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Unravelling the truth
CIO and information technology myths

1. Good CIOs are chief technologists
2. IT strategy follows business strategy
3. Enterprise architecture is driven by IT for IT
4. IT costs too much
5. IT doesn’t create value
6. IT should set priorities and make decisions about IT investment
7. It is impossible to measure IT development team delivery performance
8. The war for IT talent poses a serious threat
9. Outsourcing is a quick fix
10. Big systems transformations always fail

Introduction

Do you believe that Chief Information Officers need to be strong technologists to be effective? That information technology costs too much? Or that outsourcing is a quick fix? And that large system implementations always fail? If you do, you are not alone. But today such entrenched perceptions may mean missing the real IT value for your business.

Experience shows that while these views have held true for some 30 years, holding on to them today means that businesses will miss opportunities to create and extract real value from IT investment.

Value from IT results from strategic IT planning underpinned by enterprise architecture, a business-aligned IT portfolio, and business-focused IT performance.

Such value can only be achieved by business and IT working together to make decisions which align business and IT strategy. And not if you hold on to some of the ten commonly held CIO and IT myths.

1

Good CIOs are chief technologists

Reality: Good CIOs are business leaders managing a complex technology services business to deliver value to the organization.

With the changing role of IT and the continued increases in IT spending, the career path to CIO is changing.

IT departments have become substantially complex and sizeable businesses with budgets of hundreds of millions or even billions of dollars. They service a diverse range of internal and external customers, and can employ thousands of IT personnel. The IT department now resembles a professional service organization rather than a purely back-office function.

Managing today's IT department requires CIOs to be effective beyond the traditional technology design, implementation and operational roles. A CIO must not only have a broad understanding of information technology and its relevance to the business but also needs broader skills and experience including strategic planning, executive stakeholder and relationship management and investment management.

The CIO must be able to build constructive relationships across the organization, lead a multi-disciplinary team to understand business needs and provide technical knowledge and expertise when required.

While not exhaustive, the following actions serve to highlight some of the critical competencies that an effective CIO must exhibit.

Actions

- Collaborate with and challenge senior business leaders in making critical business and IT decisions and build credibility with the Board
- Understand industry changes, sources of competitive advantage, current business and operating models, and how IT can support strategic business objectives
- Influence the outcomes of the business' strategic planning process, and articulate technology related opportunities and constraints
- Educate business leaders on the role of IT and effectively manage their expectations
- Build relationships and alliances inside the business and across the IT industry, and navigate complex political environments
- Effectively manage the IT capital and operational budgets, which may represent a substantial proportion of the enterprise's total cost base, and deliver value for money
- Lead a business-focused IT team that has a good reputation with the business and effectively manages stakeholder and customer expectations.

2

IT strategy follows business strategy

Reality: Business and IT strategy are closely related. You must involve your CIO in business strategy and planning.

Historically IT was viewed as a business ‘enabler’ only. Business strategies and plans were developed and ‘handed over’ to the CIO, who would then develop an IT plan to enable the business strategy.

As IT has become more intrinsic to an organization, the role and value of IT strategy has evolved. Importantly, IT strategy and planning must no longer be conducted as a separate activity that follows business strategy and planning.

Today we know that information technology can fundamentally alter business models – the financial services and retail industries are examples of this. As businesses embrace online service delivery and customer engagement models, business and IT strategy have become mutually dependent.

This mutual dependence requires that CIOs collaborate with their peers as part of business strategy and planning, which allows the injection of real insights regarding how technology may address business challenges and problems, and deliver new opportunities. The CIO must be able to inform and challenge executive management to ensure that business strategy and plans are achievable, particularly where strategic direction depends on a certain level of IT maturity, investment and risk.

Actions

To maximize your CIO’s contribution to the business strategy and planning ensure:

- The CIO is involved in business strategy and planning processes to inform the business how IT can shape the outcomes of the strategic planning process
- Business and IT planning processes, and the related governance mechanisms, are evolved to allow your CIO to be involved in the development of business strategy and plans
- Your CIO has the mandate and credibility to challenge executive management to ensure business strategy and plans take into account the IT maturity, investment, risk and opportunities

3

Enterprise architecture is driven by IT for IT

Reality: Enterprise architecture
is a business-focused activity that aligns
business and IT outcomes.

For many business leaders the term ‘architecture’ conjures images of detailed technical models, diagrams and specifications which can be incomprehensible and unusable by the business.

Unfortunately many IT departments have reinforced this myth by referring to the process of developing these detailed technical artifacts as Enterprise Architecture (EA). Not surprisingly the notion that EA can support business-IT alignment is now dismissed by many business leaders and even some CIOs.

