

PART ONE

THE FUNDAMENTALS

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In Search of Overhead Heroes

A customer is the most important visitor in our premises. He is not dependent on us, we are dependent on him. He is not an interruption in our work, he is the purpose of it. He is not an outsider to our business, he is part of it. We are not doing him a favour by serving him, he is doing us a favour by giving us an opportunity to do so.

—*Mahatma Gandhi*

Politics would be a helluva good business if it weren't for the goddamned people.

—*Richard M. Nixon*

“Build a better mousetrap and the world will beat a path to your door,” is the often-quoted advice from the American man of letters and philosophy, Ralph Waldo Emerson. The message is that ingenuity and hard work are all one needs to succeed. Unfortunately, Emerson never said it, or at least never wrote it. It is reported that the closest Emerson ever came to the statement was in his *Journal*, published in 1855, where he said, “I trust a good deal to common fame, as we all must. If a man has good corn, or wood, or boards, or pigs to sell, or can make better chairs or knives, crucibles, or church organs, than anybody else, you will find a broad, hard-beaten road to his house, though it be in the woods.”¹

It was only years later, after Emerson's death, that Sarah Yule reported that she heard Emerson say, “If a man can write a better book, preach a better sermon, or make a better mousetrap, than his neighbor, though he builds his house in the woods, the world will make a beaten path to his door.”

Regardless of its origin, it is one of those culturally iconic quotes that define a country, a time, and a generation and then inspires other

countries, future times, and newer generations. It is a truth that all people who admire resourcefulness and persistence hold dear. Whether Emerson said it or not is unimportant. It is the message that is momentous. Except the message isn't true.

More than 4,400 mousetraps have been patented in the United States alone. There are no accurate figures for the number of patent requests rejected by the patent office or the number of devices never submitted for patent protection in the first place. One can easily imagine U.S. inventors creating 10,000 or more *Mus musculus* death machines during the past 150 years. Of those 4,400 patents granted, fewer than two dozen have ever earned their creators any money.²

Why? Well, there are two possible reasons. One, none of them was any good. The U.S. Patent Office has received patent requests for some very strange devices for exterminating mice. Most of them would eliminate mice, but the methods were often clumsy, complicated, or very, very messy. Even so, it is hard to believe that none of those thousands of devices were as good as the current snap trap created in 1899 by John Mast and patented in 1903.

The second, and more probable, reason why so few mousetrap inventors have been rewarded is that doing something better is not necessarily a formula for success. The 1970s saw the VHS/Betamax wars, where the two standards contended for the lion's share of the videocassette market. Technical experts agree that Betamax had the better technology, but VHS took the prize. Many software experts argue that over the past 20 years, the various versions of the Apple Macintosh operating system have been superior to those offered by Microsoft, but Microsoft's share of the personal computer operating system market is more than 20 times that of Apple. Being better does not mean you win. Put another way, having a better mousetrap might be a necessary condition for success, but it is not a sufficient condition. To succeed, you have to be more than good. You have to actively reach out and grab the market.

THE PROBLEM

From a corporate history perspective, information technology (IT) is relatively new. Accounting goes back more than 4,000 years, with modern accounting tracing its roots to the sixteenth century. Human resources (HR) had to exist in ancient times in order to entice freemen to work as rowers on the early Roman galley ships. Considerable recruiting skills would be needed to convince people to sign up for the job. (Slaves as rowers were introduced later when the job required less skill, and multiple rowers pulled oars.) IT's start is more modest, and whether you trace it to the 1950s, with the introduction of the first business computer, or go back a few decades to the first tabulating machines, it is still the new kid on the block.

However, IT is more than just new, it is also different—very different. In the early days of IT, the computer room was often behind floor-to-ceiling glass walls, just outside the corporate headquarters lobby, attended by a priesthood in white lab coats. IT was a symbol of the mystery and magic of the future—certainly not a compatriot of the eye-shaded office workers of the nineteenth century.

The irony is that the corporations IT was mesmerizing were run by those same nineteenth-century eye-shaded office workers, from the lowest clerks right up to the CEO. While they enjoyed taking off their eyeshades to gaze into the future, they just as quickly put them back on to get down to work. IT, while providing a captivating glimpse of tomorrow, was needed to work in the present, a challenge IT struggled to fulfill.

IT's story is one of success and disappointment. No other organization has brought so much change to the enterprise in so short a period of time. Its tale is not just one of efficiency and effectiveness, but one of possibility. Without IT, businesses would be limited in the number of customers they could serve, the number of transactions they could process, and the number and breadth of products and services they could offer. The modern corporation would not only be less efficient without IT, it could not exist. One would think that being the catalyst for all this change, IT would be a corporate hero. Unfortunately, too often, IT is seen unkindly by both its owners and its users.

