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## Running IT as a business.

Survey of IT practices and trends in  
Canada's financial services industry



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# Foreword



Financial services CIOs in Canada are stuck between a rock and a hard place. On one side, they are expected to deliver increased IT capabilities on a fixed or shrinking budget. On the other side, they are striving to increase the impact and stature of IT at a time when technology is increasingly viewed as a commodity.

## **Given these challenges, what's a CIO to do?**

To find out, Deloitte recently conducted a survey of twenty-one senior IT executives in Canada's financial services industry. Our goal was to pinpoint the key challenges that today's CIOs are facing. Even more important, we wanted to understand how IT organizations can overcome these challenges and increase their value to the business.

I would like to personally thank the executives who participated in this survey. Your candid input allowed us to quantify many of the trends we have observed first hand while working with financial services clients across Canada and around the world. It also generated a wealth of important insights that can help IT organizations across Canada improve their contributions to the bottom line.

Sincerely,



Terry Stuart  
Canadian Financial Services Consulting Lead  
Deloitte

# Executive summary

IT organizations in Canada's financial services industry want to be strategic business partners, not just commodity service providers. Yet our survey of 21 Canadian financial institutions shows that many IT organizations are struggling just to keep pace with the ever-increasing demands of the business. With technology constantly improving, businesses expect IT to deliver more and more capabilities for less and less money – all in record time. To meet and exceed these expectations – and become a true partner to the business – our survey shows that IT organizations must focus on seven key areas.

## **Improving alignment between IT and the business**

IT and the business must work together to ensure they are pulling in the same direction. For example, people in the business often worry about the rising IT costs, but rarely work with IT to address the problem. By collaborating more closely, IT and the business can find ways to keep costs down without sacrificing critical services.

## **Focusing on business value**

For IT to become a strategic business partner, it must learn to speak the same language as the business. For example, instead of using technical terms such as "CPU usage" and "terabytes", IT should define its service offerings and performance measures in terms that are more meaningful to the business. At the end of the day, business value is the only kind of value that really matters.

## **Choosing the right IT projects and activities**

To deliver the greatest possible value to the business, IT must concentrate its energy and resources on activities that the business really cares about. That means selecting IT projects and focusing on IT activities that align with the needs of the business. Doing a great job on the wrong things is a waste of time and money.

## **Executing projects effectively**

Although IT has made great strides at improving its operations, it still has significant room for improvement when it comes to managing and executing projects. The survey results show that too many IT projects still come in late and over budget. No wonder survey respondents rate "successful delivery of critical projects" as the most important priority for IT in the coming year.

### Workforce planning and talent management

Baby boomer retirements and other demographic trends are making it hard for IT organizations to find the talent they need. To be an effective business partner, IT needs a broad range of skills and experience – from cutting-edge technical skills and legacy experience to business savvy and strategic thinking. Finding and retaining people with the right capabilities will require improved workforce planning. It will also require a talent management approach that can simultaneously handle four generations of workers, each with different needs and values.

### Centralizing without losing alignment

Financial institutions across Canada are centralizing IT as a way to reduce costs. However, this trend of separating IT from the business units makes it harder to achieve and maintain alignment. One way to avoid the problem is for businesses to retain close physical ties to activities where alignment is critical – such as requirements definition and business analysis – while centralizing activities such as infrastructure development and application design that require less business input.

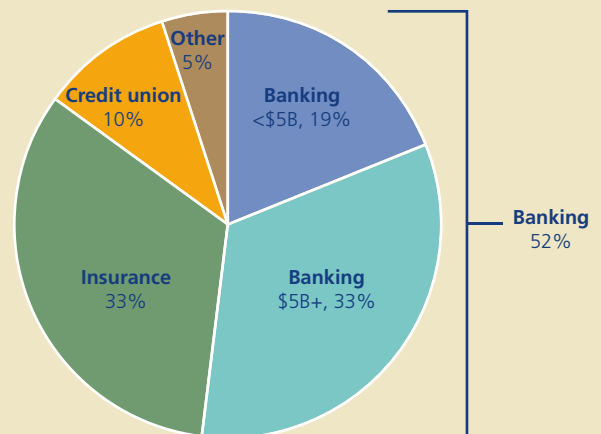
### Innovating for strategic advantage

Innovation is the only way for IT to continue delivering more value for less money. It is also a prerequisite if IT wants to become a truly strategic business partner. Yet most survey respondents said either they are not focused on innovation or don't view IT innovation as a strategic differentiator.

**Focusing in these seven areas can help IT expand its influence throughout the business and shed its image as a commodity service provider. Most important, it can help IT increase its value to the business – which is the truest measure of success.**

### About the survey

Our survey of senior IT executives from Canada's financial services industry was conducted online from September 22 to November 22, 2007. Questions covered a wide range of topics in six categories: business aligned structure and leadership, pragmatic governance, performance-based metrics, product definitions and cost drivers, innovation and talent management. Participants represented 21 financial services institutions from a variety of sectors.



# Improving alignment between IT and the business

## Align with the business and become a true strategic partner

According to the survey, IT organizations in Canada's financial services industry aspire to be seen as more than a commodity service provider. They want to be a strategic business partner who understands business strategy and helps deliver revenue through innovation – not just a supplier of basic technology services.

