

## THE AGILE IT ORGANIZATION:

### An Increasingly Key Enabler for Business Strategy Execution

Today's businesses must be extremely agile to preserve and enhance value. Major business initiatives previously required multiple quarters to plan and many more quarters to execute. In many industries, today's information-powered competitors can conceive and execute significant business initiatives very quickly, often in the bounds of a single quarter. To be competitive and create shareholder value in such an environment, businesses must be extremely agile, with the ability to respond to external forces, fleeting market opportunities and competitive threats by launching initiatives of their own very quickly. Increasingly, the key enabler of this business agility is the agile IT organization.

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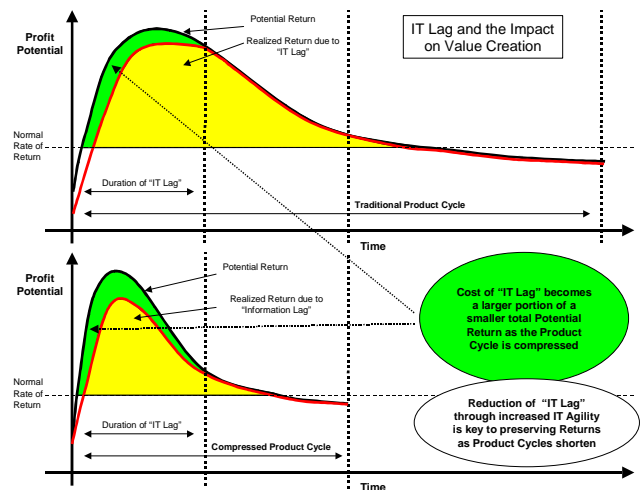
#### RISKS TO BUSINESS VALUE CREATION

While few will argue the potential of Information Technology for enhancing business value, many would openly debate the benefits realized to date. Most organizations, having invested heavily, find themselves wondering if and when the “real ROI” will begin.

IT, along with great promise, especially in raising productivity and operational efficiency, brings two major risks that can drain significant value from the business. The greatest risk lies in the area of opportunity costs: business initiatives will be held back or experience reduced effectiveness due to an IT function that cannot effectively supply their information needs. Without the necessary information, businesses may be forced to stay on the sidelines or launch handicapped initiatives against the aggressive,

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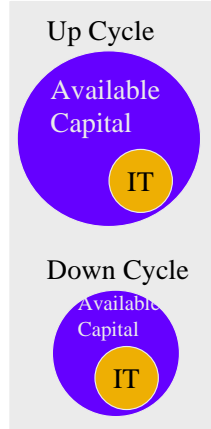
information-powered competitors. Either way, business value loss, not gain, is most likely the outcome.



The second major risk is that an IT organization that is not agile will also likely be very inefficient and this will in turn limit the extent to which the business can launch initiatives. The inefficient IT organization will tend to burden up the cost structure of the business, increasing the pressures on cash flows and forcing the business to obtain additional capital to finance its business-level initiatives or to reduce the number or scale of initiatives, thereby limiting value creation.

Interestingly enough, the ability of the IT function to avoid exposing the business to these two major risks is largely independent of the resources at hand. In fact, IT organizations that have been appropriated significant resources have a higher likelihood of limiting value creation, as sheer mass will usually guarantee their inability to nimbly maneuver to support

the information needs of business initiatives and in all but the rarest cases, these well-endowed IT organizations will be extremely inefficient, pressuring cash flows and further limiting the offensive maneuvers of the business.



## A PROJECT-DRIVEN APPROACH

The first enabling approach provides a charter and an infrastructure for IT to become a project-driven organization. Every activity, every resource, every cost is attributable to a project.

This project-driven approach provides the key linkage to drive alignment between business initiatives and IT activities and allows for better management, visibility and utilization of IT assets and expenditures. In addition, this structure and approach allows for IT costs to be properly accounted for within business initiatives, giving a more accurate picture of projected and actual rates of return for the business initiatives. Many times, a business initiative passes the hurdle rate in the capital budgeting process and is approved only because the supporting IT costs are not fully considered.

