Achieving Technology and Business Superiority through IT Organizational Transformation

Integrate 2010
Greater Cleveland itSMF LIG
June 24, 2010
IT Leadership is facing increasing pressure to control costs and improve technology services for future business growth and profitability.

**RETURN ON INVESTMENT**
- Pressures on IT budgets
- Pressures on project budgets
- Pressures to enable new business development

**CUSTOMERS**
- Providing IT solutions for customers
- Improving customer data management
- Integrating all customer touch points

**COMPETITORS**
- Meeting or exceeding IT benchmarks
- First to market with the best IT enabled practices

**SOLUTIONS**
- Consolidating the enterprise application and data portfolio across businesses
- Better balancing of “Best of breed” versus preferred vendor’s modules
- Improving IT efficiency and implementation turns
- Breaking down the business unit silos to gain synergy and use integration demands
- Standardizing on open systems and shared IT services

**THE HORIZON / TRENDS**
- Emerging business models / partnerships – the ‘collaborative necessity’
- Disruptive technologies or more-wishful-thinking?
- Globalocalization – here, there, or everywhere?
- BOB is dead, long live BOB! (best-of-breed)
IT Leadership Challenge

We have observed significant negative impacts in companies who have not addressed these challenges appropriately:

- Inability to support business initiatives due to inadequate technology infrastructure resulting in reduced ability to service internal and external customers.
- Misalignment of IT direction and initiatives resulting in wasted effort and resources.
- Inability to respond in a timely fashion to changes in the business environment due to inflexible technology infrastructure resulting in increased time-to-market, loss of ability to capitalize on business opportunities.
- Inappropriate expenditures in technology resulting in reduced return on investment and increased costs.
- Inconsistent delivery of technology services and solutions to the IT constituency.
- Loss of respect and accountability for IT.
- Low morale and high turnover in IT staff.
Broken IT Value Chain

41% of IT professionals surveyed said that half or fewer of IT initiatives had a positive impact on the business.

Business Outcomes

74% of large, high-priority projects fail to meet expectations.

80% of production issues are self-inflicted.

75% of IT spend is on Maintenance & Support.

1 Survey by the Economist Intelligence Unit – June 2008
2 Standish Group
3 Gartner – From Concept to Production, Software Changes and Configuration Management, April 2008
4 Forrester – Data Center Automation, February 2008
Fad or Management Miracle?

Google search for "IT transformation"

About 209,000 results (0.46 seconds)
“And Then a Miracle Occurs”

Good work, but I think we might need just a little more detail right here.

And then the "Transformation" miracle occurs

IT Organizational Transformation
What is IT Transformation - Really?

A term invented by the big consultancy firms in order to generate more business

Utility/cost center to a value creator?

Reshaping architecture or application mix?

Moving from a centralized model to a decentralized one, or vice versa?

Cost cutting?
Simply stated, the biggest challenge for IT professionals today is to help their respective organizations succeed.

*IT professionals often focus entirely in the function of IT rather than externally on what customers and investors need IT to deliver. If IT professionals are to truly serve as business partners, then their goals must be the goals of the business. Transforming IT professionals into business partners isn't an end in and of itself; it's the means to a strategic, business-oriented end.*

“Companies are now defined by their ability to transform, not only in order to succeed, but also simply to survive. The companies whose business model allows for rapid change will lead this century's corporate elite.”

-Nate Davis, President and COO, XM Satellite Radio
Corporate Track Records

“One-third of all acquired firms are sold off within 5 years and 90% never live up to their expectations”

M. Leofke
“Why So Many Mergers Fail.”
Fortune Magazine

“Nearly 60% of all corporate Six Sigma initiatives fail to yield the desired results”

SATYA S. CHAKRAVORTY “Where Process-Improvement Projects Go Wrong.”
Wall Street Journal
January 25, 2010
A new Business/IT partnership needs to more effectively solve the internal and external forces critical to this relationship.

IT Transformation is about Creating Business Value.
Competing Stakeholders

Line Leaders Want **Service**

The “Enterprise” Wants **Control**

- Investment
- Vendors
- Standards
- Resources
- Security / Compliance

**Being In Control**

Customer service

- Excellent
- Poor
“IT Transformation” ??

**IT Transformation** – A re-engineering initiative designed to position IT as a critical contributor to the business, focused on delivering business value and performance in the form of improved operating results.

**Technology Transformation** - disruptive innovation by radically changing the way products and services are developed and delivered.

**Operations Transformation** - by significantly increasing the value derived from current IT investments and by enabling real-time and integrated transaction monitoring - resulting in high performance through a new form of operating various business elements.

