

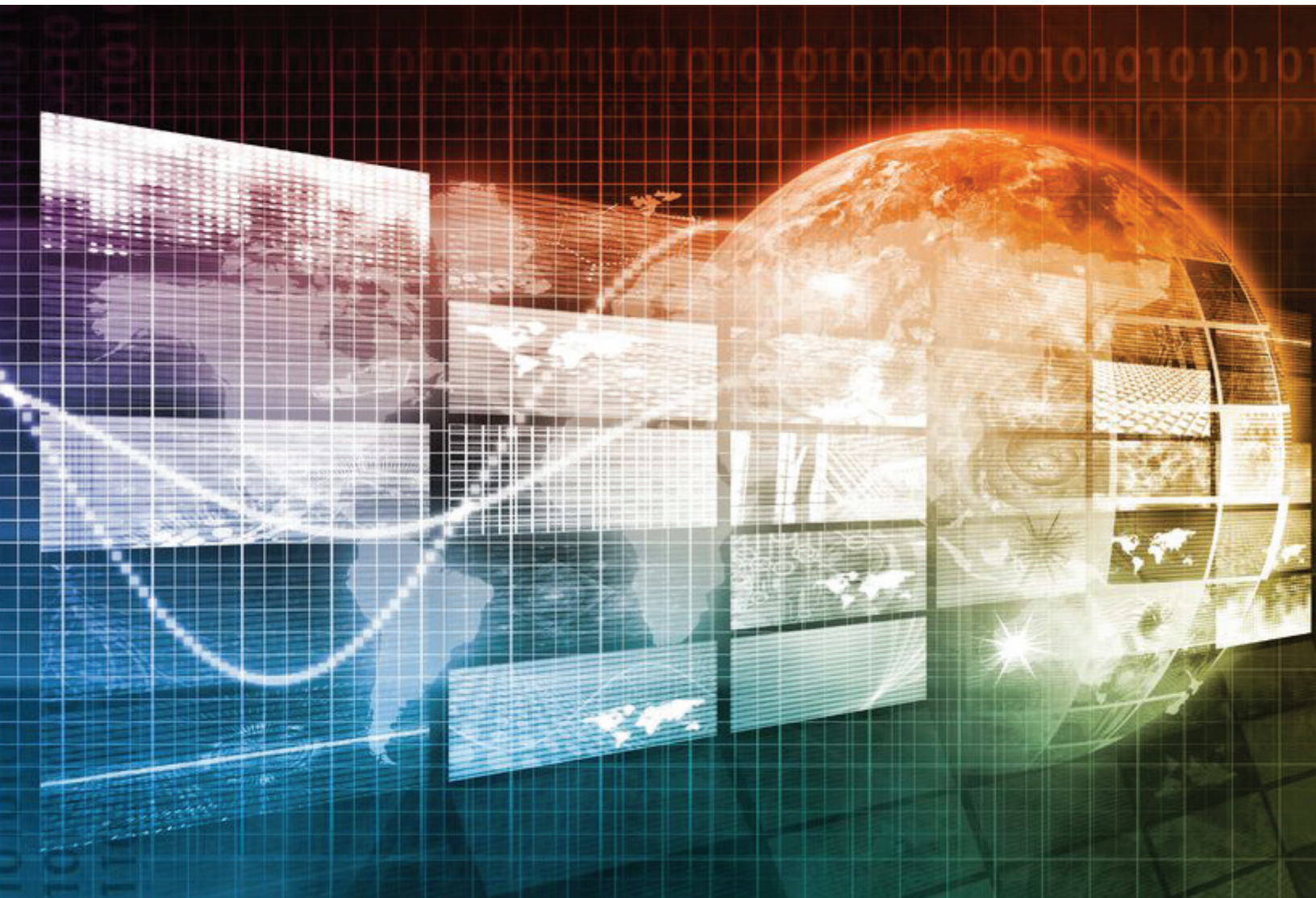
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CIO Series

Transfield's CIO Stephen Phillips Frontloads Business Imperatives to Drive Change



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Infusing a business-facing rigor into technology is the chief driver for Stephen Phillips, the chief information officer at North Sydney, Australia-based Transfield Services, which caters to infrastructure and resources industries like energy and transportation. In three years, he has overhauled the company's IT function, made it more agile and expanded its competencies by connecting with external partners. This greater internal affinity with business is consistent with the transformed role of today's CIO, says Ravi Aron, a senior fellow at Wharton's [Mack Institute for Innovation Management](#) and professor at Johns Hopkins University. Phillips and Aron share their insights in this CIO Series report produced by Knowledge@Wharton and sponsored by Wipro Technologies.



In March 2011, when Phillips joined Transfield as its chief information officer, he was aware that his credentials raised some eyebrows. He had two decades of experience in

technology and business functions, but they were in the wealth management, banking and life insurance industries. Transfield, a large, publicly held company with 24,000 employees and revenues of \$3.1 billion (Australian \$3.45 billion as of

June 2013) had clients in industries such as energy, mining, telecom, road, rail and housing.

Phillips however saw more similarities than differences between Transfield's business and his background in financial services. In the past three years, he has transformed Transfield's IT function from a predominantly in-sourced operation to one that outsources heavily, has helped standardize and simplify disparate technology platforms and met or crossed several industry benchmarks on IT efficiency and costs. Today, Phillips feels he has allayed the initial concerns. "I think I am a lot more credible with my peers now than I was two months after coming in," he says.

