Harvard Business Review
ANALYTIC SERVICES

Briefing Paper

ALIGNING THE C-SUITE TO STRATEGICALLY ENTER NEW MARKETS

The CIO's Perspective

Sponsored by

CITRIX®

ALIGNING THE C-SUITE TO STRATEGICALLY ENTER NEW MARKETS

The CIO's Perspective

In today's business environment, every organization is facing competition from within its industry while also encountering unanticipated pressures from rivals outside its sector. To stay competitive, companies are finding new and innovative ways to partner, often outside of traditional M&A dealmaking. These alliances increasingly have a digital component to them, with chief information officers (CIOs) or chief technology officers (CTOs) playing a crucial role in the organization's ability to partner and grow successfully.

As part of the C-suite, the CIO is now in the position of not only helping his or her peers see the new strategic possibilities that technologies present, but also formulating how technology, process, and people can be joined together to enable new partnerships to thrive and for growth in untapped markets to succeed.

To get others in the organization to support digitized business efforts, the CIO needs to build a strong case before the board of directors in terms of the end-state value. CIOs also need to prove past successes.

"I think CIOs have a tendency to fail a ton, which is not necessarily a bad thing," says David Linthicum, cloud strategy director at Deloitte Consulting. "They're going to be a little bit more suspect, and it will be harder to get the approval that's needed because of past behavior, but you have to make a compelling business case—not just to operational savings but the ability to increase earnings per share. It's about the ability to increase value long-term. I think C-suites are typically more interested in that than anything else."

As a result, the onus on the CIO has grown. Not only does the CIO have to understand the company's needs and help set priorities when it comes to digital strategy, but also he or she has to align it with the organization's overall approach when it comes to technology. When dealmaking is involved, that means integration of technologies among companies becomes a crucial matter on the CIO's plate.

HIGHLIGHTS

- When it comes to global expansion and partnerships, alignment of the C-suite and the CIO's role in it is critical for the success of a company.
- The CIO helps the C-suite identify strategic possibilities resulting from new technologies.
- The CIO's role is evolving, with CIOs getting the chance to be transformational both inside and outside the organization.

“A retailer whose growth strategy has been mainly geographic, opening stores locally, **may want to consider a completely new direct-to-consumer type of platform** that may be much more relevant in markets like China, for instance, or India,” says Didier Bonnet, director of digital practice at Cap Gemini.

Forms of Partnering and Expansion

The forms of partnership and growth that a company undertakes depend on its strategic priorities and the markets it enters. In the same way that companies must be careful not to overextend themselves when it comes to the number of businesses or product markets they go into, they must also be selective when they enter into partnerships.

Depending on its aims, a company can pursue a strategic alliance—a type of partnership that goes beyond merely contributing revenue and is critical to a company’s competitive edge and future direction—in one geographic market and an acquisition in another for the same business. For example, Walmart forged a strategic alliance with e-commerce business Rakuten for online grocery delivery in Japan, while it acquired Jet.com for the same operation in New York. Companies modify their strategic alliances when corporate strategies and market conditions change.

For adjacent market moves, where a company looks to build extensions to its core products, the key consideration is to have an edge in understanding customer behavior, which enables a company to identify opportunities and anticipate needs.

Global expansion requires adapting to new markets, and this reality can mean a change in an organization’s model for capturing growth. “A retailer whose growth strategy has been mainly geographic, opening stores locally, may want to consider a completely new direct-to-consumer type of platform that may be much more relevant in markets like China, for instance, or India,” says Didier Bonnet, director of digital practice at Cap Gemini. “The goal is still the same—growth in emerging markets—but the way by which you do it is using technology to accelerate or create new areas of opportunities for the company.”

At Bayer CropScience, which Monsanto was melded into following its acquisition by Bayer, looking at emerging opportunities includes looking at digital tools and platforms, such as digital agronomic advisors. “This is something we do with small holders in India. A platform called FarmRise gives them commodity prices, agronomic practices, access to microfinancing, and more,” says James Swanson, CIO and digital transformation lead at Bayer CropScience. “And then we look at whole new value pools,” he adds. “How do you take your combination of your internal digital capabilities, your external capabilities that you built, i.e., tools for growers, and create new market ecosystems based on that combination that can actually disrupt and transform an industry?”