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Especially within larger enterprises, IT organizations lacking a project-driven approach tend to lapse into a sluggish state, where IT departments or functional groups just “exist”, continuing to serve some long-expired purpose which may be only vaguely refined year after year.

In a project-driven IT organization, resources and functions exist only in the context of a project, and the profile of the IT organization is largely a function of the profile of the business at any point in time. The IT organization’s project portfolio will contain two types of projects at any given time. There will be “offensive” IT projects, wherein a business initiative is launched and one or more supporting IT projects is spawned to quickly and effectively supply the information needs of that initiative. There are also “sustaining” IT projects, which provide basic infrastructure to be leveraged across many projects and also provide maintenance and operations support for previous initiatives. A project time tracking system is an essential tool for establishing the project-driven approach.

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To accelerate the migration to a project-driven approach, many organizations establish a Project Management Office. In addition to instilling a project-driven approach, an effective PMO can also increase maturity in the processes of project management, a strategic competence discussed below.

## DEVELOPING AGILITY IN THE IT ORGANIZATION

This paper outlines a set of enabling approaches, required competencies and human capital that will significantly increase the agility of the IT organization.

This increased agility will equip the IT organization to add tremendous value by quickly and effectively supplying the information needs of business initiatives and reducing the overall operating leverage of the business.

“Due to our IT systems, we were not in competitive mode in the 1990s. My job was to make sure IT never inhibited the speed of GM again.”

Ralph Szygenda, Group VP and CIO - General Motors  
InformationWeek, June 3, 2002

## STRATEGIC IT COST MANAGEMENT

In addition to a project-driven approach, the adoption of a strategic cost management approach for IT is a critical success factor in achieving agility. The mix of fixed and variable costs within the IT cost structure is an essential determinant of the degree of agility that can be attained.

In addition, as an enterprise becomes more information-centric, IT-related costs will account for a larger and larger percentage of the overall cost structure of the enterprise. By effectively managing the IT cost structure to include a strategic mix of fixed and variable costs, the overall operating leverage of the firm can be better controlled and overall business risk will be reduced, especially for firms with cyclical revenues.

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As a result, the business will exhibit more predictable performance as variable IT costs can be quickly shed in response to revenue troughs.

An IT organization that has high fixed costs, usually dominated by labor and infrastructure costs, will be less flexible and will exhibit less agility in support of business initiatives. In addition, as IT organizations develop larger fixed headcounts, a natural consequence is that the human resources issues inherently involved with permanent staff will begin to command more and more attention, diverting focus and energies from value enhancing activities.

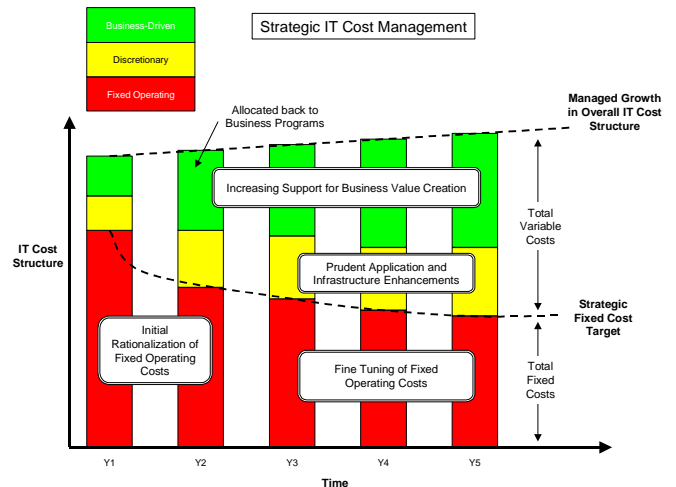
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Left undisturbed, IT organizations tend to evolve in the direction of higher fixed costs. Over time, fixed costs creep into the system and very seldom do they creep out voluntarily.

