



2004

Study of

Management Practices in IT

by **MIDIOR** Consulting, Inc.

www.midior.com

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We wanted to know what the next **BIG THING** is for **CIOs** in **2004**

We learned that the next big thing is doing the "LITTLE THINGS" better....

MIDIOR Consulting 2004 Study of IT Management Practices

Introduction

BETWEEN March and June of 2004, MIDIOR Consulting contacted 200 senior executives responsible for the management of information technology in their companies. The study focused primarily on firms in the financial services industry ranging in size from 100 to 50,000 employees. All survey respondents were physically located in North America, although many of the executives contacted were responsible for supporting global operations.

The objective of the study was to understand the current state of IT management and to identify those practices, processes and tools that are having the greatest impact on the business bottom line. We began with the hypothesis that the most successful IT organizations are similar to effective product development organizations found in mature industries such as manufacturing and consumer goods.

Highlights

NOT surprisingly, we found that almost all firms are facing a major increase in the complexity of IT management issues and that technology represents only a small part of that complexity. A consistent theme was that the role of IT has expanded considerably in scope over the past 3 - 5 years, and now encompasses many new

functions such as product development, operations and client service delivery. As a result CIOs are seeing a major expansion in demands on their organizations' time and resources - for both tactical and strategic initiatives. In response to this challenge, we found that most IT executives are working to formalize their management processes in an effort to manage their varied roles, improve the way they interact with other departments and better prioritize their annual IT spend.

Most companies are embracing the importance of portfolio management but are using a wide variety of approaches to its implementation, albeit with limited evidence of quantifiable results. And while outsourcing has been a hot topic in the IT community in the last few years (and suddenly a political topic as well), our respondents reported substantial growth in the number of internal staff that are considered to be "part of IT". In our view, outsourcing provides a tactical solution to the need for quick access to supplemental resources - not wholesale abandonment of in-house technology. In fact, the majority of respondents continue to identify internal staff as the largest component of IT spending.

With respect to performance measurement, we found the vast majority of firms continue to depend on budget and schedule as their primary indicators of success. And, while only a handful of firms are implementing more outcome-orient-

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ed measures (e.g. return on investment, business impact, etc.), all acknowledged the need to move in that direction.

One surprise was the increasing recognition of the importance of business and leadership skills for IT staff. A majority of companies identified this area as a key to career advancement for their staff, but acknowledged that funding for professional development continues to center on programs to improve technical skills.

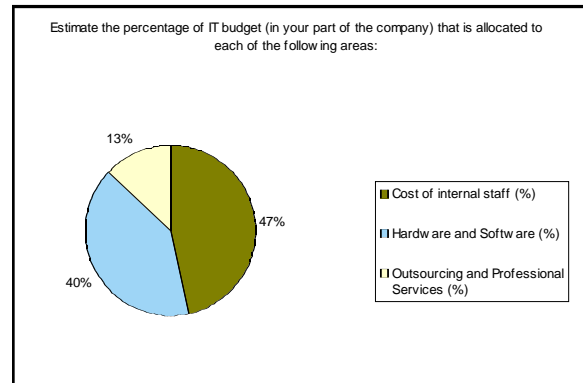
Management & Organization of IT: IT Is Everywhere

In our study, on average, IT staff comprised 22% of the total staff in an organization. Within the IT organization 42% of staff are focused on providing centralized, corporate IT functions, with 46% dedicated to providing services to separate business units.

Based on this sample, 1 in 5 employees, even at larger firms, is considered to be "part of IT". What used to be a specialized, hidden function has grown into a much larger organization (and cost center) which can encompass everything from MIS to product development to operations and client service.

The largest percentage (45% on average) of IT budgets are allocated to internal staff expenses (head count). Hardware and software expenses comprise the second largest budget segment with 37% of total spending. Outsourcing and professional services account for only 10% of overall expenses, and a small percentage of respondents attributed portions of their budgets to "Other" expenses.

Contrary to popular conceptions - companies spend a lot more on internal staff than on outsourcing services.



Virtually all respondents acknowledged an "outsourcing initiative." And while this is considered to be a rapidly growing trend, of note was the fact that a few companies that had tried outsourcing in various forms were already in the process of taking development back onshore. While this data is anecdotal, it is perhaps a signal that outsourcing (especially in the area of off-shore application development) has peaked.