Nontraditional M&A

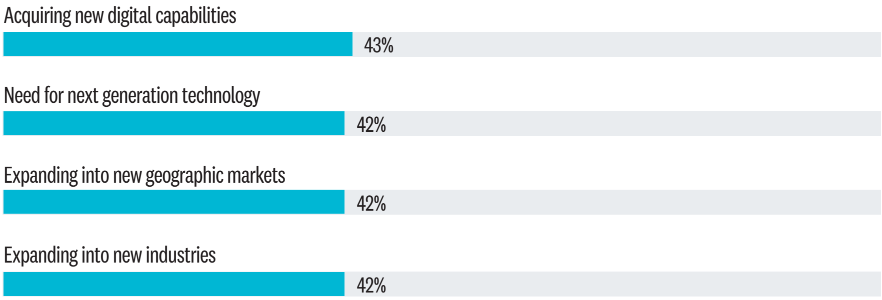
A company that is trying to develop its digital capabilities can consider partnering with a startup, or it can spring for an acquisition with the rationale that the deal will enable it to scale its existing business. A nontraditional acquisition, such as a bank buying an artificial intelligence (AI) technology company, is about value acceleration. "They're finding new ways to leverage their information, leverage their IT systems to expand their business, and they're buying companies that are typically going to be out of the traditional scope of a bank," says Deloitte's Linthicum about what the bank's C-suite is trying to achieve. "They are acquiring technology so they can get the IT and the capabilities that they didn't once have, and that will be a huge value accelerator as they do M&A."

M&A transactions can allow companies to acquire technologies and capabilities faster than they could develop them on their own. EY and Accenture 2018 survey reports show that digital deals, which involve the acquiring company pursuing technologies or capabilities it does not possess, are fast gaining M&A share, rivaling the traditional reasons for dealmaking. An Accenture Strategy 2018 report on tech-led M&A shows that acquiring new capabilities (43%) and the need for next generation technologies (42%) are on par with traditional triggers such as expanding into geographic markets or industries (both 42%). FIGURE 1 Overall M&A numbers rose 64% to $2.5 trillion globally in the first half of 2018 over the same period in 2017 before leveling off as the year progressed.

FIGURE 1

ACQUIRING NEW TECHNOLOGY CAPABILITIES IS RIVALING TRADITIONAL REASONS FOR M&A EVENTS

Triggers for M&A events



SOURCE: "TECH-LED M&A: FROM ART TO SCIENCE," 2018, ACCENTURE REPORT

The structure of the M&A deal and its challenges reflect the variables involved. EY's midyear 2018 M&A survey report showed that more than half (58%) of respondents said the main driver for M&A is acquiring talent. The increase in the number of "acqui-hires," however, means handling issues of autonomy within the combined organization and the risk of key personnel departures.

Whichever form an organization chooses for expansion, it will encounter a common set of barriers, such as the complexity inherent in merging systems; the risk and uncertainty involved in choosing the right approach and tools to use for integration, including the uncertainty for people about their roles in the combined company; inefficiency related to the ability to quickly interpret a target's costs in due diligence, as well as to incompatibility issues that arise during integration, especially when IT is brought in late to the process; and information security issues and regulatory compliance.

These challenges make it important for companies to create IT architectures that help them make the right moves in pursuing growth. In addition, aligning their integration and digital strategies enables companies to avoid reacting to short-term forces and to take the right risks.

ALIGNING INTEGRATION AND DIGITAL STRATEGIES ENABLES COMPANIES TO AVOID REACTING TO SHORT-TERM FORCES AND TO TAKE THE RIGHT RISKS.

Aligning the C-suite

Before making such strategic leaps, however, companies must seek to understand themselves better. CIOs and CTOs have a critical role in the evaluation process when it comes to setting priorities for the integration, especially when aligning such initiatives with an organization's overall strategy.