New headcount is added in support of an initiative, but those headcount never leave as the initiative runs its course – they simply are “absorbed” into the IT

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organization and often take on some marginally valuable role that they are often marginally qualified to fulfill. The same phenomenon applies to infrastructure costs as well. New platforms and software packages are purchased to support an initiative, but the depreciation and operating expenses associated



with these new assets remain on the books long after the initiative is distant memory. Oftentimes, headcount and substantial assets cannot be easily traced back to their sponsoring initiatives.

Under the strategic IT cost management approach, a target cost structure is established based on a variety of environmental variables and the current and projected project portfolios. This target cost structure effectively supports the project portfolio while minimizing fixed, or “sustaining”, costs. As each environment is unique, there is no hard guideline for a target ratio of fixed and variable costs. It is often most effective to establish a series of incremental targets that allow the ratio of fixed costs to be systematically reduced to a target level over a period of time.

## REQUIRED COMPETENCIES FOR IT AGILITY

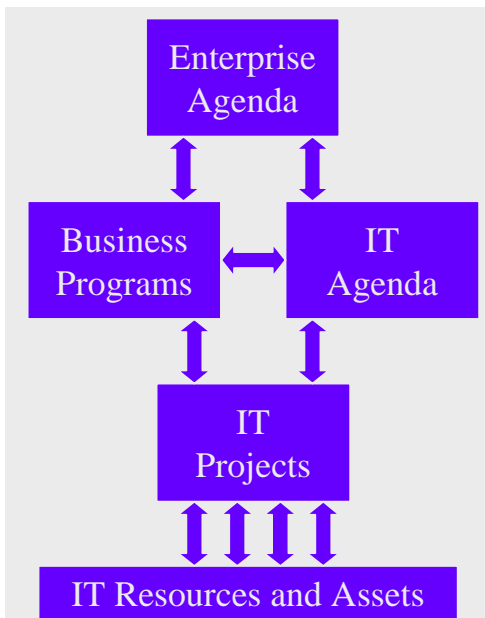
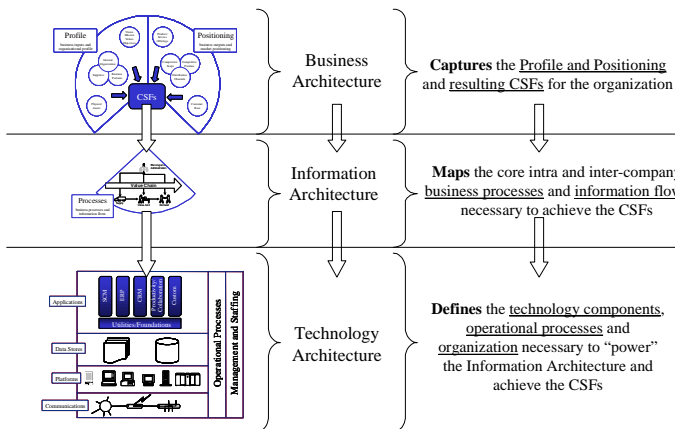
In addition to establishing the project-driven and strategic cost management approaches, the agile IT organization must develop certain core competencies to remain agile in supporting a changing business environment.

## STRATEGIC ALIGNMENT

The first required competency, strategic alignment, is the ability to effectively establish and continuously align a supporting technology strategy to the business strategy. The business and technology strategies must be fully reinforcing at all times. Any change in the business strategy must be quickly and appropriately reflected in the technology strategy.

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This competency must be reflected in the abilities of the CIO and other IT leadership. The CIO must have the business acumen to assess the steps required to realign the strategies and must have the leadership skills to drive the IT organization (and the greater organization) in effectively and quickly executing the necessary course changes.



