

Assessing Your Information Technology Organization

Are you running it like a business?

INTRODUCTION

The impact of information technology (IT) on today's businesses is greater than ever before. Companies are facing higher IT costs, managing complex technology and processes, and increasingly monitoring compliance and regulatory requirements.

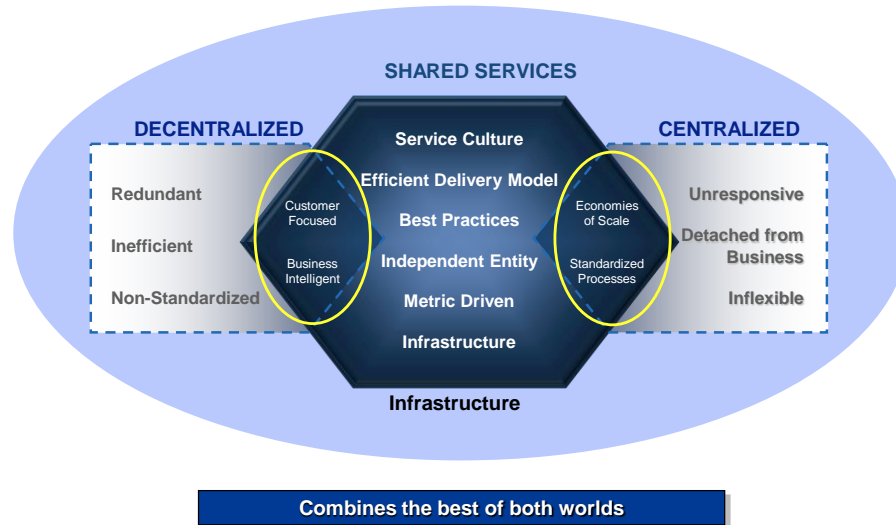
Computer Economics, in their *Outlook for 2009 IT Spending and Staffing Levels*, report that over 90% of their respondents are expecting to spend the same or less on IT-related costs in the coming year. Yet, when asked, other functional areas are expecting technology to be the main enabler of change and cost reduction in their organizations.

Increasing costs, complexities, and regulations have created frustration on everyone's part. Management is constantly demanding to see the value of what they were promised. Users want to know why they can't get the services and support they need to do their jobs. Representatives from the IT organization are frustrated because management and users don't seem to understand what it takes to provide the services they want and need.

In a recent survey, (*November 2008 McKinsey Quarterly Survey on Information and Technology Strategy*), respondents reported that they were more interested in IT providing value than in reducing IT costs. At the same time, respondents reported that they would like for IT to provide the same level of service and delivery at the same level of costs. This apparent conflict in objectives requires the IT professional to have the necessary processes and measures to prove the value returned for the investment made by IT.

Fundamental to improving the value of information technology is to migrate IT from a traditional cost center to an organization that enables its internal customers to efficiently and effectively serve their external customers. Since the mid-1990s, leading companies have embraced shared services as a delivery model that creates a culture of customer service while achieving the cost efficiencies of a centralized corporate model. In effect, adopting a shared services model enables IT to be "run like a business," complete with strategies, budgets, performance measures, and accountabilities. It allows IT to achieve the best of both worlds: an efficient process model that is focused on achieving customer satisfaction.

Shared Services Overview



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The migration to a shared services model starts with an independent assessment of the value created by the current IT organization. An independent assessment of IT determines the current level of performance and provides a roadmap for increasing value, enhancing customer service, and improving overall performance. A comprehensive assessment should evaluate management processes within IT, not just the underlying technology. In many cases, existing technologies are sufficient, but management practices and processes are not designed to focus on value creation.

When evaluating IT, existing processes should be compared against leading practices. Leading practices must be objective and consider not only the maturity of a process but also its impact on the organization. Any assessment should be customized to the industry, environment, and culture of the company being assessed. Recommendations that are based on an assessment that is configured for a company's unique situation are much more likely to be accepted and implemented.

CONDUCTING THE ASSESSMENT

ScottMadden has developed a customizable methodology for assessing the value of IT. The approach depicted below is the result of many successful assessments, each of which resulted in a clear roadmap for increasing value, enhancing customer service, and improving overall performance of the IT organization.