Exactly how good or bad is IT? No one really knows. Trying to find an assessment of the state of the IT industry is difficult. A search of the academic literature is disappointing. Although there are many articles in scholarly journals about how to measure end-user satisfaction, few of them have done it. What has been studied is limited in geography or type of technology use (i.e., satisfaction with data warehouses, enterprise information systems, web searches, end-user computing interfaces). Even less attention has been paid to changes (positive or negative) over time, giving little indication as to whether things are getting better or worse. The trade press is no better at clearing up the confusion, because reports of IT's successes and failures are anecdotal, providing little data for any scientific analysis.

Vendors also are of little help in clarifying the situation. They readily cite improvements that can be attained if you use their product, but the numbers are often extravagant and unbelievable. Even credible numbers are rarely backed up by standard statistical methods. Longitudinal studies are either unobtainable or limited to before-and-after comparisons.

Surprisingly, the best source of available information about end-user satisfaction with IT comes from IT, and the story is not good. IT staff report that users are dissatisfied with IT, feeling that its services underperform, are overpriced, and are poorly supported. Development projects come in for even harsher criticism: They are viewed as consistently late, exorbitantly expensive, and functionally poor.

Business Concerns about IT

Chief information officers (CIOs), and other senior IT managers, have had a tough time over the past 40 years. Business expectations are high, while praise is low. In the late 1970s and early 1980s, IT was seen as the force that would radically change business for the better. E-commerce followed with an almost euphoric view of technology that bulged university computer science departments and sent IT wages soaring. In reality, if there has been any significant change over the past four decades, it is that user expectation is rising while user satisfaction is dropping. CIOs and industry analysts can legitimately argue that service is actually better than it was 20 years ago. Uptime is better, response time is shorter, and unexpected results are on the decline. Yet, if anything, users are less satisfied now than they were two decades ago. Why? Well the only potential reason can be creeping expectation. While IT might have been viewed as a novelty in 1970, it is now a critical component of the average business process. Outages that were understandable in 1980 are intolerable now. While a machine down for two hours in 1980 might cost the business little, a machine down for a similar amount of time now could result in the loss of millions of dollars in revenue.

There is another change between then and now. While IT was viewed as a laboratory science then, it is a business tool now. IT's elevation from lab experiment to business component is not without its downside. As white coats gave way to pinstripes, IT staff were expected to shift from being technologists to businesspeople. This transition is not without its difficulties. First, the chief executive officer (CEO) and the business unit heads are not of one mind on the transition. While they *want* IT to be a business component, in reality, they are still unsure and uncomfortable with its magic status. Despite the laptop on their desk or the family personal computer at home, many have little knowledge of, and less interest in, IT. Worse, as technology shifts from a business nice-to-have to a must-have, executives are uncomfortable understanding so little about something so pivotal. Most would rather wrestle with hostile takeovers than sit through a meeting on software installation.

Thus, the IT conundrum—IT, the unwanted and misunderstood stepchild, holds the future of the enterprise in its hands. But how can senior business managers allow the future of the company to fall into the hands of IT people, particularly when they have some serious concerns about IT? High costs and the realization that IT can make or break a business have led business managers to bring IT under greater scrutiny. Frequently, business managers feel that IT is:

- *Too expensive.* Whether IT is *too* expensive is debatable. What is not debatable is that IT *is* expensive. The average \$3 billion company will spend more than \$100 million annually on IT.³ At such levels, it is

unthinkable that IT would escape scrutiny in normal times and not be the subject of additional oversight in bad times, when corporate revenues are under pressure.

- *Not working on the right things.* Business managers have concerns about the quality of IT decision making. Are the right projects being funded? Why were some projects rejected? How are these decisions made? Who makes them? What can be done if a business unit feels that it is not getting its due?
- *Distributes services inequitably.* One of the most common criticisms of IT is that users feel that they pay and pay, but get little in return. They feel that IT is not fairly distributing resources to the business units commensurate with business need or contributions. Making matters worse, they suspect that competitors are getting more from their internal IT organizations for equal or less money. In short, they are convinced that IT resources are not equitably distributed throughout the organization.
- *Slow, expensive, and underperforming.* Users feel that IT projects are too expensive, functionally poor, and take longer than they should. Many feel that outside vendors could probably do a better job than the internal IT organization. There is data to support this belief. According to the Standish Group, more than half of the IT projects undertaken will experience cost overruns in excess of 180 percent. They also report that more than 30 percent of the projects will be cancelled before completion, while completed projects will only include about 42 percent of their proposed functionality.⁴ This is a dismal picture at best.
- *Poorly managed.* In the 1960s, senior managers were comfortable leaving IT to the technically inclined, for several reasons. First, it was not that expensive. IT cost, as a percentage of revenue, was relatively small. Second, the impact of IT on the business was minimal. For the most part, IT produced reports on work done, but did not do the work itself. If the machine failed, humans could usually take up the slack. Third, IT was usually under the direct control of the chief financial officer (CFO), a business unit leader, or some similar senior business manager. This gave corporate management the comfort of knowing that someone who knew the business and how to manage was in charge.