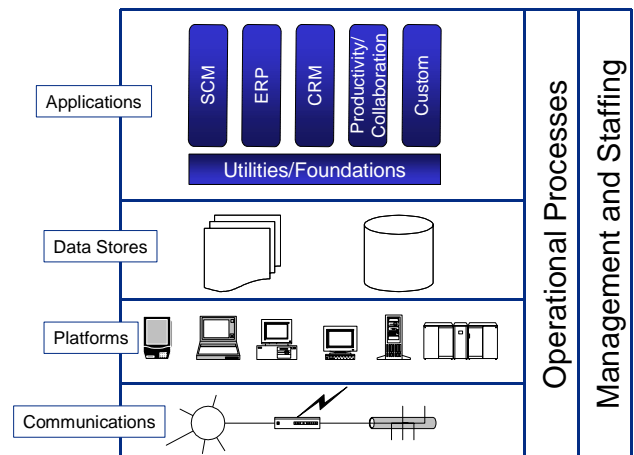
## TECHNICAL ARCHITECTURE

The technical architecture is the foundation on which new applications are deployed to support the information requirements of business initiatives. This foundation is a complex mix of communications technologies, operating systems and hardware platforms, data stores, middleware/EAI tools and centralized and distributed applications. The competence to effectively manage this foundation is a major enabler of IT agility. This competence requires strict discipline in documentation and the establishment of technology standards and operating processes and policies.

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In addition to effectively managing the foundation today, the IT organization must continually monitor the emergence of new standards and products that have the potential to increase flexibility and performance or substantially decrease the operating expenses of the technical architecture in the future. Technologies such as Web Services and event-driven infrastructures promise substantial efficiencies and new capabilities. The IT organization must proactively prepare the greater organization to gain the benefits of these developments.

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## PROJECT MANAGEMENT

Due to the high failure rates of IT initiatives over the last decade, project management competence is finally being recognized as a leading determinant of success or failure. Whether completely insourced or partially outsourced, strong project management competence is required to achieve agility and consistently drive intended business value from IT initiatives.

Project management competency includes the ability to effectively partition a major initiative into phases and manage concurrent execution. By partitioning a major initiative into phases, business value can be maximized, as the highest value features will be implemented in the initial phase and remaining features can be implemented in value-priority order over time. In addition, by partitioning an initiative, all inherent risks (e.g. changing business requirements, technology risk, vendor risk, etc.) can be more effectively managed.

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## OUTSOURCING MANAGEMENT

To maximize responsiveness while maintaining the target cost structure, the agile IT organization will tactically leverage external resources. A project-driven approach, project management competence, and a solid technical architecture set the stage for effective tactical outsourcing. The competency to effectively establish and manage outsourcing arrangements through the full lifecycle is a key determinant of agility.

The ability to quickly develop detailed requirements specifications that clearly define functional, technical and operating requirements is essential in driving the procurement of outsourced services. Without this ability, the outsourcing experience will be contentious as gaps in expectations on a variety of issues will surface and the intended value will not be realized.

Outsourcing is by definition a contractual relationship and that relationship must be diligently structured to ensure that the desired benefits for both parties are achieved with minimal friction. Clear and effective definitions of scope of services to be provided, service level agreements, vendor-customer interface protocol, expected deliverables, change control mechanisms,

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compensation structures, payment schedules, and other terms and conditions are all key to productive outsourcing relationships.

During the execution phase, the outsourcing relationship must be constantly managed to ensure adherence to the contractual terms of the arrangement and to effectively deal with changes to the arrangement as they become necessary. Many properly structured outsourcing relationships fail due to a lack of diligence during the execution phase.

As tactical work is increasingly shifted offshore, the added logistical and cultural complexities make effective management during the execution phase even more critical.

As most of the best practices in procurement and outsourcing of other core business functions are equally applicable (e.g. supplier certification), the IT organization can often leverage the overall organizational competencies.

