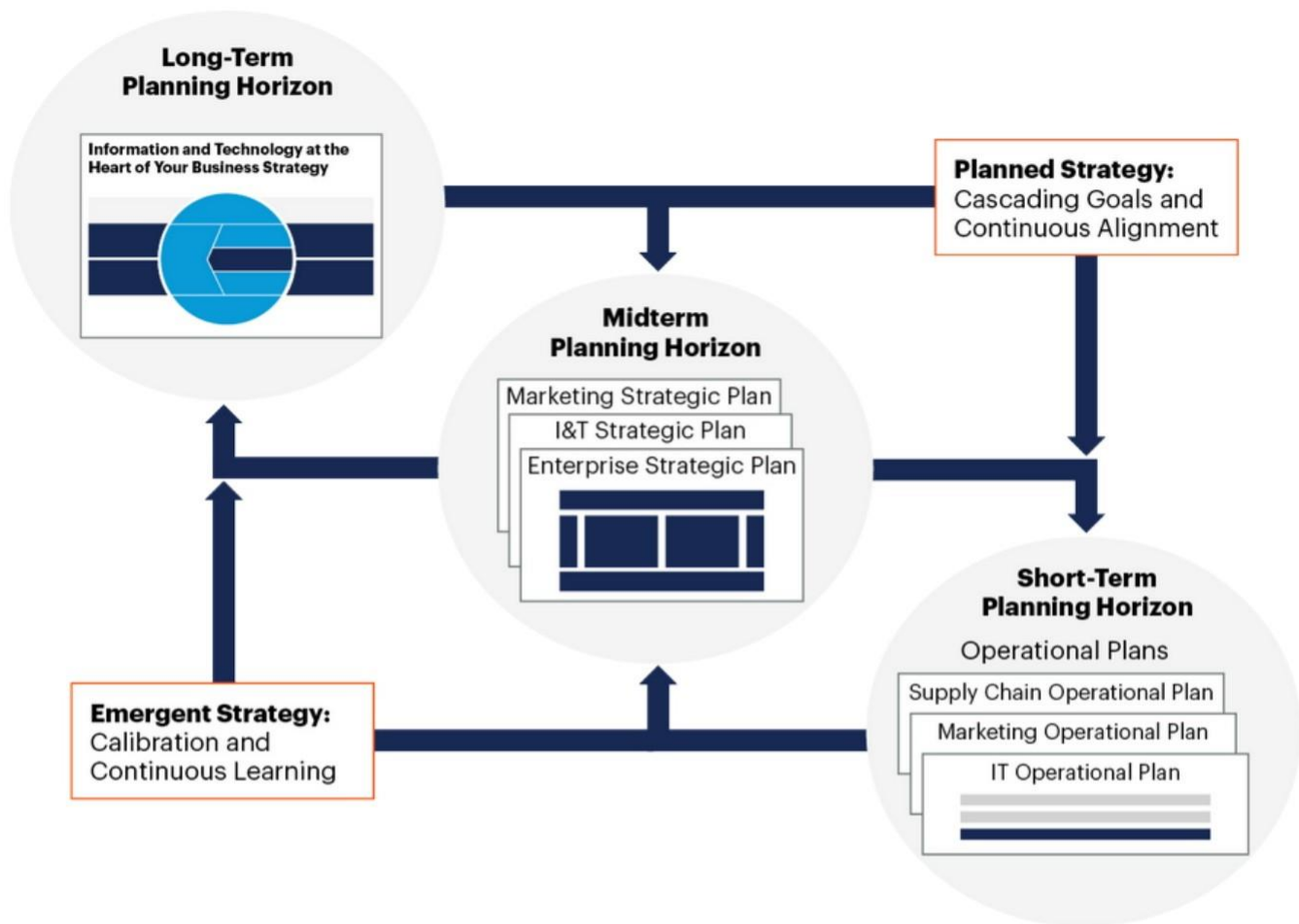
Digital business strategy needs to be more continual and able to pivot more frequently, based on a continual stream of changes in markets, customer or citizen preferences, and the status of strategy execution. Enterprises should follow the lead of the transformers that create new value propositions and design new business models around them. One transformer enterprise created a smart city platform for its hundreds of smaller cities to act like larger cities. It saw so much value that it became a platform business, enabling scaling beyond its own member base. Transformation requires new mindsets that go beyond what was done in the past to rethink the enterprise and exploit its advantages or create those advantages.

CIOs who want to learn from the transformers can leverage the Gartner strategy framework for longer-term, midterm and short-term strategy and execution (see Figure 3). As shown by the arrows between them, strategy development and execution monitoring are continual, adaptive processes, not a once-and-done annual process. While strategy has an enterprise-level "home" to bring it all together, strategy is a team sport — with voices and strategic planning groups providing input and analysis from all over the enterprise.