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— Ravi Aron

Business Edge Powers CIO's Role

Phillips brought a stronger connection between the IT function and the business needs. This reflects the evolution of the CIO's role over the years, says Aron, whose research specialties include information technology. According to Aron, in the 1960s and the 1970s, CIOs had "very strong technical backgrounds with some layer of managerial capabilities." In the next phase between the late seventies and the turn of the century, the typical CIO "understood technology but also had significant managerial ability."

But in the third phase over the past dozen years, CIOs have made a quantum leap, says Aron. "The CIO is now part of product planning, new market strategies, pricing decisions, etc." This role now has to address new needs, such as big data analytics, to see how technology can support distribution channels or differential pricing strategies, he adds.

Changing Business Environment

Major changes both within Transfield and in its business environment have defined the agenda for Phillips. Transfield provides asset management services such as operations and maintenance for drilling and refinery functions at energy companies and government entities, or infrastructure support services for road, rail, water and power companies. Some years ago, it bought Easternwell, an Australian company that services the mining, oil and gas and infrastructure industries. It also underwent management reorganization, and new CEO Graeme Hunt has launched a review of the company's business operations. Transfield plans to sell or wind back most of its Middle

East and Asia operations and Easternwell's mining exploration and marine businesses.

External changes include a trend among Transfield's clients to increase outsourcing and share more risk with their contractors. Transfield now derives a substantial portion of its revenues from activities where it bears commercial risk projects and much less in cost-plus formats, the exact opposite of that equation four years ago. Competition is intensifying with new players. Some clients, especially in mining and energy, are facing margin pressures while government agencies are outsourcing more in infrastructure projects. "It is a mixed bag of low and strong growth sectors, and we've got to navigate through that," says Phillips.

Phillips identified four strategic areas for change at Transfield. First, in what he calls "a foundational piece and very strategic," he led a transition to standardize and simplify processes and technology platforms. Second, he aligned IT more strongly with business strategy. "The IT group is a lot more embedded with the business areas so that we have early visibility, not just at the tactical opportunities that the businesses are looking at but also the strategic opportunities," he says.

Third, Phillips transformed the IT organization from a predominantly in-sourced operation to one that now almost completely outsources its run needs. In addition, he brought in external partners such as third party contractors and scientific research organizations to help drive the company's agenda, and their role now extends beyond IT to the broader business as well. "It has helped the

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business in driving down costs and also makes the metrics more transparent,” he says. Fourth, the IT organization has begun investing in technologies such as mobility to help the company’s business units win or retain contracts.

Transfield has seen tangible gains from these changes. For example, the total IT cost as a percentage of the organization’s entire cost base has fallen between 2011 and 2013 from about 1.7% to 1.2%. Its per-employee IT cost as a percentage of revenue has also edged down from 1.5% in 2011 to 1.4% in 2013, compared to latest global averages of 2.8% for utilities and 1% for the energy, construction, materials and natural resources industries, according to research firm Gartner.

Overcoming Challenges

While Phillips focuses on standardized IT processes and platforms, Transfield’s clients often prefer customized solutions. To strike a balance between those two seemingly conflicting aspects, his approach is to standardize internally, but at the outer layer provide clients customized offerings.

Increasingly, Transfield’s clients want it to provide not just labor pools but also deliver value-added services. This presents another challenge for Phillips. For example, in a railroad maintenance contract, the client would expect Transfield to have not just people maintaining the tracks but also use technology to diagnose faults in the tracks or in the locomotives. Phillips went about “educating” his company’s workforce on why they should step up their delivery, while persuading top management that the IT team has to work with external partners to muster the necessary resources.

Internally, Phillips has to deal with the legacy of “very little integration” as Transfield has grown over time in both organic and inorganic ways. “We have to help break down the silo behaviors of the past to show how putting in place enterprise outcomes can drive business performance,” he says. Along the way, he has had to take some “unpalatable decisions” in letting go of some people who did not make the grade. Phillips explains that the IT function had to deliver “within a context” that calls for a strong understanding of the business it serves, how that business works commercially and who the stakeholders are.

Aron notes: “The technology function is beginning to very closely resemble the business it supports,” he says. The CIO’s role is now more strategic than earlier as they have begun asking the ‘what’ question in addition to the ‘how’ question, he explains. “Now, the CIO has a distinct amount of market-facing objectives.”

Advice for Future CIOs

Drawing upon his experience, Phillips says successful CIOs must first bring “an absolute alignment” between their role and the business strategy and operating model. Second, he warns against what he sees as a common practice of IT teams “erecting barriers and processes to protect themselves.” If those issues are not addressed, “technology can drift in terms of its ability to deliver business value.”

Third, the CIO “must play the ‘and’ agenda,” says Phillips. “The CIO cannot be just strategic or operational. It requires both. The CIO cannot just be focused on cost or on the vision of the strategic goals. It

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requires both. You cannot just be somebody who understands IT or somebody who understand the business and the operating model. You've got to be both. You've got to be able to lead the internal team whilst also networking with the external team."

Phillips predicts that tomorrow's CIOs who can deliver all this will come not from the technology ranks, but from a broader range of disciplines. Aron agrees, and says young managers in many organizations are moving more freely between technology functions and marketing, product development and operations. "The deep embedding of business into technology and vice versa is increasingly blurring divides."

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