Overall, the companies contacted are focused on formalizing management processes in response to the mounting pressures to perform against a complex mix of business objectives. We are able to identify at least 3 critical roles for IT:

- Mission critical responsibility for supporting and maintaining data processing operations and other back-office functions like accounting and finance
- Customer-facing role as an integral part of service delivery and "customer experience"
- Strategic role as a source of innovation and competitive advantage

The need to simultaneously perform each of these roles is driving IT executives to look for new management models in order to find the right balance

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of control and flexibility. The results of this year's survey indicate that the current drive to new processes is being led by a focus on "risk-reduction". This is in response to new regulatory requirements (like Sarbanes-Oxley) and a desire to reduce exposure to the possibility of "runaway" projects, and catastrophic business disruptions. To that end, we observe 4 areas receiving attention in terms of new management processes:

- Development of new IT governance models
- Introduction of portfolio management concepts
- Training and deployment of project management disciplines and processes
- Adoption of quality-centric software development methodologies

Portfolio Management: High Adoption Rate, Early Stage of Implementation

ALL of our respondents reported that their organization utilized a "portfolio management process" for tracking and reporting the overall costs of IT projects. However the meaning of "portfolio management" varies widely from organization to organization. The term "portfolio management" has achieved buzzword status with many firms happy to report they "have it" without much attention to the original intent of increasing overall ROI by active management of a diverse mix of IT investments.

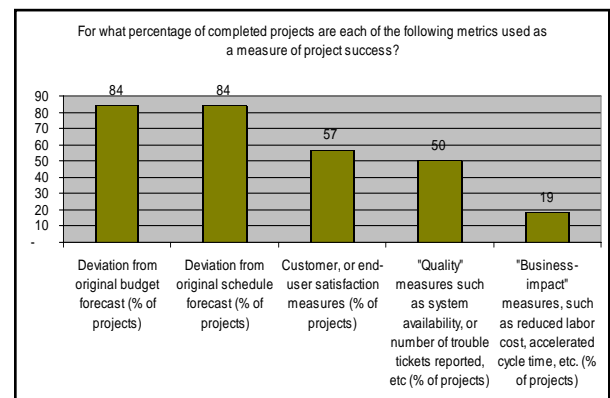
Under this banner of portfolio management, firms are tracking aggregate resources and costs - but not really "managing" a portfolio of technology investments. In large organizations (greater than 10,000 employees) custom tools are usually developed in-house to support this process. In smaller organizations, off-the-shelf

tools, such as Microsoft Project, are most commonly used to track IT projects. This indicates that the real "state of the state" is one that is just beginning to collect the data about how many projects are really going on.

In order to sort out some of the confusion about portfolio management - MIDIOR has identified 4 typical stages that describe the adoption of Portfolio Management at different firms:

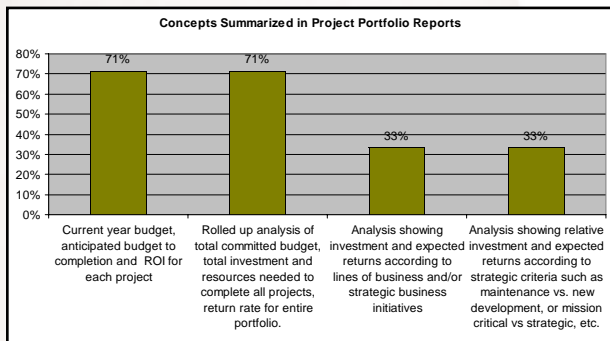
Stage 1: "Project Portfolio Tracking" - consistent tracking of all projects in a unified tool. Includes consistent information about each project (e.g. budget, schedule, ROI estimate, etc). These companies are focused on implementing tools and processes that will create uniformity in the management and tracking of projects.

Stage 2: "Resource Portfolio Tracking" - consistent tracking of projects including current allocation of resources and measurement of the total resources needed to complete the projects, as well as management metrics based on the entire pool of projects (e.g. resources committed, expected portfolio rate of return, etc). These companies are beginning to look at the implications of the overall allocation of resources, the overall impact of their technology projects, and their capacity to take on additional projects in the future.



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Stage 3: "Technology Investment Tracking" - rolled up analysis of entire technology budget (development projects, maintenance, and operations) in terms of its relationship to business objectives (e.g. allocation of budget towards various business initiatives). These companies are expanding their portfolio beyond a project-centric view - to a view that is concerned with the overall cost of technology - including maintenance and ongoing operations. This allows the creation of a more meaningful relationship between overall costs and business initiatives, and gives management the data necessary to make real adjustments.