Figure 3. Gartner Strategy Framework

Gartner Strategy Framework

Long-Term Planning Horizon
- Information and Technology at the Heart of Your Business Strategy

Planned Strategy: Cascading Goals and Continuous Alignment

Midterm Planning Horizon
- Marketing Strategic Plan
- I&T Strategic Plan
- Enterprise Strategic Plan

Short-Term Planning Horizon
- Operational Plans
- Supply Chain Operational Plan
- Marketing Operational Plan
- IT Operational Plan

Emergent Strategy: Calibration and Continuous Learning

Source: Gartner
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Establish Clear and Agreed-On Accountability for Strategic Outcomes

Continual strategy execution requires an understanding of how strategy will be executed and who will be accountable for the results. For example, one transformer had a strategy of creating an omnichannel experience for retail customers, so they could order online or buy in stores and return by mail or in stores, regardless of how they bought the products. To get there, the CIO ran the program, and the 10% revenue attribution to omnichannel was accountable to the business sponsor. Now, the initiative was such a success that, in the first year, the enterprise achieved 17% revenue growth. That gave the enterprise leaders confidence to rethink their estimates the next time they put forth a business case.
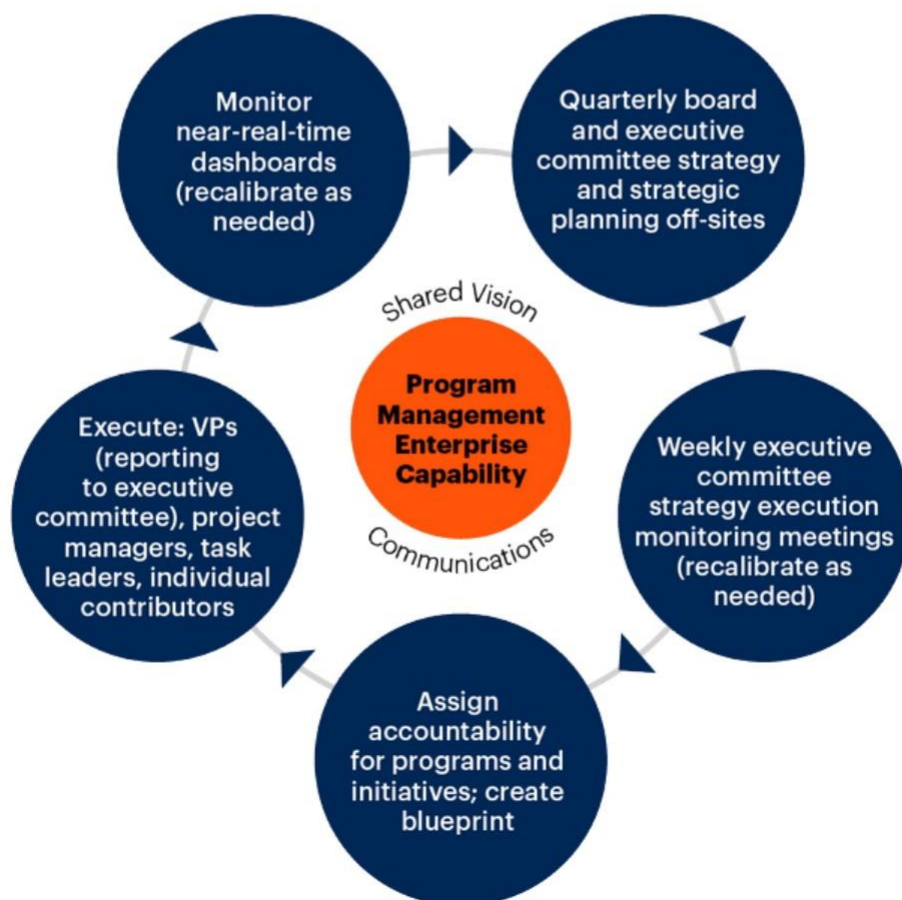
For strategic goals to be effective, they must be cascaded down to business units and business capability leaders for execution accountability. Goal achievement is aggregated back up, as part of strategy execution governance. Enterprise leaders make course corrections as needed on a more continual basis, and it becomes part of the organization's culture.

To enable the enterprise to respond more quickly to changes in the business environment, CIOs, business executives and boards of directors must make strategy and execution more agile and iterative. They can do so by incorporating continuous feedback and calibration, as shown in the transformer case study in Figure 4. Instead of treating strategy as a calendar-based process, CIOs include mechanisms and techniques for continuously capturing issues, ideas and insights from both strategic planning activities and day-to-day operations.

Figure 4. Case Study of a Continuous Strategy and Execution Loop

Case Study of a Continuous Strategy and Execution Loop

Executive committee and board of directors focus on vision, strategy, governance and monitoring execution. They are (mostly) free from day-to-day execution.

Monitor near-real-time dashboards (recalibrate as needed)

Quarterly board and executive committee strategy and strategic planning off-sites

Shared Vision

Program Management Enterprise Capability

Communications

Execute: VPs (reporting to executive committee), project managers, task leaders, individual contributors

Weekly executive committee strategy execution monitoring meetings (recalibrate as needed)

Assign accountability for programs and initiatives; create blueprint

Source: Gartner

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The transformer case study shown in Figure 4 is a fast-growing private cosmetics manufacturing company. Its executives are colocated on a campus and have *strong* VP execution leaders underneath them to execute strategy. The company has a deliberate separation of vision and strategy (which is the focus of the executive committee and board of directors) and execution (which is the responsibility of key leaders across the enterprise).

The circle of activities in the graphic provides an overview of how the company strategizes and executes. The executive committee and board of directors visit strategy and strategic planning quarterly at an off-site meeting. Here, they take another look at the macro business vision and strategy, and make decisions on how to meet strategic objectives, given any changes that have occurred in the market. They also ask, "Can we achieve our strategic objectives in a reasonable time frame?" Based on this, they may pivot and realign priorities.

From an execution monitoring perspective, the executives meet weekly to assess execution and any issues, problems, risks and disruptions they may be facing. They may reprioritize activities or initiatives and change resource allocation during these meetings. But monitoring is not just a weekly activity — they have real-time dashboards so that everyone knows how they are doing at all times and has predictive advanced notice of any potential slippage.

