

# Managing IT Human Capital in a Sea of Change

Quarterly Trending Report

*Publication Date: Winter 2002*

**people**<sup>3</sup>  
A Gartner Company

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## Industry Overview

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**people<sup>3</sup>** President and CEO Linda M. Pittenger provides a discussion on how IT leaders need to navigate differently in the "sea of change" we now live in.

Over the past two years, the insights and analyses of our Quarterly Trending Reports have touched upon many important issues, including outsourcing, e-business, and resource management. **people<sup>3</sup>** hopes you have found these reports to be thought-provoking and actionable, and that they have helped you to more effectively manage your valuable IT human capital.

Without diminishing the subject matter of our previous reports, the Winter 2002 edition of **people<sup>3</sup>**'s Quarterly Trending Report series is, undoubtedly, our most important to date. The intent of this edition is to help leaders better understand and navigate the challenging and complex "sea of change" that many organizations are facing today. Recent political and economic events have unquestionably exacerbated an already-challenging IT environment. The ramifications of this "sea of change", coupled with the ever-increasing speed of technology advancement, has increased pressure on IT functions across the globe. This pressure demands that IT leaders fundamentally change how they respond and lead in order to sustain and, in many cases, increase an organization's productivity and profitability. We hope that this report, "Managing IT Human Capital in a Sea of Change", will serve as a decisive guide for you during these uncertain times.

The first part of this report introduces you to the concept of collaborative leadership—a critical philosophy that, given the fluid nature of the IT industry, leaders must embrace to ensure continued success. Because many organizations operate within a rigid hierarchical structure, the concept of collaborative leadership may be viewed as a departure from the norm. Collaborative leadership has proven to be enormously effective in improving employee productivity and morale, as well as in fostering in each employee a greater sense of contribution and empowerment.

The second part of this report offers a high-level overview of **people<sup>3</sup>**'s IT Change Leadership Model, which comprises four key change management processes:

- Strategy Assessment
- IT Leadership Assessment
- IT Workforce Assessment
- Communication Management.

This report describes each process in detail and explains how they can be used together to help you successfully lead an organization in a demanding and evolving IT environment.

Our report ends with a discussion on the strategic role of Human Resources (HR) in relation to IT change leadership. Without a doubt, HR plays a key role in an organization's success by working with business and IT leaders to identify the core knowledge, skills, and competencies most needed by the enterprise, identifying the employees who possess them, and establishing a meaningful strategy for developing, nurturing, and maintaining these employees. Without this cooperative effort, any HR/IT effort will inevitably fail.

**people<sup>3</sup>** hopes you make use of the recommendations and conclusions in this report as part of your efforts to maximize the use and value of your most important asset - your people - during this most critical juncture in our nation's history. Please feel free to contact me directly with any feedback, questions, or general comments on this or any other **people<sup>3</sup>** research.

Sincerely,

A handwritten signature in black ink, appearing to read "Linda M. Pittenger". The signature is fluid and cursive, with the first name "Linda" being the most prominent.

Linda M. Pittenger  
President & CEO  
**people<sup>3</sup>**

# A Sea of Change

"This is no ordinary time." (Eleanor Roosevelt, 1940)

We are living in an unprecedented time in history—one of unexpected and accelerated challenges and growth. The last decade produced dramatic changes in financial markets, the explosive growth of the Internet, the implosion of the dot.com industry, and the uncompromising impact of a downward global economy. How have these changes influenced IT organizations, and to what extent? Due to the very nature of the IT industry, IT leaders are accustomed to change as a result of rapid technology advances; now, IT leaders must confront and address the challenge of improving efficiency during an economic downturn. This one issue alone has wrought new and greater demands on IT workers at all levels. As depicted in Exhibit 1 (below), IT leaders must now, more than ever, deal with the opposing forces of innovation and cost-cutting. Balancing these forces requires strong, insightful leadership, along with a solid understanding of the past and present economic environment's impact on IT organizations.

## IT in a Changing Economy

IT in the "Booming" Economy	IT in the Emerging "New" Economy
<i>Recent economic "boom" years for IT due to Y2K and Internet explosion resulted in:</i>	<i>Greater emphasis on demonstrating the value of IT to the business in the new economy (fast changing with instability).</i>
Emphasis on hiring more and retaining as many as possible; less emphasis on monitoring compensation costs (seller's market).	Focus on hiring and retaining the "right" people at the "right" compensation level—maintenance of a lean and competent workforce (buyer's market).
IT leadership sets direction for overall IT strategy and standards; IT as a service and support organization to the business.	<ul style="list-style-type: none"> <li>● IT as a strategic business partner; requires new skills and competencies across the IT organization, especially among IT leadership.</li> <li>● More IT-savvy business units gaining approval to deviate from general IT standards (IT organization still relied on for support to those variations).</li> </ul>
Primarily focused on in-house IT organization.	Increased need for strategic sourcing strategies that consider a mix of contractors, full-time employees, outsourcing arrangements.
Standard solutions covering many Business Units.	Standard solutions along with an increase in niche solutions, which demand more operating systems, system platforms, and unique technical skills.
Little emphasis on performance and productivity measurement; emphasis on project quantity.	<ul style="list-style-type: none"> <li>● Measuring the "right" things—those that provide data useful to decision-making.</li> <li>● Determining costs associated with business decisions that impact IT, and vice versa.</li> <li>● Benchmarking against industry best practices.</li> <li>● Establishing performance goals based on benchmarks.</li> <li>● Assessing success of IT projects.</li> <li>● Aligning IT strategy and initiatives to the business.</li> <li>● Assessing viability of projects based on more extensive ROI analysis.</li> </ul>
<b>Exhibit 1</b> Source: <b>people<sup>3</sup></b> , Inc.	

