

Running IT Like a Business

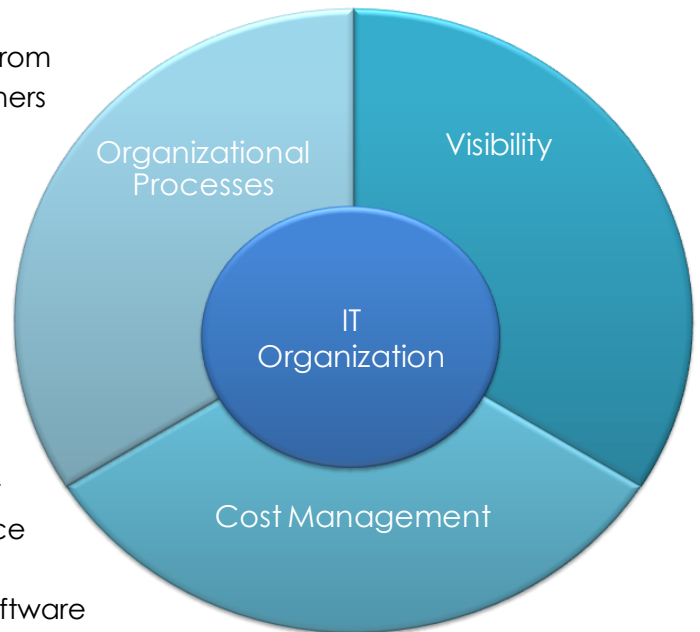
OVERVIEW

IT organizations must transform themselves from damaged cost centers into a business partners that meet the tactical needs and strategic goals of the organization. The concept of running IT like a business goes beyond financial considerations. CIOs must also implement structured processes and governance techniques as well as create visibility through metrics to show the value IT delivers to the business.

At a conceptual level, IT organizations must institute standard processes and governance in order to be run like a business. As Robert Urwiler, former vice president and CIO of software company Macromedia, says, "It's about instituting common business practices in IT."¹

Visibility of effort and results is needed to provide a common basis of understanding. Many successful CIOs are providing cost-based metrics to show how they are doing against budget, against cost-cutting initiatives, and with strategic projects and systems availability on a monthly basis. While the metrics reported might not always be good, a simple explanation can go a long way to improve the IT organization's credibility.

At the end of the day, IT organizations can't lose site of the fact that they must track the cost of individual services; business departments must be accountable for the cost of the services they request. Without it there are conflicts across business departments for access to the limited resources, causing business executives to question the value of IT.



¹ "How to Run I.T. Like a Business" by Stephanie Overby

WHAT DOES IT MEAN TO VIEW IT “AS A BUSINESS”?

There are two commonly accepted definitions of a business:



- An organization engaged in producing goods and services to make a profit
- An enterprise concerned with providing products or services to satisfy customer requirements (adding value)

Since most internal IT organizations are not expected to produce a profit, let us examine the second definition. There are two primary components to this definition:

- Provide products or services
- Satisfy customer requirements (add value)

Too often, IT departments focus on delivering products or services and fail to consider whether they are delivering value...or even if they are providing visibility into the value they are providing. Delivering value distinguishes a business from a service organization. Imagine your organization being known to do the right things and doing them right! Tracking your project's Business Alignment, Cost Containment and Risks will allow your organization to do the right things and to do them right.

How do we transform IT to operate as a business? First we have to answer some basic questions.

What is the IT Mission Statement? The mission of most IT organizations is to “deliver the information processing capability required by the business at a cost that represents value.” IT must respond to changing business requirements and they must operate within an approved budget.

How does IT deliver an Information Processing Capability? They (a) implement and support infrastructure; (b) develop/purchase/install/operate business software applications; (c) store, protect, and provide authorized access to information; and (d) employ experienced professionals to implement and support the capabilities and consult with the business so they can leverage the capability.

How does IT deliver value? The value of IT is not the capability to process information - it's the capability to support core business objectives.