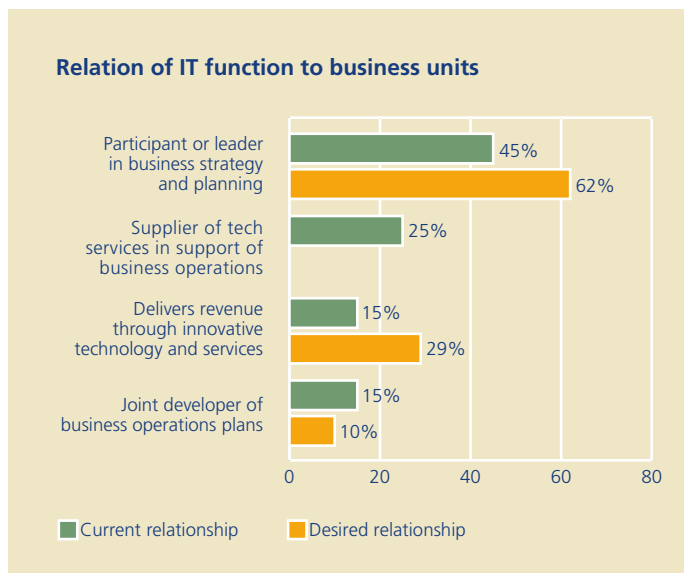
Yet many IT organizations are struggling just to keep up with the pace of change. Technology advances continue to unfold at a dizzying rate, and the business requirements associated with those advances are never far behind. In particular, today's businesses are looking for:

- systems that can handle an ever-increasing transaction volume
- improved speed, storage capacity, and reliability
- applications that are more effective and easier to use
- information and reports (analytics) that are more insightful
- technology that is more adaptive to change

And of course, businesses expect IT to continually deliver all of these things faster and for less money than before.

In recent years, IT organizations have tried to create business value primarily by improving their operational efficiency. And in many cases, they have succeeded. But efficiency is only part of the equation. At some point, the focus must shift to improving alignment between IT and the business. Otherwise, IT just ends up reacting after the fact – at which point it is too late.

Achieving this alignment requires a deliberate effort from both sides. Too often, people on the IT side are content to focus on systems and technology, instead of business results. Conversely, people on the business side may complain about IT costs, but rarely work in partnership with their IT counterparts to figure out how to reduce costs or increase business value. For example, a Fortune 500 company recently launched a new advertising campaign that significantly increased traffic on the company website without warning its IT group. This not only caused poor system performance and a poor customer experience, it also drove up costs since IT had to dedicate additional time and resources to handle the overflow.



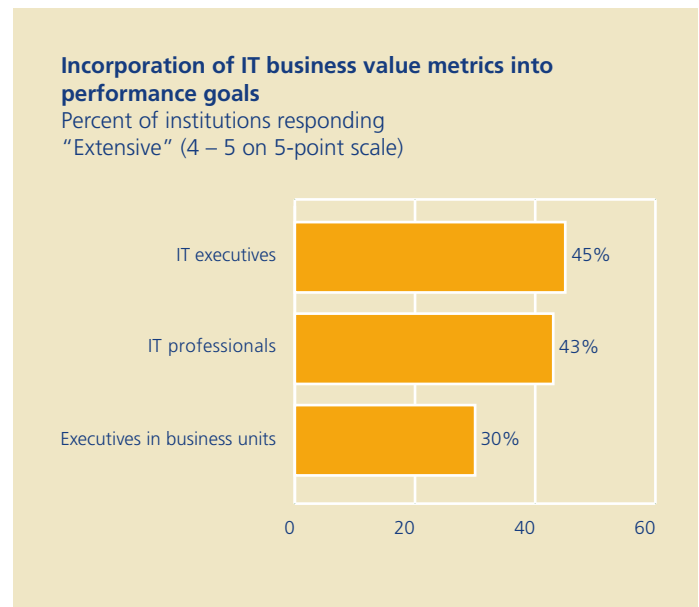
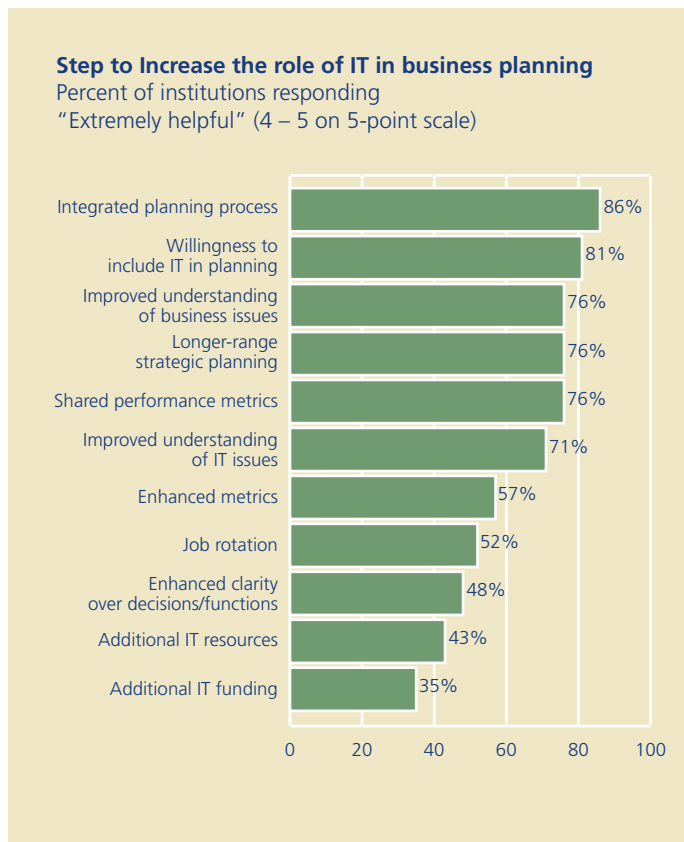
“ Businesses increasingly want the IT function to be proactive and true partners in the best sense of the word. Showing the business how to gain competitive advantage through the innovative application of IT-based solutions will be key in moving the relationship forward.”