Effective EA drives alignment between the business and IT environment – a key goal of every CIO. EA describes the future business environment required to deliver the business strategy, and uses this as a basis for determining the technology capabilities required to support this environment.

EA is not IT-focused. It is driven from a business perspective, and begins with development of the business architecture that clearly articulates the business capabilities that underpin the successful execution of the business strategy. The business architecture informs and provides a context for discussing the applications, data and infrastructure environments that will enable the business strategy. Thus it becomes an important tool to guide and govern IT portfolio management and IT project delivery. When used properly an EA is a key tool for achieving business-IT alignment.

Actions

- Ensure your CIO is using EA as a key tool for achieving business-IT alignment
- Ensure your CIO involves business representatives in the development and management of an EA for your organization
- Ensure your CIO produces EA outputs that you can use to explore business challenges and opportunities
- Ensure your CIO produces an EA that can be traced back to your business strategy and plans

4

IT costs too much

Reality: Most organizations don't have a full understanding of how much they really spend on IT or why.

The issue is not what proportion IT costs are of the total cost base, but rather the value the business is getting from that spend.

IT costs are increasing as a proportion of total costs in most organizations. This is to be expected as organizations look to streamline operations and take advantage of new technologies to deliver new products and services.

The key to realizing value from IT spend starts with understanding exactly what is being spent and why.

While this sounds obvious it is not a straightforward exercise for most organizations. In many instances IT costs are spread across the organization and sometimes dressed up as business as usual activities. Uncovering all the "hidden" IT costs can be a difficult exercise. Understanding the cost base at a sufficiently granular level is necessary to enable effective analysis and comparison.

While benchmarking is generally viewed with some skepticism, it can provide a useful guide to whether or not overall spend levels are "about right" for your industry and if not, where they vary.

The next critical task is to identify the business and technology drivers of the IT spend. Working with all stakeholders is required to develop a shared understanding of the IT costs and their drivers.

Once overall IT spend levels and cost drivers are understood, the business is in a much better position to decide if it's spending too much on IT and how it can reduce costs effectively.

Action

Open the "black box" of IT costs:

- Get a granular breakdown of all costs
- Track down the "hidden" costs
- Benchmark spend levels
- Understand the business and technology cost drivers
- Ensure key business stakeholders understand where the IT spend is occurring and why

5

IT is a cost and doesn't create value

Reality: IT can help an organization to create value by both reducing overall costs and creating new products/services that help to grow revenues

As organizations better understand their overall IT spend, they can optimize its value by ensuring:

- **Spend effectiveness:** IT spend is being allocated to the 'right' mix of IT activities
- **Spend efficiency:** These IT activities, BAU operations and projects are being well executed.

Once IT spend is effective and efficient, the focus should be on creating more value for the organization by ensuring:

- **Spend leverage:** IT capabilities are fully leveraged to take costs out of the organization and/or create new or improved products/services for customers to help grow revenues.

Business and technology leaders must work together to determine how to allocate the available funds between operational (BAU) and transformational (project) activities.

Organizations must monitor the resulting IT investment portfolio to ensure it tracks to plan to deliver the benefits promised. Benefit realization is where organizations most commonly lose value. Often small tradeoffs such as de-scoping a project to meet deadlines are made that have a big impact on benefits realized.

Create value by:

- Automating manual processes
- Improving management decision making by providing relevant information quickly
- Growing revenues by leveraging new technologies
- Improving customer satisfaction by fostering innovation to create new products and/or services
- Creating a virtuous cycle of investment, improvement and growth for the organization.

Actions

Identify opportunities to:

- Automate manual processes and improve information provision to management
- Help create new products or services and/or improve existing ones

6

IT should set priorities and make decisions about IT investment

Reality: Business leaders must be active participants in IT investment prioritization and governance.

A perception exists amongst some business leaders that the CIO should determine the priorities for IT investment on behalf of the business. This often results in a lack of business engagement and understanding of IT priorities and ineffective IT governance.

Effective IT portfolio management should involve business and IT leaders collaboratively prioritizing investments to deliver a balanced portfolio that best addresses business priorities.

This will require decisions about the mix of spending between business as usual activities (i.e. operations) and investment in new capabilities (i.e. projects). These two pools of funds must then be broken down into a list of specific initiatives that can be prioritized with input and direction from business stakeholders.

Prioritization should be driven by strategic importance, financial attractiveness, and the risk and urgency of each potential project. It is also important to consider a broader range of factors such as the balance of the portfolio of projects, its manageability and IT's ability to execute.