In addition to a changing economy, considerable advances in technology during the last decade alone have had a significant impact on life both in and outside the workplace. Consider these facts:

- **Explosion of the Internet:** When President Clinton was elected in 1992, fewer than 50 web sites existed. By April 2000, the *10 millionth* domain was registered!
- **Increased individual processing power:** The 133 MHz Pentium PC chip (roughly equivalent to the processing power of an insect brain) was released in 1992 at a cost of about \$1,000. Today, a personal computer with a processing speed of 1,600 MHz can be had for around \$1,000 (processing power equivalent to that of a mouse brain).

Clearly, the changes produced by new technologies increase the demands on IT leaders to keep themselves and their teams current in emerging trends and technologies. Successful organizations of the future must develop and retain a knowledgeable workforce able to continuously produce value-added intellectual capital critical to the success of the overall business. Nowhere is this more evident than in the field of IT, where core skill and competency needs change in lock step with advances in IT applications, tools, and processes. Changes such as those mentioned here have already affected IT human capital by increasing the demand for specialized skills and knowledge needed to develop and maintain new and existing systems. An organization's reaction to these changes are further complicated by employees' demands for increased access to advanced technologies, a more challenging work environment, and development opportunities that make full use of new abilities.

Now more than ever, success as an IT leader depends on the ability to anticipate and prepare for change. While this paper does not recommend undertaking a change program, organizations must consider the viable options of either "staying the course" or introducing a cultural or procedural change that keeps the company strong. During a recession, there is typically great pressure on IT leaders to reduce staff, but cutting staff does not always ensure stronger profits. If workforce reductions are under consideration, you must ensure you retain your organization's intellectual muscle. Now is not the time for knee-jerk, cost-cutting measures; rather, a review of your organization's core strengths—an assessment to help you navigate the uncharted waters of the next six to eighteen months—is in order.

Confronted with change and uncertainty, IT leaders are asking:

- Given a multitude of critically important issues, where do I focus my limited time and resources?
- How do I ensure effective communication between my team and me? What communication mechanisms should I use to keep my team focused and motivated?
- In the event of a downsizing, how do I ensure that I retain the "muscle" of my organization? How do I quickly and effectively identify my key employees and demonstrate the benefit each brings to the organization?
- What short- and long-term competencies, skills, and knowledge does my organization need to be successful? How can I ensure these are a part of my arsenal?
- How do I simultaneously cut costs, motivate employees, and accomplish my short- and long-term objectives? What proactive measures should I put in place?

Based on these questions, it is evident that IT leaders are faced with a new reality—one of producing more work with less resources, and motivating and challenging high-performing workers, while at the same time, constrained by a slashed budget and weakened economy. It is this new reality, then, that drives the topic of this paper and **people<sup>3</sup>**'s change leadership model for IT leaders.

# The Changing Role of IT Leadership

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*Strong, flexible, and motivational leadership qualities are required characteristics for IT leaders in the new economy to ensure an organization's long-term health and continued success.*

Rapidly-evolving business, technological, and political events, coupled with increased customer demands and reduced cycle times, requires that IT leaders fundamentally change how they respond to such events and maintain an organization's success. IT leaders must learn to be risk-takers and rule-breakers, and develop the ability to handle the resulting uncertainty that arises from unforeseen change.

In most organizations, traditional, hierarchy-based management styles no longer apply; rather, *collaborative leadership* is emerging as one of the most important means used by IT leaders to improve employee productivity and morale, as well as foster in each employee a greater sense of professional and personal awareness, accomplishment, contribution, and empowerment. Strong IT leaders know that building and maintaining critical alliances with peers, subordinates, and customers is an essential ingredient for success, and that failure to maintain these relationships often results in the loss of needed cultural perspective and, unfortunately, connection to the organizational foundation. IT leaders must understand an organization's business, its culture, and the people who uphold that culture. The collaborative leadership abilities required to manage today's fast-changing environment are encapsulated in the following sections.

## **Articulate and Deploy a New Vision**

In light of a changing environment, collaborative leaders are critical in helping to establish and re-evaluate an IT organization's mission, vision, culture, goals, and strategies. IT leaders must know how to integrate and align IT human capital strategies with the organization's core business practices. Accomplishing this requires that collaborative leaders:

- Communicate strategic IT plans clearly
- Involve different tiers of IT management and employees in decision-making
- Listen openly to new ideas—abandon "command and control" mentality
- Respond and adapt quickly to changing market conditions
- Innovate during critical times
- Manage and set clear, realistic expectations
- Uncover and address critical issues and obstacles
- Prioritize each technology project
- Consolidate and optimize project portfolios

## **Inspire, Motivate, and Empower Employees**

As part of a fundamental change management process, collaborative leaders encourage employees to become stakeholders in an organization's success. Through knowledge sharing, partnerships, and sound planning, an empowered and challenged workforce contributes willingly to positive, innovative, employee-driven outcomes. In the absence of a shared decision-making process, employees are constrained by a rigid, traditional process through which objectives are determined by "management" amid a guarded, inflexible culture.

While technology itself is certainly important, the approach to developing that technology is of equal or greater significance. IT leaders must become (or continue to be) mentors and coaches so that employees are inspired and challenged to apply their knowledge and abilities, improve individual and team performance, as well as help businesses sustain a crucial edge in their respective industries.