Today, this is often not the case. IT is now quite expensive and is routinely critical to the delivery of the enterprise's primary products and services. Another difference is that now, a technically trained CIO usually leads IT. Because of the cost and importance of IT, CIOs frequently sit at the executive table and are witnesses of, if not parties

to, the most senior business issues and decisions. In this exclusive club, the criterion for membership is not knowledge about technology, but business acumen. Many CIOs do not possess this quality. This shortfall is obvious to the other members of the management team and undercuts their confidence in the CIO. While some CEOs and management team members are willing, or at least resolved, to allow IT personnel to make some technical decisions, they are very uncomfortable with having the IT department affect the course of the business.

- *Out of touch with the business/market.* Although the phrase, “They just don’t understand the business,” has been used to describe virtually everyone outside of the business unit, IT has come under more than its share of criticism. There is often a level of truth to the charge. Many IT professionals work more for the IT profession than they do for their employer. You can see this in company hiring practices. If a manufacturing firm needs a network specialist, it is often comfortable hiring one who had previously worked at a bank or for a retailer. Even senior managers, such as CIOs, have been known to cross industries with ease. In the 1970s and 1980s, many firms were more comfortable

Why Do They Think Such Terrible Things About IT?

The ancient Greeks believed that the heavens were made of water. The water was kept from flooding the earth by a giant transparent sphere that covered the planet. Where do they come up with these ideas? Well, when people are trying to understand something, and real information about it is scarce or nonexistent, they tend to fill in the gaps with all sorts of strange explanations. Sea monsters devouring ships, witches casting spells to bring plagues down upon towns, people being sacrificed for rain or fertility, and a host of other strong-on-emotion and short-on-data interpretations of natural events come about.

The remedy is information. Discovering that the heavens are not made of water, that vermin and poor sanitation cause plague and disease, and that sacrificing children has no effect on the weather or fertility, brings about, if not more satisfying results, at least better-understood ones. The same is true for IT.

When even the brightest business managers are kept in the dark about the facts of a situation, their imaginations start churning. Why does IT cost so much? Why can’t we have our customer relationship application this year? Why did that other division get its supply chain management system when it contributes less to IT than we do? In almost all cases, the imaginings of end users are more dramatic than the realities of IT. Angst can be reduced by making a few facts available.

hiring CIOs from their hardware vendors than they were acquiring them from within or from competitors. This has led to a belief that the people making IT decisions for the business really do not understand the business. So how good could those decisions be?

- *A risk to the business.* From the enterprise perspective, there are two types of risks: loss of service and loss of a positive face to the market. The first risk is the rather traditional system-is-down syndrome, which has been known to cost companies millions of dollars in lost revenue and market capitalization. Fortunately, the loss is usually restricted to the time the system was not operating.

Loss of a positive face to the market, such as bad publicity or lost customer loyalty, can drive down sales for a protracted period of time. An example would be the damage to corporate reputations from the loss or theft of customer data. This latter type of risk could prove more expensive because it can have negative effects far into the future.

Business concerns about IT can be summarized into four areas:

1. *Efficiency.* Efficiency is typically defined as doing things in a way that minimizes the expenditure of time, resources, or effort.

IT's customers are concerned about IT's ability to manage corporate assets (technology), business investments (projects), and operations (processes). They point to rising operating costs without the associated rise in benefits, projects that cost more than planned, or projects that are delivered late while not providing the anticipated functionality.

2. *Effectiveness.* Effectiveness is usually defined as doing the right things to gain the right results.

Users are unsure that IT is heading in the right direction or in a direction congruent with corporate and business unit goals. They also question whether IT can perform the correct actions to produce the desired results. Ineffectiveness can sometimes be masked by efficiency, presenting the business with a false indicator that things are going well. The confusion can be summed up by Yogi Berra's quip, "We're lost, but we're making great time."

3. *Transparency.* Transparency is the level of openness of an organization. It is characterized by full and accurate disclosure of the policies, processes, participants, facts, issues, and decisions made by an organization.

Business managers are unsure of what IT is doing, why they are doing it, and how they are going about it. They do not know who is making the decisions that could significantly affect the business, or

the data and steps used in the decision process. Users want to be a part of the IT decision process or at least be adequately informed about it.

4. *Safe hands.* Safe hands involves the positive feeling people have when a function is under the leadership of a competent individual or team that can be counted on to do the right thing. Safe hands are the people who can be trusted to look out for others' interests without being micromanaged or constantly monitored. When things occasionally go wrong, they can be counted on to inform the appropriate parties and take corrective action in a timely manner.

Business management is unsure that IT staff are safe hands. They question whether the IT team has the knowledge, experience, and wherewithal to make the right decisions, carry them out, and report progress to stakeholders in a timely manner.

Oddly, many IT staff would agree with their end users' assessment and criticisms of IT. They see themselves doing a good job, but not a great job. They recognize that most of what they do is invisible to users, and that what is visible is often not their strength.