From a "how does the enterprise execute" perspective, program, project and product management is core to how it executes. The enterprise works in agile sprints for IT software development and R&D chemical testing labs. Larger projects and initiatives are multiphased with incremental value delivery in milestones measured in months, not years. Accountability for execution is assigned to key executives to ensure buy-in. To execute programs, products and projects, the company deploys leaders and multidisciplinary teams from around the company and contract labor. The program management office (PMO) inside IT and the enterprise PMO (EPMO) manage dependencies. There is a clear hierarchy of teams and ownership.

Recommendations

Key practices of transformers that CIOs should replicate include:

1. Build enterprise capability in adaptive strategy, strategic planning and operational planning. Develop and hone one unified enterprise strategy that includes digital.

2. Set strategic goals with discipline, and test them to ensure they are specific, measurable, actionable, relevant and time-bound (SMART — see "The CIO's Guide to Powerful Strategic Contribution"). Goals should be developed with multidisciplinary workgroups to increase participation and influence of the strategy.

3. Link the unified strategy to governance over enterprisewide priorities and integrated investments to achieve strategic goals.

4. Establish clearly accountable roles, responsibility and authority:
   - CxOs and board of directors determine priorities and set funding.
   - Business sponsors are accountable to achieve strategic goals.
   - Program managers orchestrate delivery of strategic initiatives, projects and products, while monitoring execution and working with business sponsors to resolve roadblocks or issues.
   - Everyone participates in strategic organizational change management as a discipline.

5. Use disciplined processes to analyze the business context, and spot and assess trends. Synthesize positions to inform strategy development and execution. Frequently evaluate progress and status with strategy execution, and recalibrate as needed.

Build the Enterprise Program Management Capability

Transformers recognize the importance of strategy, but put at least equal weight on strategy *execution.* This way, they don't fall into the strategy execution failure gap. As demonstrated over the years and in many studies by Gartner and consultancies, on average, at least half of all strategy executions fail. [2] Why? Because execution is hard work. There are so many moving parts and so many dependencies, and a wide array of talent and resources are required. But also, organizational change takes time to incorporate, to make those cultural changes "stick." And, in the digital world, who has time? Markets, technologies and customer preferences are constantly shifting, so that means that your organization must continually adapt. If it doesn't, then your organization may be the one to get disrupted, rather than the one to disrupt.

To succeed with strategy execution, transformers invest in and excel at the enterprise capability of program management. So they may continue to change and adapt, while executing on programs, projects *and* products to achieve strategic goals.

"Program" Definition

A program is focused on the defined goal or objective and can consist of multiple delivery contributions to achieve that end result.

It should be noted that every single transformer leveraged product teams, especially for I&T initiatives, but they also used projects within their programs. And, as Figure 5 shows, there may be many pockets of program management capability around the enterprise. Program management is an enterprise-level capability that is vital to ensuring alignment of financial and human resources to the enterprise strategy, not just pockets within the enterprise.

As one of our study participants said:

> **— Transformation and technology director, U.K. retail company**

"Big business departments don't do program delivery. IT and enterprise change teams do program delivery, enabled by strong business sponsorship."

Why is that? IT is the glue that holds the enterprise together — so IT has a holistic ability to manage end-to-end strategic programs, such as implementation of digital business technology platform or omnichannel customer experience. The only other group that would see the end-to-end dependencies like IT does would be an enterprise-level program management function — that can cut through the complexity and interconnected nature of the enterprise and manage the programs to successful execution.

Program Management Must Be Adaptive

Many enterprises have had enterprise program management designed for the nondigital world, where strategy didn't change too frequently. In today's digital world, things are moving so quickly on the ground that it is not possible to keep plans consistent for the long term. Conditions will change. For example, there is competition in the private sector, or in the public sector, a new mission will come to light due to constituent expectation changes or due to newly elected leaders.

As a result, program management must be adaptive (see "Optimize Outcomes With Program Management Across Product Lines"). What does this mean? First, value delivered is phased — so that the organization can evaluate benefits, as well as rethink priorities in the ever-changing environment. Is this program still on track? Should changes be made? Should we consider sidelining the program, because we've gotten enough value and the resources could be better aligned elsewhere for strategic impact?

All Projects and Products Must Roll Into Overall Program View

Second, all projects and products should roll into the overall program view to track how well strategy is being executed, as measured by strategic goal accomplishment. The value of enterprisewide strategic planning (and creating strategic plans) is getting the execution focus and attention on achieving the desired *strategic* outcomes. There will be a clear connection to the enterprise plan so that all parties are in agreement with respect to enterprise goals.

Program management ensures that all the individual product and project delivery contributions across the enterprise (and dependencies between them) are orchestrated to achieve the end result. Without program management, each initiative's delivery is often managed in isolation, disconnected from the whole and relying too much on heroic acts to realize enterprise strategic objectives. Transformers deliberately "connect the dots" and manage the strategic goals as a series of interconnected programs, projects and products. These programs are selected through an enterprise governance process precisely because of their ability to meet strategic goals, and then are actively managed to achieve goals.

All Programs Should Deliver Value Over Time

Third, all programs (and product and project delivery) should deliver incremental value over time, versus big-bang results several years out. Investment funds are often released in increments with value, versus funding measured and analyzed at each milestone. Business leaders (including CIOs) periodically determine whether to continue to invest, course-correct or halt the program. This is because it's failed to reach objectives, or it has reached enough of its value proposition. Moreover, priorities may have changed, or a change occurs that preempts the ability to deliver more value.