What does IT cost? The major components of value are the cost of the capability or service and the benefits derived by the organization leveraging the capabilities. Cost must be tracked at the individual request or service level. Summarized costs by department do not provide sufficient visibility to determine value.

How does IT address conflicting business requirements resulting from fixed capacity? IT can provide the information required for the business to resolve the conflicts by logging and tracking the cost, priority, and benefits of individual requests.. If the business can increase funding based on this information, then IT can increase capacity to resolve the conflicting requirements.

RUNNING IT LIKE A BUSINESS

Running an IT organization like a business requires three key, tightly interwoven components:

- Clearly defined and tracked processes
- Performance visibility
- Cost management

Examples and discussions from successful IT organizations that are being run like a business follow.

PROCESSES AND GOVERNANCE

A successful business establishes and enforces processes in the areas listed in the bullets below. IT must ensure they have adequate processes in each area and that they are followed. Each area must include goals and objectives for managing performance.

- Leadership and Governance (best practices and strategy alignment)
- Financial Controls (cost of services)
- Operations Management
- Customer Service Focus
- Human Resources Management
- Supplier Management
- Marketing and Sales (IT must sell the benefits of their services to the business)

QUANTIFIABLE SPEND AND VALUE PROVIDED

For IT to be seen as a true, credible business, performance metrics need to measure business value in dollars and cents. While many CIOs have performance measurements in place, they don't have any measurements for IT business value. Says former Air Products CIO Joe McMakin, "Before you start measuring things, you really need to first think through - from a budgetary and manpower perspective - how often you are going to do this. And whatever you decide must be continually executed upon so that the rest of the organization knows that this is not a fad." ²

Regardless of which value metrics are used, the information communicated to the business must be simple. In some organizations there are 50-60 measures being published. Unfortunately, people can't remember 50-60 separate measurements. "In general," says McMakin, "I can deal with about 5-7 metrics, at a maximum. That doesn't mean that we shouldn't have more metrics that build to those 5-7. What it means is that the ones we are really going to discuss and commit to memory are going to be those 5-7 key metrics." ³

Along with a value measurement program, CIOs need a communication program to spread the good word. Having the absolute best value measurements is meaningless if you don't have a communication program. Says Mark Lutchen, author of Managing IT as a Business, "You can build a stellar IT organization and still have it be viewed as a failure." ⁴

QUANTIFIABLE SPEND AND VALUE PROVIDED

Defined costs for effort expended must be clearly defined upfront. The level of cost definition needs to be directly tied to the value returned to the business. The full visibility of IT cost and value helps the business make fair comparisons when considering outside providers. For example, if an IT organization is thinking of outsourcing the help desk they might want to consider what other services the help desk is providing, such as asset management and tracking.

IT must accept the responsibility to prove their value. IT investments were always assumed to have value but with shrinking budgets and large numbers of IT project failures, business departments have been questioning IT value. IT must track

² An IT Metrics and Productivity Journal Special Edition. "Focus on Joseph McMakin". August 2005.

³ An IT Metrics and Productivity Journal Special Edition. "Focus on Joseph McMakin". August 2005.

⁴ "How to Run I.T. Like a Business" by Stephanie Overby

individual services along with the cost and benefit of those services and report this information. Additionally, they must track and report the cost and benefits of IT innovations and investments in technology. For example, investing in mobile technologies must have a demonstrated value to the business. Otherwise it is money wasted on toys and gadgets.

REALIZED BENEFITS

Three key benefits to the organization are realized as the IT organization takes control of its processes and provides visibility into the business value it delivers:

Business Alignment

- Strategic collaboration
- Defined and managed service level agreements
- Improved customer satisfaction

Cost Containment

- Reduced costs spent on application maintenance without degradation in applications supported or service levels
- Increased capacity to address business requirements

Risk Mitigation

- Cross-trained resources for reduced reliance on key knowledge workers
- Round the clock support with introduction of off-shore resources