Today's collaborative leaders know that in order to improve efficiency and competitiveness, certain decisions must be put in the hands of individuals at the "front line" of an organization. While IT leaders must clearly communicate their vision, it is the employees who will ultimately make that vision a reality. It is logical, then, that employees with a voice in an organization's transformation (be it culture, technology, or process) will enthusiastically contribute to an enduring process or product that will see an organization through harsh economic periods.

### **Understand the Organization's Baseline Abilities and Gaps**

Visionary, collaborative leaders who understand their organization's environment and people have the ability to assess the presence or absence of in-demand competencies, knowledge, skills, abilities, and characteristics that ensure project successes and enterprise profitability. In order for IT leaders to understand the IT organization and its capabilities, they must first look inward to determine and assess in-house strengths and weaknesses in terms of its ability to meet (or exceed) existing imperatives; in addition, the organization's ability to meet the expectations of an ever-increasing, complex, and budget-conscious customer must be assessed. To accomplish this, IT leaders must assess their organizations on two fronts: *individual capabilities and organizational readiness*.

In order to assess an organization's core strengths, IT leaders must first establish a process that takes an integrated, strategic view of their *human capital* assets in relation to the IT forecast. Development and employment of this process stresses strong employee involvement and input.

An effective IT human capital forecast requires knowledge of the organization's current in-house competencies and skills, and their alignment with key projects; in addition, leaders must know which competencies and skills will be needed for planned projects. An understanding and assessment of these competencies ultimately drives an organization's sourcing decisions. These decisions will have a direct impact on the attainment of short- and long-term goals, as well as on the known and unknown costs of staffing and maintaining high-performing project teams. Clearly, staffing strategic projects with knowledgeable in-house employees, rather than with external, temporary contractors, contributes greatly to a project's overall success and cost savings. Effective project planning and resource allocation will be accomplished *only* when an organization is able to isolate key abilities and the people who possess them.

An organization's culture determines the nature of assessments: an open and trusting culture will encourage 360-degree assessments (i.e., full-circle assessment among and between peers, subordinates, managers, and customers); an organization not ready for this culture shift may employ 180-degree assessments. That is, how and when assessments are conducted is determined by the maturity of the organization's management, culture, and ability or willingness to change. IT leaders may need to develop the relevant coaching and mentoring skills necessary to effectively conduct useful and meaningful assessments for their staff.

The outcome of such assessments is two-fold:

- *The identification of employees possessing critical technical and non-technical competencies, skills, and knowledge.*
- *The identification of technical and non-technical competency, skill, and knowledge gaps in relation to the IT forecast.*

As an additional benefit, organizations that conduct true competency- and skill-based assessments will establish a proactive, need-based learning and development process that supports staffing and resource management initiatives. This process will build and maintain the competencies and skills of IT leaders and employees, as well as nurture an organizational culture that involves employees and rewards them for performance.

### **Sustain the Organization's Competitiveness**

Positive culture, innovation, development opportunities, and teamwork increase organizational stability, employee loyalty, and quicker, more efficient product deployment. Despite an economic slowdown, collaborative leaders understand that strategic management of core human capital assets, along with strong multi-organizational relationships, creates a more positive impact on an enterprise's bottom line. Conversely, downsizing and other forms of quick cost-cutting measures will diminish employee satisfaction, organizational stability, and efficiency. Ultimately, downscaling staff without identifying an organization's underlying, core abilities reduces overall productivity and competitive capacity. Given this, what is the appropriate IT leadership philosophy and actions that support growth, while at the same time, ensure sustainable competitiveness?

Research shows that a meaningful, employee-driven human capital management program provides leaders with the needed insight to better plan and manage a highly skilled workforce without increasing costs. At the same time, employees are provided with much-needed growth and development opportunities that quickly increase overall satisfaction, productivity, and longevity. In good times and in bad, companies must identify and act upon opportunities to exploit its core competencies in order to strengthen its position in a given market. Moreover, an effective human capital management program signifies to employees a positive cultural change, despite negative external factors and influences. *It is important for IT leaders to remember that the core competencies, knowledge, skills, and abilities employees bring to an organization are what give the organization its real value; without these employees, the long-built knowledge, insight, and culture vanishes.*

### **Summary**

To summarize how IT leadership roles have changed, consider the following key points:

- Human capital is an enterprise's most important, core asset.
- Despite today's economy, high performing knowledge workers continue to be expensive and scarce.
- Internal weaknesses brought upon by knee-jerk reductions impact companies' ability to compete both in the short- and long-term.
- Through collaborative leadership, IT leaders create efficiencies and distinct competitive advantages.