It should be noted that pockets of program management capability will continue to exist across the enterprise. That's because some programs and strategy execution are not enterprisewide, but specific to a business unit or capability. These will be clear in the strategic plans and, if there are dependencies across the enterprise, will be tracked and managed at the enterprise level.

Recommendations

Key practices of transformers that CIOs should replicate include:

1. Build enterprisewide expertise in adaptive program management. Adopt an adaptive program management life cycle approach to execute large, complex work programs.

2. Methodically and frequently assess program execution (for example, projects and products) against the strategic plan. Drill down into what's not working, and recalibrate as necessary. Transformers build course correction into the enterprise culture. One business executive shared that her focus was enterprise agility and "being continually relevant in the present, not in the past."

3. Continue to measure value after the completion of milestones and program completion. Full value realization and adoption of change take time. Moreover, accurate measures or achievement of ROI may not be available for many months or even years after completion (such as increased revenues from implementing an omnichannel experience). Use value realization results to learn more and improve ongoing business case analysis and program management success.

4. Work with HR to hire experienced change and transformation leaders. For several of the transformers, senior executives were replaced (by the board of directors or CEO) to improve transformation and execution success.

5. Build dashboards and mobile apps to monitor strategic execution metrics and leading indicators to enable course correction as needed.

6. Manage strategy execution as a series of interdependent parts to enable all employees to understand their roles and contributions. Use successful program, project and product execution to offer employees opportunities for wider visibility, recognition and advancement. Use both product and project delivery models to execute delivery. Hold delivery teams jointly accountable to achieve their goals, and allocate decision rights on *how* to achieve them.

Use Business Architecture and Capability Modeling to Operationalize and Influence Enterprise Strategy

Business capabilities are the link between the business model, strategy and operating model (see Figure 6). Business capabilities define the most critical and differentiated activities for the enterprise to succeed in its mission or strategic objectives. Business capability modeling cuts across organizational silos by focusing on what different constituencies do, rather than how they do it.

CIOs who master and leverage business capability models can contribute significantly to business model innovation, business strategy development and enterprise operating model improvement. When evaluating the impact of new and disruptive technologies, CIOs must explore all three to demonstrate the full scope and impact of change.

Figure 6. Business Capabilities Operationalize and Influence Enterprise Strategy and Business and Operating Models

Transformers use business architecture and business capability modeling as a discipline to enable an understanding of capabilities that differentiate their enterprises and enable them to deliver on strategic goals (see "Better Digital Business by Design With the Business Architecture Landscape"). Transformers also use modeling to inform the enterprise operating model, to optimize centralization vs. federation to achieve the right balance of agility, innovation and consistency.

As one of our study participants said:

> — **Global CIO, U.S. engineering/consulting services firm**

"Digital business is some way ... be the cutting ...

"Digital business is not new — it's about leveraging technology to execute and achieve 'real' business goals. [Leaders] must then go from business objectives to figuring out the activities for competitive advantage to stay ahead, the activities that are competitive therapy to stay in business and those that are for operational effectiveness."

Benefits of Business Capability Modeling

There are three main benefits to business architecture and capability modeling:

1. Knowing what sets the enterprise ahead of the market and enables it to win at its mission or in the marketplace enables it to invest in the right capabilities to succeed. By doing so, the enterprise will be less likely to fall into the strategy execution gap.

2. Business capability modeling cuts across what CIOs do in the enterprise to give them input into optimal structuring at the enterprise level of centralization, decentralization and federation. As a result, CIOs can have the right mix of agility, innovation and operational excellence for their enterprises.

3. CIOs may find that differentiated capabilities can be monetized by creating a new business model with a new value proposition — much like the smart city example cited earlier. Business architecture and capability modeling gives CIOs the tools they need to evaluate business model change.

One example of optimizing a shared set of capabilities is in building the digital business technology platform (see "A Digital Business Technology Platform Is Fundamental to Scaling Digital Business"). We define the platform as the shared set of capabilities that enable enterprise agility, as well as cost optimization. The idea is that, by sharing customers, IT systems, ecosystems, and things all tied together with intelligence and analytics, the enterprise will be nimbler. It does not create 10 IT systems where one or two would suffice. And it enables the enterprise to innovate on top of the platform, putting scarce human and financial resources into innovation, instead of recreating platform components.

FedEx Leverages Business Capabilities to Design Enterprise Operating Model

In another example, FedEx leverages business capabilities in the design of its enterprise operating model (see "Redesign the IT Operating Model to Accelerate Digital Business"). An analysis of FedEx's business created a three-part enterprise organizing structure:

- The platinum core is an amalgamation of all the shared capabilities in the enterprise. The focus of management here is collaboration to enable the capabilities required by the purple core and multicore.

- The multicore organizing structure is the four business units. The business units innovate and operate the unique capabilities for themselves, such as airplanes for FedEx Express. They operate these capabilities independently and are accountable for the components that enable FedEx to win in the marketplace.

- The purple core organizing structure is all the capabilities facing the customer. Here, the business units must compete collectively to win in the marketplace.

Business architecture has informed FedEx's enterprise operating model and enables it to identify accountable parties for innovating capabilities. FedEx also practices transparency — and when an innovation occurs in one business unit or one location, it evaluates the innovation to see if it should be moved to the platinum core and scaled to the enterprise. The reverse is true, too — if the platinum core has a capability that is used by only one business unit, it gets moved to that business unit for innovation, care and feeding.

