IT Organization Imperatives: Key Behaviors to Drive IT Transformation

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The role IT plays within a company is changing to meet the demands of the digital world. This evolution is driving IT transformation both within IT departments and across the business and is moving businesses toward the 3rd Platform with an integrated and agile IT that helps drive business objectives.

Introduction

In the face of changing business needs and increased competition, business stakeholders increasingly demand that the IT organization be agile, innovative, and able to help identify and lead significant initiatives within their enterprises.

Yet IT organizations are not as good at enabling transformation in the enterprise as they may believe. *CIO* magazine's 2015 State of the CIO survey found that 33% of CIOs and 54% of non-IT executives believe that their organizations are "obstacles to non-IT groups' missions." To remain relevant, IT organizations must be prepared to help the enterprise transform.

Most IT organizations are built to provide stable, reliable computing resources and services, and they are neither culturally nor structurally built to enable or drive disruptive change. However, to fully support their stakeholders, IT organizations must develop practices and behaviors to support a well-aligned and responsive organization, including:

■ Strong relationships with lines of business (LOBs)

■ Strong service orientation

■ Increased focus on financial management

These behaviors enable the IT organization to be agile and responsive and, more importantly, help the broader organization transform. As an IT organization becomes increasingly agile, both the IT organization and the supported business will see improved results. In today's economy, business success is often driven by an IT organization's ability to innovate and to adapt to change. An IT organization that is "future ready" has the infrastructure and organizational practices in place to initiate change, adapt to outside disruptions, and help the enterprise transform.

Four Levels of Future Readiness

IDC recently conducted a global Future-Ready Enterprise Study, sponsored by Dell. IDC surveyed 2,529 members of senior and executive management in IT and lines of business as well as information workers with knowledge of converged infrastructure, big data, and the use of cloud in their organizations. Survey respondents were asked about relevant IT department organizational practices and about a variety of key performance indicator (KPI) metrics, enabling IDC to create an index linking IT infrastructure and organizational performance to KPIs.

To characterize gaps and opportunities, we identified four levels of enterprise capabilities, from most able to help the enterprise transform to least able to help the enterprise transform. We called them Future Creators, Future Focused, Future Aware, and Current Focused.

We found that the more "transformation ready" the organizations were, the stronger their business outcomes were across a wide range of KPIs, from revenue growth and profitability to employee productivity and employee retention. The key to this increased performance is the ability to focus on and continuously improve the high-impact behaviors of successful IT organizations.

Key Behaviors of Transformation-Ready IT Organizations: Aligned and Responsive

Creating an aligned and responsive IT organization requires a solid, almost single-minded focus on ensuring the maximum business value for the enterprise IT investment and being organizationally agile to help the supported organization adapt to changing business requirements. Successful IT performance is deeply related to three organizational characteristics that indicate an IT organization is most ready to help the broader enterprise transform:

■ Strong relationships between the IT organization and the supported lines of business

■ Strong service orientation of the IT organization

■ Increased focus on financial management of IT resources and alignment between IT expenses and enterprise priorities

Those characteristics seem straightforward, but they require a high level of organizational capability and cultural focus on the business value of IT. Organizations that demonstrate these characteristics appear to have higher performance across key performance indicators and business outcome metrics.

Transformation-Ready IT Organizations Have Stronger Relationships with the Business

Only about one in three IT organizations that are Current Focused — the lowest level of agility and transformation readiness — proactively works with LOB stakeholders to identify new and beneficial ways to leverage IT. This compares with 95% of Future Focused organizations and 98% of Future Creator organizations — those IT organizations that are the most agile and transformation ready (see Figure 1).

FIGURE 1

IT Organizations Proactively Work with LOBs
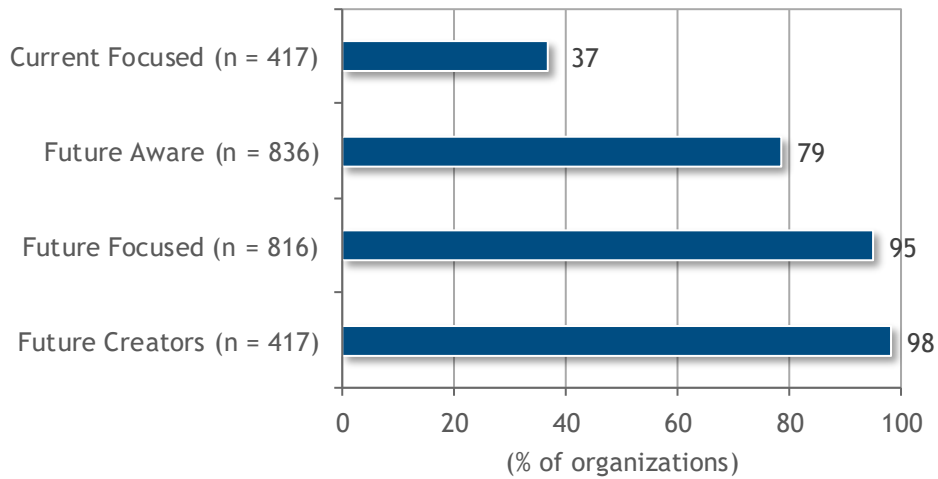
Source: IDC's Future-Ready Enterprise Study, June 2015