CIO, Banking

One way to improve alignment is to expand IT's role in business planning. For the business, that means establishing an integrated planning process and being willing to include IT in the planning effort. For IT, it means getting a better handle on business issues and focusing more attention on long-term strategy.

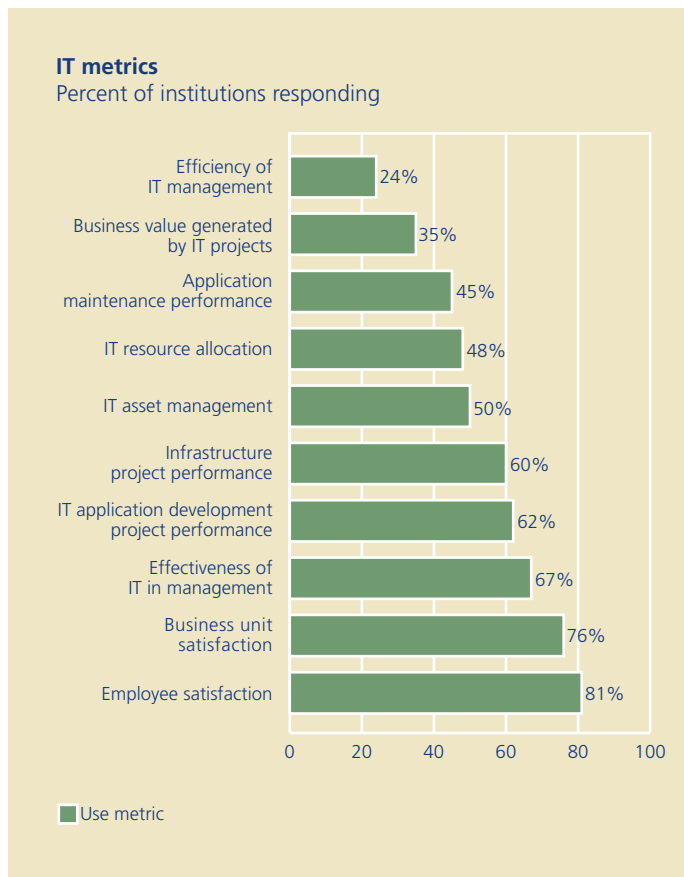
Another way to improve alignment is through shared goals. According to the survey, less than half of IT executives and professionals in Canada's financial services industry are evaluated using performance measures that include business value. Even worse, only 30% of IT executives understand what their measures are, or how business executives are measured.

Given these statistics, it's no wonder that alignment between IT and the business is less than perfect. For IT and the business to align their efforts, they need to be working toward the same goals. As they say, it takes two to tango.



# Focusing on business value


Bring a business perspective to all aspects of IT



One of the keys to alignment is getting IT and the business to speak the same language and use the same yardstick. That means looking at every aspect of IT in terms of business value.

IT organizations and staff naturally tend to focus on technology factors because that's what they are most familiar with. They talk about "terabytes" and "CPU usage", which may be critical from a technology perspective but mean little or nothing to the business. This makes it hard for the business to appreciate the true value of IT. It also increases the odds that IT and the business will pursue different objectives – a situation that is bad for both sides.

The survey results show that most IT organizations recognize the need to increase their focus on business value. In fact, "closer alignment with business units" was rated as the most important step to improve IT metrics. Also, developing new IT metrics that focus on business value was considered even more important than developing new metrics focused on IT efficiency.



Most IT organizations have their operational metrics down pat, but are still struggling to measure and communicate the value of what they do in terms that business people can relate to. Of course, the problem isn't just limited to metrics – it spans the entire range of interactions between IT and the business.

