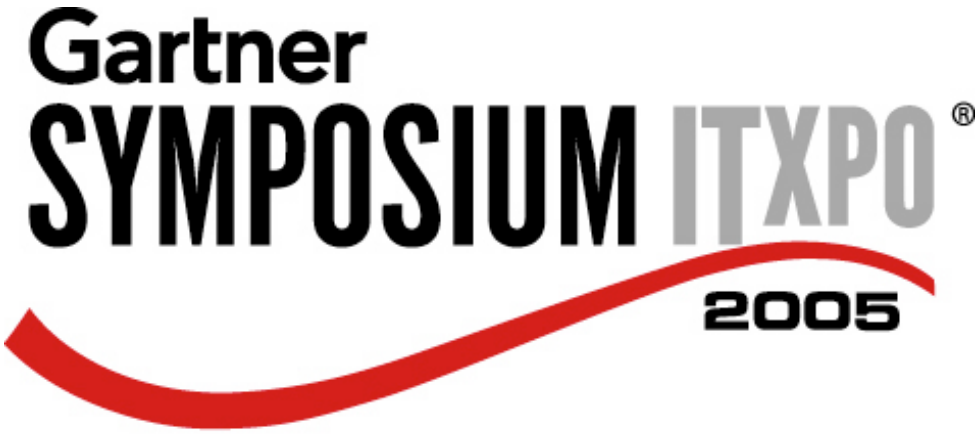
The Scenario for IT Management and Organizations — The Years of Transition



November 7-11
Cannes, France

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John Mahoney

7-11 November 2005
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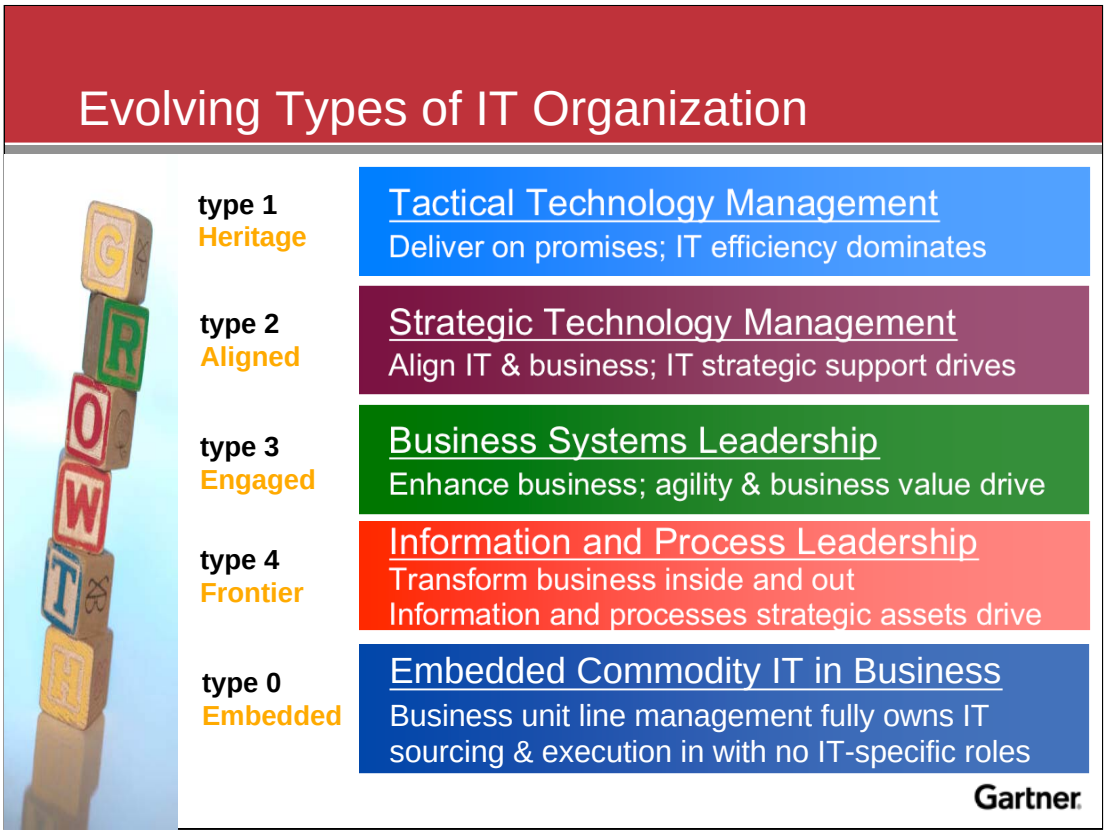
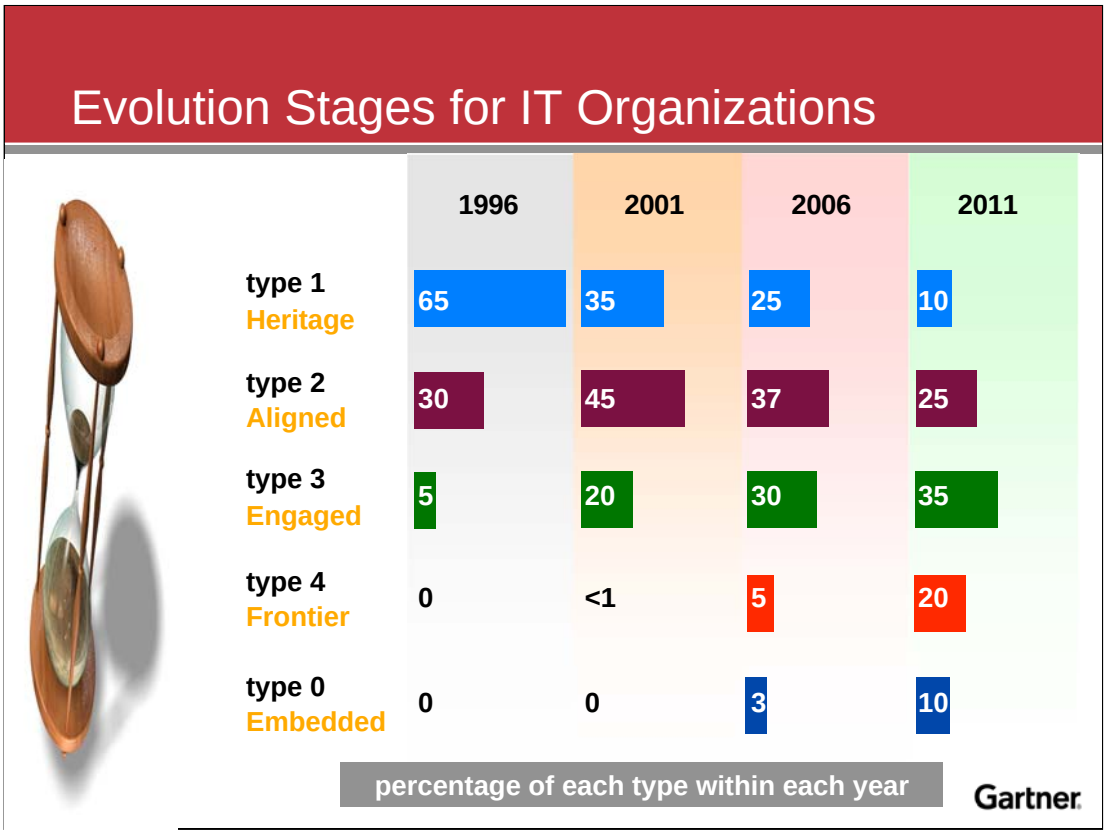
Cannes, France

Strategic Planning Assumptions: At least 75 percent of IT organizations will change their role by 2011 (0.7 probability). At least 10 percent of IT organizations will be disbanded and 10 percent more will be relegated to commodity status by 2011 (0.6 probability).
IT organizations in 2011 will have 20 percent less people, 40 percent less in-house technology roles and double the number of information, process and business roles compared to 2005 (0.7 probability).