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### IT Salary Comparison

Country	Base Annual Salary (US\$)
China	\$4,750
India	\$5,850
Philippines	\$6,550
Russia	\$7,500
Indonesia	\$12,200
Japan	\$44,000
United States	\$63,000

SOURCE: ABERDEEN GROUP, NOVEMBER 2001

## HUMAN CAPITAL REQUIRED FOR AGILITY

With a focus on flexibility and strategic cost management, the agile IT organization will have far fewer permanent staff members, but these staff members will be more experienced, more educated and more business-oriented. The permanent staff will be required to be less technical and task-oriented and much more focused on driving business results through technology alignment, execution and risk management. The agile IT organization must have a supporting human resources strategy to ensure that these individuals are effectively attracted, retained and developed.

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In line with their higher qualifications, the total potential compensation required to attract and retain the permanent staff will be higher on average. These individuals are of the type sought after by traditional management and technology consultancies and their total potential compensation will need to be competitive, all factors taken into consideration. Total potential compensation should be a mix of salary and incentive compensation, with senior staff also entitled to stock options or other equity participation mechanisms. Incentive compensation and the degree of equity participation should be driven by performance against personal, IT and overall business objectives.

In addition to effective compensation programs, retaining these individuals will require the establishment of effective career paths. As these individuals will be both technology and business-savvy, their aspirations will often take them beyond the bounds of the IT organization. The greater organization should recognize that these business-focused technology professionals likely represent the next generation of business leaders and that effective mechanisms to promote their broader development must be established.

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To be effective, the agile IT organization must obviously have strong leadership. The drive towards IT agility itself can be very traumatic for the organization as comfort zones are breached and status quos are discarded. A strong leader is required to guide the organization through this process, a process that will cross all functional areas of the business.

Also, the agile IT organization, by design, will be comprised of high performers with high potential and the IT leadership must be able to effectively manage and coach these strong personalities to deliver results.

## AGILE IT: THE RESULTS

By adopting the enabling approaches, developing the required competencies, and developing and maintaining the proper human capital, an IT organization will significantly increase its degree of agility. The resulting organization will be markedly different, as will the results. The agile IT organization will be far smaller, far more efficient and far more responsive in supporting the information needs of the business at a lower fixed cost, allowing the business to bolster its competitiveness against increasingly aggressive, information-powered competitors.

## ABOUT THE AUTHOR

John M. Damgaard is currently Vice President of Operations and Principal with CGN and Associates, Inc., a Professional Services firm focused on providing strategic guidance and technology solutions to the world's most admired companies.

Prior to joining CGN, Mr. Damgaard held various technical and management positions within Maytag Corporation, leading its transition to a standards-based technology infrastructure. During his tenure at IBM, Mr. Damgaard participated in the development of the award-winning OS/400 operating system at the Rochester, MN facility, winner of the Malcom-Baldrige National Quality Award.

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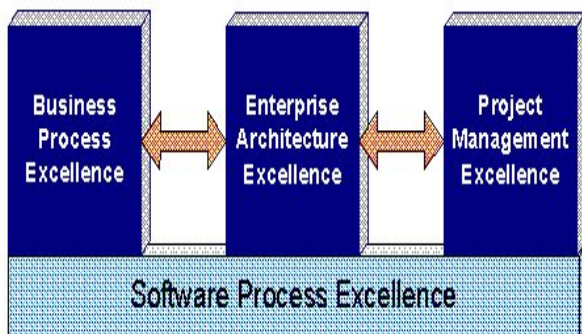
## WORKING WITH US

Our simple objective is to become an invaluable thinking partner for our customers, providing them with strategic guidance and technology expertise to allow them to be **agile** in responding to their ever-changing business environment.

As trusted advisor and partner to some of the world's most admired companies, we have gained a wealth of experience and insight and continue to earn the respect and business of our customers through our value-driven approach.

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