IT's Frustrations with the Business

IT has its own frustrations with the business. They often feel that:

- *Business is not engaged.* The most common complaint from IT planners is that they cannot get the time and attention of business managers to discuss business needs and IT services. Steering committees, planning boards, and customer councils have difficulty getting business staff to join, attend, and engage in the discussions. Both the users and IT staff too often see involvement in these organizations as a waste of their professional time. They feel that topics are uninteresting, that discussions are either endless or filled with partisan fighting, that decisions are not made, or, if made, are ignored, and that the impact on one's career is questionable.
- *Business is poor at saying what it wants.* When business staff members do engage, they are often incapable of articulating what the business is doing in the present, where it plans to be in the future, and what role IT should play in either case. The problem often stems from poor business plans or occurs because the staff members who represent the business are too junior to be adequately aware of business direction and needs.

Not all businesses publish or widely distribute business plans. Often considered confidential documents, these plans are rarely shared with middle or junior management, and certainly not with the IT staff. The result is that middle or junior management staff are not able to

answer the questions IT asks about business direction. Sometimes business plans are well known but not recorded in a single document. The business strategy might be spread across numerous memos and meeting minutes. These documents might be available for IT staff if they know where to look for them.

Finally, business staff might know where the business is heading but are unable to articulate the most technology-relevant points to technical staff. Their lack of even fundamental IT knowledge can impede their ability to express the role technology can play in satisfying business needs or exploiting opportunities.

- *Business is dismissive of IT's concerns.* IT often feels ignored by senior business managers. There was a case of two IT directors who flew to Tokyo at the request of the Asia business unit leader. When they got there, they were kept waiting for two days. After finally being ushered into the business unit leader's office, they were asked what they wanted. The two IT directors sat there stunned and did not know what to say. After a short and unproductive meeting, they flew back to the United States.

Less dramatic are the reports by IT staff, including the CIO of senior business managers, repeatedly scheduling and rescheduling meetings. When the meetings finally took place, IT staff were given only an inadequate 15 or 20 minutes to discuss business direction and needs.

Problems are exacerbated if IT is seen by the business as coming from a different culture or from an oversight organization. One CIO reported that no one from the Latin America region would talk to her or anybody on her staff. They simply did not trust a corporate-run IT team.

- *User expectation is often unrealistic.* IT staff complain that users expect a level of service from IT that matches the service they get from the electric company. Users want and expect that all IT services will be available at peak performance all the time at a relatively inexpensive price.

The fundamental issues facing IT can be summed up as follows: IT has a serious problem if senior business management does not understand how IT decisions are made, the types and costs of the services IT provides, or the investments IT makes.

THE IT SOLUTION

IT, by and large, is sensitive to the criticisms of its users and has been working to alleviate them. Its response tends to center on four areas: new technology, monitoring tools, standardized processes, and running IT like a business.

New Technology

Most in IT see their primary mission as evaluating, procuring, distributing, and supporting technology for their user base. Technology, and knowledge about technology, is what distinguishes IT from the rest of the enterprise. Capitalizing on this difference, IT tries to keep up on the latest technology, looking for that new widget that will help the business.

Monitoring Tools

Recent years have seen the monitoring tool market explode. Mainframes allowed most system-monitoring tools to run within the mainframe itself. The vendor-supplied software and vendor-generated data allowed IT to have a decent picture of the service the machine provided and to diagnose problems when they arose. Vendors supporting early midrange servers offered limited tools to help understand what the hardware and software were doing, and when they did provide information, it was usually limited to the machine on which the monitoring software was running.

With the new millennium, that limitation is changing. Data center managers can now purchase monitoring and diagnostic tools that can peek into data packets, view queues, and understand the load differences across multiple servers, all in real time. These tools are a significant leap in understanding what the technology is doing and help in the diagnosis and remediation of problems.

Standardized Processes

As the size of IT has grown, so has its need for new processes and procedures to ensure that all of the components of IT are working together. Organizations that have well-defined processes and procedures can discover that they are no longer suitable. What worked so well for a \$1 billion company can be woefully inadequate when revenue tops \$4 billion. Business growth and new technology can render once-excellent processes obsolete.

Rather than creating new processes from scratch, there is a trend to apply tried-and-true standardized procedures. Popular sources of models for new processes include the Capability Maturity Model Integration (CMMI) from the Software Engineering Institute, the Information Technology Infrastructure Library (ITIL) from the Central Computer and Telecommunications Agency of the UK Government, Six Sigma from Motorola, and Control Objects for Information and Related Technology (COBIT) from the IT Governance Institute, part of the former Information Systems Audit and Control Association (ISACA).

Running IT Like a Business

One of the more popular CIO-level self-help trends is *running IT like a business*. It is everywhere in magazines and in newspapers. Virtually every

IT journal published has something to say about *running IT like a business* (RITLAB). Because RITLAB is not attributable to a single source or its popularization to a single author, exactly what it entails can be elusive. However, two themes appear in almost all discussions of the topic: (1) aligning IT with the business and (2) cost management.