**Business Transformation** – by focusing on significantly improved business outcomes through a unified planning and execution discipline.
IT Transformation initiatives have a track record of:

- Generating permanent productivity increases of 25-40%,
- Yielding a net present value that typically exceeds investments by a factor of 5-10 or more.
Putting the Pieces Together

IT Finance
- Rationalizing the current IT costs pools and next year budgets
- Re-valuating the big project’s ROI
- Assessing infrastructure cost alternatives
- Transforming to quarterly IT financial processes

Strategy
- Synchronizing IT initiatives with the strategic corporate objectives
- Ensuring feasibility of current and future initiatives
- Evolving an enterprise architecture and adapting standards
- Availability of accurate and relevant information in a timely manner

People
- Establishing correct organizational structure with clearly defined roles and responsibilities
- Retaining and developing knowledgeable staff
- Sourcing talent strategically
- Transform IT organization’s skills and measurements

Solutions
- Having right technology in place which is scalable, reliable, maintainable, and available 24/7
- Consolidating, then integrating
- Adapting to rapidly changing technology environment
- Having an effective knowledge management function

Process
- Embedding a consistently used methodology for projects and initiatives that is objective and measurable.
- Ensuring accountability for project success
- Automating inter- and intra-enterprise processes to enhance efficiency and accuracy
- Sharing and leveraging people, technology, and procedures across the enterprise
The Pieces in Action

Executives

TOLT

Program Direction & Direction

Steering Committee

Tactical Control & Issue Resolution

PMO Functions

Issues From Each Initiative

Transformation & Change Enablement

PMO Analyst

Project Administration

Program Standards & Best Practices

Dependency & Quality Management

PMO Functions

Status, Issues & Feedback

Leadership Strategy & Approved Initiative

Major Risks & New Initiatives Ideas

PMO Analyst

Initiatives

Core Finance

Program Standards & Best Practices

Education, Coaching & Compliance

PTP

Leadership Strategy & Approved Initiative

STS

Requirements

CrunchTime

Program Standards & Best Practices

Leadership Strategy & Approved Initiative

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**Potential Solution Areas**

**IT Governance & Strategy**
- Unclear/passive relationship of IT to businesses combined with poor project prioritization process “Silo” organizational structure preventing effective partnership
- Weak cost and productivity controls and patchy performance measures

**Solutions Development Management**
- Limitation to “must-do” projects & huge backlog of strategic projects
- Poor methodology and standard practices
- Poor implementation capabilities leading to delivery failures and high maintenance cost

**Resource Management**
- Staff not equipped with appropriate skill sets
- Improper structure and span of control
- Knowledge not properly captured, transferred and managed
- Poor vendor and contractor management

**Service Delivery and Maintenance**
- Increasing fixed cost due to an exploding application landscape and a complex web of operating systems, distributed across many different platforms and locations
- Ill-defined services with static and improper service level agreements without clear financial discipline
- Lack of customer focus

**Architecture and Infrastructure**
- Application portfolio not well-matched to business intent and drivers
- Lack of / not enforced enterprise-wide architectures and standards – fragmentation
- Fragile, irrational infrastructure…especially in the server, storage, communications areas
To engage people in change on an emotional and rational level, and thus realize the maximum possible benefits from change programs, three different areas of Change Planning need to be covered:

<table>
<thead>
<tr>
<th><strong>Executive Engagement</strong></th>
<th>Ensuring that the vision and end-point are clearly articulated and understood by all, and that leaders are actively engaged and are leading their people through the change.</th>
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<tbody>
<tr>
<td><strong>Transformation</strong></td>
<td><strong>Transforming the way people work</strong> – ensuring that individuals adopt and own the new processes, technology and ways of working associated with the change program.</td>
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<tr>
<td><strong>Change Enablement</strong></td>
<td>Effectively enabling business change to ensure that individuals receive the support and development they need through the program, and equipping the workforce to respond positively to the program of change as well as to fulfill their roles and responsibilities in the future world.</td>
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IT Transformation Approach

- Strategic Need
  - Gather the appropriate team members

- Initiation
  - Develop the future state scenario

- Visioning
  - Develop the org, process, technology & people design details

- Conceptual Design
  - Gather current metrics for baseline benchmarking

- Benchmark Baseline
  - Create full planning detail – services, roles, RACI charts, process flows...