The following paragraphs provide further detail into the methodology for the assessment. In each step, we will share how we go about preparing and conducting the assessment. Where appropriate, we also share “lessons learned” that could prove valuable in conducting your assessment.

Initiate Project

The project initiation task is critical for establishing the project objectives and expectations. It is important that everyone, including management, IT, and key user organizations, understand the purpose of the assessment and the expected outcomes. Too many times, users want to use assessments to “punish” IT for not meeting their business needs. On the other hand, IT wants the assessment to justify the need for more resources, and caught in the middle is management, who wants the best of both worlds. For that reason, we strongly recommend that external benchmarks and leading practices be used during the assessment. While leading practices are never one-size-fits-all, there are ways to take proven methodologies and adopt them to any organization.

Data gathering can take many forms and can become very time consuming if not structured properly. During the initiate task, the project team should conduct a quick review of what information is available for analysis. If the current IT organization has sufficient information regarding its operations, an IT strategy, key performance measures and reports, service level agreements (SLAs) with its key customers, and documented business processes, the project team can focus more on comparisons to leading practices. If this information is not readily available, the project team will have to spend time on developing that information, which might reduce the level of detail provided by the comparisons. Examples of typical data required include:

- ◆ **IT Strategies and Standards** – includes the IT strategy, IT governance model, enterprise architecture strategy, application portfolio, hardware platforms, and enterprise standards
- ◆ **IT Metrics or Performance Data** – includes benchmark reports, SLAs, budget or cost reports, compliance reports, operating statistics and past consulting studies
- ◆ **IT Processes, Procedures, and Personnel** – includes IT management processes, IT procedures and guidelines, business continuity processes, organizational charts, and workload statistics.

Confirming the project scope is extremely important in order to effectively compare IT against leading practices and/or external benchmarks. During this task it is also important to develop a project plan, including team schedule, tasks and associated durations, major milestones, dependencies, and project risks. Finally, assessment deliverables should be discussed and confirmed with the project team and the project sponsor.

Lessons Learned: Structure your assessment to take advantage of available information. Remember that the focus is on improving the value provided by IT. If management information is lacking, identify that as a gap and determine how best to address it during the implementation planning task. Don't spend too much time analyzing current state; plan enough time in the recommendation and implementation planning tasks to provide meaningful action plans.

The initiate project task is typically completed in one to two weeks.

Analyze Current State

The next task in the assessment involves determining the level of performance in the current state. We typically conduct this analysis in three ways: (1) conducting interviews, (2) comparing performance to benchmark data, and (3) comparing current processes to leading practices.

Interviews can be one of the most effective data gathering methodologies used during the assessment. While they tend to be somewhat subjective in nature, perceptions can be identified and either validated or disproven during the analysis segment of the assessment. For example, there may be an impression that the help desk is not responsive to the needs of its users. The analysis can compare current help desk processes to leading practices and, if available, response times and costs to determine the relative performance level of the company's help desk.

Typical interviews to be conducted include:

- ◆ **Management** – provide insight into the corporate vision, the strategic role of IT, and long-term expectations; included are company leadership and the CIO or leader of the technology function
- ◆ **Internal Customers (Users)** – provide perspectives on day-to-day service and tactical expectations; internal customers should be from various functional areas to gain an understanding of differences in IT requirements
- ◆ **IT Applications Staff** – provide input into user needs and expectations and explain IT processes related to maintaining existing applications and developing or configuring new ones
- ◆ **IT Infrastructure Staff** – provide input into processes required to maintain or improve existing operations; infrastructure includes servers, storage, network, security, data, etc.

- ◆ **External Customers (if required)** – provide perspectives into views and expectations by end customers.

Lessons Learned: Control the number of interviews to be conducted. Use standard interview guides to gather comparable results. Consider group interviews for multiple users if additional coverage is required. Questionnaires can also be used but are limited in value if you are attempting to capture perceptions.

The second element of analyzing a current state is comparing performance to external benchmarks. There are a number of sources for this information, including companies such as:

- ◆ Computer Economics
- ◆ Warren B. Causey (Sierra Energy Group)
- ◆ Gartner
- ◆ Forrester Research
- ◆ Industry groups.