Effective portfolio management must also identify when business priorities have changed and adjust the IT investment portfolio accordingly. This plays an important role in driving business and IT alignment.

The CEO, Board of Directors and executive management have key roles to play in IT prioritization and other important aspects of IT governance. They need to have an appreciation and basic understanding of the risks and constraints of IT and so diminish the risk of unrealistic expectations of the CIO and the team.

The reality is that IT prioritization should support the implementation of business strategy. Effective IT prioritization requires the business to actively participate in IT planning and decision making activities, resulting in greater ownership of IT outcomes and a higher likelihood of success.

Actions

- Business and IT leaders collaborate to decide on the mix of spending between BAU operations and investments in new capabilities/projects
- Prioritize the funds within these two pools
- Consider the balance of the portfolio of projects, their manageability and IT's ability to execute.

7

It is impossible to measure IT delivery performance

Reality: IT delivery performance can and must be measured against business outcomes. Take a holistic and business focused view for greater effectiveness.

As IT becomes increasingly essential to business, stakeholder expectations for quality and responsiveness have increased. There is little tolerance for rework, inefficiency and ineffectiveness.

Traditionally there has been a strong culture of measuring IT operational performance, particularly with the establishment of service level agreements to support data centre outsourcing, infrastructure and application management. However measuring the performance of development teams has been more problematic.

Traditional measures tend to be about the level of activity for IT development services rather than their benefit to the recipient. Therefore, identifying how to improve the delivery of the services and the quality of the end product is obscured.

Measuring IT performance must begin with identifying the outcomes that are meaningful to the business. Outcomes rarely result from a single activity. A set of measurements across related activities will give a view on the effectiveness of the outcome and identify underperforming activities.

For example, measuring the number of help-desk incidents logged does not provide a view on whether IT end-users experienced minimal disruption to their daily work activities as a result of an IT issue.

Given that end-users need effective and efficient help-desk support, IT delivery performance should monitor the number of calls for an incident, the time taken to resolve the problem, and whether the incident re-occured and was reported again at a later date.

In this way help-desk staff will not be incentivized to close the problem as quickly as possible but rather to fix it.

Actions

- Do not just measure the level of activity for IT services
- Measure related activities
- Identify the outcomes meaningful to the business
- Measure effectiveness and efficiency

8 The war for IT talent poses a serious threat

Reality: The right approach
to human capital can ensure your
organization has access to the right
IT talent when and where you need it.

Having access to the right IT resources has always been a key challenge.

However, given the significant investment in next generation technology, the threat looms larger than ever.

Next Gen investments often require major shifts in how IT operates within the organization. As a result your future IT department may require a vastly different workforce, both in terms of size and composition. How (and who) you recruit, develop and deploy will be fundamentally different; and how well you do it will determine the extent of your organization's competitive advantage.

As organizations move away from being a builder and maintainer of technology solutions to more of a buyer and facilitator of technology products and services, different capabilities are required. Software development expertise may give way to relationship management skills, and change leadership may supplant technical leadership. Some roles will be lost, some reshaped and yet others newly created. To remain responsive to organizational needs, workforce capability planning becomes a critical CIO tool. It ensures your ability to identify what your organization will need, how much of it is needed and by when.

With an understanding of your future IT workforce needs, the focus then shifts to developing the most effective talent strategies to meet those needs. New ways of thinking about sourcing and developing talent can be exploited – e.g. partners might be leveraged to augment your workforce or provide stretch opportunities to your talent, or offshore commodity technology services might be better utilized to reduce labour costs. Similarly, fresh perspectives on motivating and rewarding key people can be explored to maintain your edge in the war for talent. And in transitioning from the old to the new, the risks of losing productivity, key talent and critical organizational knowledge can be mitigated by targeted engagement and retention strategies.

The ability of IT to deliver on its mandate depends more on its people than ever before. Ensuring that you have the right people in the right roles at the right times – with the right culture to keep them engaged – will be critical to the success of your IT team. Old approaches to human capital can't deliver in the new world. Fresh and different thinking is required to get the people dimension right – and getting it right offers your most powerful competitive advantage yet.

Actions

- Ensure you have the right people in the right roles at the right times
- Focus on the right culture to keep your people engaged
- Understand where your people are aligned and where your organization is headed
- Introduce targeted engagement and retention strategies

9 Outsourcing is a quick fix

Reality: Pursuing a quick fix through outsourcing creates long term pain. Consider what really needs to be outsourced and structure deals around business outcomes.

Global outsourcing trends have led some Canadian organizations to adopt outsourcing as a quick fix to cut costs, address skills issues, or pass on responsibility for problematic areas.