The performance impact of that proactive engagement is impressive. Enterprises that have a strong relationship between IT and LOB have increased performance in diverse areas of business measurement. For example, enterprises in which the IT organization works proactively with the line of business reported

- 50% greater improvement in compliance-related activities

- 80% greater growth in revenue from established product lines

- 90% greater growth in revenue from new product lines

over the past three years, compared with enterprises in which the IT organization doesn't proactively work with the line of business.

IT organizations must increasingly work strategically with every line of business. Organizing the IT department to be fully responsive to LOB requirements is the critical first step to improved organizational performance.
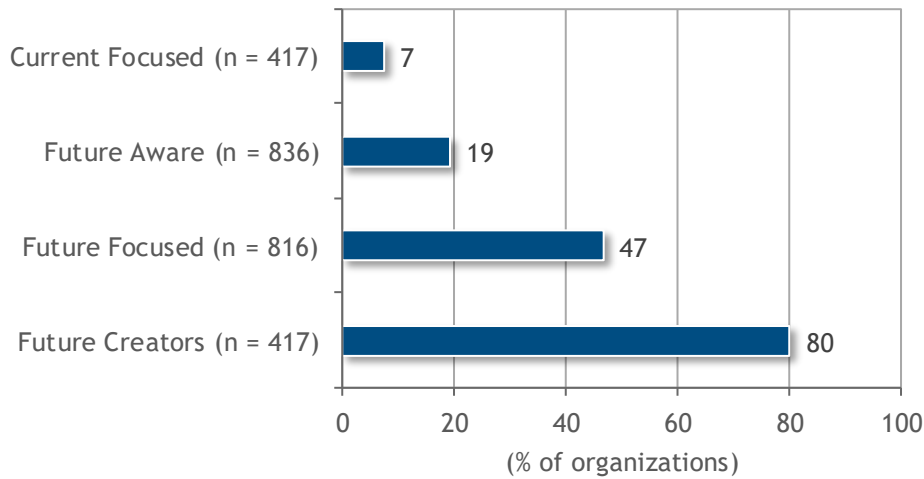
Strong Service Orientation Focused on Enabling the Business

To be responsive, IT organizations must be in touch with the needs of their stakeholder LOBs and have the infrastructure and processes in place to effectively engage and respond to stakeholder requirements. The dialog between well-aligned organizations and their stakeholders must be continuous.

The highest-performing IT organizations better support business needs than lower-performing IT organizations. In our research, 80% of Future Creator organizations cited high levels of IT support for business needs, compared with only 7% of Current Focused organizations (see Figure 2).

FIGURE 2

IT Organizations Extremely Capable of Supporting Business Needs

Current Focused (n = 417): 7
Future Aware (n = 836): 19
Future Focused (n = 816): 47
Future Creators (n = 417): 80

(% of organizations)
0 20 40 60 80 100

Source: IDC's Future-Ready Enterprise Study, June 2015

In high-performing organizations, IT is working effectively with LOBs to identify new ways to use technology to move the business forward. And the performance results demonstrate the impact of that support. For example, enterprises in which the IT organization has a strong service orientation reported

■ Nearly 80% greater increase in inventory turns

■ 100% greater increase in bookings

■ 140% greater improvement in employee time spent serving customers

over the past three years, compared with enterprises in which the IT organization doesn't have a strong service orientation.

Service orientation is the ability and desire to recognize and meet stakeholder needs, sometimes even before those needs are fully articulated. Service-oriented people are organized and empowered to provide satisfaction to their clients.

Expanded Focus on Financial Management

In nearly every industry and nearly every enterprise, technology performs essential roles — including supporting internal operations such as:

■ Managing the supply chain, scheduling operations, or monitoring the business performance

■ Enabling effective customer engagement and support through online presence, distributed call centers, or order fulfillment

■ Enabling digital products or services to be sold by the enterprise

Even in governmental organizations, nonprofits, or hospitals, technology is often essential for delivering constituent services, supporting the organizational mission or ensuring high-quality patient care.