These external benchmarks can be quite useful in determining relative performance. Many organizations, such as outsourcing firms, base contract terms on the performance relative to these independent benchmarks; however, for purposes of an initial assessment, a significant investment in these benchmarks is typically not warranted. In addition to acquisition costs, available data may not support an extensive analysis. Macro metrics commonly reviewed include:

- ◆ IT intensity (such as number of desktops/laptops per user)
- ◆ Operating and capital spending data and trends (such as IT operations and capital budget as a percent of revenue or IT operations and capital budget per user)
- ◆ Budgeting and planning priorities (such as upgrading security, deploying new applications, etc.)
- ◆ Staffing trends (such as number of users per IT staff, percent of contractors in IT staff, etc.)
- ◆ Technology adoption trends (such as SOA adoption, SAN implementation, server virtualization, etc.).

If the available data can support it, sometimes it is useful to analyze trends over a period of time, typically one to three years.

Lessons Learned: Benchmarks are indicators of performance, not absolutes. There is too much variation in the method of calculation to make specific recommendations concerning topics such as level of expenditures. In addition, there will be differences of opinions regarding which is the most appropriate measure. For example, some will swear by expenditures as a percent of revenue; others will be equally adamant about expenditures per user. If you have been diligent in your initiate task of defining the objectives of the assessment, you will eliminate much

discussion about what is appropriate and not appropriate from a measurement standpoint. You should also attempt to benchmark those areas where you believe future performance objectives may be established for IT.

The third area of analyzing current state is the comparison of best practices. In this context, we are talking about best practices in the management of IT and related resources. There are several sources for this information, including:

- ◆ Control Objectives for Information and Technology (CobiT) version 4.1
- ◆ Capability Maturity Model Integration (CMMI) version 1.2
- ◆ Information Technology Infrastructure Library (ITIL)
- ◆ Proprietary databases of consultants and other practitioners.

The first three sources are in the public domain and are available for anyone's use. The fourth source can be purchased directly from the provider or, as in the case of ScottMadden, can be accessed as part of an assessment project.

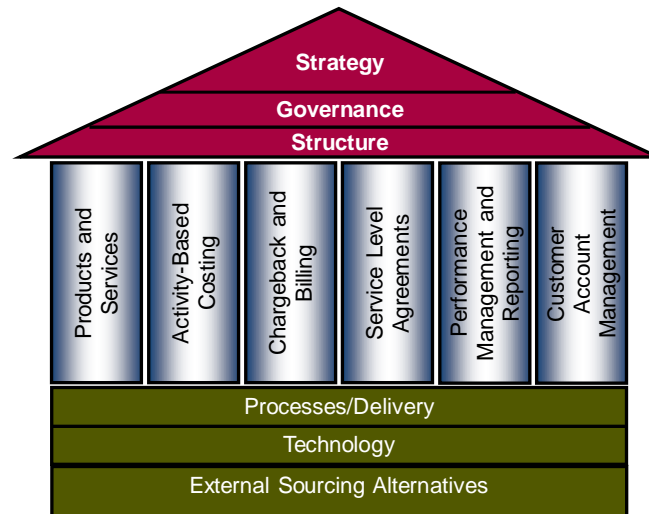
The CobiT models are very useful when evaluating internal IT management processes. The models are divided into four major process areas:

- ◆ Plan and Organize
- ◆ Acquire and Implement
- ◆ Deliver and Support
- ◆ Monitor and Evaluate.

The CMMI model focuses on application development and deployment and will be useful if your IT organization does a significant amount of application development and implementation. The ITIL model focuses on infrastructure management and can be leveraged if there is a major improvement opportunity in infrastructure management.

ScottMadden's approach can incorporate any or all of the above sources. In addition, we maintain an extensive database of leading practices implemented by our clients and as a result of our independent research. Fundamental to our approach is the application of a shared services model. Experience has shown that the management practices of a shared services model, whether implemented in the existing organization or actually separated as a shared services organization, will lead to an organization that is "run like a business," with appropriate accountabilities to its customers and resource management. The ScottMadden model is reflected below.

Shared Services Operating Model



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Lessons Learned: Always keep in mind the objectives of the assessment. There is more information available on best practices than can be effectively utilized. Use the leading practices as a source to (1) validate current practices and (2) identify improvement opportunities. Pay attention to those areas where there may be contention regarding level of performance. Having an objective viewpoint will mitigate differences of opinions. You can spend too much time in analyzing current state and not allow adequate time to develop recommendations to improve the value of the IT organization.