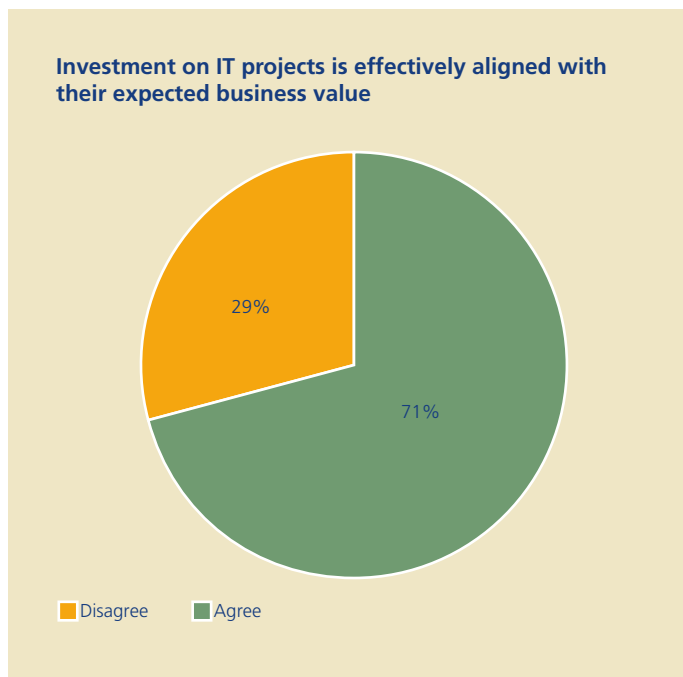
On the front-end, the survey results show that IT organizations are doing a much better job these days producing service catalogs that document their standard service offerings and pricing. However, it appears that most of these catalogs are still too technology-oriented and don't really convey the business benefits of each service. For instance, they might refer to "high availability" versus "low availability", or "real time processing" versus "batch processing", but don't articulate how the different options will affect the business. Consequently, the business isn't sure which levers to pull in order to maximize performance and minimize cost.

Similarly, most IT organizations develop business cases that focus on IT cost factors, not business value. Also, once a project is approved, the business case typically gets stuffed in a drawer, never to be seen again.

A better approach is to build business cases around expected business value and benefits, and then use those expected results as the baseline for evaluating project progress and performance on an ongoing basis. Incentive programs should also be linked to project performance and demonstrated business value, helping to strengthen the partnership between IT and the business.

# Choosing the right IT projects and activities

To be successful, IT must “do the right things”



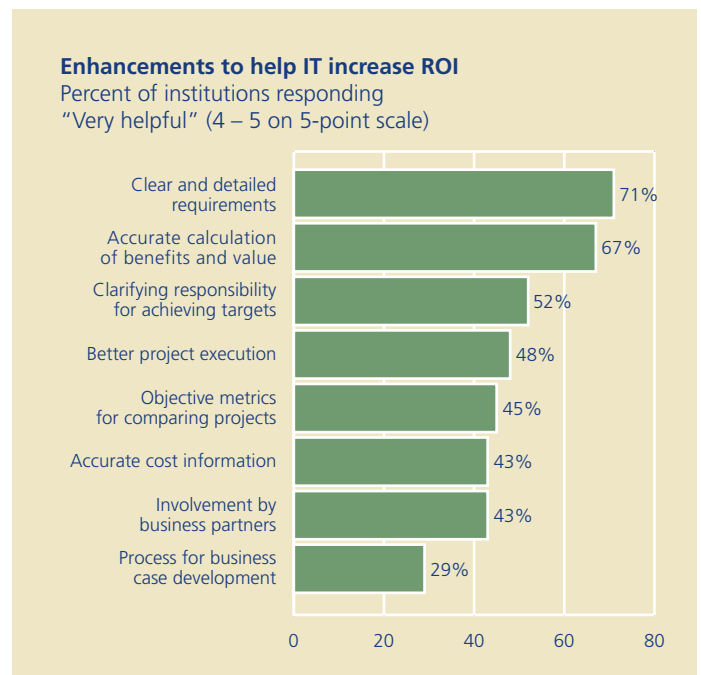
Selecting the right IT projects and activities to focus on is a critical step in the alignment process. According to the survey, 71% of the responding organizations believe they are doing a good job aligning their IT investments with business value. But given the importance of this step, one could easily argue that the number should be closer to 100%. After all, investing in IT initiatives that don't align with business value is essentially throwing money away on problems that aren't the highest business priority.

“We are seeing an increase in focus on prioritizing and optimizing the use of IT assets (including IT staff) to deliver better business value; there is less willingness to simply throw more funds & resources at IT projects unless business value can be demonstrated – this is a good thing.”

Terry Stuart, Deloitte

Digging deeper, the survey results show that most respondents feel the best way to improve the return on IT investments is to focus on developing “clear and detailed business requirements” and an “accurate calculation of benefits and value”. This makes sense. A company can’t choose the right projects if it can’t accurately calculate project value. Moreover, projects that don’t address the right business requirements will not deliver the expected benefits.

Although many IT organizations are investing significant time and attention at the back end of the software development lifecycle (i.e., testing and QA), lack of attention to the front end (requirements, business case) often undermines their overall effort. Garbage in, garbage out.



“ Better utilization of resources and better co-ordination between business and IT would definitely help to further improve IT’s performance.”

