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What's Important To IT Management In 2006?

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EXECUTIVE SUMMARY

IT executives in 2005 were asked to do more to boost top-line growth, make their infrastructures as reliable as the power grid, make their teams better at managing suppliers, boost their knowledge of their businesses, and become ever more cost efficient. In 2006, leading IT organizations will participate more in business innovation, become catalysts for process transformation, and help the firm move beyond compliance to enterprise risk management. These IT shops will invest more energy in managing portfolios and marketing their work. As 2006 ends, IT organizations will more clearly divide into three tiers: solid utilities, trusted suppliers, and partner players.

THE STATE OF IT IN 2005 — GROWING EFFICIENCY AND BUSINESS KNOW-HOW

Much has changed over the past few years for IT organizations. IT spending revived, the trend toward the centralization of IT reversed, and IT organizations have been asked to assist firms in top-line growth, not just cost control.¹ Meanwhile, IT costs continue to receive great scrutiny, and firms — still recovering from disappointment and overbuying of application software in the past — prefer smaller-scale projects to the large implementations of the past. So what is IT's status today?

- **Running IT as a utility.** The minimum price of entry for IT in the eye of the business is to meet user expectations of dial-tone reliability — and IT organizations rise to the challenge. Recent IT governance data shows IT is most evolved at managing itself as a business operation.² Key to stabilizing IT and making its work more predictable and repeatable, firms track workload in infrastructure and project dashboards, consider methodologies like COBIT and ITIL, and seek certifications like CMMI.³ IT shared services shops are beginning to use service catalogs and associated chargeback mechanisms.
- **Controlling costs and tradeoffs.** After a prolonged period of cutbacks in IT spending, CIOs must become more transparent, both in where the money is spent and for what. So IT has invested in project portfolio management (PPM) and is beginning to look at applications portfolio management and overall IT portfolio management as ways to create visibility and enable business participation in governance and tradeoffs.⁴
- **Making regulatory and security compliance part of day-to-day business.** Amid consecutive years of pressure to cut costs, IT organizations also had to grapple with the uncertainty and expense of compliance with regulations like Sarbanes-Oxley, Basel II, and HIPAA — and, at the same time, react to information security threats and cope with M&A. These efforts are made all the more

difficult when IT is federated or decentralized, and its systems not integrated. So firms are examining security and organizational reporting relationships and rethinking management approaches to make compliance sustainable.⁵

- **Sharpening their ability to manage vendors.** The vendor market has consolidated around IT, leaving fewer choices of suppliers — and less competition to help keep maintenance costs down. IT must tightly manage maintenance costs, and face the constant requirement to lower infrastructure and support costs through renegotiation of license agreements, consolidation of infrastructure, and possible outsourcing. So IT organizations are setting up vendor management functions to create and renew outsourcing agreements, monitor SLAs, and oversee project deliverables. This becomes the dominant responsibility in firms like GM that have outsourced infrastructure and/or project delivery.⁶
- **Boosting relationships with and knowledge of the business.** With higher expectations on value per dollar invested in IT, today's IT can't afford its historical inward focus on technology. The change is reflected in the growing use of relationship management (or account management) roles in IT, coupled with a growing number of CIOs rotating into IT from the business.⁷ And the increasing business focus is further reflected in the changing profile of IT workers — fewer programmer and operations staffers; more relationship, project, and program managers — and an increasing need for business skills.⁸ For example, at a recent industry event, Wal-Mart CIO Linda Dillman noted that the No. 1 priority for her team was to know the business and to “think like a merchant.”