- Org Design & Service Creation
  - Develop the transition approach moving to the new org structure, processes, & technology

- Transition Planning
  - Execute the Transition Plan

- Execution & Stabilization
  - Accelerate, measure, & CI

- Benefits Realization
  - Strategic Outcome
The ITT Blueprint

ITT provides the organizational blueprint for successfully executing multiple enterprise-wide projects and programs.

- Strong executive **sponsorship** and involvement
- **Clear** goals, expectations and requirements
- **Identification** of issues, dependencies and risks
- An integrated **master plan**
- A well-defined set of **roles and responsibilities**
- Strong program/project management **skills**
- Attention to **project management** and reporting
- Established performance **metrics**
- Active **participation** and involvement by key stakeholders
- A well-defined **communications** plan
**ITT Components**

**Organizational Structure**
- Program Governance
- Accountability & Sponsorship
- Team structures
- Dedicated resources
- Roles and responsibilities

**Management Standardization**
- Project plan and approval hierarchy
- Documentation standards
- Processes and procedures
- Nomenclature
- Tool standards
- Project discipline and ethic
- Meeting frequency

**Work Integration**
- Congruent objectives & goals
- Prioritization
- Interdependencies
- Gap identification
- Resource sourcing & allocation
- Change campaign
- Contractor management
- Issue management
- Best Practice sharing
- Conflict management
- Requirements reviews
- User acceptance sign-offs

**Measurement**
- Financials
- Risk and Quality
- Management scorecards
- Progress
- Trends
- Results & Benefits

**Communication**
- Enterprise
- Employee Segments
- Stakeholders
- Customers
- Shareholders
IT Transformation methodology encompasses all main components of IT supply and demand management.
I: Confirm the Starting Point

Typical activities include:

- Confirm business vision, goals, plans, and business strategies/drivers. This is completed as part of the Future State Visioning and Business Scenario Development.
- Identify key measures of success including change readiness.
- Identify initial IT implications and technology enablers.
- Conduct review of current IT function:
  - Application Portfolio
  - Technology Infrastructure
  - IT Processes and Organization
  - IT Competencies/Skills
  - IT Expenditures
- Assess external providers.
- Identify opportunities for IT performance improvement as well as short-list strategic IT issues and concerns.

At the end of these activities, IT transformation principles (i.e., objectives) are developed to guide the architecting of the future state and related investment decisions.
Typical activities include:

- Identify factors critical to success and operational effectiveness including information and service level requirements for customer service.
- Identify Application/Information architecture including required application capabilities (high-level) and recommended development tools.
- Identify critical components, their relationships and integration points.
- Identify high-level deployment alternatives including the technology platforms, communication infrastructure, organization and management processes.
- Define technical infrastructure.
- Evaluate and refine IT governance structure.
- Identify key competencies (skills) required by IT and business staff.
- Provide pros and cons of viable (sourcing) alternatives including costs, timing and risks.
- Outline IT change programs.

At the end of these activities, the organization will have an outline of the future state and a set of IT initiatives to implement it.
III: Develop Road Map

Typical activities include:

- Develop Decision Criteria and evaluate Strategic Alternatives and Transition Strategies
- Refine and document strategic IT issues that need further analysis
- Develop high-level implementation and roll-out approach that reflect business priorities and metrics
- Size and prioritize IT performance improvement opportunities
- Create overall budget and resource estimates and assess financial implications
- Estimate ROI and develop business case/justification
- Develop a program framework and organization to be used for executing key initiatives
- Develop IT Strategy summary, Roadmap, Tactical Actions, and overall Business Case
- Review with executive management for comments, include revisions and present results

At the end of these activities, the organization will have an IT Strategy, Roadmap, and Business Case for putting the future state in place.
Change Enablement
Threats to Success

• Failure to proactively address **culture and change resistance** issues
• Lack of appropriate functional and executive **sponsorship**
• Unrealistic **schedules** and/or budgets
• Failure to perform a formal **risk management** assessment to identify requirements and potential shortfalls
• Lack of **consensus** on the approach, timing and benefits of all projects
• Not assessing the full **resource requirements** against potentially competing demands
• Assigning available but **under-qualified** resources to activities
• Failure to adequately factor **externally performed tasks**
• Failure to break projects into **manageable subcomponents**
• Failure to **standardize** project management and project methodologies
Change Enablement
Signs of Problems

The absence of a major acknowledged cause

Too much happy talk from senior management

Too many visible resources

Low overall performance standards

Organizational structure that focus employees on narrow functional goals

A lack of sufficient performance feedback from external sources

A kill-the-messenger-of-bad-news, low-candor, low-confrontation culture

Internal measurement systems that focus on the wrong performance indexes

Human nature, with its capacity for denial, especially if people are already busy or stressed
Change Enablement Issues

During times of change, employees focus:

1st, personal implications of the change  
Distant 2nd, organizational implications

Employees may or may not ask these questions out loud, but more often than not they are thinking them.