# IT Change Leadership Model

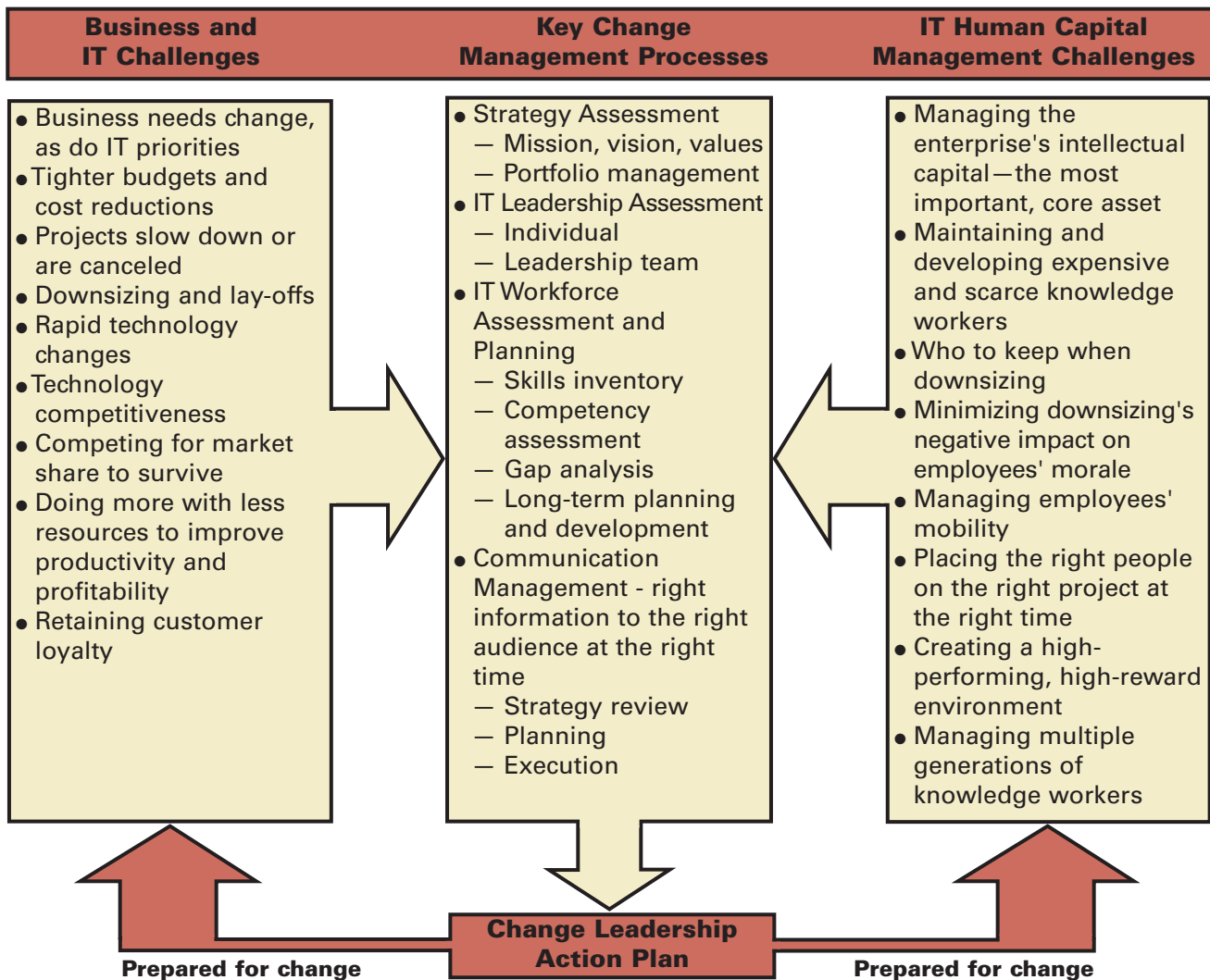
This section presents a model designed to help IT leaders and managers recognize and understand the appropriate knowledge and abilities needed to better manage an evolving workforce in a highly dynamic environment.

Thus far, we have discussed the challenges IT leaders face today, along with the emerging and dominant characteristics needed to surmount economic and environmental turbulence, move the business forward, and sustain organizational profitability. This raises an important question:

*Since leaders cannot predict future challenges, how can they prepare for and lead change processes?*

In this section, we present a change leadership model to help you take a proactive posture in managing new challenges and leading change management initiatives.

## IT Change Leadership Model

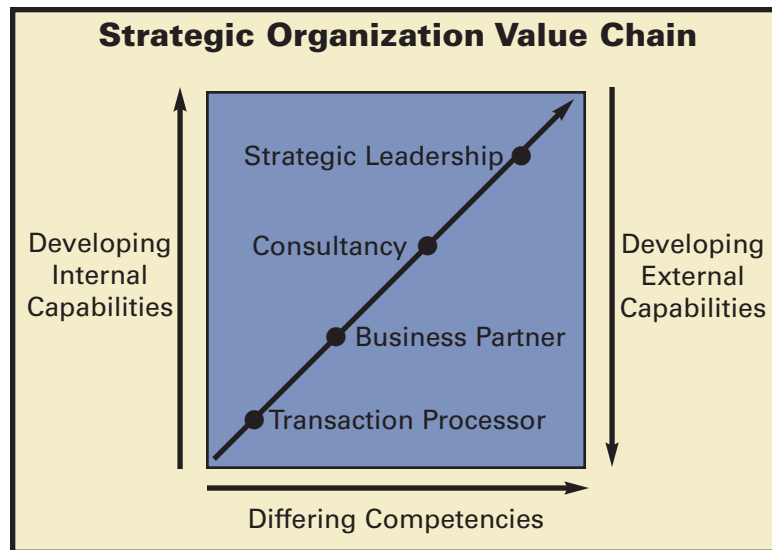


**Exhibit 2**  
Source: **people<sup>3</sup>**, Inc.

As defined by **people<sup>3</sup>**, the IT Change Leadership Model (Exhibit 2) comprises four key change management processes: *Strategy Assessment, IT Leadership Assessment, IT Workforce Assessment, and Communication Management.* We will discuss the linkage of each process and how this linkage helps IT Leaders manage a successful organization in a changing environment.

