Profiles of Best-in-Class Organizations

Elster Group

Demonstrating the Power of One – An IT Transformation that Runs on ‘Full Visibility’
Introduction

“Call it a slight alteration to Moore’s law: the amount of pressure bearing down on corporate chief information officers (CIOs) doubles approximately every two years.”

*Consulting Magazine, June 2011*

The change mandate bearing down on information technology (IT) functions, and on chief information officers (CIOs) in particular, has grown so intense that the term “IT transformation” no longer sounds as extraordinary as it did a couple of years ago.

Given the enterprise’s intense demand for greater agility, nearly every IT function finds itself in the throes of transformation – on a seemingly continual basis. “Because the business is constantly adjusting, it expects the information systems and IT processes to adjust just as quickly,” notes D. Darnell Smith, CIO and vice president of Group IT for Elster Group, a world leader in providing accurate measurement and sophisticated communications and data solutions for gas, electricity and water customers.

Smith’s function within Elster Group grapples with the same challenges that most IT departments confront today: the need for greater agility, increasingly tech-savvy and mobile end users, growing compliance requirements, data privacy and security challenges, heightened efficiency and financial management expectations, and the need to adapt to (and integrate) cloud and other transformative technology. Yet, the unique additional pressures bearing down on Elster Group’s IT function qualify as exceptional – and make the IT transformation that Smith is currently leading worthy of emulation.

Over the course of the past 10 months, Smith and a global team of more than 100 IT professionals have faced the following challenges within the 7,500-employee company:

- Refreshing Elster Group’s IT strategy while moving to a centralized global IT organizational structure;
- Supporting the ongoing integration of two major (recent) acquisitions;
- Managing daily “lights-on” IT requirements while also lending support to Elster Group’s customer-facing product development unit;
- Complying with European data privacy regulations; and
- Completing Sarbanes-Oxley compliance, including Section 404 obligations.
In 2010, Elster Group also underwent a public offering and is now an NYSE-listed public company. The success of Elster Group’s ongoing IT transformation relates to the specific components of Smith’s strategic decision-making as well as to his approach – that is, how he reshaped his IT function’s relationship with the rest of the global enterprise. “Full visibility,” a phrase Smith frequently uses, defines the essence of this approach.

“What happens in many organizations is that IT comes to be perceived as this black box where a lot of money disappears,” notes Smith. “In these situations, the problem is that there is rarely a clear link between the money spent on IT and the value that flows back into the organization as a result of that investment. My goal is to begin the IT conversation by saying, ‘Hey, guys, this is it: good, bad or indifferent, here is full visibility into what we’re spending on IT and the value IT delivers. Here’s my strategy. Now, let’s work together to ensure that we’re working on the right things to take the business where we want it to go.’”

That transparency is paying dividends. During the past year, Elster Group’s IT function has successfully:

- Restructured to support a centralized, global service model (including the infusion of new talent);
- Supported the company through its IPO and initial Sarbanes-Oxley compliance requirements (including implementing new governance risk management and compliance (GRC) functionality);
- Implemented a new treasury system and new business performance management (BPM) functionality;
- Continued the migration to two global instances of SAP enterprise resource planning (ERP) systems in the wake of acquisitions;
- Unveiled new IT performance metrics; and
- Reinvigorated Elster Group’s IT governance capabilities.

**About Elster Group**

Elster Group is a leading global provider of gas, electricity and water meters and related communications, networking and software solutions. Headquartered in Essen, Germany, Elster Group SE (NYSE: ELT) employs more than 7,500 staff and operates in more than 39 countries. The company traces its roots to the earliest days of the metering industry: Elster American Meter was founded in New York in 1836. In Europe, the company’s history also stretches back to the 19th century: Elster Meters was founded in 1848, and Elster Kromschröder was founded in 1865.

Elster Group’s diverse portfolio of products and solutions are used to accurately and reliably measure gas, electricity and water consumption, as well as to enable energy efficiency and conservation. Elster Group sells its products and solutions to utilities, distributors and industrial customers across gas, electricity, water and multi-utility organizations for use in residential, commercial and industrial settings. Elster Group customers operate in more than 130 countries and include numerous large, medium and small utilities.
Elster Group Demonstrates the Power of One to Standardize Processes and Systems Globally

Based in Essen, Germany, with U.S. operations centered in Raleigh, N.C., Elster Group traces its lineage back to the earliest days of the metering industry. Today, Elster provides products, including smart grid solutions, to utilities, distributors and industrial customers across gas, electricity, water and multi-utility organizations for use in residential, commercial and industrial settings.

Following its acquisition by a private equity firm in 2005, the company was reformed as Elster Group, which grew through two major acquisitions during the next five years. On Sept. 30, 2010, Elster Group became a publicly traded company on the New York Stock Exchange.

An enterprisewide effort called One Elster began during the integration that followed the acquisitions. The initiative’s aim is to standardize processes and systems across the global enterprise. As such, Elster Group’s already lean IT function represents a central component of the effort.