CIO, Insurance

# Executing projects effectively

## Do the right things right

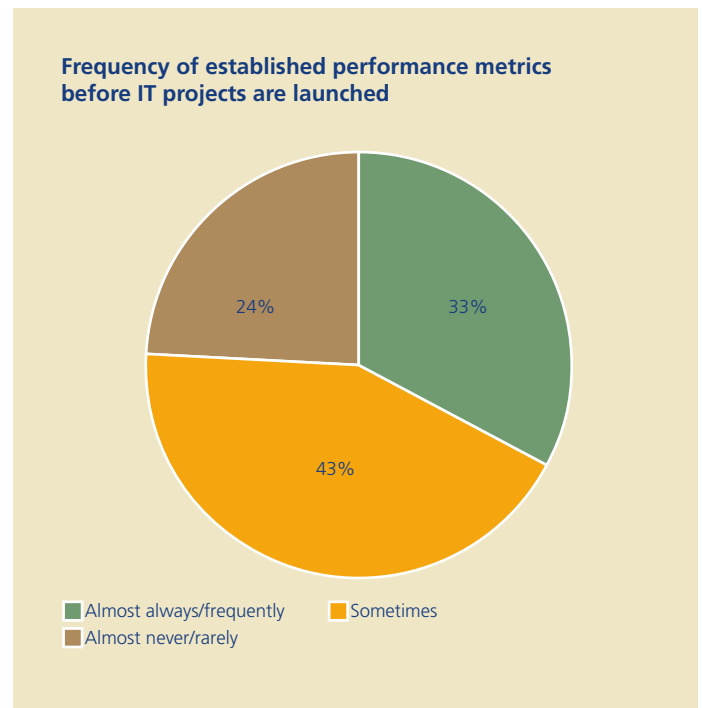
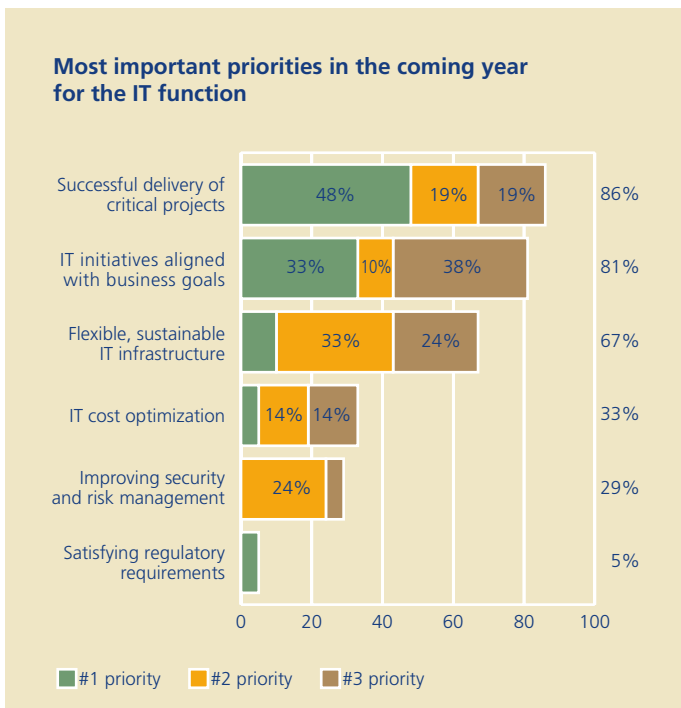
Once IT is focused on the right projects and services, it clearly needs to do them as effectively as possible. IT organizations in Canada's financial services industry have made great strides in this area, particularly on the operations side. However, when it comes to managing and executing projects, most still have significant room to improve.

Too many IT projects are late or come in over budget. In fact, according to the survey, 43% of respondents say that IT is not meeting expectations for avoiding project overruns. This probably explains why "successful delivery of critical projects" is the top priority for IT in the coming year.

As noted earlier, the biggest problems generally occur at the intersection of business and IT – particularly in the areas of scoping and requirements definition, estimating, and business case development. Improvements in these areas would go a long way to ensuring successful project delivery.

“ In order for IT to increase its performance, we need to include more accurate measures to ensure IT investments are aligned against the biggest opportunities. Also, charging out IT & Ops cost would put onus on business to better understand P&Ls.”

CIO, Insurance



Inadequate performance metrics are another problem area. According to the survey, 24% of IT organizations “almost never” or “rarely” establish performance metrics before IT projects are launched. Another 43% only do it “sometimes”. Which begs the question: if project teams don’t know how success is being defined, how can they achieve it?