WHAT'S NEXT — LEADING IT ORGANIZATIONS EXPAND ROLES AND VISIBILITY

In 2006, leading firms and IT organizations will continue to change their emphasis:

- **From keeping the lights on to delivering innovation.** Business units do not historically perceive IT as a contributor to innovation.⁹ But this has begun to change in 2005 as firms switch focus from pure cost cutting to seeking ways to grow the top line. The only way IT can contribute effectively is to free up funds for new work — its innovation capacity. Leading IT organizations in 2006 will work to foster a culture of innovation and a role with business units that extends beyond the “necessary but not sufficient” process innovation to ideas for new products and services. For example, IBM's Technology Adoption Program uses its internal portal environment link — a self-selected population of early-adopter employees — to cultivate employee innovations in software or chip technology.
- **From project prioritization to optimizing the IT portfolio.** For leading IT organizations, project prioritization based on Loudest-In-First-Out will continue to be replaced with IT portfolio management methods and tools. Step one for those getting on board is to establish broad visibility of baseline costs by using increasingly integrated IT management tools for apps,

infrastructure, and projects.¹⁰ Firms will then increasingly adopt valuing methodologies for ranking investments based on quantified benefits to the firm, as Intel does using its Business Value Index, and compliance with architectural standards, as Eli Lilly's IT organization does.

- **From information security to sustainable enterprise risk management.** In the face of regulatory and compliance pressure, leading firms and IT organizations will give up on reactive approaches and fragmented responses to risk-related issues. Instead, they will adopt an enterprise risk management strategy that takes what IT has already learned the hard way and targets proactive risk and compliance management.¹¹ For example, Goldman Sachs, CITGO Petroleum, and Washington Mutual all have chief risk officers reporting into C-level execs or the board of directors.
- **From mediocre communication to IT marketing.** Recognizing that poor communication and lack of marketing have suboptimized IT's effectiveness, leading firms are taking IT marketing seriously. Firms like Lands' End and JM Family Enterprises are presenting IT performance in business terms, driving campaigns to ensure higher technology utilization and the positive perception of IT's contribution to the firm's business. Firms like UTC and Hilton Hotels have established IT marketing roles, and even Wal-Mart has established an internal IT branding campaign based on the motto "IT works."¹²
- **From departmental apps to processes tuned for the enterprise.** Firms spent much of the 90s wringing efficiencies out of departments with functionally-focused apps like customer service for a single product line. But leading firms recognize that optimizing for one department might leave customers with fragmented service. In 2006, they will push ahead to establish business-based process governance for processes like order-to-cash (IBM) and technology architectures like SOA that deliver reusable services for end-to-end process transformation (e.g., Verizon and Lands' End).¹³

WHAT IT MEANS

IT ORGANIZATIONS WILL INCREASINGLY FORM INTO CLASS TIERS

Moving into 2006 and looking at how IT work is managed, we see emerging segmentation of IT organizations. While it's true that not every organization fits cleanly in a specific category, separation signs are emerging among:

- **Solid utilities — cost-controlled, dial-tone focused.** For these firms, the cost pressures of the past few years have left lasting results. These IT organizations have scaled down staff numbers and outsourced work like infrastructure or application maintenance, focusing the remaining staff on program and vendor management and business analysis. The implication for CIOs of these organizations? More struggle for budget dollars and a likely reporting relationship to the CFO or COO — but also a clear opportunity to market the relationship between this reliable utility and a successful business.

- **Trusted suppliers — masters of delivery, project focused.** These firms have mastered the “delivery” aspects of IT and are good at providing solutions, but are not ready to move into the partnership phase. They still see themselves as “separate” from and supportive of the business, using portfolio management, process methodologies, and scorecards to improve their internal effectiveness. The implication for CIOs of these organizations? These risk-averse CIOs have found a comfort zone for themselves and their teams — but may find themselves poorly positioned if the business around them undergoes significant change from a drop in revenues, a management shift, or a need to enter an entirely new market.
- **Partner players — business-benefit driven, innovation focused.** These organizations are integral to the business. For them, there are still budget dollars available. The CIO will likely sit on the CEO staff, take part in setting company strategic direction, and own decisions to selectively out- or in-source. Expected to deliver dial-tone reliability, these IT organizations will be more engaged in process innovation — but will also engage in the effort to bring new products and services to market. The implication for CIOs of these organizations? They are candidates for job rotation into the business — or even ownership of business units themselves.