Analyzing current state normally should take between four to six weeks.

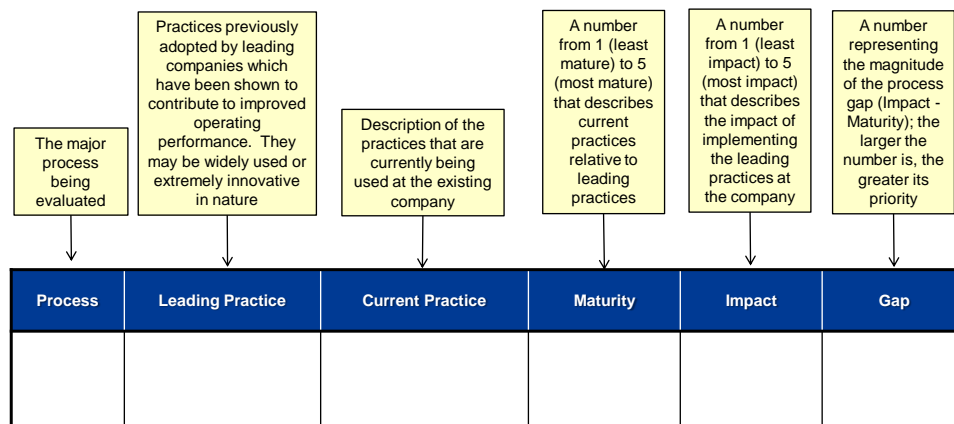
Determine Performance Gaps and Develop Recommendations

Most, if not all, assessments will result in identification of improvement opportunities. Using the current state analysis, the project team can identify gaps in current performance and develop recommendations to close those gaps. In general, those gaps will fall into four categories:

- ◆ Management expectations and needs
- ◆ Customer expectations and needs
- ◆ Management and control processes
- ◆ Operating performance.

Recommendations regarding process improvements will address all four categories. ScottMadden uses the following approach to prioritize the identified gaps into actionable recommendations.

Leading Practice Methodology



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For each recommendation, the project team should address the:

- ◆ Performance gap that has been identified
- ◆ Recommended change in process to improve performance
- ◆ Cost and benefits associated with the recommendation
- ◆ Estimated time to implement the change.

Prior to developing the implementation plan, the project team should review the recommendations with management and receive their approval.

Lessons Learned: Be practical in developing your recommendations. Understand that a leading practice in one company may not be appropriate for your organization. Management style and company culture are important in considering implementation planning. Once again, you should revisit the objectives identified in the initiate task to be sure your recommendations are consistent with the intent of the assessment. You should also be realistic in developing timelines for implementation. Many times, the recommended changes require interaction between organizations and a sharing of responsibilities and accountabilities. Appreciate the impact of change on all organizations and allow time for that change to happen.

Recommendation development should take two to four weeks.

Develop Implementation Plan

The final step in the assessment is to develop an implementation plan for the approved recommendations. In many ways, this is the most difficult task of all. Typically, everyone is busy, and implementation efforts will be an additional workload for people already full time. In addition, implementation will usually involve users in line organizations who are not used to IT-type projects. This increases the need for a well-structured project plan.

The plan should address:

- ◆ Establishment of a project management office (PMO) to manage and coordinate the overall effort
- ◆ Overall timeline, with major milestones identified (typically separated between short-and long-term)
- ◆ Identification of responsibilities for project management, task completion, and approvals
- ◆ Identification of outcomes (results and deliverables)
- ◆ Publishing of a communications plan to keep everyone informed on progress, including identification of key messages, progress updates, and project successes.

Implementation of the recommendations should be no different than any other major project undertaken by the company. External resources may be required to meet certain deadlines or to provide selected expertise, but leadership of the effort should be internal to the company.

Lessons Learned: Do not shortchange this planning effort. At this stage of the project, energy will be low, and people will want to “get on with it.” Depending upon the outcome, some organizations may not feel like their needs are being prioritized correctly. There will be challenges associated with getting resources to support the implementation effort. In particular, IT may feel they are losing control of certain processes or ownership of specific activities. Make every effort to get everyone’s buy-in for the changes. Have management support very visible in the process and select a project manager who has credibility with both the user organizations and IT. And, above all, do not shortchange the project management processes involved in the PMO. Finally, focus on communications. Keep everyone in the loop and celebrate early successes. It will help the momentum of the project.