Alignment of the C-suite is essential to the success of the deal and is best achieved at the time of the strategy discussion about the company's direction, whether it involves buying something or arranging a partnership. It's at that point that the CIO is able to influence the alignment of the executive team. "If the CIO believes that the company should be re-platforming its entire systems

PREMERGER EVALUATION TEAMS TODAY ARE ADDING SKILL SETS IN CLOUD, MACHINE LEARNING, ANALYTICS, AND DEVOPS.

over the next three years because, otherwise, the digital future is going to be in danger, then obviously for the CIO to align the team to understand why and to get support for the endeavor are really important, but it's very often down to the interpersonal skills of the CIO rather than his function," says Cap Gemini's Bonnet.

This alignment is critical to the success and even the survivability of the business going forward, according to Linthicum, as every major industry experiences disruption by new competitors that understand how to use technology better than industry incumbents. "And the CIO's ability to adopt an aggressive use of technology strategy, go out and buy companies and provide the correct IP (intellectual property), and be able to integrate those companies successfully is absolutely on the critical path," Linthicum asserts.

The CIO's Role in Evaluation

The extent of the involvement of CIOs in strategic business decisions depends on the industry, where the CIO sits in an organization, and the weight of the technology component in the business strategy. CIOs that are fully part of the company's management team are totally involved in anything to do with acquisition targeting, though their pressing focus is on the technology part of the deal. Making deals to gain access to specific skill sets that analytics teams can provide or to a platform that would allow the company to build a new business model results in the CIO being heavily involved in the appraisal. In cases of dealmaking to gain entry into a different country, the CIO tends to get involved once the target has been identified, and his and her role generally becomes tied to integration, analyzing the target's systems and platforms, and the task of intermingling them into the buyer's existing operations.

As a result, the CIO's role is twofold. The first part involves the integration of existing IT assets, the time that it will take, and the complexity involved, with an eye on getting return on investment (ROI) from the acquisition. The second part entails the evaluation of digital assets in terms of their importance to the company's core infrastructure. For example, if an organization is buying a company with deep analytics knowledge, it's doing so because it typically doesn't possess that competency but may have the data that can be useful in such a process. To Linthicum, the question becomes not just how you marry one to the other, but how you take the analytics team of the company you're acquiring and leverage the information that you have to make a 1+1=3 scenario. The CIO plays a key role in making this determination because he or she is going to be responsible for meshing together the IP of both buyer and target, and deriving value for the company.

Premerger evaluation teams today are adding skill sets in cloud, machine learning, analytics, and DevOps. "The structures are typically going to be much more flat than they were in the past," says Linthicum. Gone are teams reporting up the organizational chain, where leaders often report to leaders. Now the premerger evaluation of technology typically is the CIO's bailiwick, with a project leader heavily involved in the process. Directly under the CIO and project manager are experts who are looking at evaluating the digital technology. "I see this as a consistent trend going forward. The layers are becoming thinner and thinner, and I think that's because IT is focused more on agile and DevOps and really trying to become much more efficient and effective with the teams that are in place," says Linthicum.

“Some of the terms we think about when we look at partners have changed and **evolved because of a digital lens** that we apply versus just buying a traditional asset,” Bayer CropScience’s Swanson says.

The increasing importance of digital technologies has also changed the structure of evaluation teams and criteria when partnerships are involved. The CIO is often asked to reconnoiter for technology applications and to figure out how a company can benefit by bringing those innovations aboard.

“Some of the terms we think about when we look at partners have changed and evolved because of a digital lens that we apply versus just buying a traditional asset,” Bayer CropScience’s Swanson says. “We now look at terms like data—how proprietary is that data? Can we harvest that data? Can we leverage it? Can we use it?”

Legacy Monsanto, Swanson relates, created a “digital radar” indicating the areas of focus that it thought would grow the company. It used it to explore deals and companies that might fit into that radar, which could be Internet of Things (IoT)-based companies, drones, satellite imagery, or activities that accelerate molecule discovery.

Setting Direction

In a shift from traditional to new-era C-suite decision making that is increasingly based on data and analytics, the CIO/CTO becomes accountable for boosting a company’s ability to leverage more strategic partnerships and improve its competitive edge. The CIO achieves this by helping other C-suite executives see what the future holds, finding fresh strategic possibilities that result from the new technologies available, partnering with those managers in the setting and execution of strategy, and serving as a catalyst for innovation by engaging with startups and disruptors bent on experimentation.