Recommendations

Key practices of transformers that CIOs should replicate include:

1. Establish business architecture and capability modeling as an enterprise-level capability. Leverage your expertise with enterprise architecture (EA), adding the business architecture mission initially to the EA charter to show value. For example, help stakeholders visualize which physical, human and financial resources need to be combined to execute the business strategy.

2. Use business capability modeling to "forget the way things are done today" and, instead, examine the future to achieve business goals. Example business goals include better agility and market responsiveness; attracting new customers or expanding constituent support; driving faster product/service introductions, ongoing maintenance and upgrades; and developing product/service delivery and operational efficiencies.

3. To determine these future business capability examples, run "visioning workshops" with business and functional leaders. Brainstorm existing differentiated capabilities, as well as potential future capabilities that could result in competitive advantage.

4. Use business capability modeling to reimagine the business structure with a more portfolio-oriented view and to enable a single enterprisewide lens for mapping success.

5. Invest in a shared digital business technology platform for cost optimization (such as global consistency and economies of scale) and for agility and innovation (see "A Digital Business Technology Platform Is Fundamental to Scaling Digital Business").

6. Use the knowledge of differentiated business capabilities to reimagine the business model, and consider monetizing those capabilities.

Build an Enterprise Innovation Capability

A digital business requires a constant stream of ideas and funding for experimentation, prototyping and studying feasibility to create new value propositions for customers or constituents. Optimizer CIOs deliver enhanced value and encourage collaboration, experimentation, and testing and trialing of new ideas or technologies. However, they focus less on front-office innovation — for new products, services and business models powered by I&T.

For CIOs to go beyond innovating in the back office requires an enterprise innovation capability. Most enterprises have some innovation capabilities. However, they tend to be focused on longer-cycle innovation associated with traditional products and services.

> **— VP of technology and strategy, U.S. energy firm**

"When talking to employees about innovation you just get a wealth of incremental change. To go beyond that to the potentially large changes requires a separate team. The key is finding the right match between new technology and opportunity and the problem that is so resistant to change you become blind to it."

As noted in the quote above, transformers deliberately establish a capability for continual innovation, with a team different from those that optimize and improve the current business. A team that is optimizing and improving current products and services and incentivized for market share, revenue and profitability metrics will generally struggle to invest enough time and energy into the next disruption. Moreover, people have different preferences and competencies — some thrive in total ambiguity, while others are good at optimizing the existing environment.

The key to success is a strong transfer of ownership from the innovate and grow teams to the optimize teams. Lack of strong ownership transfer is the single biggest cause of failed innovation scaling (see "Navigate the 9 Common Pitfalls to Scaling Innovation").

Use a Life Cycle Approach to Management and Accountability

The venture capital model of investment and leadership can be a useful model for enterprises to use internally (see Figure 7). They start in the lower left of this quadrant where the rate of change is high and the materiality on their business is low. They start with founders that have ideas on how to generate value. They test and validate their ideas, pivoting a lot along the way to prove a value proposition, get funding, and get the products and services launched. Typically, the founders stay on as CEOs through a rapid growth stage where there are lots of pivots and changes to meet customer expectations.

At some point, however, the business model, value proposition and strategy solidify, and the focus becomes optimization — of market share, cost and customer experience. Generally, founders take on other roles in the enterprise to envision the next innovation, while professional management takes on the success of the new products and services. The staying power in this area may be long or short — but eventually, the product may be replaced by something new or sold off to enable strategic focus.

The point is that different types of teams excel in different stages of the life cycle, and transformers optimize their product life cycles with the right leaders to meet strategic goals. They incubate innovations and gain traction in the marketplace by navigating and managing high growth, while making continuous and rapid changes and course corrections to strategy, products and dependent business capabilities.

At some logical point, they transfer leadership to a different type of management — one that knows how to optimize market share and costs. Here, the rate of change slows, because change is more incremental than disruptive. These teams may be in place for many years, as some products are relevant to the market for a very long time. At some point, however, it is clear the product offers less substance or alignment to enterprise strategy and it may be retired, replaced or divested.

Figure 7. Use Life Cycle of Market-Less Products and Services to Align Accountabilities

Figure 7. Use Life Cycle of Marketplace Products and Services to Align Accountabilities

Use a Gated Approach to Funneling Innovation

Similar to continuous loops of adaptive strategy, transformer enterprises leverage well-defined, gated innovation programs to develop innovation opportunity pipelines, explore fast failure of ideas, and ultimately drive efforts toward high-potential and achievable options.

The case study in Figure 8 is a multibillion-dollar spinoff of a European utility. Its focus is accelerating innovative products and services to existing utility customers and improving overall company margins.

Figure 7. Use Life Cycle of Marketplace Products and Services to Align Accountabilities