Aligning IT with the Business Business alignment is the effort to ensure that the business and IT—its goals, direction, and timetables—are synchronized. The phraseology is unfortunate—How can IT *align* with the business? Isn't IT *part* of the business?—but the sentiment is clear and on target. A lack of business–IT congruence can result in several mismatches or cross-purpose activities. The most obvious is a strategy mismatch, such as the business focusing on becoming a low-cost provider while IT is providing premium services. Poor alignment can lead to directionality problems. For example, the business is planning to significantly shrink its operation in Asia while doubling it in Europe, just as IT is preparing for slight growth in both geographies. There can also be misalignments related to business model decisions, such as a senior business management decision to distribute business authority and responsibility while IT is still centralized.

Awareness of business–IT alignment problems is not new to *running IT like a business*. Sources report that it has been a top CIO concern for a number of years.⁵ The problem probably persists because no single solution will resolve it. Rather, it will require action on multiple fronts. Companies that have achieved some level of recognized alignment have focused on IT governance, IT strategy, portfolio management, customer management, and a few other programs to solve the problem.

Cost Management The 1990s and the first few years of the new millennium were times of significant corporate cost cutting. When business took an axe to its cost structure, IT was required to do the same. IT was a significant target because, for more than a decade, it was growing at a rate greater than the businesses themselves. Senior management became engaged when it realized that the small report printing organization in the basement of the finance department was suddenly costing the company \$100 million per year.

For many organizations, the drastic cost-cutting days are over. However, prudence dictates that IT monitor its costs or, once again, it will get help from corporate in managing its expenses. Cost management can help avoid the necessity of cost cutting by ensuring that costs are justifiable and within acceptable limits.

User Reaction

Senior business management is more hopeful than pleased with IT's approach. Rather than viewing IT's pursuit of *new technology* as a strength,

some senior business managers (e.g., CEO, corporate, business unit leaders, etc.) see IT as a toy store filled with the latest gizmos and digital trinkets. Only occasionally do they note some genuine new service to the enterprise. If asked, many senior business managers would rather have IT forgo the new toys and focus on making the existing ones work properly.

Running IT like a business has been well received by business managers as an approach, and they are waiting for some payoff, which seems a long time in coming. So far, neither the business nor IT has been willing to declare RITLAB a success.

There is little reaction to, and less understanding of, IT's other initiatives. Opinions about *standardized processes* and *monitoring tools* are rare because they are largely hidden from IT's customers.

Problem with Running IT Like a Business

IT's current approach is not wrong, it just doesn't go far enough. Keeping up on the latest *new technology* trends allows IT to acquire *monitoring tools* or provide better and/or cheaper services to its users. *Standardized processes*, whether adopted unchanged or used as a model for more customized processes, are also a good idea. *Running IT like a business* is, without a doubt, an excellent strategy. However, if IT and the business aren't headed in the same direction, then results will be unpredictable.

New governance models, better planning and budgeting, and business participation in portfolio management are all individually excellent ideas that every IT shop should employ. Collectively, they point out something critical that is missing.

All of these concepts will work to gain the support and trust of senior business management, but what will they do for the little guy? How does an IT strategy help the average clerk working to process orders or the salesperson on the road trying to access customer information? Planning, budgeting, and managing costs are all activities senior business managers want to hear about, and all are activities the average company employee, working day after day in the corporate trenches, couldn't care less about.

Shifting from calling them end users to calling them customers, as some IT organizations are starting to do, is a good move. It better reflects the nature of the relationship between IT and the user and is a good everyday reminder for IT staff. However, it does not go far enough. IT has two very different customers. There are the senior business managers—the CEO, corporate managers, and business unit leaders—who want accountability from IT. Given their ongoing relationship with IT, a more suitable name for this group would be clients. There are also the day-to-day workers, whose concerns center on application availability, good response times, and easy-to-use interfaces. They want quick response when there is a problem, and they do not want to see or hear from IT at other times. A better name for this group would be technology consumers.

Customers: Clients or Consumers?

For most people, customers, clients, and consumers all describe the same population. The business world is a little different, and although there are no standard definitions, there is a common usage. Customer is most often a generic term for anyone who buys or acquires a product or service from a vendor.

Clients are customers who have an ongoing relationship with a business. A business might not see a client every day or even every year, but when it does, the current relationship is based on past relationships. Lawyers, accountants, and investment bankers tend to refer to their customers as clients.

Consumers are customers who have a transactional relationship with the vendor. The customer might visit a business every day, but each transaction with the vendor is independent of every other transaction. Retail stores and restaurants tend to have a consumer relationship with their customers.

IT's relationship with senior business managers, who might be on IT committees, involved with IT budgets, or responsible for the oversight of IT's functions, is a vendor–client relationship. End users, who might rely on IT's services every day, but who only interact with the IT organization occasionally, and those interactions are episodic, have a more consumer-type relationship with IT.