It is characterized by a high concentration of service providers that deliver enterprise level services nationally, and a greater number of mid-sized suppliers with more specialized capabilities.

While outsourcing provides opportunities to address issues with costs, skills and workload, it can also create new and greater burdens for businesses. Businesses must establish a constructive, mutually beneficial relationship with suppliers to lay the foundation for a positive long term relationship to enhance their competitve position in the market.

Many Canadian businesses are coming to the end of multi-year contracts with one or two bundles of services that combine project delivery, application and infrastructure management, or desktop support services.

The expiry of existing contracts provides an opportunity to re-examine existing deals or create new ones to deliver increased value over the next iteration.

To gain long term benefit, businesses need to carefully consider:

- What the organization wants to achieve from outsourcing (go beyond costs to benefit)
- Which IT functions and services are strategically relevant to the business
- What internal IT capabilities are needed to create and sustain competitive advantage
- How the business will get value for money – align performance management measures and supplier management capabilities with business outcomes.
- The supply market in terms of suppliers' strengths, capabilities, business and operating model.

Actions

Effective outsourcing deals to realize benefits over extended periods require:

- Careful planning
- Detailed analysis
- Methodical execution and
- Close on-going management

10 Big systems transformations always fail

Reality: While business-led IT transformations are challenging, it is possible to deliver them successfully and transform the organization.

As IT becomes more integral to business, system implementations are no longer just technical upgrades or deployments of new technology.

Businesses expect substantial improvement and benefits from improved information availability and streamlined functionality. Often this requires a transformation of how the business operates in conjunction with the implementation of a new system.

Large system implementations and multi-year programs of work often invoke bad memories of endless re-scoping, soaring costs and shifting timelines. Programs were frequently set up with inadequate engagement and management by the right business stakeholders.

The issues of poor consultation, underestimated scope, neglected business process redesign and inadequate change and business data management are all too familiar. Emphasis was typically placed on project scope, system selection, and system design. Business cases lacked robustness to manage change, and benefits were rarely tracked after 'go-live'.

Businesses also relied on system integrators and the program management office (PMO) to be accountable for the transformation.

The reality is that business leaders need to take accountability for successful business-led system transformations – including the system implementation – no matter to what extent delivery is outsourced.

Business-led IT transformation requires intimate involvement up front, throughout the life of the program, and ongoing monitoring post implementation by key business stakeholders. They must understand the business case and be capable of making the right decisions as the transformation progresses, issues arise and circumstances change.

Actions

- Be accountable
- Support appropriate stakeholder involvement
- Determine the right program scope
- Ensure a robust business case
- Effectively manage vendors.

Take aways

The alignment between 'the business and IT' has never been more important.

As business increasingly relies on information technology to determine and pursue its strategic objectives, and remain competitive, the right CIO must be at the table as a fundamental part of business planning and management.

The CIO must understand industry and IT trends, influence business strategy, lead the collaborative development of IT strategy and ensure there is alignment between business and IT architecture.

They must be able to articulate and demonstrate the value of IT investment and manage IT vendors and service providers to collectively work towards common business goals. Leading and motivating a multi-disciplinary team of IT staff can have a profound impact on the direction and success of the business.

Doing all this is not easy. Organizations that are able to leverage the full capabilities of their IT organizations will have a sustainable competitive advantage which competitors will not be able to easily replicate.

1. CIOs must have broad business skills to effectively lead and manage a complex and sizeable technology service business within the organization.

2. IT strategy is a business-focused activity that should influence business strategy. It requires CIO involvement in business strategy and planning activities.

3. Enterprise architecture is a business-focused activity that will align business and IT outcomes, and can support other business-focused initiatives and activities.

4. Organizations must understand how much they really spend on IT and more importantly what are the business and technology factors that drive their IT costs.

5. IT can help an organization to create value by both reducing overall costs and creating new products/services that help to grow revenues

6. Business leaders must play an active role in setting the priorities for IT and making critical business-IT decisions.

7. IT delivery performance can and must be measured to ensure that IT expenditure is invested in services that provide the outcomes desired by the business and its end-users.

8. Effective human capital management will ensure your organization has access to the right IT talent when and where you need it.

9. Pursuing a quick fix through outsourcing creates long term pain. Consider what really needs to be outsourced and structure deals around business outcomes.

10. Business-led IT transformations are challenging – appropriate stakeholder involvement and adequate business accountability means they are not necessarily destined to fail.

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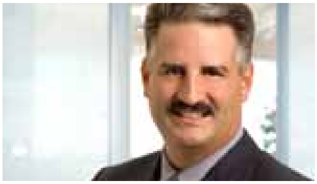

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