With management teams that are aware of the existence and potential of emerging technologies, the CIO’s focus is on how those innovations can be captured and introduced to help the company. At Bayer CropScience, Swanson links digital investments to business returns to achieve acceptance. “We tie it to real measures that we care about, such as net present value (NPV) of the pipeline, cost of goods, or revenue share and net promoter score, because that’s the other value-added part of this journey.”

When a less tech-savvy C-suite is involved, the CIO helps and educates the company’s board as to what various digital tools can potentially do for the organization, and arranges immersion and discovery journeys to places where innovations are being developed.

The CIO partners with other C-suite executives to develop a digital strategy, which involves looking at the objectives of the business and where it is going, and how internal and external operations align with that endeavor. This assessment includes buy-versus-build decisions, such as when a company that wants to scale its analytics capability has to decide between organically developing or acquiring it. While the competitive situation might force a company to go the acquisition route rather than wait, building a capability is easier these days than it was 10 years ago, according to Linthicum. “Building was considered evil. It took forever to get things built and into the market,” he says. “But with DevOps and cloud computing and the ability to leverage infrastructure on demand and the advanced tools we have today, it’s not necessarily as much of a hindrance.”

THE ROLE OF THE CIO IS TO BE A DISRUPTOR WITHIN HIS OR HER OWN ORGANIZATION WHEN IT COMES TO ASKING QUESTIONS TO THE LEADERSHIP, INCLUDING THE BOARD OF DIRECTORS.

"At Bayer CropScience, we've embedded innovation, sustainability, and digital in the business strategy, which are elements that have a really significant impact to reshape agriculture in the marketplace," Swanson relates. "If we didn't have data science and digital as a key element of the strategy, as a CIO I'd say that's got to be embedded in our strategy. It can't be thought of as a separate bolt-on. Digital transformation is really business transformation. And if it's not embedded in it, don't try to do digital on the side."

The role of the CIO is to be a disruptor within his or her own organization when it comes to asking questions to the leadership, including the board of directors. These are questions such as, "What are our capabilities going to be that will enable us to be competitive in the next 10 years and can we name them?" and "How are we mapping out our current position—our as-is state—to the to-be state where those capabilities are going to be there?"

FIGURE 2

EXAMPLE OF A PORTFOLIO APPROACH TO INVESTING IN TECHNOLOGY

TIME HORIZON	TODAY	NEAR FUTURE	ON THE HORIZON
GROWTH STAGE	mature	reasonably mature	emerging
TECHNOLOGY	MARKETING AUTOMATION SUITE	SCALED AUTOMATION, E.G., RPA	MACHINE LEARNING, BLOCKCHAIN

"The effective CIOs out there are the ones who are, in essence, asking the uncomfortable questions and making the leadership duly uncomfortable so they understand they have to invest in this space," Linthicum says.

Portfolio Approach to Technology

The CIO also helps the C-suite prioritize where the organization should spend its time and money. Companies can identify acquisition targets and investments to future-proof the business by taking a so-called portfolio approach to technology that is informed by its maturity. This involves mapping the technology that they need today, the innovations that are growing very fast and becoming mature, and the automation that is on the horizon that probably will have a huge impact someday but not right away. "There's a lot of talk today about machine learning, but very few companies have access to deep skills in this kind of area. So the question becomes, if we want to understand the potential, how do we access those skills? How can we make it relevant to what we're doing in our industry or in our company?" Bonnet says. FIGURE 2

In other words, the use of technology within an organization becomes increasingly strategic as it enables the company to meet the market forces disrupting its businesses. "I'd put the onus on the CIOs and the CTOs and the folks in the IT organization to put things on the radar in terms of where the business needs to move into," says Linthicum. "They're strategic to the business now, probably more so than 10 years ago, and that's going to accelerate. It's going to be more about technology plays in the industry you're in than it is anything else. And that's going to future-proof the business because it's going to allow you to keep up with the change in the markets."