## Strategy Assessment

A Strategy Assessment process is the integral component of a change leadership model, particularly in a volatile economic environment. Business strategies must be redefined to face the challenges of a shrinking market, lower productivity, and missed profitability. As shown in Exhibit 3, the culture of IT evolves within the value chain to become a strategic partner and increase its sphere of influence on overall business results. As a consequence, IT leaders must adopt new ways of prioritizing, directing, and managing IT assets to ensure alignment with strategic business directions.



**Exhibit 3**  
Source: **people<sup>3</sup>**, Inc.

Gartner research indicates that through 2002, developing a comprehensive strategy will reward enterprises with achievement of their business objectives at *twice the speed* and *half the cost* than enterprises that focus on business and IT as individual components (0.9 probability). Through the strategy assessment process, the mission, vision and values of the enterprise and the IT organization are reviewed, redefined, and restated to warrant a cohesive understanding of where the business and IT are heading in both the short- and long-term. New IT priorities are then set to ensure that the IT business portfolio will produce the best return on investment to the business.

Driven by an increasingly competitive marketplace and the need to operate in a dynamic business and economic environment, IT leaders must prepare the organization for survival during economic downturns, as well as take hold of opportunities to leapfrog when the economy improves. A strategy assessment gives IT leaders the power to proactively lead and anticipate changes, not simply react to change once it occurs.

## IT Leadership Assessment

As discussed earlier, IT leadership roles have necessarily evolved in order to accommodate shifting and unanticipated priorities. To keep the organization and people moving forward, IT leaders now require a special set of knowledge and abilities, including courage, compassion, and creativity—along with a clear and shared vision. In a sea of change, the IT organization is tossed about in waves of turbulence and uncertainty. Because IT leaders must effectively plot a course to lead the organization safely in and out of any economic phase, it is important to understand the skills and competencies needed to be successful. IT leaders must identify the organization's strengths and weaknesses so that a proactive, competency-based learning and development process can be established to close any knowledge gaps. If your organization has not conducted leadership assessments in the past, it is now time to do so.

**people<sup>3</sup>** recommends that an IT leadership assessment be conducted at both individual and team levels. At the individual level, it is important to evaluate or re-evaluate the skills and competencies of each IT leadership team member (e.g., CIO or CTO). IT leaders must ensure that, individually and collectively, the leadership team possesses the core competencies, skills, knowledge, and ability needed to lead the organization in its entirety toward a realization of a shared vision, mission, and values. The best leaders regularly monitor and manage the needs and expectations of the business, customers, and employees. Through words and actions, these leaders demonstrate that they are accountable for maintaining business excellence and customer and employee satisfaction, regardless of market conditions. Successful leadership is not a solo performance but, rather, the end product of a knowledgeable, competent, and interconnected organization.

## IT Workforce Assessment

**people<sup>3</sup>** believes that the seemingly intangible asset—intellectual, human capital—is a firm's most important asset. Intellectual, human capital can be measured and improved in concrete ways. Successful organizations now recognize knowledge workers as an integral part of a company's most valuable investment. They are also seen as the custodians of the organization's knowledge, information, and intellectual property. While changes in a company's fiscal position unavoidably affect a company's ability to compete for the best and brightest talent, many companies institute interim, across-the-board cost-cutting measures, such as hiring, budget, or bonus freezes. During these times, organizations must take a time-out and focus on their current assets through an integrated human capital management process. *Gartner research predicts that through 2004, IT organizations that invest in long-range roles, disciplines, and knowledge will spend 25 percent less on hiring, training, and sourcing than those that do not (0.8 probability).* In other words, IT leadership must develop a long-term view of sourcing and human capital management to ensure that their high-performing workers are in the right roles at the right time, are sufficiently challenged and motivated, are given ample learning and development opportunities, and are appropriately rewarded for their contributions.

An important element of change leadership is managing change in a planned and systematic fashion, with a goal to smoothly and effectively implement new strategies or procedures. The most important success factor for an anticipative change management process is that IT leaders and managers are equipped with the right resources—people—at the right time. To assess if the right people are available within the organization, IT leaders need to first answer

the question, "Which skills and competencies are critical for IT to sustain its business results and successes?" For both short- and long-term success, **people<sup>3</sup>** recommends that organizations conduct an IT workforce assessment, and that they create and maintain a skills inventory and competency assessment process that attracts and retains the right people.

What is a skills inventory process? **people<sup>3</sup>** defines it as "A method of identifying, defining, and linking essential, functionally-specific abilities to individuals or teams for the purpose of assessing the strengths and/or weaknesses that support or prohibit project successes."

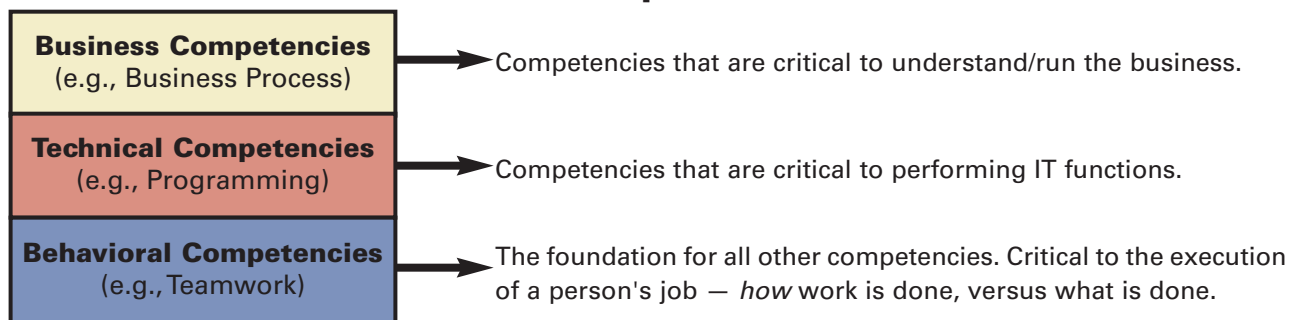
Information obtained via a skills inventory provides real-time access to critical information needed to make informed sourcing decisions. In times of uncertainty, it is especially important to understand and assess existing skills, as well as identify crucial gaps with the potential to affect current and planned projects. *Gartner research suggests that during a slowdown period, a skills inventory process is most likely focused on skill assessment in anticipation of future staff changes or to replace the skills for transitioned external service providers.*

