

# The CIO Series

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Patrick Vandenberghe has overseen the streamlining of IT operations at ArcelorMittal, the company formed by a 2006 merger that created the largest steelmaker on earth. Among his achievements has been the creation of a sweeping IT transformation plan to save more than \$1 billion a year that was put on hold during the recession. Selected projects that have since been implemented have strengthened ArcelorMittal's ability to face the next downturn.



"The day you start speaking only about technology you are lost," Patrick Vandenberghe says of his job as group chief information officer (CIO) at Luxembourg-based ArcelorMittal, the world's largest steelmaker. Senior executives "don't want to hear about technology," Vandenberghe says. "They want to hear

about values and, of course, financials."

Vandenberghe has employed that straight-talking strategy while implementing sweeping IT changes at ArcelorMittal, which was formed in the 2006 merger of Luxembourg's Arcelor and Rotterdam-based Mittal Steel. He developed his style as a 25-year employee of Arcelor and used it to outline proposals to Lakshmi N. Mittal, chairman and CEO of ArcelorMittal and the 6th richest man in the world, according to Forbes magazine.

Vandenberghe lists three attributes that he considers key to selling a vision to his colleagues:

Be clear and comprehensible. "You can be a nice strategist, but they must understand it. If they

don't understand it, that's because you did not explain it very well or because it was nonsense."

Be certain to get buy-in. "They must support it," Vandenberghe says.

Be sure everyone's on board. "They must actively engage their teams to work on it," he points out.

Those three milestones pave the way "to create the passion in the organization to do it," Vandenberghe says. "That's my main job and it is also what I like to do most."

The first phase of the merger marked "the coming together of two very different companies," Vandenberghe recalled. Arcelor was strong in Luxembourg, Belgium, France, Germany and Spain and had major operations in Brazil. Mittal Steel had grown largely through acquisitions in Eastern Europe, CIS, Africa and North America, many of which needed restructuring.

Mittal Steel had also perfected a low-cost approach to steel manufacturing and distribution with IT costs that were one-third the size of Arcelor's for every ton of steel produced. "My first objective was quite simple: take the fat out of the system and make sure the Arcelor spend went down considerably so that we got closer to Mittal



Steel's level," Vandenberghe says. "This was not a strategy but setting the baseline right. Once the baseline is set right, we can build again for the future."

## A "PERFECT TIME TO CLEAN UP"

Vandenberghe found the merger to be the "perfect time to clean up." In the first year of consolidation, he slashed \$100 million from the company's IT budget, which had been \$900 million. "You must have the boldness and the courage to really question some of the projects and some of the existing systems and say, 'Just kill them, stop them, don't do it anymore,'" he says. "To my big surprise, nobody was really reacting because the business was not really suffering from [the cuts]. So we certainly had some over-quality and overkill in the system."

Vandenberghe soon found himself sitting in at quarterly board meetings and encountering Mr. Mittal more often. Mr. Mittal manages the company "not just at a strategic level, but very closely," Vandenberghe says. The CEO eyes every single function, every single business unit and all performance indicators and budgets, including those for IT. Vandenberghe has a dotted-line reporting relationship with the CIOs of the various business units, who have the autonomy to run their own projects.

Having done the cost-cutting exercise, Vandenberghe told his company's management board in 2007 that the company needed to refine its overall IT strategy. They gave him three months to prepare a plan. Vandenberghe came back, not with an IT strategy, but with a "business transformation and standardization program" that aimed to replace multiple business processes in each function with a single one. "Take any business process and you saw a hundred different versions" that resulted from previous mergers, he says. That complexity was

costly. "In the end, the main driver for IT costs is complexity," he says.

Consulting firms backed Vandenberghe's proposals, which the firms said would save ArcelorMittal from \$1.0 billion to \$1.5 billion a year after a one-time investment of a similar amount. That sounded good to the board, which authorized the company to launch the multi-year program in 2008.

But the global recession forced the company to delay the program in favor of a cost-cutting drive that was larger than the first one, which had focused on eliminating the fat in IT budgets. The times were now grim indeed: the company's revenues fell from \$124 billion in 2008 to just \$64 billion in 2009. The steelmaker cut its IT budget by 35% as Vandenberghe also increased the outsourcing and offshoring of the company's IT needs—a trend that continues to this day. Such moves may involve layoffs, he notes, and "that is very, very difficult. But it is part of the job for all of us."