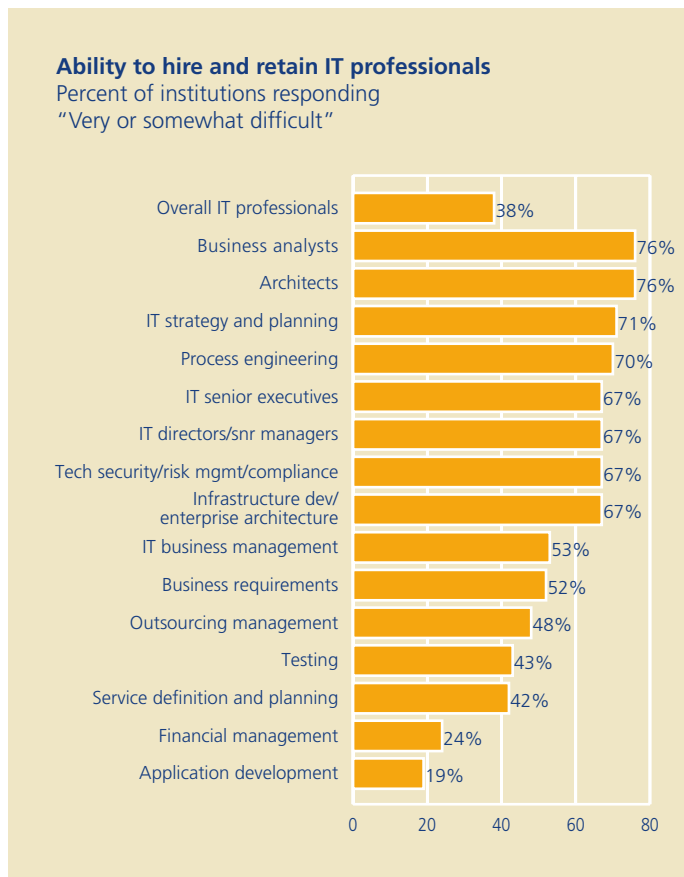
In our experience, many project teams get so caught up trying to hit the milestones on the Gantt chart that they lose sight of what the project is intended to deliver. Establishing clear performance metrics at the beginning of the project helps people stay focused on the things that really matter. It is also important to ensure that security and risk management are considered at this stage of the process. Being able to identify sensitive information and ensure that it has the appropriate amount of protection against regulatory non compliance and data disclosure is crucial.

Establishing a “flexible, sustainable IT infrastructure” is another high priority for IT over the next twelve months. According to the survey, over 40% of respondents believe that IT is not meeting expectations in this area. An IT architecture built around standard, reusable services and components helps IT align its services with the needs of the business because it can readily adjust to changes in business strategy, market requirements, and technology. This kind of architecture also makes it easier to quickly integrate applications from different operating units or newly acquired businesses – a capability that is becoming increasingly important as companies look for new ways to grow.

All of these factors are driving IT away from large-scale technology projects toward “building block” projects that deliver rapid business value in smaller chunks.

# Workforce planning and talent management

Develop a comprehensive workforce plan and actively manage talent



To succeed, IT organizations need the right talent. Unfortunately, good talent is getting harder and harder to find. The problem isn't so much a shortage of workers – it's a shortage of workers with the appropriate skills, capabilities, and experience. According to the survey, Canada's financial services companies are already struggling to hire and retain the types of IT professionals that are most critical to their success.

Strategic thinkers such as business analysts, architects, strategic planners, and senior executives are particularly hard to come by.

The talent crisis in IT is being driven by a variety of factors:

- **Business trends:** As IT strives to become a strategic partner to the business, it needs people with business savvy who can foster relationships and communicate effectively – not just deep technology specialists. Also, as outsourcing and offshoring become standard operating practices, IT needs people who can effectively manage vendors and relationships across organizational and national boundaries.
- **Technology trends:** Major technology shifts create a need for new kinds of talent. For example, the shift from mainframes to

distributed computing back in the 1980s required an entirely new set of IT skills. The same thing happened when internet technologies rose to prominence in the late 1990s and early 2000s. This never-ending stream of technology advances mean that IT organizations are constantly playing catch-up.

- Demographic trends:** Baby boomers are beginning to retire in droves, and there aren't enough young workers to replace them. Moreover, these older workers have legacy skills that are difficult or impossible to replicate. They also have decades of experience in the banking industry, which are important as IT strives to fulfill its role as a business partner.

To overcome these challenges, IT organizations must adopt a more comprehensive and forward-looking approach to workforce planning. According to the survey, most IT organizations either don't have a formal workforce strategy, or are only looking at a one year time horizon.



The data also shows that only 11% of the surveyed IT organizations factor the "availability of internal and external workforce" into their workforce planning.

An effective workforce strategy must do more than tally up the number of IT hires that are likely to be needed in the coming year. It must take into account every aspect of the problem. That means aligning talent needs with shifting technologies, addressing the loss of key legacy skills, and factoring in the new skills that will be needed for IT to serve effectively as a strategic partner to the business.

IT organizations must also learn how to make the most of a changing labor pool. That means figuring out ways to:

- Simultaneously manage four generations in the workforce, each with different needs and values
- Attract and retain younger workers, who have higher expectations than their predecessors
- Capture the legacy knowledge and experience of retiring workers
- Tap into Canada's expanding pool of immigrant labour
- Capitalize on offshoring and global mobility (international assignments)

Organizations that are unable to address their talent issues will find it difficult or impossible to support the future needs of the business.

# Centralizing without losing alignment

Strike a balance between operating efficiency and business alignment

The trend toward centralization perfectly illustrates the kind of dilemmas that today's IT organizations are wrestling with. On the one hand, centralization enables IT to reduce its operating costs through standardization and economies of scale. On the other hand, centralization may increase the separation between IT and the business, making it harder for IT to understand and address the business' true needs. In the long run, this could hinder IT's ability to control costs – and may significantly reduce efficiency and effectiveness by leading IT to spend time on activities that don't align with business needs.