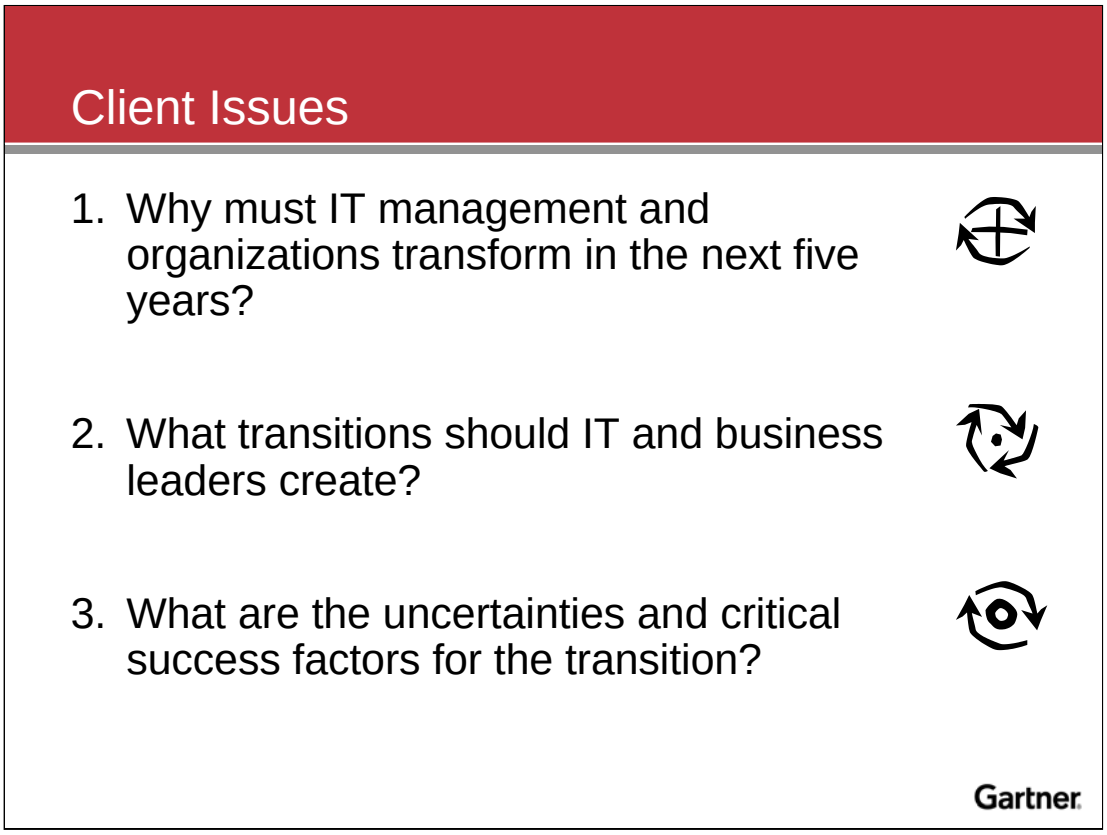
IT organizational types are developing in response to the maturation of traditional applications of technology, the growing role of outsourcing and the greater penetration of technology into all aspects of business. Types 1 and 2 have been familiar for several years. Type 3 typifies many leading IT organizations in 2005. A new organization type is emerging — one that will take the lead on information and process. While it will grow from an IT base, its primary focus will be business transformation and strategic assets of information and process. When mature, it may no longer be identified as an IT organization. This parallels the evolving roles of IT leadership that Gartner has previously outlined, in which the strategic IT leadership role will split into business technology and business network leaders. An alternative evolutionary path is for IT to be embedded in business as a pervasive commodity that is managed by business executives as part of their regular roles. In this case, IT will typically be sourced as part of a broader business process.

Action Item: IT leaders — Identify your present and future organizational type and create personal and organizational development plans accordingly.



In the mid-1990s, most IT organizations were technology-focused type 1 style. By the end of the decade, there had been a major shift to align and engage with the business as a whole. Most IT organizations were type 2 or type 3. In the middle of this decade, the majority position remains balanced between alignment and deeper, more strategic engagement. However, we are starting to see two new organizational styles. The Type 4 or Frontier style is starting to emerge in leading businesses. There remains controversy about the extent to which IT as such can, should or will take and be trusted with leadership of business processes and information. In some cases, those roles will arise from another source than the IT organization, and the new entity will then be obliged to absorb many of the strategic and architectural roles formerly played by the IT organization in order to fulfill its mission. The evolution is not all in one direction. Some businesses are starting to disband their IT organizations and to embed IT throughout the business. This will be significant although only around 10 percent by 2011.

Client Issues



IT leaders, IT organizations and IT professionals face a new period of radical change. Business opportunities from process-led transformation, changes in business centralization, business unit autonomy and the IT services market all demand new organizational and management approaches. There will be a new storm of IT innovation.

Why must IT management and organizations transform in the next five years?

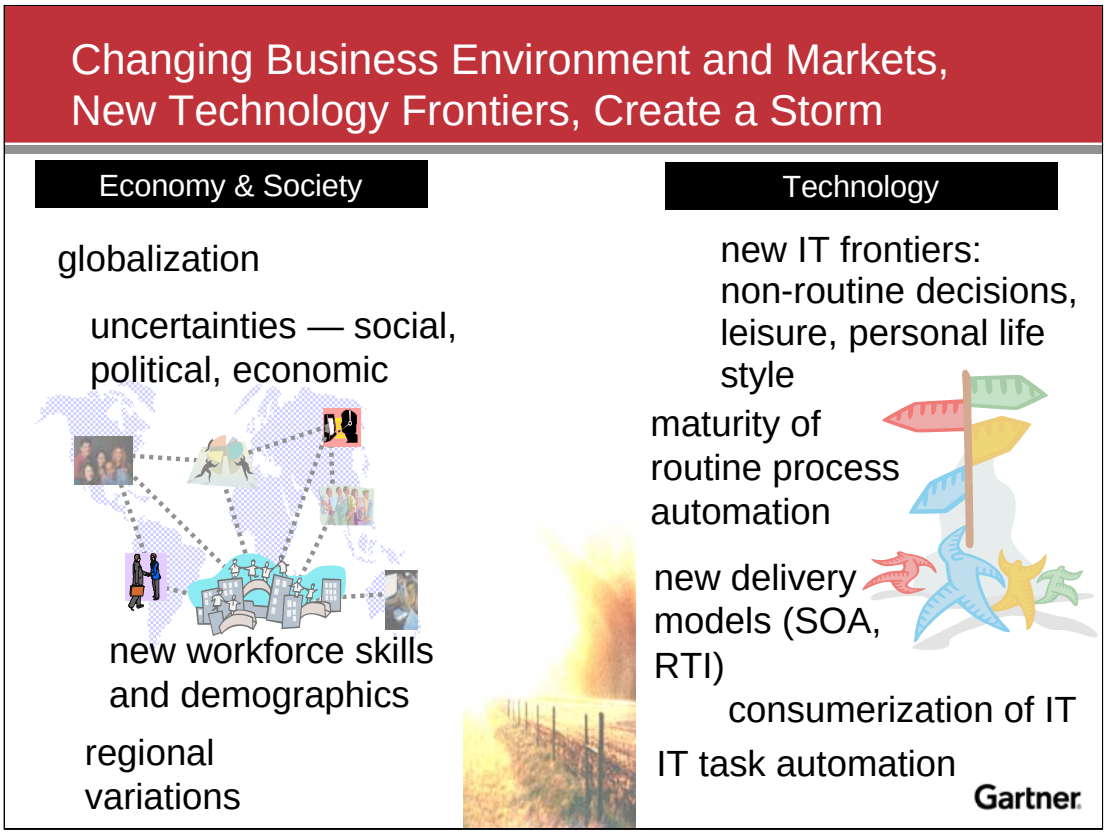
What transitions should IT and business leaders create?

What are the uncertainties and critical success factors for the transition?

This presentation will show you the implications for IT management and IS organizations and what to do about them.

Client Issue: Why must IT management and organizations transform in the next five years?

Strategic Planning Assumption: By 2011, IT contribution will be cited in the top three success factors by at least half of top-performing businesses; IT barriers will be cited in the top three failure factors by at least half of lowest performers (0.6 probability).