Technology Is Not an "Efficiency Play"; It Is a Competitive Necessity

The value of technology comes from the ability to adapt to market conditions, sense and respond to demand, enable faster and better decision making, and make improvements to operational processes more quickly than previously possible. With these capabilities, technology has become an engine driving increased engagement, improved customer experiences, and greater revenue and growth.

At the same time, the allure of technology can create the unfortunate incentive to overdeploy technology to solve every issue or to use technology to respond to every need. This is especially problematic when the solution does not result in a commensurate improvement in business performance.

To counter this trend, high-performing enterprises and their IT organizations have established an effective method of helping lines of business prioritize issues and needs. By assigning direct costs for IT services and charging those costs back to the stakeholder business unit or line of business, both the IT organization and the line of business are motivated to remain focused on using IT to address the business issues that have the most value.

When IT leverages a chargeback method, the power of IT is maximized to support the greatest organizational impact. And the performance improvement is impressive. For example, enterprises that leverage chargeback processes for IT services reported

■ 55% greater improvement in customer satisfaction

■ 82% greater improvement in profit margin

■ 150% greater increase in employee productivity

over the past three years, compared with enterprises that don't use a chargeback process.

The level of operational transparency required for effective chargeback processes is enabled by an infrastructure and services organization that can credibly allocate costs to various lines of business or operational divisions.

By leveraging the practices of strong relationships with the lines of business, strong service orientation, and alignment of IT expenses with enterprise priorities to create an agile and responsive IT organization, high-performing organizations are able to maximize the impact of IT on enterprise performance.

How IT Works: Continuous Improvement

To best leverage these practices to become agile and responsive, the IT organization must establish an "end-to-end" view of the IT service offering and create an organizational structure that enables responsive cross-functional teams. For the high-performing Future Creators we identified, this required embarking on a path of continuous improvement of both the IT infrastructure and the IT organization itself.

Highly effective IT organizations constantly work to improve their own performance. This includes regularly and continuously improving the skills of the IT staff, measuring the success of the IT organization through the lens of the LOB stakeholders, and leveraging external benchmarks to "raise the bar" on the IT organization's own performance standards.

Training Is a Strategic Enabler

Organizations that maximize the value they receive from technologies such as sophisticated converged IT infrastructures, cloud, and big data and analytics (BDA) more consistently include training as part of their strategic planning and key initiatives. In fact, 98% of Future Creator organizations incorporate IT employee training into IT's overall strategic planning and all key initiatives, compared with only 38% of Current Focused organizations.

The focus on training helps both the enterprise and the employee in several dimensions. Regular, relevant training for the IT organization improves the organization's performance by ensuring staff members are aware of the features and complexities of the IT products, tools, and environments in use. Well-trained IT organizations spend up to 20% less time "fixing" their IT environment and apply that time to "evolving" or improving the functionality of the IT environment. Regular training also gives the enterprise the necessary capabilities to take advantage of new technologies and techniques and provides a foundation on which to make strategic changes to the infrastructure.

Regular, relevant training helps "sharpen the saw" and helps employees work most efficiently within the IT environment. It also helps employees envision their role as the organization evolves, making employees more relevant to the strategic shift and empowering employees to help improve the infrastructure to best meet the needs of the line of business.

IT Service Effectiveness Focus

To improve the relevance of IT to the line of business, organizations are reintroducing service-level agreements (SLAs) to help align IT organizational activities with the most important business needs. The strongest-performing organizations more consistently leverage SLAs to define and manage IT service delivery than organizations at other levels of future readiness. In fact, 95% of Future Creator organizations incorporate SLAs with their business stakeholders into the IT management strategy, compared with only 30% of Current Focused organizations.

SLAs have been defining the relationship and commitments between IT and business for decades. Traditional SLAs are focused on contractual efficiency in areas such as infrastructure performance, availability, response times, security, disaster recovery, and compliance. While those IT metrics continue to be critical for IT technical services, they fall significantly short of measuring the effectiveness of IT business services, specifically IT's contribution to business outcomes.

Business stakeholders now expect that IT is working to ensure agility and alignment in addition to performance and reliability. This changes the metrics to focus IT's effectiveness in creating new customer experiences, generating new revenue streams, rapidly responding to changing business conditions, and improving operational efficiencies for the business. SLAs need to reflect effective business impact.