If we look at the current strategy followed by many IT shops, we see that there has been considerable effort over the last few years to please IT's clients: the senior business managers who approve budgets and fire CIOs. But what about the technology consumers? What has IT done for them lately? IT's treatment of the technology consumer—the part of IT's

Exhibit 1.1 IT Clients versus IT Consumers

IT CLIENTS
<ul style="list-style-type: none"> • <i>Who</i>: Senior business managers (CEO, senior corporate staff, business unit leaders) • <i>Interaction with IT</i>: Ongoing through meetings, planning sessions, budgeting, etc. • <i>Concerns</i>: Alignment with the business and costs • <i>Likely topic for next interaction</i>: Strategy or budget

IT CONSUMERS
<ul style="list-style-type: none"> • <i>Who</i>: Basic IT users (clerks, salesmen, professional staff, managers) • <i>Interaction with IT</i>: Transactional, when something breaks or doesn't work properly • <i>Concerns</i>: Availability and performance • <i>Likely topic for next interaction</i>: Something that doesn't work properly

customer base that generates the revenue that supports the large paychecks for both senior business managers and IT staff—has changed little over the last decade.

Who—clients or consumers—does IT need to satisfy? The answer is both. Catering to one and ignoring the other is a no-win strategy. The consumers generate the revenue IT likes to spend. Ignoring this group is a nonstarter. However, IT is not going to get the chance to satisfy the consumers unless the clients say so. Client approval is needed for IT to do its job.

As Exhibit 1.1 shows, the challenge for IT is adequately serving all of its customers—clients and consumers. To do this, IT needs to recognize that clients and consumers have different needs and different criteria for IT success.

WHAT THE FOR-PROFITS CAN TEACH IT

Without a doubt, IT needs to be faster in developing new service offerings, it needs to focus more on customer service, and it must be more conscious of the image it projects to its customer base. The first two needs are probably obvious to most readers, and certainly areas where the advice created for the for-profits can be adapted for IT use. The third need, that IT tell its own story better, is not as obvious and might need some explanation.

IT has, for the most part, stood silent as critics have berated it for poor service, missed deadlines, and bloated budgets. In other cases, IT's response has been seen as inadequate, or worse, defensive. Both business and IT senior management tend to agree that IT has not been very effective in justifying its actions and its costs. Making matters worse, the negative attitude coming from users, real or imagined, dissuades IT from asking for help when a problem arises that is not obvious to the business. Instead, *fortress IT* hides problems, never to be shared with outsiders if at all possible.

The for-profits have considerable skill and success at building positive brand images and in marketing their products and services. Their knowledge can certainly help IT management build a positive image of IT that encourages constructive user communication and involvement.

Which brings us to the awkward reality of IT's situation. While there are a plethora of books published by business gurus for managing a for-profit organization, there are very few books published for managing a cost center. The revenue generators have their business heroes, such as Porter, Deming, and Drucker, but where are the overhead heroes? It appears there are none. If cost center managers want business guru help, then they will have to adapt the advice written for the revenue generators. This is the strategy behind market-driven management—taking the best advice from the for-profit business gurus and adapting it for the overhead manager.

Market-Driven Management

If any leader of a support organization is to acquire expert help in running his or her cost center, then that leader will have to settle for the advice given to the revenue generators. Some ideas can be directly applied to an overhead organization. Others must be modified or adapted to furnish the best value. Applying the best thinking on how to run a for-profit business to IT is called market-driven management (MDM). The name was chosen to suggest the impact that free-market processes can have on the captive markets found *inside* most enterprises. MDM is a program of using proven business techniques to help IT provide the technology-based services and support required by both senior business management clients and technology consumers.

MDM consists of seven components: (1) IT governance, (2) IT strategy and planning, (3) portfolio management, (4) customer management, (5) market intelligence, (6) service-offering management, and (7) performance management. Most of these components will be familiar to IT. None of the most recognized components, such as IT governance or portfolio management, have been radically changed from the familiar. MDM does not change them, but rather supplements them with methods, tactics, and techniques that can significantly expand their effectiveness. Similar to an engine additive for your car, MDM can improve the performance of IT governance.

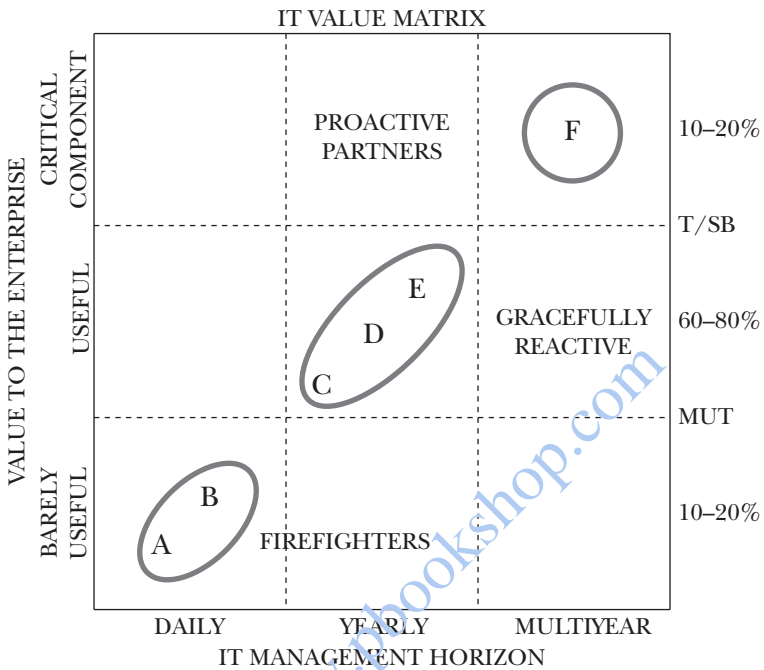
Other MDM components will be new to most IT organizations. Service-offering management, for example, builds on the experience of successful technology vendors. It incorporates into IT what technology vendors do to design and deliver IT services customers want and are willing to pay for.