Vandenberghe revived his IT transformation program on a smaller scale when ArcelorMittal emerged from the recession in 2010. "Instead of starting programs of \$30 million each we started several ones of \$10 million and decided to look at the outcome and then decide on the next steps," he says.

Vandenberghe remains cautious today as the steel industry faces a possible double-dip recession. "The indicators we are seeing are not very good," he says. "The confidence on the customer base is going away and we see some bad signals in the market."

## PREPARED TO WEATHER NEW STORMS

But previous IT moves should help ArcelorMittal weather any new storms. Vandenberghe points to one such effort, which created a single European-



wide financial Shared Service center based in Poland. Another effort created a global wide-area network that replaced multiple network contracts. The new network connects some 1,000 locations worldwide, “and gives transparency, manageability and service-level bandwidth,” Vandenberghe says.

Another project will replace 86 e-mail systems with one centered in a private cloud-computing system that Wipro Technologies is building and will run. “This is about cleaning up some of the legacy systems, bringing savings and making it much more transparent and manageable,” Vandenberghe says. Also on tap is a global human resources system “so we can manage our human capital in a coherent and consistent way worldwide,” he says. The program will go beyond IT to cover business practices, competency management and organizational development, he adds.

Vandenberghe is steering ArcelorMittal’s IT operations toward outsourcing and cloud computing, which replaces in-house hardware and software with internet-based programs hosted by outside vendors. “Running a data center and managing desktops is becoming more and more a commodity and is going into the clouds,” he says. “So we want to get rid of [some in-house computing capability] and buy it as a managed service. There are companies that can do it much better than we do.”

Vandenberghe is proud of a vast outsourcing project that covers all 15 European countries in which ArcelorMittal operates and that is scheduled to take effect on January 1, 2012. This effort has outsourced to a partner the company’s entire European infrastructure of data centers, desktop management systems and mainframes. Making this project especially challenging were the “social challenges of people-transfer from ArcelorMittal to a new company in different countries, and the

discussions with [the employees’] managements and unions to convince them of the value of such a move,” Vandenberghe says. His tasks included renegotiating hundreds of third-party contracts as part of the transfer and bringing them under a single contract.

## NOT EVERYTHING CAN BE OUTSOURCED

But ArcelorMittal doesn’t want to overreach itself. “We are going about outsourcing on a step-wise basis,” says Vandenberghe. He wants to retain core competencies for business software applications in supply chain, sales and manufacturing operations, and to develop those IT assets hand-in-hand with business needs and business transformations.

ArcelorMittal plans to implement more parts of Vandenberghe’s business transformation program in 2012, economic conditions permitting. Distribution and mining operations are high on his agenda. However, “If there is a new dip or a recession coming that might be similar to what we saw in 2008, then these programs will probably be stopped again and we may go back into a more prudent, crisis mode where we will focus on the cost side,” he says. “IT has really to follow the business. IT cannot drive its own strategy.”

ArcelorMittal is also working on ways to optimize its use of the Internet, mobile technology and social media. The company has created automated platforms for electronic invoicing and payments, for example, and given customers the ability to track their orders and contracts online.

Vandenberghe shies away from taking credit for any gains from the IT programs that he has implemented. “It is very difficult to measure how much of those gains were due to our efforts and how much is due to market conditions or internal business transformation itself,” he says. “Competitive advantage in a steel company does



not come from IT," he adds. "It comes from the products we make and the services we deliver, in supply chains and customer service, and in being agile and flexible. That's where we can create distinctive value."

Vandenberghe has some tips for those aspiring to become CIOs. "Don't stick to technology," he says. "Be a strategic partner to business. Don't be afraid to engage. Don't try to overrun your colleagues on the business side; they have to sit in the leading seats. If they don't want to speak about IT, you have a tough job of bringing them to a point where they are ready and happy to invite you to their management committee and to listen about IT." But it's a job worth undertaking, Vandenberghe notes, since it's essential to sit at the same table with those on the business side in order to generate value.



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