ENDNOTES

- ¹ Seventy-four percent of enterprise-class CIOs ranked using technology to enhance revenues as a high to highest priority, and a mere 34% ranked reducing IT costs as a top priority in July 2005. Source: Forrester Business Technographics® August 2005 United States Enterprise Governance Survey.
- ² In July 2005, Forrester surveyed 922 IT decision-makers and received 305 survey responses to questions about their IT organizations’ maturity at linking technology to the firm’s strategy, running IT as a business operation, and managing relationship with stakeholders. Source: Forrester Business Technographics August 2005 United States Enterprise Governance Survey.
- ³ IT’s historically homegrown process methodologies are beginning to give way to broadly used approaches like ITIL and Six Sigma. See the May 31, 2005, Best Practices “Stabilizing IT With Process Methodologies.”
- ⁴ Application portfolio management (APM) dashboards provide visibility and the ability to cut applications maintenance support costs by as much as 30%. See the July 22, 2005, Market Overview “APM Tools Will Reach \$500 Million To \$700 Million By 2008.”
- ⁵ Higher reporting relationships reflect the growing criticality of the information security role — and its link to managing enterprise risk. See the September 14, 2005, Best Practices “Where Security Reports Reflects Expanded Role And Responsibilities.”
- ⁶ GM has outsourced most of its IT functions, instead honing IT’s skills at contract management, architectural control, and service-level monitoring. See the June 6, 2005, Best Practices “GM’s Well-Honed Outsourcer Management Practices.”

- ⁷ Relationship managers have their foot in two camps — they are knowledgeable about emerging technologies that could enable innovation and part of business strategy teams for the business units they are assigned to. See the February 2, 2005, Best Practices “Relationship Managers: Focal Points For Innovation.”
- A fundamental change has occurred in the CIO role; no longer is the position reserved for technology professionals who have worked their way up through the ranks of the technology organization. Instead, more and more firms position their CIOs as general business managers — more adept at driving balance sheets than designing a service-oriented architecture. See the March 8, 2005, Trends “CIOs Must Join Their Firms’ Executive Rotation.”
- ⁸ Firms are decreasing the numbers of staffers in operations and programming, but indicate that they will increase the numbers of business analysts and project managers. See the July 5, 2005, Trends “IT Is Not Going Away — But The Worker Profile Changes.”
- ⁹ In six areas of IT contribution, more technology influencers felt IT was vital for workforce productivity and least vital for acquiring and retaining customers and driving innovative new business practices and capabilities. See the April 8, 2005, Data Overview “How Do Users Feel About Technology?: Business Technographics United States.”
- ¹⁰ CIOs will take advantage of the visibility and increased manageability brought by integrated IT management (IIM). Integrated and role-based dashboards are emerging that provide combined visibility into project, application, and infrastructure activities and costs. See the February 2, 2005, Forrester Big Idea “Integrated IT Management Drives Efficiency.”
- ¹¹ The CIO must become a player at the enterprise risk management table not only because of IT’s responsibility for information security and IT’s ownership of its own risk and compliance, but also because IT plays an enabling role in automating enterprise risk and compliance tasks. See the April 27, 2005, Trends “IT’s Role In Enterprise Risk Management.”
- ¹² Only 27% of communications with IT are initiated by IT. IT must move beyond mediocre communications to a campaign-based approach to communicating IT’s value and deploying new technologies, as well as creating and communicating IT’s mission and brand. See the August 23, 2005, Best Practices “The Marketing Of IT.”
- ¹³ In large firms, IT and business groups will need to change a centralized governance approach to deliver business services built on a service-oriented architecture. See the June 30, 2005, Trends “Who Owns Business Services In An SOA World?”