Who Can Benefit from Market-Driven Management?

Will the for-profit-based MDM help every IT organization? No, at least not to the same extent. The benefits derived from MDM depend on the level of sophistication of the IT organization. Some IT departments have fundamental problems providing basic services. For them, keeping the systems up and running takes all of their energies. Looking at for-profit business techniques might not be the most effective use of their time. Other IT organizations are already doing what the for-profits are doing, so the MDM benefits for them might be limited. However, most IT shops could gain from one or more of the for-profits' techniques.

As Exhibit 1.2 shows, approximately 10 to 20 percent of the IT organizations are in the *barely useful* band on the chart. They provide basic services, mostly to the support areas such as finance and human resources. IT support for direct revenue generation (e.g., e-commerce, real-time inventory, just-in-time manufacturing, etc.) is minimal to nonexistent. IT staff spend most of their time responding to problems and putting out fires. IT's goal is to get through the day without a major disaster. One day

Exhibit 1.2 IT Value Matrix



at a time also happens to be their planning horizon. They are an almost totally reactive organization. IT departments A and B in Exhibit 1.2 would be in this category. A good name for this group is *Firefighters*.

Most IT organizations are in the *useful* band of the chart. They get by, and would be viewed by their internal customers, as just okay. They provide the basic services the enterprise needs. They do a fine job supporting other core services, such as finance and HR, and are starting to help in the direct revenue-generating areas. The company revenue generators feel that IT is a useful although not critical function. They would never think of IT as their business partner. IT still puts out fires and spends too much time on remediation, but its staff have developed skills and internal processes to the point that their firefighting is smooth and coordinated.

Compared with the chaos of the *Firefighters*, this group’s work looks like a ballet. They are still reactive, but they are *Gracefully Reactive*—a good description of this group. Their experience and skills disguise just how reactive they really are. They are like “the man behind the curtain” in the *Wizard of Oz*. As long as their internal clients keep looking at the stage, and not behind the curtain, IT appears to have its act together. They are good at annual planning and budgeting, even if the plans are little more than

annotated budgets. Thinking beyond the next 12 months or trying to anticipate business needs is rare. They are IT departments C, D, and E on Exhibit 1.2.

IT department F is in a class by itself. It does a good job providing the needed support services, but it also works with the business units to extend technology into the business itself. Rather than waiting for its internal customers to come to IT with new ideas, these IT departments seek out opportunities to work with the business to jointly develop fresh ways for embedding IT in the business. Their internal customers see them as a *critical component* of the business. Because they are so in step with the business, their IT strategy and multiyear plans are in tune with the business's strategy and multiyear plans. At the very most, 10 to 20 percent of the IT organizations have achieved this status. A good name for this group is *Proactive Partners*.

Firefighter organizations face some critical decisions. At the very least, IT needs to provide basic services without interruption. If they cannot do this, then they might want to consider learning a third-world language, because outsourcing might be just weeks away. Their salvation is technology. They need better technology, or, more likely, need to better manage existing technology. The solution to their problems lies in the organizational, skill, and process changes that many of the vendors, consultants, and non-profit support organizations can help provide.

The best of the *Firefighters* has run into the minimal utility threshold (MUT), a wall that stops them from progressing beyond *barely useful*. To cross the MUT, they need to learn not just how to manage technology, but how to manage a technology organization.

Most IT organizations, between 60 and 80 percent, exist in the band just above the MUT. They provide the basic services internal customers expect. They might do it elegantly, or they just might get by while hiding their reactive activities. They have successfully learned how to manage technology. Those near the top of the *useful* band have also learned to manage the people who oversee the technology and provide the structure and processes needed to keep the IT shop humming. The downside of this group is that they still provide technology to users. Their management skills are limited to managing technology, the IT organization, the staff that supports it, and IT's internal processes.

Those at the top of the *useful* band have gone as far as they can go as they come up against the Technology/Service Boundary (T/SB). To go beyond the T/SB, they need skills beyond those required to manage a technology organization. They will need to acquire the skills necessary to run a business.

The *Proactive Partners* do not necessarily do a better job than the *Gracefully Reactive* organizations in providing basic support services and maybe even revenue-generating services. The main difference between the *Proactive Partners* and the *Gracefully Reactives* is that the *Proactive Partners* do not sit in the IT organization waiting for the phone to ring. They meet with

their business users; or even better, they create opportunities to meet with business users and discuss how they can provide additional services. They function much like a technology vendor seeking out opportunities to sell IT services to the business. They recognize that their customers do not want technology, but technology-based services. They understand that IT is not a technology organization, but a business organization whose mission is providing technology services.