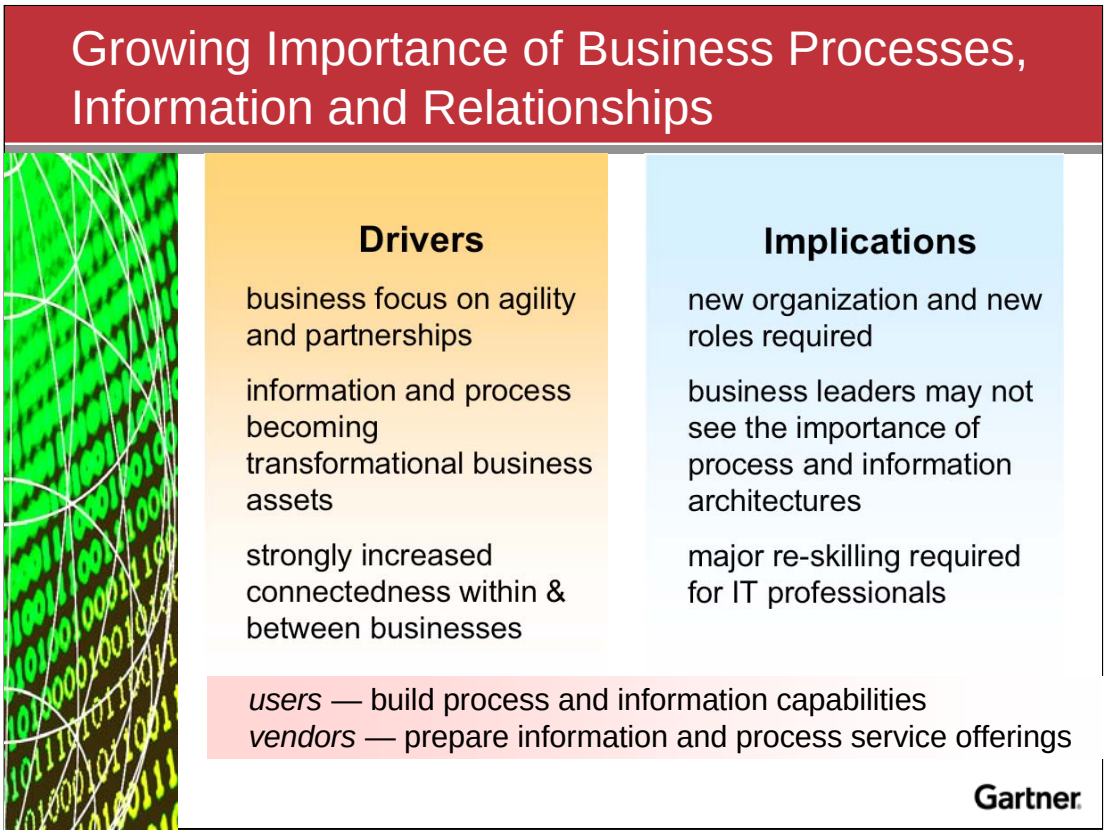
Drivers in the economy and in society as well as in technology and the technology business sector are all having a profound effect on IT organizations. Economy and society factors include globalization, uncertainties in social/political/economic environments, changes to workforce skills and demographics, and the regional variations in all these factors. Technology factors include new frontiers of business technology, maturity of routine process automation. New frontiers of automation are in non-routine decision making, leisure and personal life style.

These are bringing new business opportunities, challenges and threats. In particular, they demand agility and innovation and they bring turbulence in technology supplier markets.

As technology becomes more pervasive and more critical to the routine operations and strategic goals of most business, its contribution will come under greater scrutiny, whether it produces good results or bad. Businesses that master technology exploitation will recognize that success. Those that fail will blame technology accordingly. By 2011, IT contribution will be cited in the top three success factors by at least half of top-performing businesses; IT barriers will be cited in the top three failure factors by at least half of lowest performers (0.6 probability). This trend will have a major influence on the role and organization of IT and on IT leaders.

Action Item: IT executives should identify and monitor the key external trends that will affect business technology in their enterprises.

Strategic Planning Assumptions: Businesses that connect design of information and business process with technology will exceed average sector performance by at least 15 percent until at least 2011 (0.7 probability). By 2011, business processes, information and relationships will be the main value focus of most former IT organizations in large enterprises (0.7 probability).



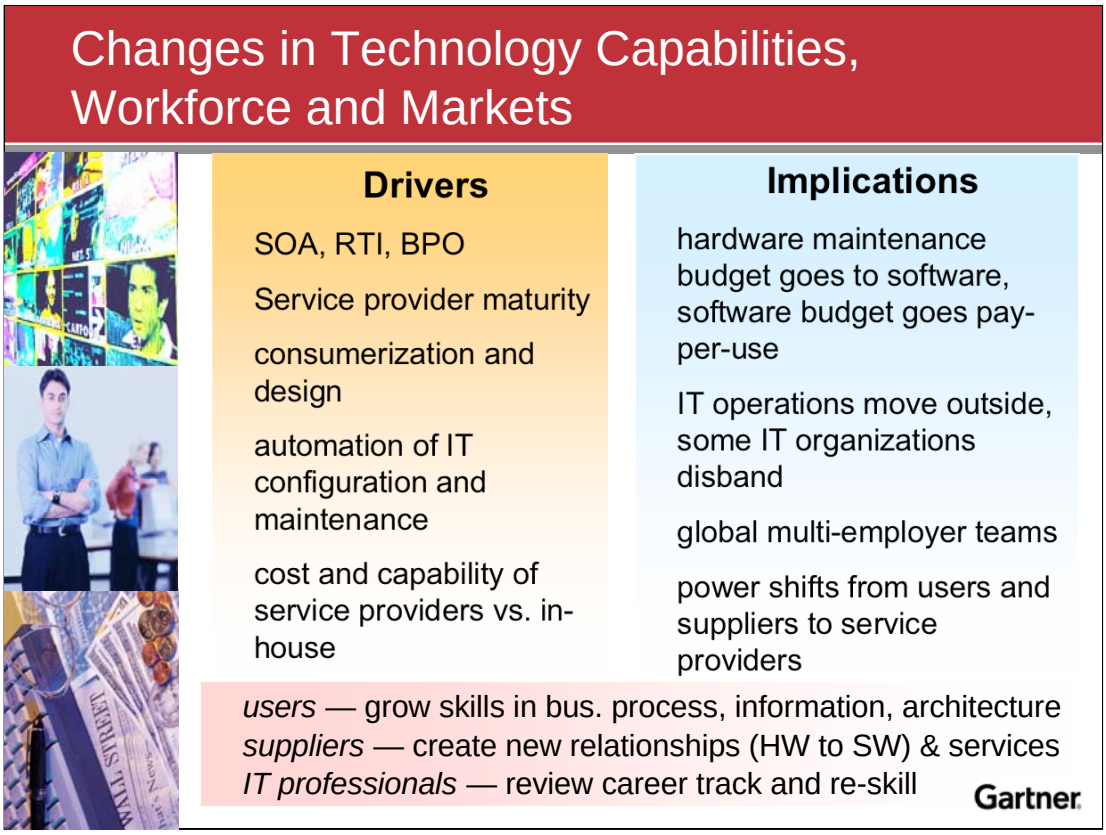
Gartner research has found an increasing business focus on agility and partnerships and a strong expectation of increased connectedness within and between businesses. This moves the target to which business technology must be directed, and again it increases the criticality of that achievement. Businesses that connect design of information and business process with technology will exceed average sector performance by at least 15 percent until at least 2011 (0.7 probability). It isn't yet clear what proportion of businesses will succeed in this, although precedent suggests that initially at least it will be relatively small.

Despite that, we expect that by 2011, business processes, information and relationships will be the main value focus of most former IT organizations in large enterprises (0.7 probability).

Other implications are that existing IT organizations will diminish and that there will be a disruptive backlash as some business leaders may resist the rise of process and information architectures. Whatever the outcome, this contributes to the need for major re-skilling for IT professionals.

Action Items: Users should move the IT organization from enabler to contributor; IT suppliers should prepare process service offerings.

Strategic Planning Assumptions: By 2010, 25 percent of applications will be delivered by IT-utility-style computing, enabled by real-time infrastructure, up from less than 5 percent in 2005 (0.7 probability). By 2011, the IT profession will split into four domains of expertise: technology, information, process and relationships (0.8 probability).