What is a competency? **people<sup>3</sup>** defines competencies as "The behaviors or characteristics of an individual that are observable, measurable, and predictive of superior performance within a given role or job." To better understand the difference between a competency and a skill, consider that a skill represents what is done, such as a task, tool, function, or process (e.g., word processing or programming). A competency, on the other hand, determines *how* a person performs in a given role (e.g., leadership, teamwork, etc.).

Further, **people<sup>3</sup>** has identified three categories of competencies: Behavioral, Business, and Technical. Exhibit 4 depicts these competencies.

A competency assessment allows an organization to identify and measure the resident knowledge and abilities of its staff, develop a process to address deficiencies, and to effectively determine the overall strength of its human capital.

### Competencies



**Exhibit 4**  
Source: **people<sup>3</sup>**, Inc.

Because skills are abilities gained through practice, they are easy to identify and develop. Competencies are harder to identify (and even harder to develop) because they rest deeper in the psyche of the individual. Competencies come from an individual's self-concept, traits, and motives, which makes it difficult (but not impossible) to help employees to enhance or develop certain characteristics. Therefore, when hiring new employees or selecting employees for retention, IT leaders must focus on competencies as a differentiating factor in decision-making.

Research indicates that successful organizations place great importance on hiring, developing, and retaining people based on the competencies deemed essential to achieving their mission and vision. IT organizations must invest in developing employees by deploying and managing a human capital management program that supports the development of competencies. As part of an integrated human resources management process, high performing IT organizations link competency management to their performance management, reward, and recognition programs. In addition, these organizations build and sustain their talent pools through strategies designed to recruit, develop, and retain those employees with in-demand competencies.

When downsizing and layoffs are inevitable, it is essential that organizations carefully consider their retention strategy. *Gartner research indicates that through 2006, more than 90 percent of knowledge workers who are laid off or choose to leave the enterprise during an economic downturn will be unavailable for rehire in an upturn (0.8 probability).* An organization assessment comprising skills inventory and competency assessments will assist IT leaders with making sound decisions with regard to organizational changes.

## Communication Management

In a vibrant economy, many employees take for granted, or pay less attention to, the "health" of the organization. However, employee perspectives change during economic downturns if it is perceived that the organization has switched to "survival mode". Employees are anxious to know where the business is heading, and how changes affect them. This anxiety is particularly heightened if job security becomes a concern. Because of the effect these concerns have on overall productivity, clear and ongoing communication from IT leaders is more important than ever. IT leaders must ask themselves:

- Do I have an effective communication strategy in place to sufficiently address employees' concerns?
- How do I convey the right information to the right audience at the right time?

**people<sup>3</sup>** advises clients that it is time to review their communication strategy: Given the current environment, is the strategy still appropriate? Is it proactive enough so that you are not continually "putting out fires"? It is essential that IT leaders establish a communication plan that will be viewed by employees as responsive, honest, and timely. The following elements and examples should be part of an effective communication plan:

- **What** - What is the current and future IT business direction? What are the company's IT human capital management practices and what has changed (e.g., layoffs)?
- **When** - Will communication be conducted on a regular basis or change-driven?
- **Who** - Who are the key communicators (e.g., CIO, IT manager, supervisor, or HR)? Who is the audience (e.g., all employees or terminated employees only)?
- **How** - Will communication be one-on-one or company-wide meetings, emails, Intranet, etc.? Multiple mediums are recommended, as different means of communication resonate better with different employees.
- **Effectiveness Measures** - How will you communicate the right information to the right people at the right time? Continually gauge the effectiveness of your communication strategy, and review and adjust accordingly based on business needs and HR policies.

**people<sup>3</sup>** believes in the importance of conveying to your employees the total value proposition they can expect from the organization. This is particularly true during difficult economic times, when financial incentives are in short supply. For example, employees leaving one employer to join another may believe they are doing so for a better opportunity (because they didn't perceive the true value their current employer provides). But they may eventually come to find this was not true. In this case, it is a lose-lose situation for both employee and the employer. By keeping employees well informed about a firm's total value proposition, employees are better able to accept current conditions with the understanding that, in the long-term, the organization will continue to be a great place to work.

We have discussed the four key change management processes: Strategy Assessment, IT Leadership Assessment, IT Workforce Assessment, and Communication Management. Each process is individually important, but it is the integration of these processes that creates the powerful means through which IT organizations survive through crises and thrive in the bloom. While there is no "one size fits all" solution, **people<sup>3</sup>** recommends that IT leaders first analyze and understand their unique challenges, and use the IT Change Leadership Model as a guide for their own change management action plans. Doing so will help IT leaders make appropriate and informed decisions concerning their workforce strategy, and to sustain success in a truly dynamic environment.