Figure 8. Case Study Example of a Stage-Gate Approach to Continuous Innovation

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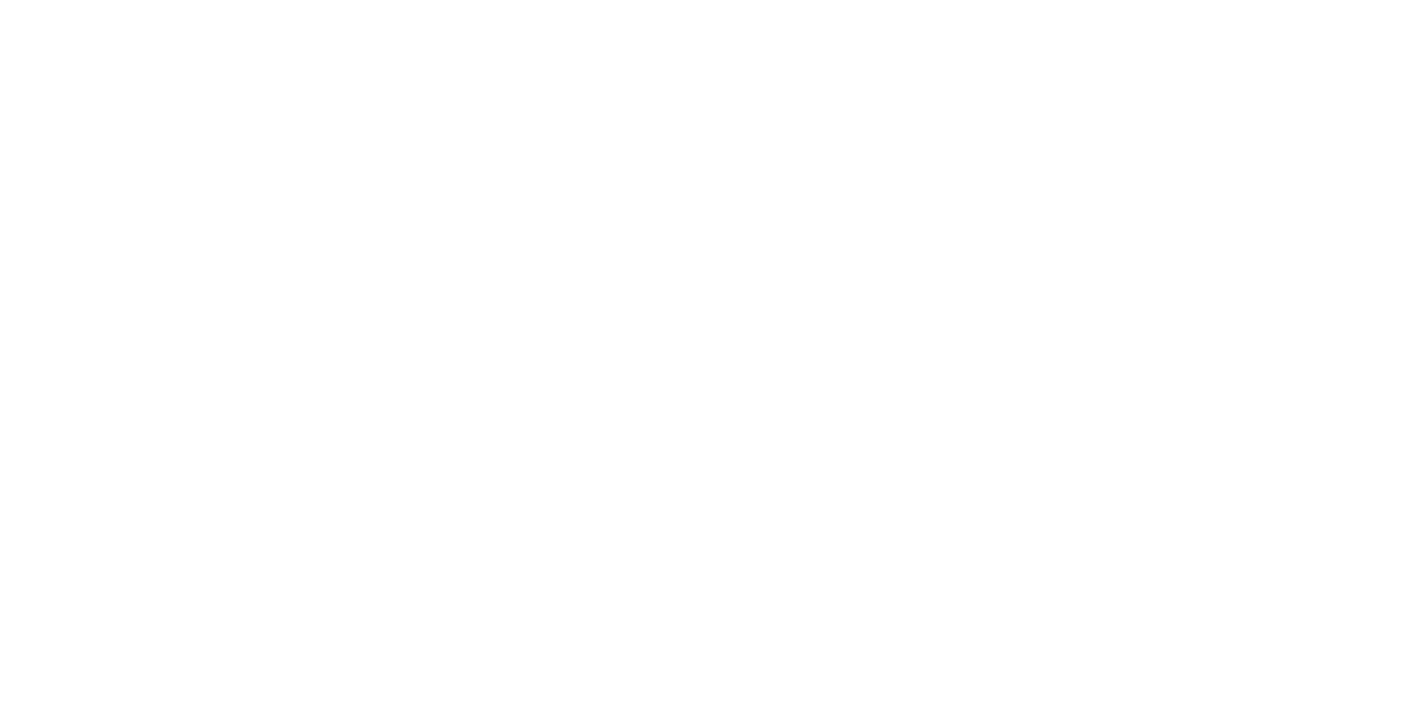
In this company, core business capabilities are identified, with leaders in marketing, sales, strategy, operations and IT reporting to the CEO. Decisions are guided by data analytics and made by the 10-person board of directors that meets on strategy and execution twice weekly. Management governance and oversight to strategy execution are run monthly, and the company employs rolling monthly plans to achieve its goals. Executives monitor execution tightly and course-correct and solve problems along the way to achieve the outcomes.

This company decentralizes its innovation processes. Ideas come from all over the company, and the business and IT work together to develop those ideas. The company has a process called "stage gates" to take an idea through its life cycle — which can be thought of as a series of funnels that result in the highest-impact initiatives being selected. The first stage gate is ideation with monthly meetings to decide whether or not to take the idea forward, which is partly based on alignment to the company strategy.

If it makes it through the first stage gate, teams are assigned to fully develop the idea and business case in about a month. In the second stage gate, the business cases are presented to executives and board of directors. The executives may request additional market details and studies and prototypes to make a final decision. At that point, resources are applied to obtain those details.

The third stage gate is where the final decisions are made on a monthly basis. The core team stays

The third stage gate is where the final decisions are made on a monthly basis. The core team stays the same from ideation through implementation, with additional resources added as needed. Once an idea is selected for implementation, accountable leaders are assigned and teams are empowered to achieve the proposed outcomes.

The company aligns accountability with the right people to manage it, based on the phase of the life cycle. It has the concept of growth and operations teams. The growth teams are ideating and developing the product through launch and rapid growth. The operations teams professionally manage the product for revenue and cost optimization. Both are critical to company success. But the competencies of people are different when they are growing a product versus operating it and incrementally improving it. After a product is successfully launched, it is turned over to operations teams for professional management.

Recommendations

Key practices of transformers that CIOs should replicate include:

1. Leverage expertise in I&T innovation to influence its creation as an enterprise capability.

2. Start with the customer and the value proposition of digital products and services before working backward. Focus on ownership and traction of new product and service innovations first, before looking to optimize or consolidate back-office processes. Without marketplace success, optimization is wasted.

3. Enable identification of big disruptive ideas through cross-functional ideation teams, and then pursue validation with customers to see if there is an opportunity. Transformers develop many ideas, prototype them and fail fast when ideas cannot be validated or don't warrant the investment for the benefit. Transformers govern the life cycle of ideas.

4. Enable innovation by providing time and space for people to explore ideas on their own or with colleagues. Actively encourage "field-developed" ideas about new products and services.

5. Encourage exploration, experimentation and hypothesis testing as a means to building a more creative, entrepreneurial culture.

6. Appoint capable leaders aligned with the innovation stage on the product life cycle.

Employ Multidisciplinary Teams as the Norm, and Change the Way the Enterprise Works

CIOs who have transformed I&T have found the value of working in multidisciplinary I&T teams that

CIOs who have transformed I&T have found the value of working in multidisciplinary I&T teams that cut across departmental and organizational boundaries. This approach provides the following benefits:

- Speeds service, project and product delivery and accelerates the time to value.