Significant changes in technology and the associated markets include:

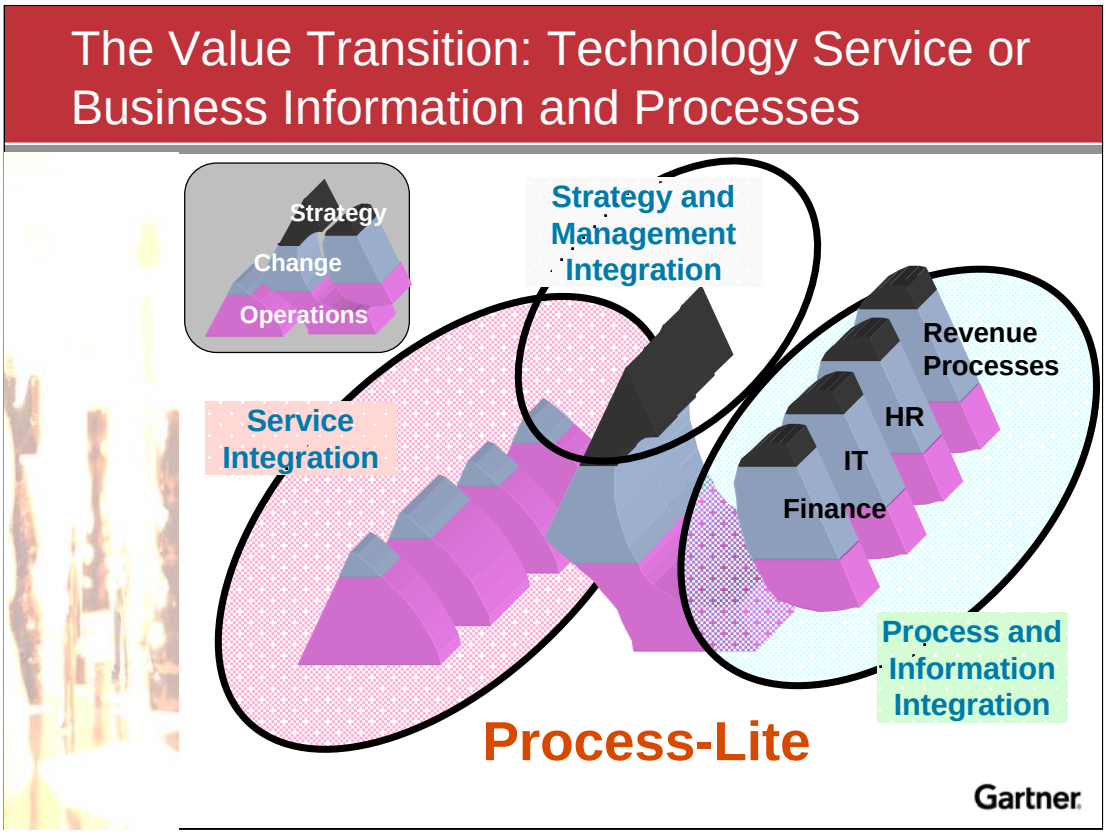
- SOA, utility infrastructure
- Business Process Outsourcing
- Service provider maturity
- the rising importance of consumerization and design
- automation of IT configuration and maintenance
- cost and capability of service providers continue to grow in comparison to many in-house departments.

These will drive major changes. For example, by 2010, 25 percent of applications will be delivered by IT-utility-style computing, enabled by real-time infrastructure, up from less than 5 percent in 2005 (0.7 probability). Much of the budgets for hardware and for maintenance staff will move to software, and much of the software budget will move from package purchase to pay-per-use. There will be a shift in power from IT users and suppliers to service providers. There are equally radical implications for IT professionals. By 2011, the IT profession will split into four domains of expertise: technology, information, process and relationships (0.8 probability).

Actions Items: Users should improve IT process capability, invest in relationship skills; suppliers should create new relationships (hardware to software) and new services.

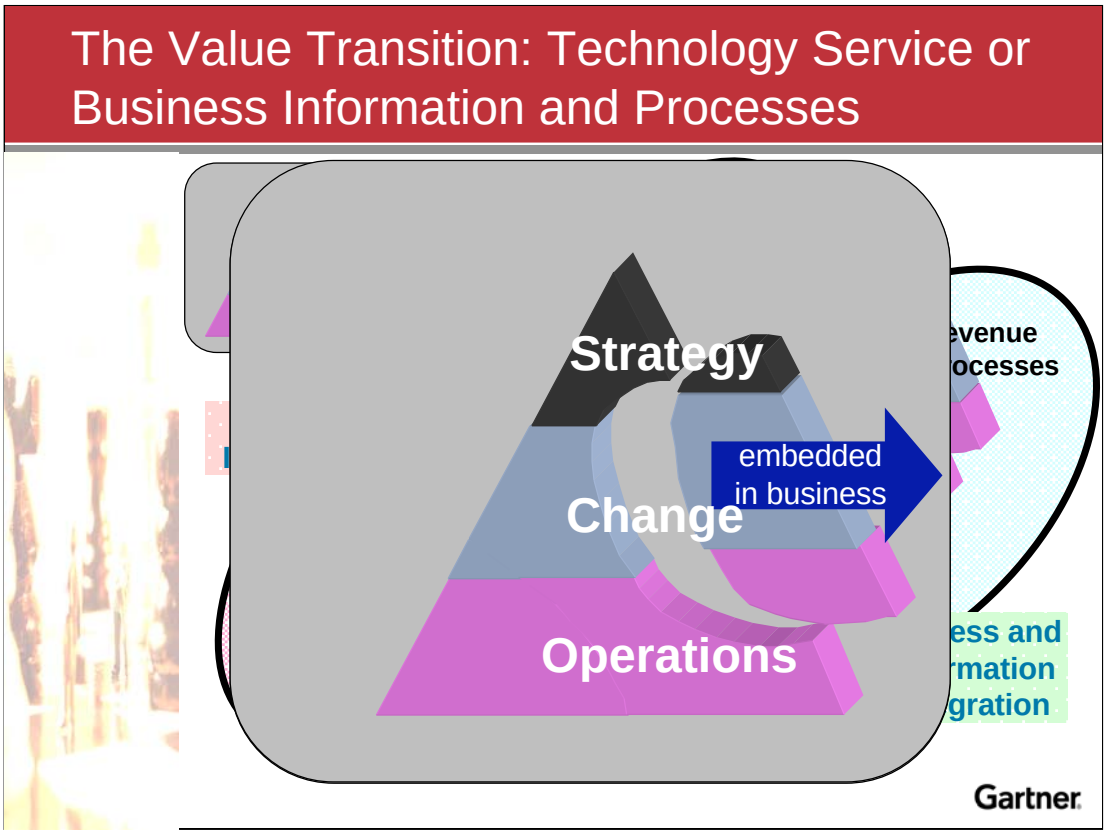
Strategic Imperative: Establish governance mechanisms to ensure that IT and business process sourcing strategies are integrated and focused on achieving the same business goals.

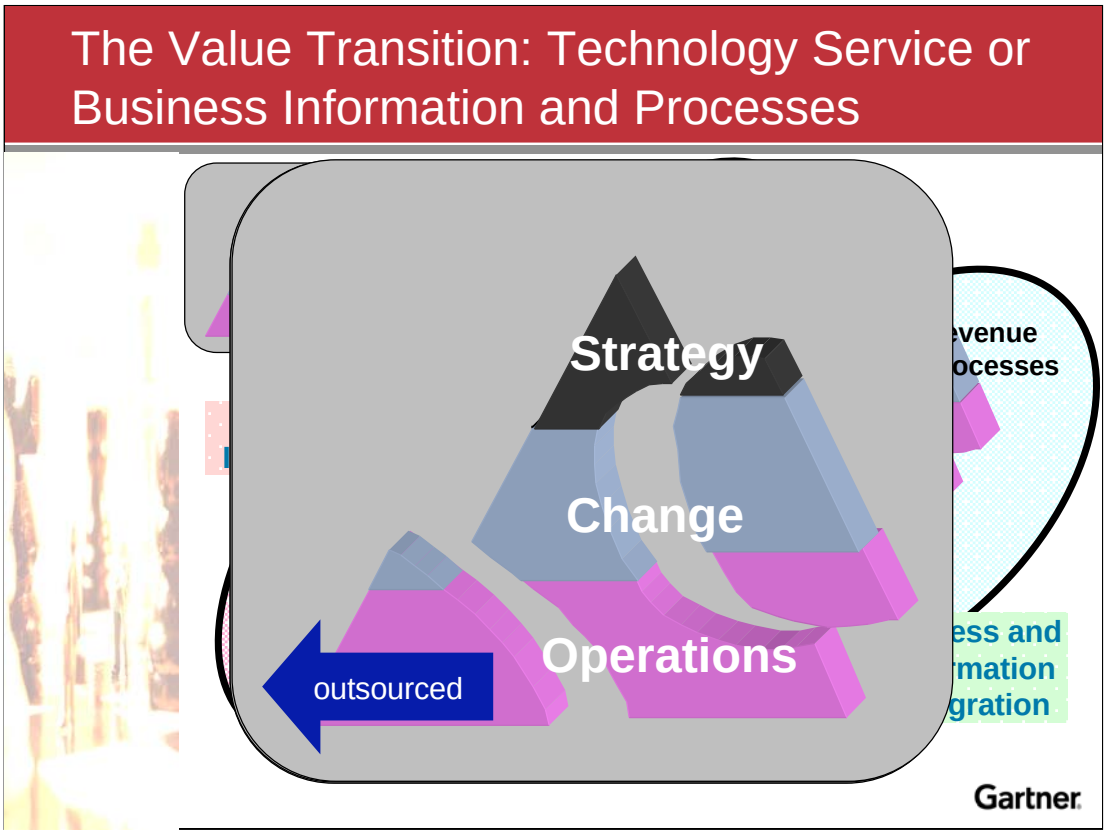
Tactical Guideline: Experience with Gartner clients has shown that the IS Lite concept can be adapted to business processes such as HR and Finance, to help identify and establish the internal team roles for business process outsourcing.