When D. Darnell Smith stepped up into his current role as CIO in early 2011, following his tenure as the company’s IT director of the Americas region, he was tasked with rethinking the company’s IT strategy. The function’s roughly 105 IT professionals (excluding external contractors) support about 5,550 global end users in two large regions – 1) Americas, and 2) Europe, the Middle East and Africa (EMEA) combined with Asia Pacific (APAC) – in an SAP environment. In addition to centralizing the global IT function in support of the ongoing One Elster initiative, Smith also needed to define how IT should operate within a publicly listed company. When describing the strategy he developed, Smith frequently returns to two central concepts: agility and transparency.

“I have to make sure that whatever we do for the business is scalable and also transparent from a cost and performance perspective,” Smith explains. “The first part of the strategy was related to centralizing. We needed to pull everything together so that, going forward, we can deploy standard infrastructure and a standard toolkit of applications that will be used across the enterprise to help us all work more efficiently in pursuit of our shared goals. The second step was to put in place more robust capabilities so that we operate as a world-class IT organization.”

The centralization required an organizational overhaul, which included the addition of new director positions that report to Smith. The second part of the strategic shift involves numerous programs, each of which features a related set of projects, such as moving to two global instances of SAP, strengthening the company’s GRC capabilities in numerous areas (e.g., Sarbanes-Oxley compliance, data security, compliance with privacy laws and much more), and strengthening and standardizing what had been somewhat of a fragmented IT environment as a result of the acquisition activity.
The difference between programs and projects marked a crucial part of the IT function’s transformation, Smith asserts. “One of the approaches we took was designed to make our [IT] strategy sustainable over the long term,” he explains. “Rather than focusing only on our portfolio of projects, we took a step back to the concept of programs.”

These IT programs support various aspects of Elster Group’s strategy, and each IT project supports a specific IT program. “Now, a business colleague can see an IT project and understand what program it ties to, and how that program links to our overall strategy,” Smith continues. “This framework enables me to talk with my fellow executives at the IT program level while maintaining greater flexibility to deploy appropriate IT projects to enable and support those programs.”

Smith conducts monthly IT governance meetings with the Elster Group CFO, the company’s five business unit leaders and each of their business unit CFOs, and the company’s vice president of strategic projects. During these sessions, he presents reports with several sections, and in each section he places program icons to help convey the connection between IT activities and corporate strategy in a crystal clear manner.

“In the strategy section of the report, I list the programs we’re working on and identify the value each is designed to deliver with regard to our strategic objectives,” Smith explains. “Later, when I get to individual IT projects, I use the program icons to show how the project ties back to the programs and to our overall strategy.”

Putting Planning into Action

Lately, the reports Smith presents to the IT governance team have been teeming with updates. The centralization effort has driven the function to identify all of the opportunities for standardizing policies, processes, systems and applications. For example, the company is in the process of moving to two standardized instances of SAP, one in each region (Americas and EMEA/APAC). The IT group also is seeking ways to eliminate a fragmented email environment by implementing a global email platform.

In addition to the ongoing standardization and centralization work (which involves a significant amount of rationalization and consolidation), recent IT projects include the following:

**Supporting and strengthening compliance**: Earlier this year, Elster Group completed the implementation of SAP’s GRC solution. The project helped ensure that the company remained Sarbanes-Oxley compliant and sufficiently prepared for its first external audit as a publicly listed company. The company’s overall GRC program extends well beyond Sarbanes-Oxley compliance, however, and requires significant IT support. As a Germany-based company, Elster must comply with national as well as European Union (EU) data protection and privacy laws. “I’ve learned quite a lot about these laws from my legal and procurement colleagues,” Smith reports. “What I’ve found recently, especially with the rise of cloud computing, is that I need to pull our legal team into almost every project to ensure that IT remains compliant with all relevant laws and regulations at the national, regional and global level.”

**Leveraging the cloud**: Smith knows about cloud computing compliance risks because he and his team also implemented ServiceNow’s ServiceDesk this year. They chose to install this cloud-based global help desk application because it offered a quick way to provide the capability at a low cost and, equally important, to treat it as a variable cost. Additionally, Smith and his team are currently evaluating cloud-based email platforms and collaborative tools.

**Keeping the lights on**: Besides managing IT operations on a daily basis, the IT function also implemented a new treasury system and a new BPM application in 2011. “There is a huge push from the business for connectivity and additional bandwidth for remote access to Elster applications,” Smith notes. “So we’re going through and assessing all of our sites to ensure that bandwidth and connection types are adequate to meet future needs.”
Upgrading the cost model: The IT function’s previous financial management approach was essentially a cross-charge model with two regional budgets as well as a centralized budget. Many region-specific investments were billed back to individual offices within that region; some investments – including many types of IT spending – were also billed back to global operations. For example, the company’s antivirus software license was contained in the central budget. This approach limited the amount of variable IT costs within the business units and sometimes hampered their ability to make quick adjustments to their cost structures. “Within IT, we saw that we needed to be more agile in how we supported the business,” Smith explains. “[Elster] is adjusting quickly to threats and opportunities. If IT is not adjusting the systems and processes we provide, the business can wind up behind the eight ball quickly.” To prevent that scenario, Smith says the function is moving to more of an IT cost-per-user model “so that the business is fully aware of what they’re paying per user for services and what’s encompassed in those services.”