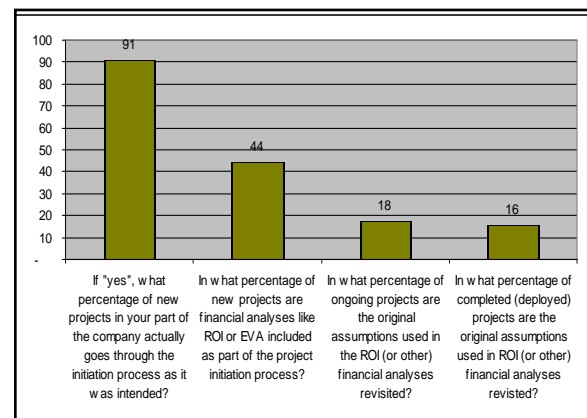
Stage 4: "Strategic Portfolio Management" - portfolio management as a continuous process which begins with allocation of investments towards business objectives, and results in decisions about new project funding and allocation of resource towards ongoing projects. These firms are using portfolio management as an active component of technology management - as opposed to a tool for historical analysis. Rather than starting with projects - the approach is to start with objectives and the entire resource pool.

We asked respondents to evaluate their use of project portfolio management in their organization by the above stages.

The data confirms that while the majority of organizations state that they have adopted a port-

folio management process, the overwhelming majority can be categorized as Stage 1 or Stage 2.

We were also interested in learning more about the state of formal project management practices. Of the companies interviewed, an overwhelming majority utilize a formalized IT project initiation process - meaning there is a documented process for evaluating and approving new projects before any substantial investment is committed. And while all of the companies report that they "strictly adhere to the process" there are always loopholes - since the survey also indicates that the process can be easily circumvented under "special circumstances" - accounting for about 1 in 10 projects.



Also, while these "stage-gate" type processes usually imply some degree of quantified cost/benefit analysis, we found that on average, only 44% of new projects included a detailed financial analysis during project initiation. While we would have expected the largest firms to have the strictest financial processes, the *lowest* percentage of financial analysis during and after projects occurred in the largest companies interviewed (those with 10,000+ employees).

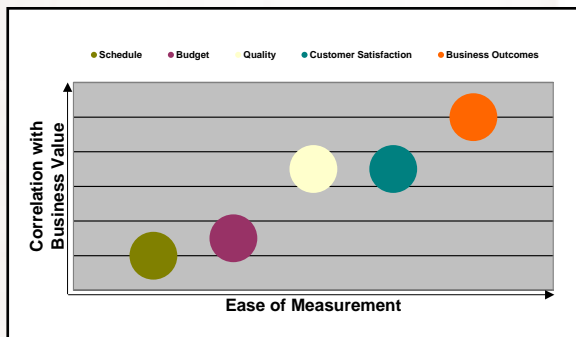
Furthermore, there appears to be little accountability for those initial projections, as fewer than 20% of projects are revisited to compare actual

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results against the original projections.

IT Performance Metrics: It's what you measure that matters

It is no surprise that the metrics most commonly used to assess the performance of I.T. projects are deviations from budget and schedule. Some quality measures such as customer satisfaction surveys (40%) and failure rates (25%) are beginning to come into play. However, none of these measures has ever been shown to correlate in any way with business value or return on investment. We can only conclude that these are still the only measures that are easy to quantify as opposed to measures which are important to the business. Only 19% of projects were reported to include some direct measure of business impact (such as reduced labor cost, or accelerated cycle



time).

In MIDIOR's view management is emphasizing the wrong measures. Budget, schedule and quality may be good measures of project management practices - but what's the point of doing a great job managing low value projects? ***We believe that the most typical measures - budget, schedule and quality - are in fact negatively correlated with business impact.*** That may sound

provocative and counter-intuitive (which it is) - but the truth is that development projects which have impact are those that result in systems that see a lot of use. And when many users get involved, requirements evolve and scope expands.