The emerging demands of the business are not only driving automation and transforming business processes but also creating new products and services, often digitally enabled, that will establish competitive advantage and increase profit margins. This business dependency upon technology initiatives creates an imperative for the IT organization to commit to effective SLAs. The opportunity is enormous for IT executives to effectively use SLAs in brokering, integrating, and orchestrating the delivery of IT business services.

Leverage External Performance Benchmarks for Continuous Improvement

In addition to a well-trained IT organization and leveraging SLAs to maximize alignment, organizations with the best IT utilization measure their service performance against that of other firms. These highly effective Future Creator IT organizations are three times more likely to track and competitively benchmark IT service levels on key metrics in order to continually raise the bar on performance.

By regularly examining the performance of IT organizations and functions outside the enterprise, IT leaders put increased priority on continuous improvements in their own IT performance.

The focus on continuous improvement for both technologies and IT organizational practices suggests the journey never ends. Successful organizations are constantly creating, innovating, and adapting to maintain their competitive advantage. With a strong training program and a focus on SLAs and continuous improvement, the most effective IT organizations can concentrate on multiple dimensions of IT performance including business value of IT, financial performance and alignment, operational performance, and technology performance.

Benefits to IT: More Effective Adoption of Enabling Technologies

Being transformation ready reflects the IT organization's capability and willingness to leverage enabling technologies to increase business and IT effectiveness. This is especially true with regard to converged infrastructure, enterprise use of cloud, and BDA technologies.

Converged Infrastructure

Many organizations leverage converged infrastructure to enable IT performance improvements, and these organizations also derive business benefits from their converged infrastructure. Because the most successful organizations are focused on each dimension of IT performance (business value, financial, operational performance, and technology performance), these successful organizations are more likely to measure utilization rates for compute, storage, and network workloads. This helps those organizations focus on the cost and business value received from IT. This transparency of utilization also supports a credible chargeback system, ensuring the IT organization is an effective steward of its stakeholders' resources.

Cloud Strategies

The best-performing organizations not only are making more extensive use of cloud but also have more sophisticated cloud strategies that are more easily aligned with the specific needs of each requirement. 32% of Future Creator organizations have highly diversified cloud strategies, compared with only 4% of Current Focused organizations. This means the best-performing organizations can more easily choose among several cloud options to match specific capacity, costs, and performance requirements while managing them as a single cloud resource. This flexibility supports business agility and supports enhanced service orientation of the IT organization.

Big Data and Analytics

While many organizations use BDA in some way, the highest-performing organizations see the greatest business benefits. They provide access to BDA across all levels of the organization, from executives to operational staff. By providing high levels of BDA access to operational staff, these organizations democratize data, making it available for decision making across the enterprise. This democratization of data and data orientation helps the organization and enterprise managers make data-informed decisions to maximize IT and organizational performance.

Conclusion

Successful IT organizations are more able to help their enterprise transform and achieve greater business outcomes across a range of metrics. The most transformation-ready organizations ranked higher than the least transformation-ready organizations across every KPI we evaluated. Notably, the most future-ready organizations experienced double the increase in revenue over the past three years compared with Current Focused organizations (37% increase in revenue versus 18%). Employee productivity gains show a similar wide performance gap, with future-ready organizations experiencing 39% improvement in productivity compared with only 20% improvement for Current Focused organizations.

To achieve these types of performance improvements, high-performing enterprises have adopted new relationships between IT and the supported business and have the capability to better integrate new technologies into their IT portfolios to drive adoption of enabling technologies throughout their enterprises. The behaviors are easy to describe but can be complicated to adopt. They require a fundamental shift from being responsive to becoming proactive in delivering the services and support that lines of business require. This includes:

- Building and maintaining strong relationships with the lines of business, including building the IT organization to be fully responsive to LOB requirements

- Developing a strong service orientation by creating processes that focus on customer service and by empowering people to provide high levels of customer service

- Increasing focus on financial management enabled by an infrastructure and service alignment that can be credibly allocated to various lines of business

These objectives are enabled by regularly and continuously improving the skills of the IT staff, measuring the success of the IT organization through the lens of the LOB stakeholders, and leveraging external benchmarks to "raise the bar" on IT performance standards.

The goal of these endeavors is to create and maintain an IT organization that is increasingly transformation ready, where both the IT organization and the supported business see improved results. A transformation-ready organization has the IT infrastructure and organizational practices in place to anticipate and initiate change and effectively adapt to outside disruptions. This results in better value from cloud, big data, and converged infrastructure investments as well as improved IT agility, and innovation. And finally, it results in better enterprise performance in the face of increased demands on the IT organization and continuously increasing competition.