

Building IT Business Value, One Word at a Time

By Linda Tucci, Senior News Writer
17 Mar 2010 | SearchCIO.com

MADISON, Wis. -- Proving IT business value is never an easy sell for CIOs, but changing the way technology talks to the business is an important first step. That's the path that Tim Schaefer, CIO of The Northwestern Mutual Life Insurance Co. has taken to transform the company's beleaguered IT department into a business asset.

"There were words that we were consistently using that were building a wall between us and the business," Schaefer said, speaking to a roomful of business and IT leaders at the recent Fusion 2010 CEO-CIO Symposium, in Madison, Wis.

When Schaefer was named CIO in 2006, the IT department was setting itself apart from the rest of the organization with such words as IT costs and IT systems, uptime, internal customers, IT and the business, and aligning IT, he said. So, he decided to change the words. Instead of "aligning," the IT department now talks about "integrating" IT. Uptime now is talked about in terms of service levels. Instead of IT costs, Schaefer talks about managing IT investments. "We are scrubbing out language that sets IT outside the organization," he said.

The new lexicon is not just words, however. "I know today that if we cause issues in our claims process, it costs us \$11,000 an hour in productivity. If we cause problems with our sales force and they cannot use the client management environment, that's \$25,000 an hour," Schaefer said.

Assigning a business value to IT assets

As part of its effort to position technology as an integral part of the business, Schaefer's team is also focusing on understanding and using the language of investment. One of its ongoing efforts is to assign a value to IT systems -- or as they are now called, IT assets -- to better determine how to invest in them.

"Northwestern has \$167 billion of investments in our [corporate] asset side. We said, we have got to understand what the value is for IT assets. And we're still learning; we're still coming up with ways to do that," Schaefer said.

For example, in order to determine the value of the aging IT systems that support the company's claims process, Schaefer asked the team to calculate what would happen if it did not have a system to support that process. It turned out that Northwestern Mutual would have to double the number of employees in its claims department. "Now we could talk about the system as an IT asset," he said. While the IT department is not making that calculation for every application, it has assessed about 850 applications for a total value of "somewhere north of \$3 billion," Schaefer said.

"Now we are getting the attention of the organization on the importance of managing these IT assets," Schaefer said. "There is something here of value, and if we don't do the right thing with this \$3 billion of assets, we are not going to optimize the value."

Unless CIOs can demonstrate IT business value, their IT strategy not only "has no punch" but the business and IT also probably are in danger of "filing for divorce," said Mark McDonald, head of research for executive programs at Gartner Inc.

For many CIOs, making the business value case for IT assets is easier said than done, however, McDonald added, in part because for so many years the business case didn't matter. The value of technology to the business was so high that CIOs could miss their targets and still provide enormous dividends for the business, he said.

"IT was like magic," McDonald said. "All the business wanted to know was how could it get some of that magic too."

Now technology is ubiquitous, not mysterious or scarce, McDonald noted, with even places like Office Depot Inc. offering a terabyte of storage for about \$100. Meanwhile, the business still needs IT, but increasingly it's complaining that it doesn't need the *kind* of IT it has now, he said. The traditional course of action taken by many IT departments to a business request -- rip and replace -- is no longer viable, he added, because businesses now expect a yield on their 30-year investment in IT. In Gartner's view, the path to that ROI is being facilitated by "lighter-weight technologies," such as Web 2.0, virtualization and cloud computing, that can scale and respond more rapidly to business demands and an equally flexible IT staff, he added.

Northwestern Mutual's Schaefer is making that adjustment. Tomorrow, read about how Schaefer is focusing on four areas -- including a "flexible talent model" -- to drive business value.

Getting the basics right at Northwestern Mutual

The Northwestern Mutual Life Insurance Co.'s long relationship with IT has endured the ups and downs typical of such liaisons. The Milwaukee-based insurer fell hard for IT in 1957 when a flatbed truck pulled up to its headquarters and unloaded a massive IBM mainframe. In the decades following, the company found ways to increase the importance of technology to the business. By the late 1980s, however, relations between the business and its very significant other had grown tense, Schaefer recounted. The business felt that technology was not delivering what it expected, and installed leadership from outside the IT department to set things right. A former-actuary-turned-CIO focused on determining the value of IT spending. The next CIO, an accountant, concentrated on improving day-to-day relations between IT and the business.

Then, from 2000 to 2005, Northwestern Mutual expanded into other financial services, with IT playing a major role. As the company grew, the size of the IT department doubled to 2000 employees, and was responsible for projects worth more than a half-billion dollars. As for its rapport with the business?

"The relationship was more strained than it had ever been," Schaefer said. "We had outstripped our ability to manage the organization. We were so focused on responsiveness that we didn't



spend any time on IT maturity or process development."

In fact, Schaefer had witnessed the gaps himself as overseer of Northwestern Mutual's customer service before taking over as CIO. IT leaders would come in brimming with new ideas for the customer service, yet the IT team could not reliably deliver the call center's core application. The takeaway? Before coming up with a new lexicon and an asset value approach to IT, Schaefer spent two years restoring the business's confidence that IT could deliver the basics reliably.