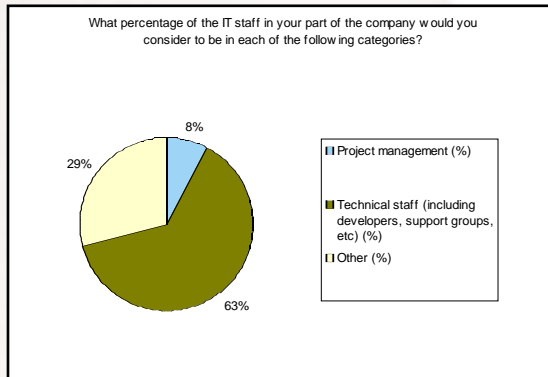
Anecdotal evidence tells us that projects are only predictable until users get involved (which should be early in the process anyway). And beyond the development phase - many users will result in many user environments and unexpected operator behavior. This in turn leads to increased support and maintenance costs. So in fact, projects that are on time and on budget often yield functionality that is rarely if ever used as intended and if used, often only in basic ways. On the other hand, projects that have significant positive impact on the business often end up with an expanded scope and greater than expected support costs. Our conclusion is that new measures for managing the impact of a project on the business are required.

Establishing more relevant measures as part of project initiation AND project tracking can be a key leverage point in improving the performance and realized value of I.T. This is not to say that budget and schedule are irrelevant, but they are incomplete and should be augmented with measures that relate to how many people/users are impacted in a positive way.

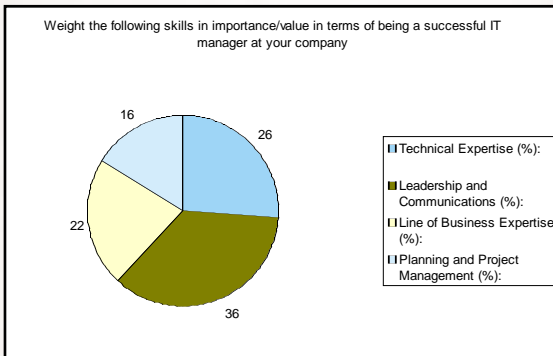
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New Skills Required: Leadership and communications skills are as valuable as technical expertise

RESPONDENTS reported that, on average, 63% of IT staff are identified as Technical Staff, 8% are identified as Project Management Staff, and 29% are identified as Other.



Executives were also asked to rank the importance of various skill sets in terms of how desirable they are for success as an IT manager.



Leadership and communication skills were given the highest weighting by respondents in this survey, while project management and planning skills were given the lowest weighting. The para-

dox here is that there is much more investment in project management training than there is in leadership and communications skills. In fact - leadership and communications are the professional development programs least likely to be funded .

Which leads to our final observation - companies will be well served by investing in the development of non-technical skills for technical staff. A great opportunity exists for increasing the performance of IT organizations through ongoing investment in "human capital" - people and their skills.

Summary & Call to Action

In general, we continue to see a risk-averse approach to IT management that is more concerned with avoiding failures than with generating new value. MIDIOR believes that management will need to adopt some approaches that drive value in order to be future leaders. Specifically, from this study we learned:

1 - IT has grown to be a very broad and far reaching function. In some firms it may be the largest and most expensive department. However, IT management practices - for getting the most out of technology investments and professional staff - are still somewhat immature and unproven.

2 - Portfolio management is an interesting concept that is being adopted in many places in many ways. However, the current state of implementations are often watered down versions that look more like sophisticated project management

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than a new way of making technology investment decisions.

3 - Schedule and budget are still the dominant metrics for gauging project success and tracking project health. Again - the current focus continues to be better management inside a project - not better aggregate results from the projects selected

4 - IT Professionals need to become business leaders - adept at all the skills necessary for success elsewhere in the organization. Executive management should be doing more to develop the non-technical skills of technical staff.

MIDIOR's perspective is that while companies continue to search for more predictable methods for managing IT - no obvious answer has appeared. Stronger governance and oversight of IT will likely reduce the risk of runaway projects and catastrophic failures, but there is no evidence that it is correlated with a higher ROI for IT investments. In other words, management is focused on implementing tools and processes to avoid doing the "wrong" things, with much less attention paid to methods for identifying the "right things". A new balance will need to be found that offers tight governance without sacrificing innovation.

We conclude with 4 important calls to action for IT executives:

- Build and manage your IT portfolio in terms of projects, platforms, products and points of delivery (MIDIOR's P⁴ blueprint) as a mechanism for aligning management method with business and technology objectives

- Establish and track meaningful metrics that incorporate business results into project accountability
- Fund professional development programs that teach business skills to technical staff
- Study and adopt best practices from leaders in product development and product management in mature industries

For more information or if you have questions or comments, please contact MIDIOR at 617-864-8813 or by email at info@midior.com.