

Why IT Really Does Matter ; Businesses can indeed differentiate themselves through IT. It's all a question of how they manage the technology.

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Abstract (Document Summary)

The Harvard Business Review is not famous for publishing satire. Then again, when a clever writer pushes a clever idea well beyond the point of diminishing returns, the result can read like parody from the pages of The Harvard Lampoon. Nicholas Carr's controversial article IT Doesn't Matter presents a brilliant example of this rare genre. Ever since its May publication, his thesis has provoked heated debate both in tech circles and the realms of senior management. Much of the debate has been of the IT does too matter!!! variety, but Carr's seriocomic screed deserves a rigorous dissection because he has clearly struck a nerve as well as a funny bone. Carr's narrative deserves to be read as an intriguing technical argument in the service of grotesquely naive business assumptions. His facts may be flawless and his historical analysis smooth. But the business conclusions he draws are profoundly silly. CIOs had better understand why, because they may report to intellectually lazy CEOs and CFOs who actually believe that the Harvard Business Review is giving its imprimatur to a powerful argument when, in reality, it is cleverly overhyping a clever little idea.

Full Text (1123 words)

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The Harvard Business Review is not famous for publishing satire. Then again, when a clever writer pushes a clever idea well beyond the point of diminishing returns, the result can read like parody from the pages of The Harvard Lampoon. You're not quite certain whether you should sagely nod or burst out laughing.

Nicholas Carr's controversial article "IT Doesn't Matter" presents a brilliant example of this rare genre. Ever since its May publication, his thesis has provoked heated debate both in tech circles and the realms of senior management. Much of the debate has been of the "IT does too matter!!!" variety, but Carr's seriocomic screed deserves a rigorous dissection because he's clearly struck a nerve as well as a funny bone.

Carr's narrative deserves to be read as an intriguing technical argument in the service of grotesquely naive business assumptions. His facts may be flawless and his historical analysis smooth. But the business conclusions he draws are profoundly silly. CIOs had better understand why, because they may report to intellectually lazy CEOs and CFOs who actually believe that the Harvard Business Review is giving its imprimatur to a powerful argument when, in reality, it is cleverly overhyping a clever little idea. Caveat lector!

So let's cut to the heart of Carr's case: "What makes a resource truly strategic--what gives it the capacity to be the basis for a sustained competitive advantage--is not ubiquity but scarcity. You only gain an edge over rivals by having or doing something that they can't have or do. By now, the core functions of IT...have become available to all. Their

very power and presence have begun to transform them from potentially strategic resources into commodity factors of production. They are becoming costs of doing business that must be paid by all but provide distinction to none."

Excuse me? Who says that resource scarcity is the key to strategy? Why on earth is resource ubiquity inherently the low road to commodity? That sort of glib analysis gives Econ 101 a bad name. In fact, it's shockingly easy to show there is virtually zero correlation between the availability of a commodity and its effective role as a so-called "strategic" resource.

Consider this thought experiment: Three companies bitterly compete against each other for market share and profit--for example, FedEx, DHL and UPS; or Nike, Reebok and Adidas; or American Airlines, Southwest Airlines and JetBlue Airways. Give them each \$100 million. No strings attached.

So will these companies be equally better off in their rivalry with each other because they each have \$100 million to invest? Of course not. Some of the companies will enjoy significantly greater returns on their free \$100 million investment than the others. Capital is a commodity, right? Yet somehow we consistently see enormous disparities within industries in their return on capital. We could keep feeding these companies free capital and the disparities would persist. Would Harvard Business Review publish "Capital Doesn't Matter"?

Suppose, instead, we offer these business rivals equal access to the very best and very brightest graduates from Harvard, Berkeley, Stanford and MIT. Should we rightly expect each and every company to get comparable value from this incredibly rich talent pool? Or does reality--and bitter experience--dictate that some companies will manage to get incredible performance from truly mediocre talents while others will blithely waste the time, effort and energy of their most gifted hires? Perhaps Harvard Business Review should print "Talent Doesn't Matter."

Now let's give every single employee of every single company his very own free Wi-Fi-ed Linux laptop, PDA and cell phone along with all the training and technical support he needs. Free. Does anybody in their right mind believe that this huge endowment in personal technological capacity will equally lift the productivity and profitability of these competitors?

Those three simple thought experiments affirm an undeniable truth: It's not free and easy access to a commodity that determines its strategic economic value to the company; it is the way that commodity is managed that determines its impact. Management matters. The idea that companies can divorce their resources--no matter how cheap, powerful and ubiquitous--from the act of managing them is patently absurd.

This should come as no surprise to any serious reader of, say, CIO magazine or even Harvard Business Review. Yet the very premise of "IT Doesn't Matter" is that the quality of management matters far less than the quantity of the commodity. The more persuasive argument is that the quality of IT management matters even more as the IT commodity becomes ubiquitous.

Carr insists at great length that the quality of management doesn't matter because IT is really an "infrastructure" technology like electricity, the steam engine and the internal combustion engine. IT, he argues, ultimately devolves into commoditized ubiquity, like lightbulbs and telephones. Infrastructure technologies--as opposed to proprietary technologies--inherently preclude opportunity for sustainable competitive advantage.

But why should IT be treated more like electricity and automobile engines than such media as telephones and television? Don't companies creatively use call centers and television advertisements to cost-effectively manage customer interaction and build brand equity? Would Carr suggest that Coca-Cola treat television advertisements as commodities? Should Dell treat its call centers as commodities?

In truth, IT is more a suite of techniques than an arsenal of technologies. So why does Carr compare IT to the way power utilities are organized instead of, say, the way factories are organized? Why not IT as the "flexible information factory" instead of the ubiquitous information utility? Computer Numerically Controlled machine tools should be seen as a manufacturing medium. Does the commoditization of machine tools mean that "Manufacturing Doesn't Matter"?

Let me offer one plausible hypothesis: Comparing IT to a factory instead of a utility would undermine Carr's thesis. Why? Because the future design of factories does matter to the future of business innovation and competitiveness. In other words, Carr clings to the "commodity infrastructure" assertion not because the weight of evidence supports it but because it is a framework that supports his case.

The real issue is whether IT's business benefits unambiguously outweigh its costs. Carr argues, rightly, that too many businesses have spent too much money on IT with too little to show for it. Then again, a lot of companies have lost money using derivatives as a tool to manage currency risk.

What Carr fails to recognize is that IT can profoundly transform the economics of innovation, segmentation and differentiation for most businesses. And in that recognition lies the CIO's ultimate opportunity. I bet Carr knows this. But it's always easier to be provocative than do the hard work of turning commodity technologies into value-added business products.

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