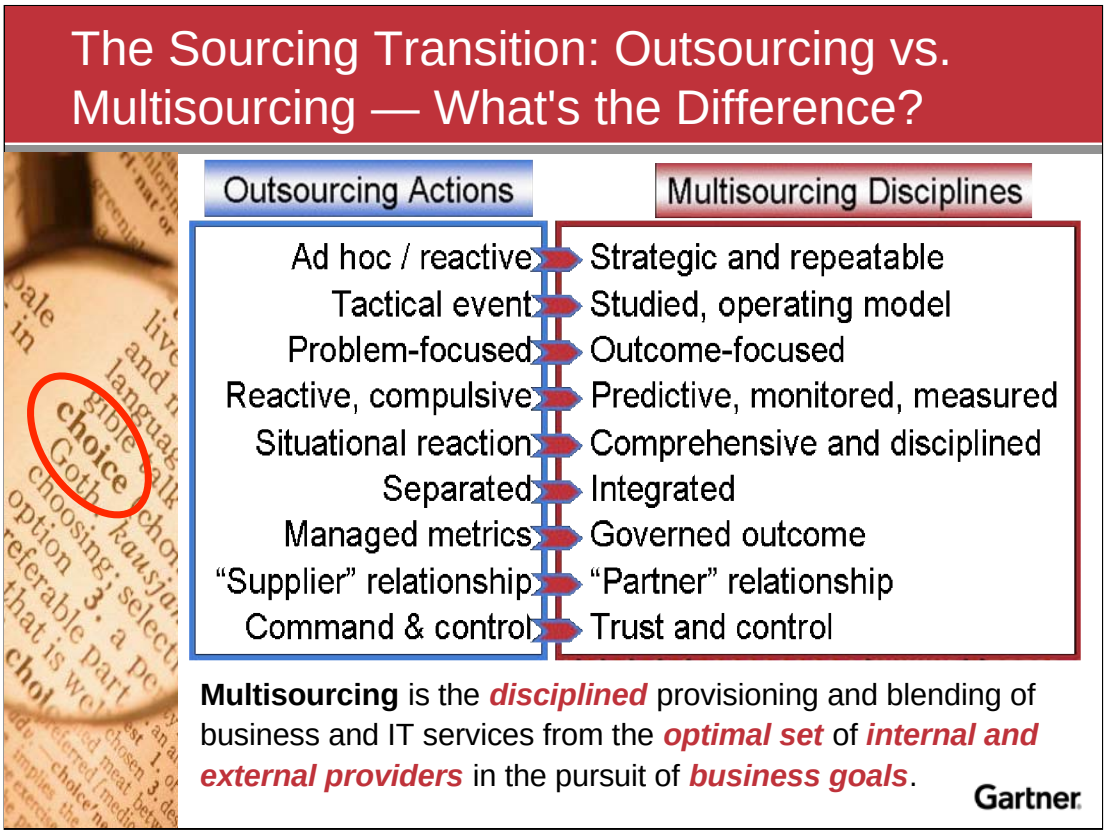
Sourcing strategy in many organizations has traditionally been focused on delivering individual enterprise necessities — for example, IT, HR, finance and accounting — activities that require cost-efficient delivery and consistent service levels. Expenditure and effort in forward-thinking enterprises are being refocused on activities that can deliver enterprise differentiation. These are activities such as virtual collaborative communities linking suppliers and customers; rapid response capability to create new product offerings for emerging market opportunities; and mergers, acquisitions and divestitures. This requires major realignment of resources, organizational structures and sourcing strategies across the company. Separate sourcing strategies for IT and IT-enabled business process services can miss both the critical constraints and the business opportunities that integrating the sourcing strategies can identify.

Action Item: Examine the IS Lite concept for business processes such as HR and Finance to help identify and establish the internal team roles for business process outsourcing.





Market: The new approach of Multisourcing is the answer to the challenges of outsourcing. Multisourcing can provide business benefits. It can deliver unprecedented agility and growth. It can turn average organizations into world-class competitors, but this will not happen overnight.



Outsourcing, which worked by using external service providers to cut costs and improve performance, has become truly commonplace. And as much as the popular press has focused on the benefits/drawbacks and successes/failures of outsourcing, it is a vital, even integral, part of successful operations today.

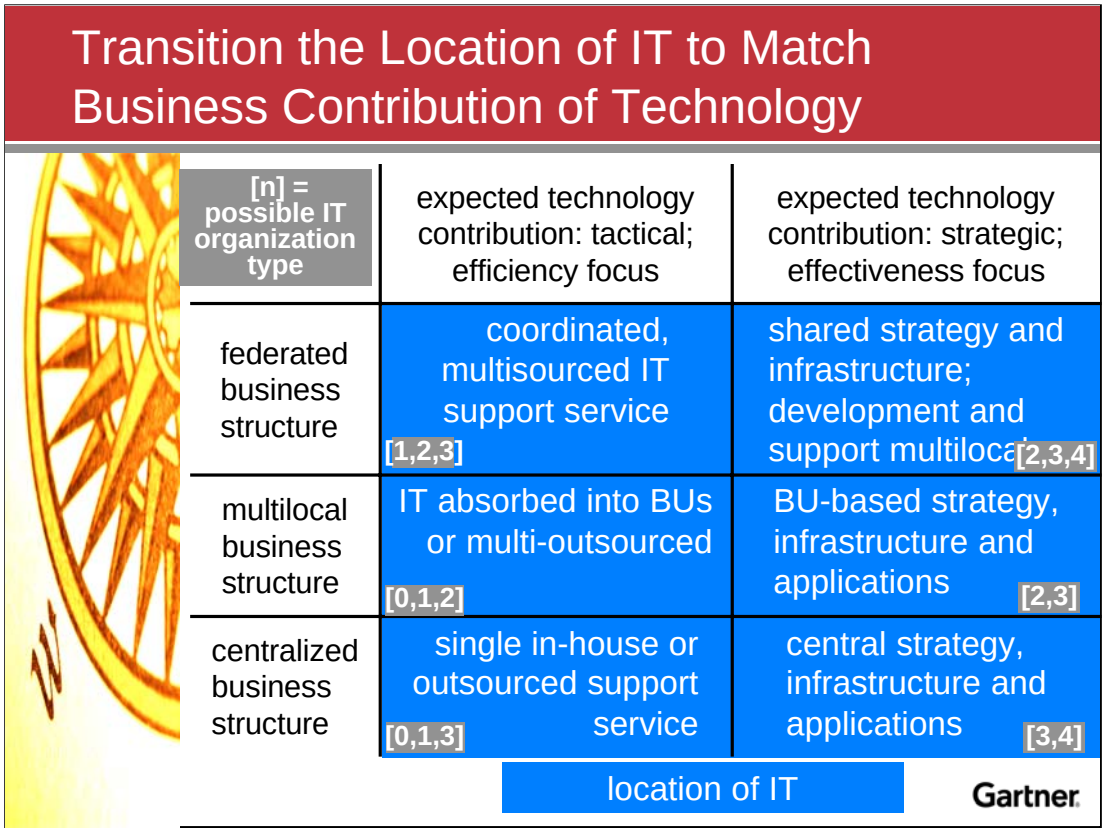
Wall Street and other international capital markets certainly agree and economists will tell you that the cost savings and efficiencies associated with outsourcing have been a major factor in organizations' ability to control costs and maintain profitability despite extreme cost pressures since the 2000 downturn. There is no question, outsourcing has worked.