Measuring performance: Clarifying the business units’ visibility into the IT cost represents only half of the equation; Smith and his team also want to make sure that their colleagues understand the return on their investments. To that end, Smith has launched an effort to provide as many meaningful operational IT metrics as possible. These measures – which generate quantifiable data for service desk performance, the progress the function is making against the internal audit function’s IT action plan, system down time, IT headcount and more – are designed to help business units better understand the value IT is delivering to them.
Supporting product development: Unlike many other IT functions, Elster Group’s IT team also serves the company’s external customers. That service may be indirect, but it still poses challenges. The company’s smart-meter business develops commercial software for utility customers. When the product development team receives requests related to server issues or scalability from utility customers, it frequently picks up the phone and calls internal IT colleagues for assistance. “We assist with service setups and sizing of the appropriate hardware, and we’re supporting different development environments as well,” Smith explains. “That’s a totally different layer of complexity that we have to adjust to.” One such adjustment for the Windows-based IT function includes supporting the product team’s development of Apple iPad applications for utility customers.

The Killer App: Building Trust

The multifaceted nature of the demands on Elster Group’s IT function – supporting product development, devising a new cost model, ramping up public-company GRC capabilities, shifting to a centralized organizational structure – forces Smith to think just as much about what his function does (e.g., the programs and projects) as how it operates (e.g., the mindset and approach).

As Smith discusses the process of enabling Elster Group’s IT transformation, he invests the majority of his time detailing the “how” aspects of IT’s work. He says that one of the keys to the transformation’s success is for IT to “build trust through full visibility and greater accountability.”

There are three important steps Elster Group’s IT function has taken to build the trust necessary to fuel its transformation:

1. Eliminate the “black box” perception of IT. Smith’s “full visibility” rallying cry applies to both components of ROI. By upgrading the IT cost model, he is making the IT investment process much more transparent to business colleagues. By pushing his team to develop performance measurements wherever possible, Smith is clarifying the value of the solutions IT delivers to the business. “In the past there was almost a cloud around what IT was actually doing,” Smith recalls. “There was a prevalent sense of, ‘Wow, they’re really spending a lot of money.’ But that perception stemmed from a lack of understanding of what IT actually provided. That’s why I have placed such a priority on creating, tracking and sharing operational [IT] metrics. One of my biggest objectives is to make IT measurable. Until we get all the way there, we are vulnerable to perceptions, regardless of their accuracy.”

2. Avoid the “CI-No!” trap. When Smith learned that his product development team might need some assistance with Apple hardware and software, his first instinct was to shake his head. He resisted that impulse, knowing that he needed to earn the trust of the product development team. “In some companies, the CIO is becoming known as the ‘CI-No!’” Smith notes. “That’s not me. I want to build an IT organization that listens to all of our end users and says, ‘OK, what are you trying to do? Let’s figure out how to get there by working together’ … We’re hardly the only company dealing with a lot more requests from increasingly tech-savvy end users who want to run certain types of applications on certain types of devices. This is hitting all companies.”

3. Reinvigorate IT governance. Perhaps one of the most important trust-building steps Smith took relates to the way he adjusted the structure and tone of the monthly IT governance meetings he conducts. Those meetings were designed to facilitate communications on IT oversight and activities among the dozen or so C-level executives and business unit leaders who attend. After leading his initial session as CIO, Smith revamped the meeting. He created a new report, with sections devoted to strategic hot topics, operations, and personnel and processes. The report clearly identifies the IT program (which is tied to an element of corporate strategy) each project is related to; the latest operational metrics related to IT performance
in various areas; and updates on relevant process and people changes. “One of the major changes [to the
to the meeting] is that I have my IT group controller presenting all of the relevant budget numbers,” Smith says.
“He covers how we’re progressing on spending to date and shares headcount and other trends. In other
words, our colleagues at the meeting see everything about IT’s performance, and I think that brings a
sense of comfort.”

‘Hitting on All Cylinders’

The full visibility Smith and the IT function strive to practice also builds trust.

“Today, we’re starting to hear the kinds of comments we want to hear,” Smith says. “Our colleagues who
attend these meetings say things like, ‘Great, now I understand what’s really going on in IT,’ and, ‘Hey, you’re
hitting on all cylinders.’”

That is welcome praise for a function in the midst of a major transformation – and a sign that Smith and his
team may soon defy the organizational IT variant of Moore’s Law.
About Protiviti

Protiviti (www.protiviti.com) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit. Through our network of more than 70 offices in over 20 countries, we have served more than 35 percent of FORTUNE® 1000 and Global 500 companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies.

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