## The Role of HR in IT Change Leadership

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*Gartner research indicates that during an economic downturn, enterprises with a disciplined intellectual capital management framework in place will increase market share over their peers who do not (0.7 probability).*

In an economic downturn, a disciplined approach to intellectual capital management prepares a company for an upturn. Inevitably, HR plays an important role in helping IT leaders identify critical knowledge, skills, and competencies, understand who possesses them, and establish a clear human capital management strategy to nurture and maintain key employees.

**people<sup>3</sup>** believes that organizations employing an effective IT people strategy have a notable advantage over organizations that do not. To this end, the role of HR in the IT change leadership process is summarized in the following key actions.

***Understanding the short- and long-term strategies, goals, and objectives of IT and the enterprise. Partnering with IT leadership team to develop and maintain an IT human capital strategy that aligns with overall business strategies.*** HR must position itself as a strategic business partner, rather than as a personnel administrator. HR must thoroughly understand IT and overall business needs in order to act in a consultative capacity to IT leaders, and assist them with managing and retaining their most valuable investment—their people.

***Working with IT leaders to evaluate the organizational culture, structure, and processes critical to IT change leadership.*** Assessing the organization's readiness for cultural change is important when designing and implementing a change action plan. While changes usually impose necessary adjustments to existing structures and processes, analyzing and redefining these elements often minimize unnecessary obstacles.

***Assisting and coaching IT leaders in conducting skills inventory and competency assessments in order to develop IT leadership and workforce profiles.*** HR functions as an executive coach to IT leaders in conducting assessments, and recommends the use of appropriate assessment tools and methodologies to ensure meaningful outcomes. HR advises IT leaders on the use of competency-based sourcing, recruiting, and retention processes. During a downsizing event, HR assists IT leaders with making selection decisions based on workforce assessments, overall performance, and other legal or company-specific criteria.

***Defining and communicating career paths to employees to ensure a broad-based understanding of individual responsibilities and their relationship to the business strategy.*** According to Gartner research, through 2005, only enterprises that explicitly connect the commitment of people to enterprise profitability will attract a potent workforce (0.8 probability).

***Developing long-term IT sourcing strategies that focus on employee strengths (rather than job content) and account for Employee Lifecycle Value (ELV).*** **people<sup>3</sup>** defines ELV as the total value (knowledge, ideas, productivity, and leadership) a company receives from employees during their tenure (Exhibit 5). A long-term view of sourcing strategies with an ELV focus differentiates successful organizations from those acting as "fire fighters" in attracting and retaining the best and brightest people. ELV is a subjective

evaluation of what each person contributes to a company. Once the true lifecycle of each employee is determined, leaders will better understand the quality of individual contribution that helps organizations achieve expected results. Based on ELV, leaders may make appropriate adjustments to roles, responsibilities, and/or compensation practices in order to sustain high performance, lengthen retention, and provide the greatest value to the organization.

### Employee Life Cycle Value

$$\text{ELV} = \left\{ \begin{array}{l} \text{Knowledge (industry/business/process knowledge, competencies and skills)} \\ + \\ \text{Ideas (innovative behavior demonstrated by an individual that have value to a} \\ \text{specific discipline, business, or technology strategy)} \\ + \\ \text{Productivity (time spent on tasks in relation to quality and effectiveness of the} \\ \text{outcome, level of competence)} \\ + \\ \text{Leadership (where appropriate, the initiative taken to lead tasks and others,} \\ \text{willingness to take risks)} \end{array} \right.$$

**Exhibit 5**  
Source: **people<sup>3</sup>**, Inc.

**Identifying competitive compensation market rates and taking into consideration the demographics, roles, skills, knowledge, and competencies at the individual level.** Gartner research indicates that through 2004, the market demands for relevant IT skills and know-how will outstrip market supply by at least 20 percent (0.8 probability). Even during an economic downturn, implementing a systematic market competitiveness benchmarking process continues to be essential in obtaining and retaining or attracting scarce IT talent in today's market. HR must advise and educate IT leaders about locating and applying reliable market information to ensure that IT employees are paid adequately and competitively.

**Working with IT leaders to develop and implement a performance management program and align it with IT reward and recognition practices.** When staff reductions are inevitable, letting the "right" people go is almost as important as retaining the right people. Due to budget constraints, companies cannot afford to retain less-than-outstanding workers, and must adopt a true "pay for performance" philosophy. While **people<sup>3</sup>**'s research indicates that many firms have embraced this strategy, it requires that companies set in motion a culture shift in order to ensure its effectiveness.

**Acting as counsel and often a key communicator to employees about IT and HR strategies and decisions.** When employees perceive business direction to be unclear, or their own futures uncertain, leaders must find ways to motivate them to sustain high levels of performance. HR must ensure their communications with employees continue to energize and inspire loyalty, perseverance, and innovation. When good times return, employees who felt unappreciated or underutilized are likely to leave their present employer for what is perceived to be a more favorable environment.

Gartner research predicts that by 2002, Human Resources Management (HRM) practices and supporting systems will be acknowledged as distinguishing factors of highly successful organizations, yet less than 25 percent of businesses will achieve this advantage (0.7 probability). Through 2005, the demand for HR functionality will expand to include the integration of HCM in non-HR business processes (0.7 probability). In other words, partnering with business and IT leadership in building and maintaining an effective "people strategy" is one of the most important initiatives that HR can do and can make the difference.

## Looking Ahead

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Rapid change and uncertainty is not exclusive to the information technology industry, but it is certainly more pervasive in this arena than in others. Extraordinary circumstances test the mettle of leaders; those who survive and prosper in the tempest of economic, social, and geopolitical events will be several steps ahead of the "group think" that pervades many organizations.