Despite the potential pitfalls, the survey clearly shows a continuing shift toward centralization. Yet it also reveals a few areas such as "business requirements" and "business analysis" where a significant number of IT organizations are striving to improve their alignment with the business by becoming less centralized.

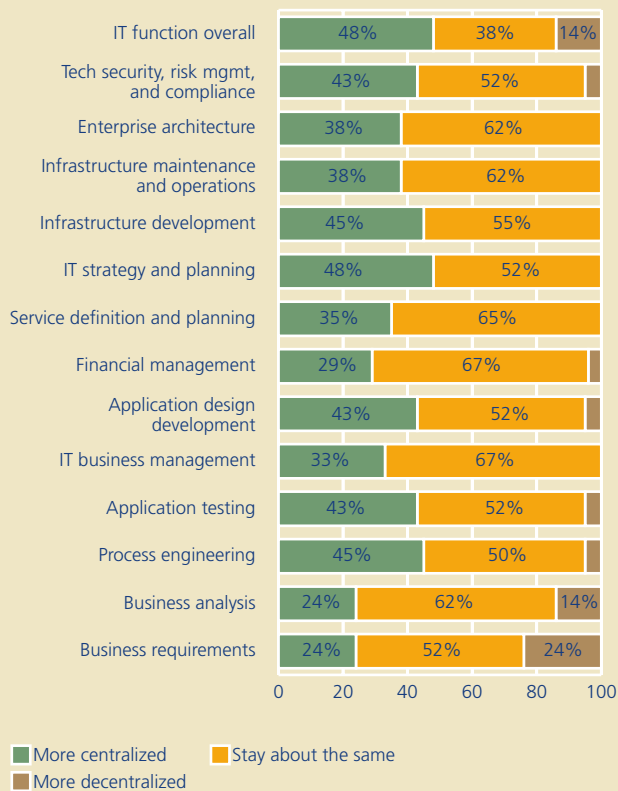
The keys to success are to centralize the right activities, and to apply leading practices that help strengthen IT's alignment with the business – even in a decentralized environment.

In our view, centralization makes the most sense for technical or commoditized activities such as infrastructure or coding. Activities such as requirements and business analysis should generally be kept close to the business. Activities in the latter category not only require significant input from the business, they also tend to have a domino effect on other IT activities. IT organizations that get them wrong may find themselves wasting a lot of time and effort on the wrong things. And that's not good business.

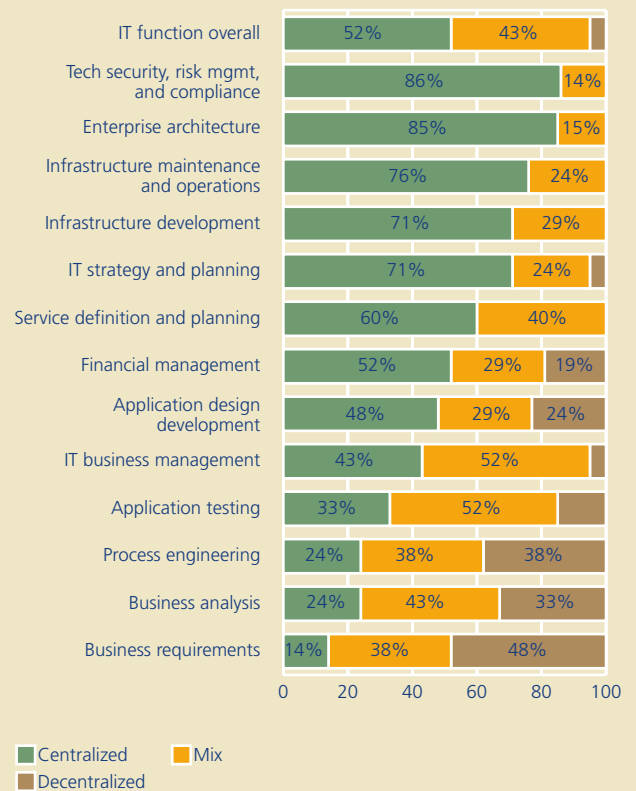
It's worth noting that in some cases a hybrid approach is the best choice. For example, integration testing is more or less a commodity and can be done very effectively from a central location. User acceptance testing (UAT) is much more critical to the business and should be kept as close as possible.

Whatever activities an IT organization chooses to centralize, there are a number of leading practices that IT can use to strengthen alignment with the business – even when operating at a distance. These include such practices as carefully defining the business strategy and planning and governance processes to ensure closer alignment and transparency with the business.