- Encourages a culture of collaboration and team results. Combined with team decision rights, this results in greater productivity (and creates a more enjoyable atmosphere).

- Enables teams to better understand their roles in strategy execution. Thus, their actions and decisions will be more aligned.

- Develops a more versatile and integrative workforce, with less focus on specific roles and more on achieving the desired result.

- Cross-pollinates skills and competencies throughout I&T across the enterprise.

The benefits of multidisciplinary teaming for I&T will yield even greater results at the enterprise level. To implement this, however, requires the entire enterprise to change the way it works. Implementing will be an order of magnitude larger than what it took for IT organizations. Gartner's 2020 IT Key Metrics Data shows, on average, IT full-time equivalents (FTEs) make up 5.4% of total employees (with a range from 1.8% to 13.2% — see "IT Key Metrics Data 2020: Industry Measures — Executive Summary").

Thus, if IT resources are 5.4% of total employees, now, the other 94.6% must change. This requires making significant changes to the enterprise operating model (in particular to strategic execution governance, workforce development and performance management) and creating a robust resource management practice. In fact, Gartner research has shown that more than 84% of companies have established cross-silo teams, yet only 24% of these teams deliver business value with speed and flexibility. [3] To get it right typically requires an entire workstream (as part of a digital transformation program) devoted to the way work is done in the enterprise.

The bottom line is that CIOs and CxOs should build the enterprise capability of multidisciplinary teaming as the normal way to work in the enterprise. Enabling that enterprise capability will require robust resource management practices and tools. Then, CIOs and CxOs should map the outcomes desired to get the right composition of the teams. Sometimes, it will be weighted toward technology, sometimes toward business operations, and other times, there will be an equal weighting.

Recommendations

Key practices of transformers that CIOs should replicate include:

Key practices of transformers that CIOs should replicate include:

- Challenge assumptions of how work gets done in the enterprise. Multidisciplinary teams that are empowered to make decisions on how to achieve their goals get more work done for the enterprise.

- Prioritize the right talent from across the enterprise and, potentially, the ecosystem to form teams that can deliver to expected outcomes. Enable success through robust resource management practices. Team members typically should have a consultative mindset. Hire from the outside, and develop the workforce to ensure the competencies and leadership needed to achieve results.

- Redesign the workplace to foster collaboration and multidisciplinary teaming, while sending a cultural signal. Back up the desire for collaboration with performance metrics that incentivize it.

- Arm multidisciplinary teams with a multitude of work methods and training to help them with critical thinking and problem-solving skills. Examples include design thinking, life cycle management and value stream mapping.

- Empower teams to achieve their outcomes. Managers should not "tell" teams what to do — managers should enable them and (hopefully) become a force multiplier. But it is difficult to get this right. So start small with pilots, and learn from the experiences before scaling across the enterprise.

- Invest in leadership training for managers. Their role changes from one that makes many decisions to one that plays a vital role in enabling team effectiveness and for all voices to be heard. This is a difficult transition that requires training and, potentially, coaching. For more information, see "Digital Business Demands a New Leadership Style — The Why, What and How."

Case Study

CarMax is a great example of an organization that leverages multidisciplinary teams for strategy execution, including in projects, products and problem solving. CarMax has found that pulling together the various perspectives and enabling teams to solve to its objective gets more work done in the enterprise that is more aligned to strategy. CarMax initiated multidisciplinary business and technology product teams in 2016, with a focus on using technology innovations to improve customer experience. After it saw significant success, it implemented product teams to improve associate experience as well. Each year, CarMax evaluates how teams are working and the results they are getting, and adjusts its approach to teams or resolves problems to optimize strategy execution.

Teams are structured based on CarMax's strategy of enabling an omnichannel customer experience for its customers to buy and sell cars as they wish — through digital or physical channels, or a seamless combination of both. Instead of organizing its teams solely on selling cars, CarMax organizes around the entire customer journey of buying and selling cars. As a result, teams are laser-focused on a specific area of the shopping journey. Moreover, by optimizing all parts of the shopping journey, as well as the integration and insights across the journey, CarMax can maximize the overall experience wherever the customer may have entered the journey.

There are five phases in the customer journey: search, shop, buy, sell and service. Each of these phases have product teams made up of technology and business associates who deliver to predefined objectives. The scope of these teams encompasses everything to do with customer experience, not just the digital experience, but also the physical experience. Examples include customer experience in the stores, during the test drive and in servicing their vehicles. All the business processes, the associate experience and the customer experience could be included in the scope, depending on the specific team.

CarMax's team composition depends on the outcomes expected (see Figure 9). Some teams have much greater weighting of technology associates, such as those in search optimization or online platform teams that serve the other product teams. Other teams, however, are weighted more on the business associates' side, such as the teams focused on the contact centers where customers can call to get help with their car buying or selling experience. With the contact centers being relatively new, there are many business processes to work out to ensure the best customer and associate experiences. As a result, the weighting of business associates is higher, but in combination with technology associates.