As organizations continue to experience or plan major transformations in response to external changes, leaders become obligated to appease stockholders by executing rapid cost-cutting measures. Research has shown that cutting jobs and freezing open positions is the *least effective* means of improving productivity or ensuring stronger profits and future profitability. Downsizing during bad times can often prove to be an ill-conceived strategy with limited benefit: during a downturn, companies that retain and invest in their high-performing employees will outperform companies that fail to do so. Moreover, companies that downsize or outsource based on date of hire (or similar criteria) will create a knowledge and culture gap that, in the long term, will be impossible to fill.

In every respect, it is logical that identifying and retaining key talent allows a company to quickly expand when times are good. As much as possible, companies must remain committed to the vision and direction defined prior to a downturn. Loss of momentum, whether in infrastructure, product branding, or customer loyalty, will continue long after the economy has turned around. High morale and employee loyalty is not quickly regained during or after a downsizing or outsourcing initiative.

In order to sustain profitability and protect its core human assets, companies must learn to do more work with the same or less resources, and maximize the use of their existing core assets—their people. Unfortunately, many IT leaders remain committed to the outdated and flawed organizational framework in which people and knowledge are neither identified nor valued. This mindset is wholly inappropriate for today's people-dependent, technology- and knowledge-based businesses. Many IT leaders fail to acknowledge high-performing employees as being an integral part of revenue generation. Loss of knowledge workers delivers unintended, immeasurable, and costly losses to an organization, which include, but are not limited to, employee morale, core knowledge, and productivity gains. It is nearly impossible for an organization to calculate the true cost of these elements, let alone sustain any measure of consistency, proficiency, or profitability.

Maintaining a continuous, open dialogue is a critical success factor during any economic phase; however, it is particularly important during a downturn that leaders begin, maintain, or improve straightforward and factual lines of communication with their staffs. Deliver company status among small groups to build credibility, create an environment of openness and two-way communication, and encourage trust and participation among peers and subordinates. Failure to do so invites enterprise-wide mistrust, speculation, and uncertainty.

## Looking Ahead

Layoffs and cost reductions are not permanent. When the economy rebounds, will you and your staff be ready? Gartner research indicates that through 2004, enterprises that adopt a retrenchment or incrementalist mentality to new business opportunities and IT innovation will

lose significant market share or fail as the economy rebounds (0.7 probability). Forward-thinking business and IT leaders who position their organizations for continual growth, rather than retrenchment, will be able to respond to market demands as they arise. During this transitional period, human capital management strategies must be planned and aligned with business and IT strategies. Business and management competencies will become even more important when IT enters yet another era of technology. Gartner research predicts that by 2004, business and IT management skills will make up more than 65 percent of the in-house skill portfolio, and most technical skills will be bought from the outside marketplace (0.8 probability). Skills inventory and competency assessments, coupled with a long-term sourcing strategy, will enable IT and HR leaders to attract and retain the right people with the right skills and competencies, and to help organizations realize their growth and success objectives.

## Ear to the Industry

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**people<sup>3</sup>** has compiled a list of questions frequently asked by clients in relation to the topics covered in this report. **people<sup>3</sup>** encourages you to use the essence of these questions and answers when communicating with your own organization.

**Q:** We have so much on our plate right now that we have no idea how and where to begin to take on more change. How can we possibly manage crisis after crisis?

**A:** Difficult times require strong leadership to keep a company focused on its overall mission and vision. The increased emphasis we have seen in recent months on disaster recovery, business continuity, and security alone have sometimes taxed IT leaders and their teams. Unfortunately, this comes at a time when companies are downsizing and cutting costs. But it is also a time when leadership needs to quickly examine resource utilization, assess organizational readiness, and prioritize or consolidate projects based on customer needs. Leaders must advise the executive team of the overall scope of their efforts, what is being done to manage growing demands, and ensure that IT is aligned with overall corporate objectives.

**Q:** What are the benefits to employees and employers by having the "right" people assigned to the "right" jobs?

**A:** When employees are assigned to roles they feel are an appropriate fit, they feel challenged, valued, and motivated. Compared with employees ill-suited to their assignments, employees correctly matched to roles produce better results, have greater job satisfaction, and display increased loyalty and innovation. The primary benefits to employers include increased skill and competency levels, higher overall performance, reduced attrition, and significantly less reliance (and cost) on external contractors.

**Q:** How do I determine the needed skills and competencies for my IT organization?

**A:** The first question that must be asked is, "Where is the company going and what technologies will be needed?" Once short- and long-term technology direction is determined, leaders must identify and prioritize the current and planned "in-demand" skills and competencies. It is equally important that IT leaders then determine the skills and competencies currently resident in the organization, those that require development, and those that will be obtained via an outsourcing strategy.

**Q:** Due to the current economic downturn and shrinking profits, we must reduce operational costs; unfortunately, this includes people. However, many employees are critical to the organization. How can we reduce costs while retaining critical talent? What is the alternative or compromise between cost reductions and layoffs?

**A:** Cutting costs and laying off people is a painful and difficult decision. However, it is also important to make these decisions based on skill and competency assessments. Most leaders will agree that keeping the "right" talent is essential, especially during difficult times, in order to keep the organization prepared for the eventual economic upswing. Also consider the obvious alternatives to achieve cost reductions, such as hiring freezes, job sharing, placing employees on temporary assignments, reducing or freezing pay increases, and voluntary leaves of absence. Choose the combination of approaches that best support your short- and long-term IT strategy.

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