But precisely due to this success, two key underlying challenges are emerging. First, the high expectations associated with outsourcing are increasingly hard to meet. And second, as more and more functions are outsourced, integrating and managing a portfolio of service providers is becoming more difficult — and it is causing significant service disruptions in many organizations.

To address the shortcomings of outsourcing, we are not going back to an insourced model. So we must improve our sourcing competency. Analyzing some underlying behaviors of outsourcing provides insights into what the future sourcing disciplines must provide. Outsourcing — the situational, ad hoc outsourcing — that is now commonplace, must stop. Organizations must adopt a new approach to sourcing services. This new approach must take into consideration business processes, our workforce, our value chain, our relationships, and above all, our business goals.

Disciplined Multisourcing addresses the behavioral shortcomings of ad hoc, compulsive outsourcing. The organizations that figure out how to "do Multisourcing" will win. They will be agile, efficient and able to grow/scale/change without the burden of capital investment.

Tactical Guideline: Identify any necessary transition of IT organization type and position according to enterprise structure and expected technology contribution.

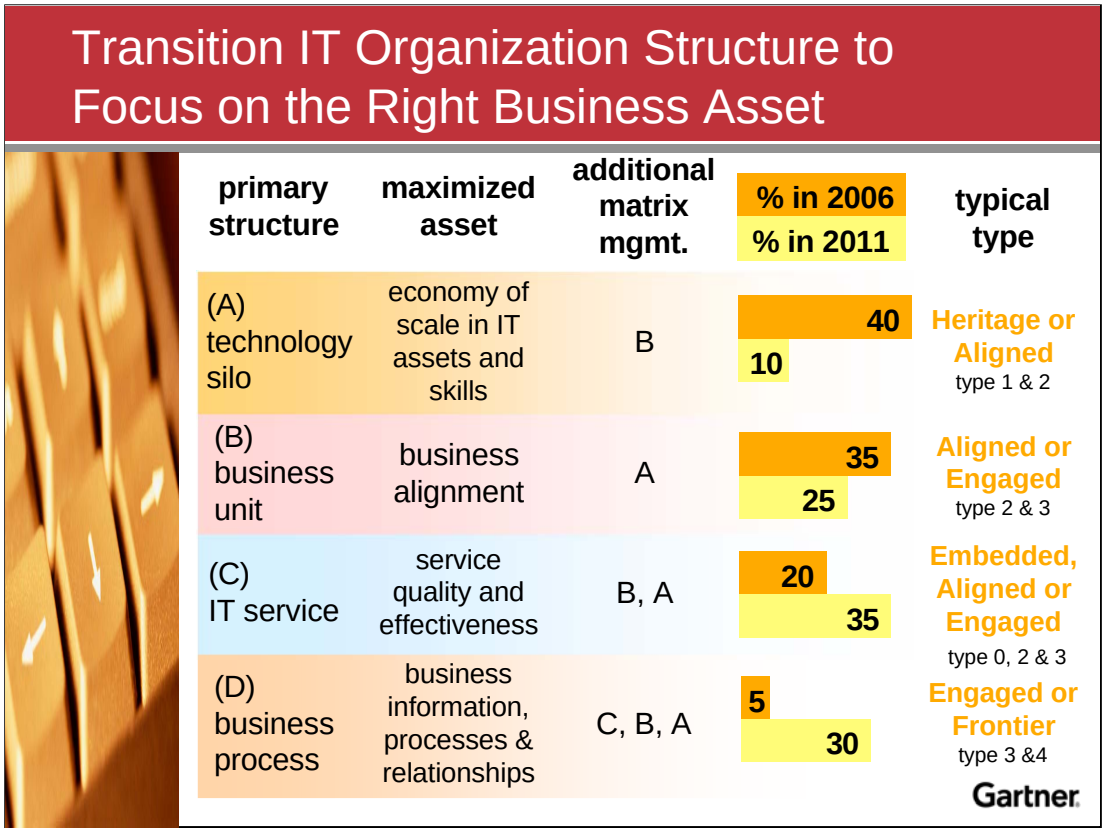


Location of an IT organization in an enterprise relates to where it reports, who owns it, whether there are one or several IT units and how the IT function is divided between central and business unit reporting. Like most other aspects of business structure, the location of IT experiences continuous change in most enterprises. The two key factors that influence location are structure of the overall business and expected contribution from IT.

Most large businesses use some form of federated structure. They believe it gives them the best compromise between business-driven relevance and agility in each product or location, and economy of scale and synergies of information and process corporately. However, there are instances of purely central and purely multilocal.

Action Item: IT and business executives should use this framework to identify the correct location of IT organizations, selecting the location and organization style that best matches the business structure and intended role of IT.

Tactical Guideline: Select IT organization structure to maximize the most important business asset and in relation to the IT organization type.



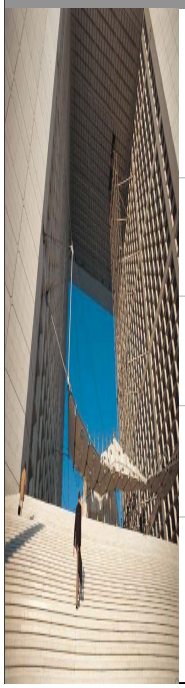
Structure of an IT organization determines which assets of technology, people, service and process are developed and exploited. Almost all original IT organizations from the 1960s onwards used technology as their primary structure. They had sections dealing with hardware and software, with communications, security and other areas. That allowed the expensive and scarce assets of equipment, software and technical skills to be consolidated and exploited to the fullest extent. This remains the most common structural choice for 2006, but it is lessening and will be the least used by 2011 because of drivers for greater business alignment, service excellence and process focus. It is often augmented with a second structural dimension, which is a matrix management arrangement, bringing together all the resources related to particular business units.

Business unit structure is the second most popular in 2006. It is sometimes implemented by locating IT within each part of the business, sometimes by having separate sections for each unit in a central organization and sometimes as a mixture. Typically there is a second, matrix, dimension for technology. The strongest growth, particularly in leading organizations, will be in structures based on IT service (see Gartner research on the ISCo model) and on business processes.

Action Item: IT executives should select IT organization structure to maximize the most important business asset and in relation to the IT organization type.

Tactical Guideline: Use the five dimensions of IT organization transition to create an action plan.

The Future IT Organization: Five Dimensions of Transition



	mainstream 2005	mainstream 2011
Focus of Value	technology services	information and business process
Sourcing	single-point SLA-based contracts	multisourced partnerships
IT Infrastructure	asset-based, internal default	service-based, external default
Complexity	bus. structure, IT integration	bus. processes, IT "ecosystems"
Competencies	technology and technical processes	business relationships and processes

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IT organizations are in transition. The role of leading ones is already moving from technology focus to focus on business processes, information and relationships. Multisourcing is the new normal approach, and the default internal/external sourcing boundaries are shifting. By 2011, IT organizations in midsize and large companies will be at least 20 percent smaller than in 2005.