**Centralization of IT function by line of business over next 3 years**



**Centralization of IT function by line of business**



# Innovating for strategic advantage

Use IT to differentiate the company from its competitors

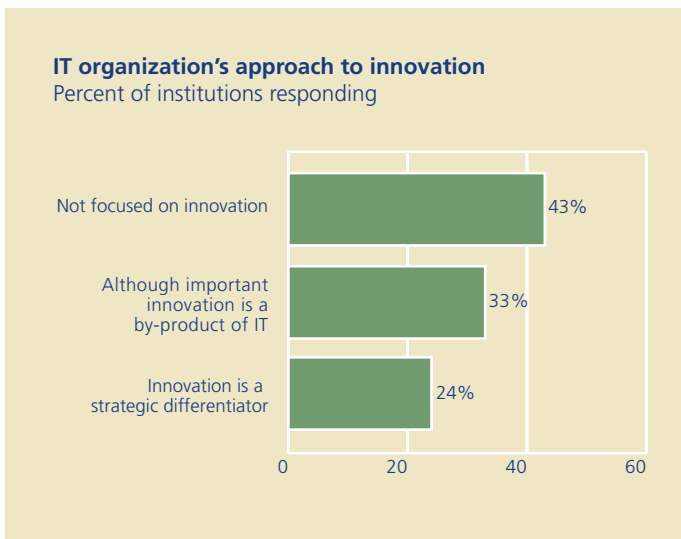
Innovation is an important way for IT to deliver more business value for less money.

Yet the survey results suggest that innovation is a relatively low priority for many IT organizations in Canada's financial services industry.

The problem isn't necessarily lack of investment. In fact, our experience suggests that many IT organizations are actually investing quite heavily in innovation. The problem is they aren't necessarily focusing on the right things.

According to the survey, most innovation investments are aimed at improving operating efficiency and reducing costs. These are worthy objectives; however, they are just the tip of the iceberg. In our view, a more important goal for innovation is to develop new capabilities that can differentiate the business from its competitors and provide a strategic advantage in the marketplace. And that's where many IT organizations are currently coming up short.

We are just starting to see IT innovation being used as an enabler for new products and new ways of delivering customer service. In addition, global financial services providers are targeting and managing their innovation investments more aggressively, and are making a more deliberate effort to harvest profits from their most promising breakthroughs.



“Innovation: creation (a new device or process) resulting from study and experimentation.”

Webster's dictionary

# Running IT as a business

IT organizations in Canada's financial services industry have made great strides at improving their internal operating efficiency and service delivery. But in order to keep pace with the constantly changing needs of the business, IT organizations must do even more.

In particular, they must:

**Run IT like a business (not a cost centre)**

Design the IT service catalog around business requirements and benefits; don't just create a laundry list of IT activities. Develop more robust processes for management activities such as time reporting, project management, and strategic planning. Define IT metrics and reports in business terms (e.g., utilization, value, strategic impact). Improve IT workforce planning by understanding and anticipating business and labor trends. Make sure IT staff understand what it means to operate like a business.

**Get smarter about the business (so you can communicate in terms the business understands)**

Understand each business unit's strategic plan and competitive position. Learn how they make money and measure performance. Stay current on business and industry trends. Strengthen IT capabilities that are particularly strategic to the business (e.g., architecture, strategic planning, business analysis, research and Innovation).

**Act like a strategic partner**

If IT wants to be treated like a strategic business partner, it needs to act like one. Bring new ideas and solutions to the business, instead of waiting for the business to come to you. Look for ways that information technology can help the business achieve its strategic objectives. Get more involved in business planning. Balance the short-term need for application development against the long-term need for a robust architecture. And perhaps most important, don't be afraid to push back if the business requirements or business case are not as strong or as well developed as they should be before you start developing solutions. True business partners provide independent advice and insight – they don't just take orders.

Businesses today expect the IT function to deliver more and more services and performance for less and less money – a trend that is sure to continue. To meet and exceed these ever-increasing expectations, IT organizations can't just talk about becoming a strategic partner to the business. They need to focus on business value – and show exactly how IT can contribute.

## Running IT as a business

Survey of IT practices and trends in Canada's financial services industry

### About Deloitte's technology practice

Deloitte's Technology professionals are entrusted by our clients to help them identify and solve their most critical information and technological challenges.

In Canada and around the world we provide advisory, design, implementation and management services to address business issues important to our clients across Canada's industry segments.

We are recognized in the marketplace for capabilities across the delivery spectrum, working at the intersection of strategy and implementation.

### About Deloitte's financial services practice

The financial services practice is Deloitte's most profitable industry sector. We have approximately 500 financial services practitioners in 14 regions across the country. We partner with Canada's largest banks, investment managers and insurance organizations to find solutions that will help transform the way they do business.

Our significant Canadian and global experience enables us to deliver depth of analysis and speed in addressing, key issues. From our client work, we are readily capable of making relevant comparisons and gathering lessons learned from other our global colleagues.

Our practitioners have broad experience and knowledge in consulting, risk management, tax, financial advisory and audit – we work with you to determine to assess the right path for your needs.

### Acknowledgements

Terry Stuart, Financial Services Lead for the Consulting practice at Deloitte, provided the leadership and direction necessary to bring this report to life. The completion of the report is the result of a team effort employing Deloitte's Canadian Consulting practice and a number of key industry executives. They include: Rob Bacinski, Alyssa Bourdeau, Roy Rennicks, Gordon Sandford, Tracey Wallace and the National Creative Studio.

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