Implementation planning should take no longer than two weeks if recommendations have been properly documented and approved.

CASE STUDY

A company with revenues close to \$1 billion was interested in having its IT organization undergo an independent assessment. There were no glaring problems, just a concern that the

company was making a significant investment in IT, and management wanted to be sure they were getting the appropriate level of value. ScottMadden was asked to lead a joint team in conducting an assessment of the current IT organization.

As the project team began planning the assessment, it became apparent that, although IT had the necessary controls and oversight in place, other processes were lacking or non-existent. In addition, as the user and management interviews were conducted, it became apparent that neither IT nor the user organizations were satisfied with their interactions.

Using the methodology described in the previous paragraphs, the project team conducted the assessment over an eight-week timeframe. Objectives of the assessment included:

- ◆ Determination of the current IT-related business processes and how they compare to leading practices
- ◆ Comparison of macro-level cost measures with industry measures
- ◆ Identification of the level of performance provided by the current IT systems and how well they match the business requirements of the company
- ◆ Evaluation of the current level of internal customer satisfaction with IT-related services
- ◆ Development of recommendations to close any gaps identified in the project.

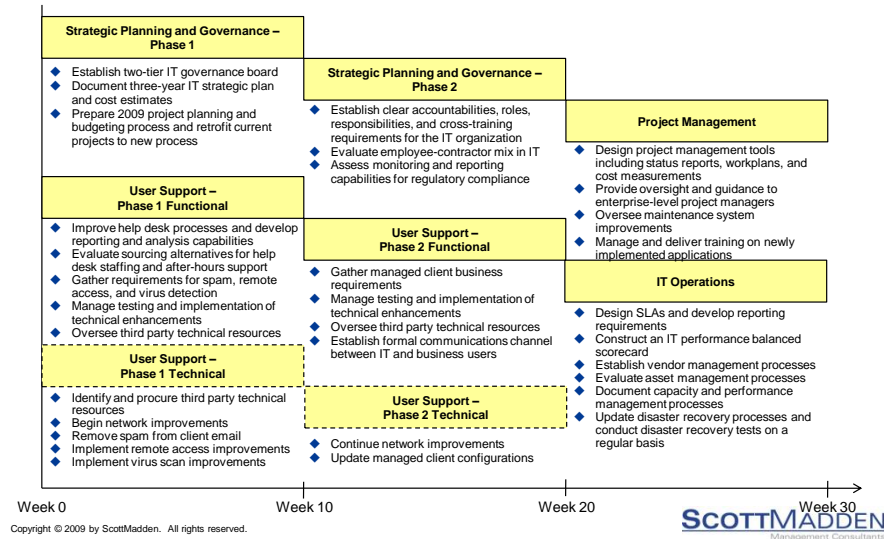
More than 40 interviews were conducted during the current state analysis. The interview list included senior management, representatives of user organizations, and IT professionals. The results were summarized and used to determine customer expectations and the current level of performance in meeting those expectations.

External benchmarks were used to confirm that the current performance was in line with industry standards; however, there were several gaps in the processes that, if addressed, would improve governance and overall business results. Recommendations were developed in four areas:

- ◆ Strategic Planning and Governance
- ◆ Project Management
- ◆ User Support
- ◆ IT Operations.

Following approval of the recommendations, the following roadmap was developed and approved by management.

Recommendations Roadmap



A cross-functional team was established to implement the recommendations. Overall, the project resulted in a more engaged user community, several short-term “wins” that improved existing operations, and a management model that enabled IT to “run like a business” in support of the corporate objectives.

CONCLUSION

Assessing an IT organization can present several challenges, but it is well worth the effort when the organization has the appropriate management processes and measures in place. Strong consideration should be given to having an independent consultant perform the assessment. The independent point of view, along with leveraging of the consulting previous experiences, will help overcome resistance and improve the acceptance of the recommendations.

Moving IT from a cost center to an organization that creates and adds value to the corporation can pay significant dividends with more satisfied user organizations and an improved level of productivity. Technology can be a powerful enabler of business change. Having an IT organization that is “run like a business” is a key component in making that business change happen.

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