The process for answering the questions is as important as the answers themselves.

They are of a very personal, individual nature.
Change Players

1. **STARS**
   - Behave and perform the way you wished everyone would

2. **SKEPTICS**
   - Are very hard-working, creative, critical and annoying

3. **SLUGS**
   - Are low performers, reluctantly doing just enough to stay

4. **CYNICS**
   - Are low performers, feel undervalued, and always complain

5. **STABILIZERS**

Performance / Contribution vs. Noise / Toxicity

High

Low

Low

High
A Talent Audit Brings Into Focus:

- The “Alignment Factor”
- The “Workforce Leverage Factor”
- The “Capability Factor”
- The “Accountability Factor”

- Develop a clear understanding of what must be done to leverage your most valuable asset
- Ensure employee capacity can be maintained over the long haul
- Determine where you can exercise discretionary hiring and firing given tough times and difficult situations
Here are the key workforce capabilities that are assessed

Leadership Capability – The ability of those who direct, plan and coordinate the work of a company, function or business unit to effectively guide the organization in accomplishing its goals

Workforce Performance – The ability of employees to effectively apply their skills, knowledge and abilities to accomplish the organization’s goals

Employee Engagement – The emotional involvement and commitment of employees to their work and the organization

Ability to Adapt – The ability of the workforce to flexibly respond to changing business conditions

Ability to Change – The ability of an organization to effectively manage internal and external changes

Talent Management – The ability to acquire, develop and retain high performing individuals in critical roles

Resource Allocation – The ability of the organization to efficiently and cost-effectively manage its human resources
### Employee Engagement

<table>
<thead>
<tr>
<th>Area</th>
<th>Criteria</th>
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| **Employee Engagement**   | - Employee engagement is **formally tracked** through annual survey, action teams are created across IT  
                          |   - Employee **attrition** is below industry standards  
                          |   - IT **career paths exist**, consistent across the business units  
                          |   - IT **organization is well defined** and understood among employees and Business Units  
                          |   - Formal **knowledge sharing** process and communities exist – cross-training is leveraged well across the organization  
                          |   - Organization **reporting lines are well understood** within each area of IT, with little matrix management across the organization  
                          |   - **Formal communication** plan with regular meetings held between the leadership team and employees |
Change Enablement Overview

The Organizational Change Enablement approach mitigates risk and aligns the organization across the enterprise to successfully implement the initiative.

- Address Organizational Implications
- Mobilize & Align Leaders
- Prepare & Equip the Workforce
- Engage & Communicate with Stakeholders
IT Governance

Implementing or Improving IT Governance

Determine what the business wants from IT

Define governance decision-making bodies, roles & responsibilities

Define supporting measurement and reward systems

Business drivers

Governance principles

Decision making bodies

Resource allocation

Measurements & rewards

Processes & tools

Define governance principles to achieve the business goals

Define investment prioritization method

Define supporting processes and tools
## IT Governance

<table>
<thead>
<tr>
<th>Dimension</th>
<th>A Toolset Helps...</th>
<th>You Still Need...</th>
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<tbody>
<tr>
<td><strong>Value</strong></td>
<td>• Report IT Spend &amp; Value</td>
<td>• Business Belief in IT Value</td>
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<tr>
<td></td>
<td>• Manage Value-Based Portfolio</td>
<td>• An Agenda to Manage Value</td>
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<tr>
<td><strong>Leadership</strong></td>
<td>• Formalize Accountabilities</td>
<td>• Agreed Governance Structures</td>
</tr>
<tr>
<td></td>
<td>• Formalize Priorities</td>
<td>• Agreed Accountabilities</td>
</tr>
<tr>
<td><strong>Strategic Synch</strong></td>
<td>• Formalize Planning Process</td>
<td>• Clear Business &amp; IT Strategy</td>
</tr>
<tr>
<td></td>
<td>• Manage Synchronization Frequently</td>
<td>• Agreed Planning Process</td>
</tr>
<tr>
<td><strong>Performance Management</strong></td>
<td>• Provide Frequent Status</td>
<td>• Agreed Performance Targets</td>
</tr>
<tr>
<td></td>
<td>• Measure Results</td>
<td>• Agreed Reward / Penalty Structure</td>
</tr>
<tr>
<td><strong>IT Resource Management</strong></td>
<td>• Manage Utilization / Efficiency</td>
<td>• Organization Structure / Design</td>
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<tr>
<td></td>
<td>• Understand Value Contribution</td>
<td>• Principles, Targets, Levers</td>
</tr>
<tr>
<td><strong>IT Financial Management</strong></td>
<td>• Cost Visibility &amp; Management</td>
<td>• Business Buy-in to Own Costs</td>
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<td></td>
<td>• Cost Ownership Tracking</td>
<td>• Cost Allocation Policies</td>
</tr>
<tr>
<td><strong>Risk Management</strong></td>
<td>• Risk Visibility &amp; Management</td>
<td>• Risk Policies &amp; Thresholds</td>
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<td></td>
<td>• Improved Activity / Reaction</td>
<td>• Agreed Corporate Risk Appetite</td>
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Delivering Transformation