Many resources are available for helping the *Firefighters*, but their redemption will not be found by studying the for-profits. Their role models should be other IT organizations. The *Proactive Partners* might learn a few things from the for-profits, or they could just confirm what they are doing. There might be some areas where they could sharpen skills or provide some new service, but overall, they are probably already doing what they should be doing.

The group with the most to gain from studying the for-profits is the *Gracefully Reactives*. They are the two-thirds to three-quarters of all IT organizations that are doing an acceptable-to-good job but want to do a great job. They are the people who have taken technology as far as it will go in supporting the business. However, they realize that to go further, they will have to shift from leading a technology organization to leading a business organization whose business just happens to be technology. For this group, the for-profits can provide five techniques, processes, and organizational changes that can fundamentally alter their relationship with their internal customers for the better.

Starting an IT Business

Anyone planning on starting a new business needs to ask themselves the five critical questions presented in Exhibit 1.3.

These are good questions for any business, and, with just slight modification, for any IT organization as well. Does IT have an articulated and agreed-upon purpose or mission? Who are IT's customers? Are there different types of customers (clerks, salespeople, managers) performing different business functions? What do these different customers want? What services should IT provide to its customers? How should these needed services be sourced? Finally, how do you measure IT's success?⁶

Luckily for IT, the for-profits not only know the questions to ask, but they know how to obtain the answers as well. From the for-profit perspective, what IT lacks is not technical know-how, but an understanding of its market (customers, suppliers, competitors, and partners). What the for-profits can teach IT is how to better understand its customers, manage its suppliers, beat out its competitors, and leverage its partners—all for what the business believes is an acceptable cost. This approach is the essence of MDM, which is taken right out of the for-profit's playbook and will be discussed in greater detail in the following chapters.

Exhibit 1.3 Critical Business Questions

- *What is the purpose of the business?* Does the business have a clear mission and a set of goals and objectives?
- *Who are the customers?* Is there just one type of customer, or are there various customer segments or groups?
- *What do the customers need and want from the business?* How can the business best anticipate customer needs? How will those needs be communicated?
- *What products or services should the business provide?* Should the products or services be developed in-house? Should parts of the products or services be subcontracted? Should the creation of the entire product or service be outsourced? Should the business be involved in this product or service at all?
- *How will success be measured?* Revenue? Net income? Customer satisfaction?

Source: George Tillmann, “In Search of Overhead Heroes,”
Strategy + Business, Issue 39, Summer 2005, pp. 14–17.

SOME ADDITIONAL THOUGHTS

MDM. The application of proven for-profit business techniques, targeted IT’s customers (both senior business management clients and end-user technology consumers), in order to improve IT’s transparency and perception as safe hands. MDM focuses on IT’s market (customers, suppliers, competitors, and partners) in order to better support the business through the development and delivery of more valuable technology-based services.

Most IT shops are committed to providing the best service they can, and most do a decent job. Yet, despite an acceptable performance record, IT suffers dissatisfaction and second-guessing from its customers. Part of the problem is the services IT offers might be slow, unavailable, functionally weak, or simply the wrong service. However, just as likely, the reason for dissatisfaction with IT is the users’ perception that IT does not listen to them, does what it wants regardless of user needs, and is too expensive. The phrase “fat, dumb, and happy” comes to mind. In the midst of the gloom, there is hope.

MDM has two distinct advantages for IT. First, it targets all of IT’s customers, not just the senior business management clients. The end-user

technology consumers also gain from MDM. Second, MDM applies the best for-profit thinking to the cost center situation. It looks at successful technology vendors and adopts and adapts the techniques and practices that have made them successful. The expense side of the business now has just as much to gain from the great business management writers as the revenue side.

Whatever IT, or any overhead organization, is going through, the for-profits have already been there and, in most cases, resolved the problem. MDM brings to IT some of the best thinking of the for-profit world that can be applied to common IT problems. Using MDM can help IT move from being a mediocre organization to one of the best.

NOTES

1. Jack Hope, "A Better Mousetrap," *American Heritage Magazine*, Vol. 47, Issue 6, October 1996.
2. *Ibid.*
3. "IT Budget-to-Revenue Ratio Improves IT Management," *McLean Report*, Info-Tech Research Group, July 26, 2005, <http://www.infotech.com/MR/Issues/20050726/Articles/IT%20Budget-to-Revenue%20Ratio%20Improves%20IT%20Management.aspx#issue>.
4. "The Chaos Report," The Standish Group, 1995.
5. Paul Strassmann and Darek Bienkowski, "IT in the 21st Century: Speaking the Language of Business," ABTCorporation, www.strassmann.com/pubs/abtcorp/.
6. George Tillmann, "In Search of Overhead Heroes," *Strategy + Business*, Issue 39, Summer 2005, pp. 14–17.