There are five major dimensions of IT organization transition from 2006 to 2011:

• value focus of the IT organization — sourcing and delivery of IT services or creation and exploitation of a framework of business processes and relationships; in other words enabling or contributing to business;

• IT infrastructure sourcing — choosing internal or external as the base-level infrastructure default source;

• IT organization competencies — building capabilities in business processes, sourcing and relationships;

• complexity re-engineering — this needs to address the coming move to SOA (Service-Oriented Architecture) and Utility Computing as well as the legacy of hardware, applications and sourcing complexities that inhibit business flexibility and efficiency;

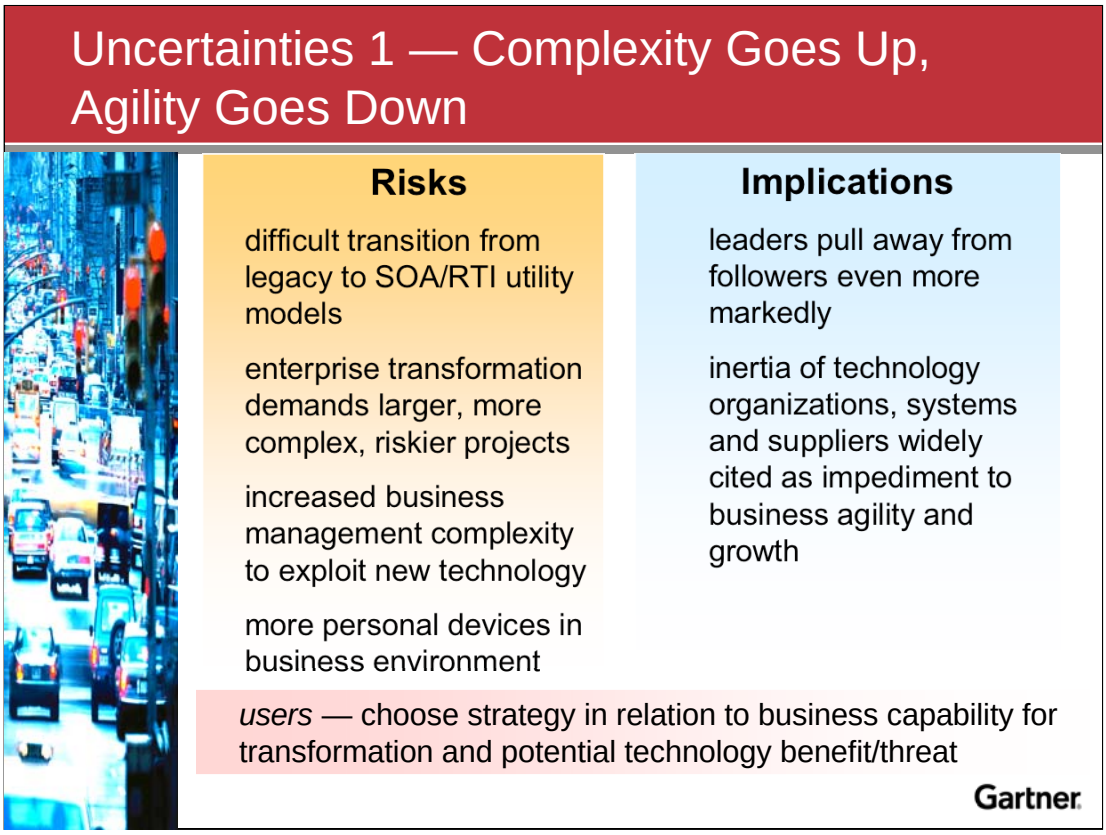
• partnership sourcing — exploiting outsourcing outcomes and incentives defined in business terms.

The shape and speed of transition will depend on the style and business position of the overall enterprise.

Action Item: Use the five dimensions of IT organization transition to build an action plan.

Client Issue: What are the uncertainties and critical success factors for the transition?

Strategic Imperative: Evaluate and act on IT organization transition risks of complexity and agility.



There is a risk that complexity of business technology change will rise above manageable levels and that business and technology inertia, particularly of legacy systems and processes, will seriously impede progress.

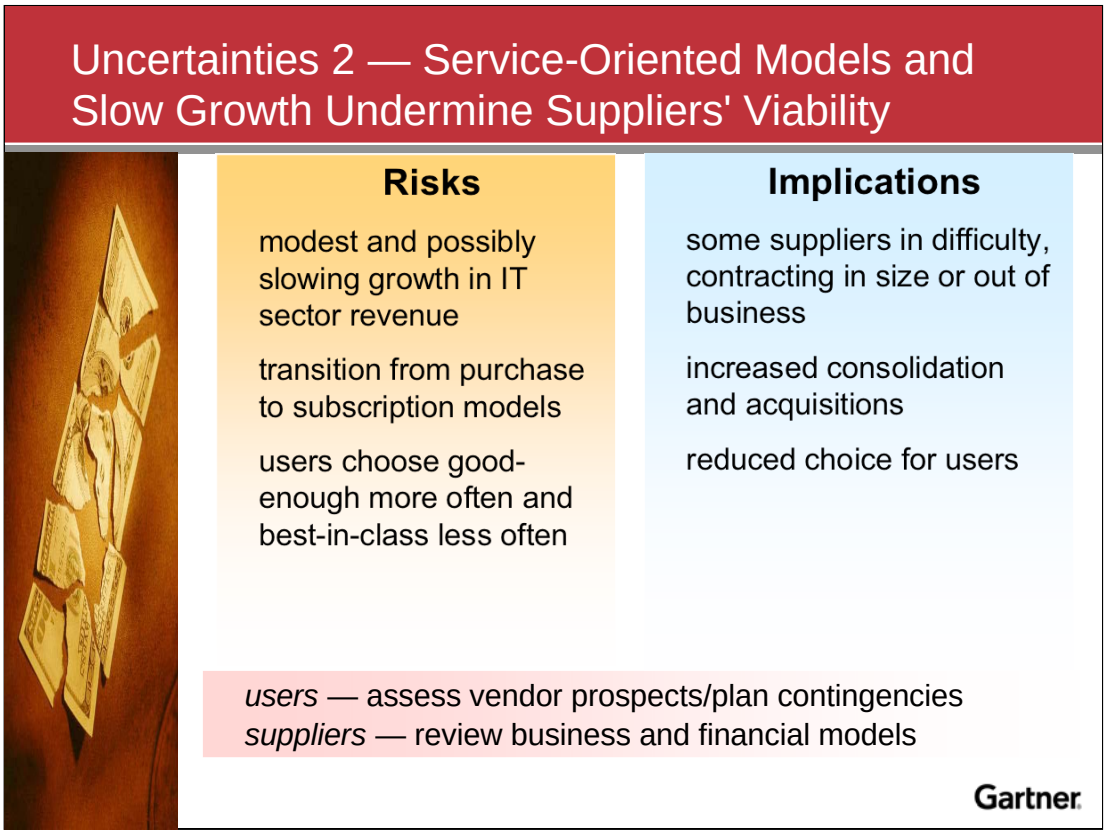
Economic, social and security factors clearly contribute to this risk. Two major technology factors drive it. Difficulty of transition from legacy to SOA/RTI utility models may be greater in general or for specific organizations than they and the IT industry at large expects. Some businesses may find the complexity too great. They may not be able to cope with the scale of business management and business change they need to exploit new technologies of utility computing, service orientation and design of processes and information.

Implications are that leaders pull away from followers even more markedly. Inertia of IT organizations, systems and suppliers widely would be cited as impediments to business agility and growth.

Wider factors that also drive this risk include development of Real Time Infrastructure (RTI) and other utility technology development, SOA and related trends to delivery of software as a service.

Action Item: IT and business executives should choose strategy in relation to business capability for transformation and potential technology benefit/threat.

Strategic Imperative: Evaluate and act on IT organization transition risks of supplier viability.



There is a risk that forthcoming changes in the technology base and in technology delivery models will undermine commercial viability of some suppliers or of some supplier segments.

Drivers include:

• modest and possibly slowing growth in IT sector revenue;

• transition from purchase to subscription models;

• users choose good-enough more often and best-in-class less often.

Implications include:

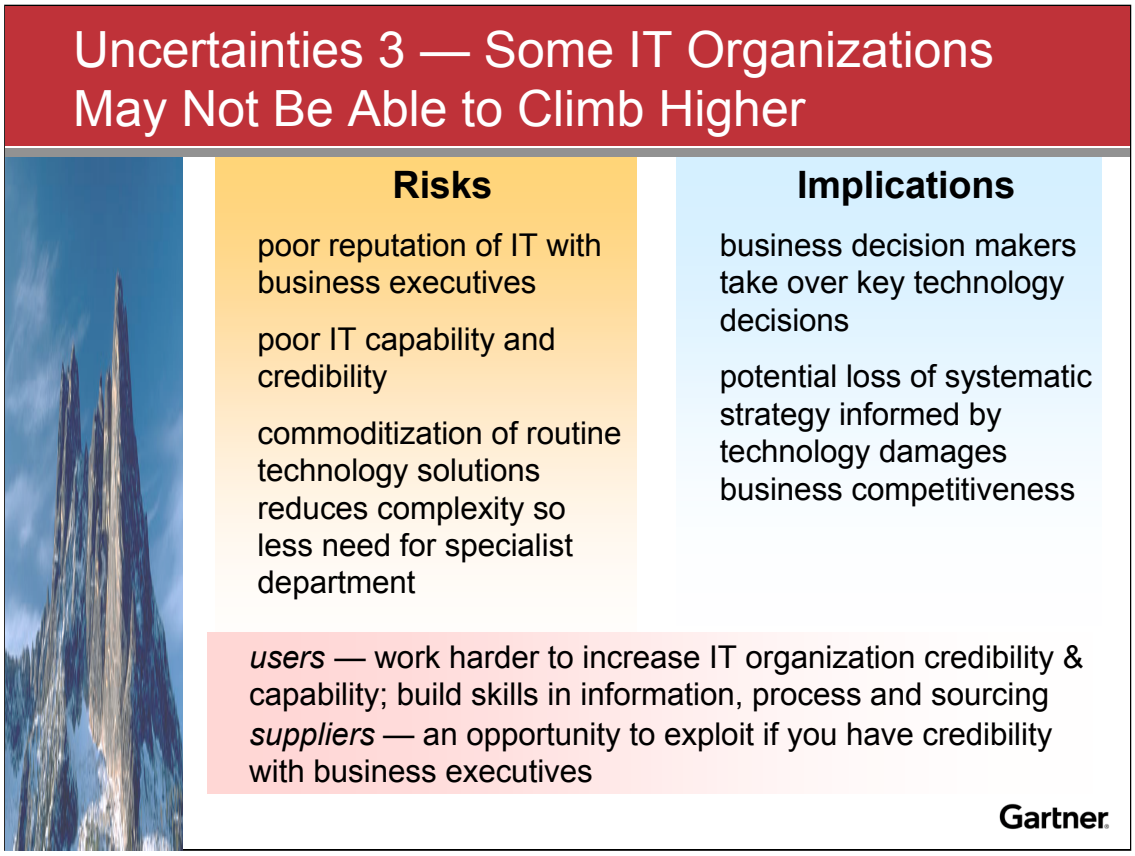
• some suppliers in difficulty, contracting in size or out of business;

• increased consolidation and acquisitions;

• reduced choice for users.

Action Items: Users should assess vendor prospects/plan contingencies; suppliers should review business and financial models.

Strategic Imperative: Evaluate and act on IT organization transition risks of capability and credibility.



There is a risk that some IT organizations will be unable to improve their performance to meet the challenges ahead. Some suffer from a poor reputation today. They all will find the challenges becoming even more difficult because the future will demand even greater capability than the present.

Drivers of this risk include:

• continuing poor reputation of IT organizations with business executives;

• poor capability and credibility of some IT organizations;

• increasing commoditization of technology solutions reduces buying complexity so there will be less need for a specialist department with technology expertise if technology is used only for tactical or routine support.

Implications include:

• business decision makers may take over key technology decisions;

• a potential loss of systematic strategy informed by technology.

Action Items: Users should reinforce actions to increase IT organization credibility, capability and reputation; suppliers should work with concerns about internal IT if they have credibility with business executives.

Tactical Guideline: Identify Critical Success Factors for IT organization transition according to the enterprise's personality profile.

Critical Success Factors for Different Enterprise Personalities

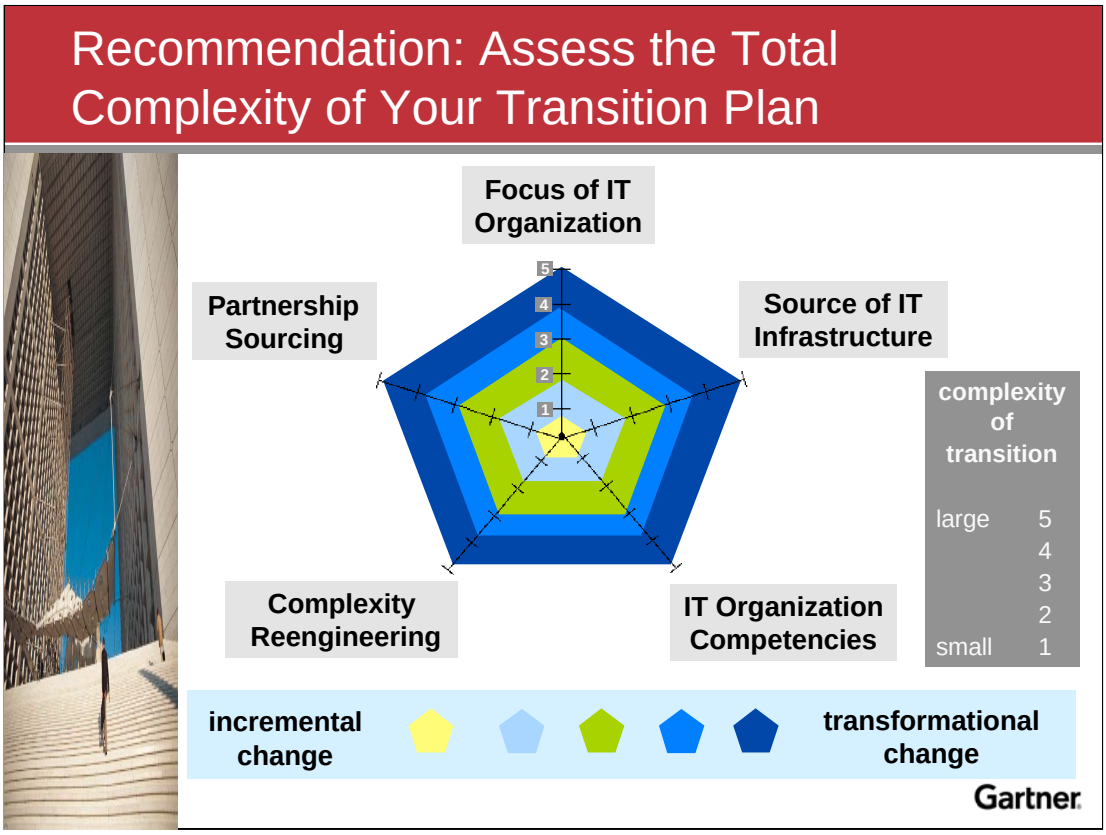
	Aggressive 	Moderate 	Conservative 
Focus of Value	information and process	business services	technology services
Sourcing	partnerships	multisourced	tactical
IT infrastructure	agility	reliability	cost
Complexity	tolerate	manage	eliminate
Competencies	process & innovation	business alignment	service management
IT Organization	**Engaged or Frontier** type 3 or 4	**Aligned or Engaged** type 2 or 3	**Embedded, Heritage or Aligned** type 0, 1 or 2

Many aggressive companies make decisions with a high degree of coordination across business units and regions. Moderate companies operate in a more disjointed fashion, with decisions made by business units or regions. Conservative companies make decisions predictably along a path determined by the hierarchical management structure. In addition, our analysis reinforces the notion that aggressive, moderate and conservative companies are driven by different forces. Aggressive companies seek advantage and will invest for opportunity, even if that opportunity is risky. Moderate companies seek parity with their industry peers, and their investment strategy revolves around investments for which payback can be clearly proven. Conservative companies maintain the status quo until the pain of maintaining that status quo outweighs the benefits. Investments lean toward defensive tactics rather than offensive strategy.

Notably, since most companies behave in different ways depending on the division or situation, the personality characteristics will blend, too. A company may fancy itself aggressive, but then find that it has significant pockets of conservative behaviors that will confound or limit anticipated growth. Critical success factors for transition may therefore be a mix from different enterprise personalities in complex enterprises.

Action Item: Identify Critical Success Factors for IT organization transition according to the enterprise's personality profile.

Recommendation: Use five transition dimensions to build an action plan.



Action Items:

- *Identify your present and future organizational type and create personal and organizational development plans accordingly;*
- *Identify and monitor the key external trends that will affect business technology in their enterprises;*
- *Users should move the IT organization from enabler to contributor; IT suppliers should prepare process service offerings;*
- *Users should improve IT process capability, invest in relationship skills; suppliers should create new relationships (hardware to software) and new services;*
- *Examine the IS Lite concept for business processes, identify and establish roles for BPO;*
- *Locate IT organizations to best match business structure and intended role of IT;*
- *Select IT organization structure to maximize the most important business asset;*
- *Use the five dimensions of IT organization transition to build an action plan;*
- *Choose transition strategy in relation to business transformation capability and technology benefit/threat;*
    - *Users should assess vendor prospects/plan contingencies; reinforce actions to increase IT organization credibility, capability and reputation;*
    - *Suppliers should review business and financial models; work with concerns about internal IT if they have credibility with business executives.*

This is the end of this presentation. Click any where to continue.