Figure 9. CarMax's Business and Technology Team Members Are Determined by Outcomes

CarMax's Business and Technology Team Members Are Determined by Outcomes

Technology
- Developers
- Business Analysts

Business
- Creative Marketing
- Field Operations
- Data Scientist

Core Product Team Members
- Product Manager
- Product Designer
- Lead Developer
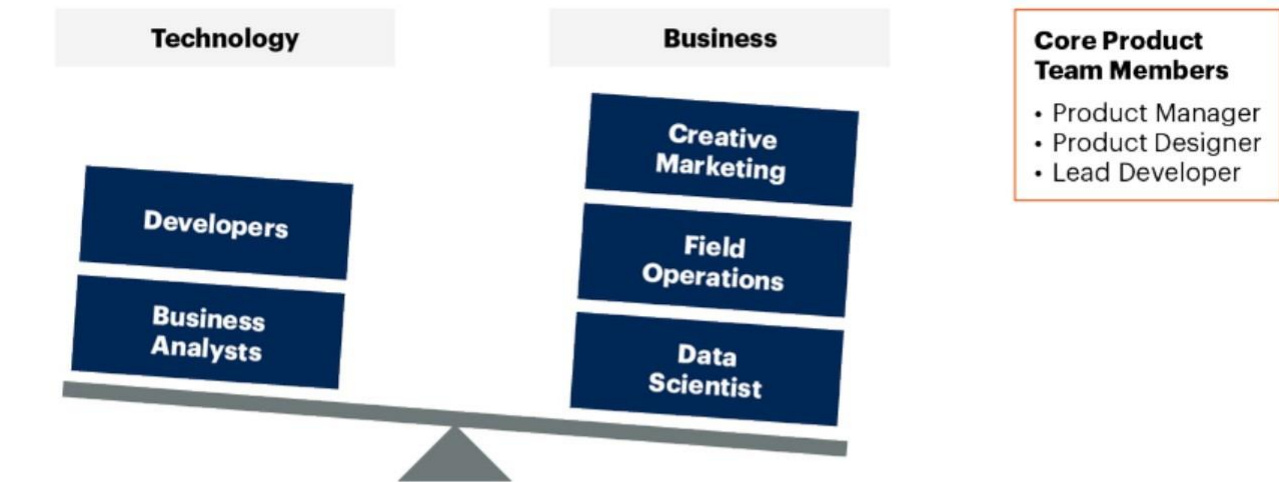
Source: Gartner
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In another example, digital merchandising at CarMax has some unique challenges. Unlike other retailers, every piece of inventory is unique. It is challenging and complex to merchandise, take many photos, and get the inventory online so that the experience is the same digitally as it is for a customer walking into a store. And, of course, millions of cars are bought and sold each year. Consequently, to ensure that digital merchandising is effective and efficient, CarMax composes teams of both technology and business associates, but the weighting is on digital marketing and store operations.

Evidence

[1] Gartner's 2019 Managing Digital Business Capabilities Survey conducted 34 in-depth interviews with IT and business leaders:

- Gartner conducted this survey to explore how advanced organizations leverage product management discipline in their enterprise operating models to orchestrate business capabilities and achieve success in the marketplace.

- We conducted 34 in-depth telephone interviews (of approximately 60 minutes) from June through July 2019, worldwide, among companies that have undergone a digital transformation.

- Participating organizations had at least $250 million in revenue from across different industry sectors (excluding software- or service-only tech companies).

- We interviewed technology leaders (such as CIOs and CTOs) and business leaders (such as chief strategy officers and division business unit presidents). Respondents were screened for involvement in the design, delivery, execution or optimization of their organizations' business capabilities.

- The study was developed collaboratively by Gartner analysts who focus on enterprise operating models and Gartner's Research Data and Analytics team.

- Participating organizations were classified by Gartner as transformers (14) or optimizers (20).

[2] Many studies show a range of strategy execution failures, including:

- "Closing the Strategy-to-Execution Gap," Gartner

- "Executives Fail to Execute Strategy Because They're Too Internally Focused," Harvard Business Review

- "20 Reasons Why Strategy Execution Fails," Forbes

- "A Clear Path to Strategy Execution," American Management Association

[3] Gartner Strategy Leadership Council, "Key Success Factors for Managing Cross-Silo Teams."

Note 1
A Word of Caution for Run-the-Business CIOs

In this research, we make the case that some CIOs are already providing transformational leadership and have developed the foundations for supporting digital optimization by leveraging I&T to enhance the performance of their businesses or mission in the public sector. By honing five capabilities within the IT organization or across I&T in the enterprise, they have built the foundations that enable them to influence enterprise-level capabilities.

Moreover, they know how to create a vision, develop transformation and change workstreams, and execute against them. These CIOs already have an enterprisewide view, because I&T transcends the entire enterprise. This experience and expertise are transferrable to the enterprise perspective — but only if trust and credibility exist first.

Conversely, for CIOs who haven't yet built the level of trust to help drive changes to enterprise capabilities and operating models, this research should first be applied to the IT organization and then to I&T across the enterprise. This will earn trust as well as highlight the potential of new capabilities.

Gartner

Recommended by the Authors

Digital Business Requires an I&T Operating Model That Unlocks Value and Drives Revenue Growth

CIOs Need to Lead the Way to Adaptive Strategy

Survey Analysis: Creating Strategy in a Volatile World

Toolkit: Presentation for Key Findings From the 2020 Board of Directors Survey

Leveraging the Strategy Realization Office to Execute the Digital Strategy

Better Digital Business by Design With the Business Architecture Landscape

Accelerate Your Journey to Innovation Excellence With a Customizable Innovation Framework

Changing Behaviors: From Working in Silos to Working Collaboratively

Redesign the IT Operating Model to Accelerate Digital Business

Digital Business Ambition: Transform or Optimize?

Recommended For You

How to Organize IT for Efficiency

Predicts 2020: Leadership Gaps, More Than Culture, Inhibit Digital Business Transformation

Brokering Networks for Digital Business Teams (ETS)

Leveraging Digital Product Management for Digital Business Transformation and Optimization

Succeed With Digital Business Through Adaptive Governance

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