Strategic benefits can be attained through Transformation:

– **Cost reduction**
  - Improved economies of scale through creative (less hierarchical) organization design

– **Organizational flexibility**
  - Properly aligning Applications, Engineering, Operations, & Maintenance resources to meet changing customer needs creating a more nimble organization.
  - Detaching non-customer-specific administrative processing from the operations organization allows the “front line” to be more responsive to customer requirements

– **Leveraging leading practices**
  - Leading practices implemented through the use of standardized processes

– **Leveraging investments in technology**
  - Opportunities for identifying and economically implementing technology improvement is greatly enhanced

– **Improved opportunity for innovation and synergy**
  - Creates an environment conducive to the roll-out of major innovation and business-synchronized initiatives
  - Allows greater redeployment of resources to strategic initiatives

– **Increased customer service**
  - Standardization of processes helps deliver consistent services to all business units

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**Assessing & Controlling Risk**
- 25%

**Business Partnering**
- 10%

**“Lights-On” Maintenance & Firefighting**
- 65%

**Strategic Business Partnering**
- 35%

**Assessing & Managing Business Risk**
- 25%

**Service Management & “Lights-On” Maintenance**
- 40%

**Current State**

**Future State**

**Total Cost of IT**
Our Own Worst Enemy…

Availability

Operator Error 60%
System Outages 20%
Application Failure 20%

Security Related 5%
Non-Security Related 15%

Data Source: IDC
Graphic Source: Tripwire
• Is IT paid to make changes or successful changes?
• 80% of the fires IT fights are generated by IT!
• A very large percentage of unplanned work (45% in one client’s case) is caused by failed changes.
• Change management isn’t about inspection – it’s about having appropriate controls and processes.
• “Inspection with the aim of finding the bad ones and throwing them out is too late, ineffective, costly. Quality comes not from inspection but from improvement of the process.” – W. Edwards Deming
• Change Management is a control gate but it also generates data that can, and must, be used to improve processes.
Levels of IT Change Control Maturity

- **Reactive**
  - Over 50% of time spent on unplanned work
  - Level 1

- **“Honor System”**
  - 35% - 50% of time spent on unplanned work
  - Level 2

- **Closed-Loop**
  - 15% - 35% of time spent on unplanned work
  - Level 3

- **Continuous Improvement**
  - Less than 5% of time spent on unplanned work
  - Level 4
Service Delivery Outcomes

Optimize service delivery (example project outcomes)

Reduce gross non-discretionary IT spend

- Consolidated and standardized application platforms and technology architecture such as data centers, distributed computing and networks
- Reduced FTE and increased productivity of remaining staff through process streamlining and organizational redesign
- Increased permanent/contractor ratio
- Reduced costs for premises due to centralization
- Reduced labor costs through SDM
- Reduced infrastructure costs through rationalization (server, storage, network)

Enhance IT capabilities

- 75% reduction in service incidents
- 50% reduction in service downtime
- 50% reduction in failed changes to service
- 80% of incidents reported to help-desk resolved at first point of contact
- 80% business volume increase has been met due to modular, scalable, stable, and secure IT infrastructure
- Right incentives were set to align (tiered) service levels with overall business needs through right-sized and transparent service level agreements

Our experience shows that...

...process and technology streamlining in operations and maintenance can save up to 16% of total annual IT costs

...designing right-sized service levels and delivering high-quality services to businesses reduces hidden IT spend significantly

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Building the New IT...

Source: Competing Values Leadership: Creating Value in Organizations (New Horizons in Management Series) by Robert E. Quinn, Jeff Degraff, Anjan V. Thakor, & Kim S. Cameron
The Beginning

Questions

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