"I view M&A as being very nontraditional in the fact that we're **not buying additional bandwidth** in the market. We're **buying key enabling IP** that's going to allow us to capture additional market share," says Linthicum.

Identifying Partners and Acquisition Targets

To identify partners and targets, a CIO should look for core disruptors, says Linthicum. "Identifying which companies out there have something strategically that's going to be of value is a very tactical and very tedious process. And it's typically not going to be the uber-deals anymore. It's going to be small, tactical deals, maybe as many as six to 10, that a lot of these companies are going to do," he says.

The CIO can aid M&A departments by going beyond the traditional source for dealmaking and identify new partners and targets that might include AI companies, business analytics providers, and data science firms, which are outside their industry if they are in sectors such as retail or banking. "I view M&A as being very nontraditional in the fact that we're not buying additional bandwidth in the market. We're buying key enabling IP that's going to allow us to capture additional market share," says Linthicum. "But we're not necessarily buying customers. We're buying the capability to get out and get more customers."

When reviewing opportunities for the company to enter new markets, "I look really hard at the external disruptors as a key element," Swanson says. Do you want to disrupt or do you want to be disrupted? If you're big, there's thousands of people that want to disrupt you, he adds. "So how do you constantly disrupt yourself, identify new areas of opportunity that you go after, and then prioritize where you think you're going to have the biggest return and then test and learn to test your hypothesis of whether you're going to enter that segment and how successful you can be?"

To identify partners and targets, Bayer CropScience spends time in startup communities, and has a presence in Silicon Valley to allow companies to approach it and see what problems it's working on. The company also issues grant applications, contributes to open source, and looks to the engineering and open-source community for ideas and insights. "The ideas contributed to open source might not be directly aligned to your business, but they have a lot of adjacencies that you can now build on," Swanson says. Looking across industries is another avenue to take. "What the fintech area is doing, or the consumer's doing, there's a lot of applicability into your industry if you're willing to look beyond your industry stove pipes," he continues. "If you could adopt that idea into your industry, there's a whole new wealth of information that you're able to apply."

As an example, Swanson points to the applications of imaging and natural language processing. "The imaging to recognize a face in a crowded city—we use it now to identify disease on a plant. And this gives us real-time AI information. This plant has this disease; here are your treatment options. We didn't have to recreate imaging, but we were able to use the power of what imaging does and apply it to our business cases. That becomes exponential in value," he says.

"THERE SHOULD BE NO REASON YOU CAN'T FAIL AS FAST AS YOU CAN TO FIND THE RIGHT DIRECTIONS OF THE ORGANIZATION," SAYS LINTHICUM.

The Transformational CIO

The CIO role today is evolving, with CIOs getting the chance to be transformational both inside and outside the organization.

"I think CIOs have the opportunity to transform companies now, by applying data, decision science, and digital to reimagine how a process runs versus just automating it and driving efficiency in it," Swanson asserts. That's a big change because it requires CIOs to work with their business partners—to reimagine product supply, the R&D pipeline, commercial launch, and the external ecosystem—and then create the capability to be able to do it and drive it, he says. "That's not just the tools, it's change management, culture, the different incentive structures. It's retooling HR so you build those skill sets for the employee base to drive those new outcomes," he explains.

Where CIOs play an important role in digital transformation beyond implementing the pilot programs and introducing technology is when it comes to innovation, according to Bonnet. "This innovation function from a technology perspective is really important."

The CIO must know where the sources of innovation are, how they can be obtained for testing within the organization, what infrastructure is necessary to handle it, and the investments in the technology that need to be made. "I think CIOs in those positions have an extremely strong influence on the decision of the rest of the board," Bonnet says.

Linthicum advises CIOs to experiment as quickly as they can. "Create tiger teams and ad hoc projects. Start looking at what's working and what isn't," he says. "There should be no reason you can't fail as fast as you can to find the right directions of the organization, so it's a matter of having the courage to go off and do that. This is about aggressive use of technology, about leveraging the technology as many times as you can, and making sure that you find the right solutions for the organization. The only way you can do that is through trial and error."

CONTACT US

hbranalyticservices@hbr.org