

IT Management: Prepare to Meet the Challenges Ahead

David Flint

During 2005, research in Gartner's IT Management focus area will address the key issues facing IT managers. IT organizations will need to undergo significant changes if they are to contribute more to business performance and deliver multisourced services.

ANALYSIS

Today, most IT departments face a series of challenges created by changes in the economy, regulations and IT products and services. As a result, most IT departments are subject to increasing pressures.

First, the good news: The world economy is improving, encouraging executives to focus on growth again. In most sectors, continuing competition maintains the downward pressure on costs. IT systems can, by automating business processes, enable the company to do more while spending less. The increased automation of the servers and networks that comprise the IT infrastructure enables the IT organization to become more efficient. The prospect of economic growth provides new money for IT investment and opportunities for the IT organization.

Paradoxically, a further opportunity comes from the increasing burden of regulations. Government regulations such as Basel II and Sarbanes-Oxley set non-negotiable requirements for transparency and new processes, many of which must be met using IT (see "The 2005 Planning Guidance for Compliance"). This means more work for the IT organization, much of it focused on business processes.

Now, the bad news: In most enterprises, the bulk of IT spending is devoted to operations and user support. Although in-house IT departments can provide these services, top executives are increasingly aware that offshore service providers offer exceptional value and often a more-disciplined approach to customer service. They've begun to ask why they shouldn't outsource all routine IT activities. The negative effects of complying with new regulations will only add emphasis to this question.

The news gets worse. Since the e-business boom, top executives have accepted the strategic importance of IT. Their expectations of IT have increased, but many believe that the IT department is unable to meet those expectations. These executives believe that the IT organization is able to deliver everyday services, such as user support, data center operations and applications development, but is unable to take the business forward by contributing to strategy or leading innovation. These feelings may be exacerbated by the work supporting regulation. Because of the time it takes to change IT systems, we expect that the proportion of deficiencies in compliance attributed to the IT organization will have doubled by 2008.

Top executives recognize their need for advice about the strategic use of IT, and if they cannot get it from the IT organization they will go elsewhere. There is no shortage of suppliers and consultants who will be happy to give advice, often recommending their own products and services for both strategic and routine activities. If the IT organization cannot deliver strategic advice, it may lose the opportunity even to deliver routine services.

These drivers apply to every IT department, but they have different consequences for different companies. The most-critical mediating factor is the IT department's credibility with business leaders. Credible IT departments will be invited to suggest ways in which IT systems — actual or new — can contribute to the growth agenda, and their CIOs will be involved in strategic planning. IT departments with low credibility will be relegated to a utility role, running applications that have been defined and perhaps developed by others, and will avoid being outsourced only by continual austerities. As options shrink and the best people leave, the perception of inadequacy will become self-fulfilling.

Key Issues for 2005

Our research has identified four key issues:

1. *How can the IT organization improve business performance?* Performance improvement is the central reason for using IT. IT departments must keep that reason at the center of everything they do.

2. *How should the IT organization manage its relationships with its major stakeholders?* Unfortunately, it's not enough to deliver value; senior executives must see that the IT organization is doing so. IT managers cannot assume that senior executives know what's going on. They must analyze their relationships with senior executives and learn to address them in business terms.

3. *How can an internal IT organization successfully make the changes needed to improve its performance?* It's true that change is a way of life in the IT organization. IT managers are used to implementing new hardware and software but are less sure-footed when it comes to introducing new organizational structures, processes, staff roles and methods. IT managers need to become more-effective leaders.

4. *How should the IT organization be positioned and organized to deliver services, some of which are provided, wholly or partly, by external service providers (ESPs)?* Most IT organizations use ESPs to some degree. Some have adopted the "IT Lite" model in which almost all operational and development services are brought in. Managing multisourced delivery — blending in-house staff and external teams — is quite different from managing an in-house team.

Featured Research

In addressing these issues, we will consider the people and competencies that the IT department will need, how the IT group should be governed and managed, the services it should offer, and the measures and processes it should use. The research that feeds the IT Management focus area is divided into four research agendas:

- The **IT Strategy and Governance** agenda (see "IT Strategy and Governance: Harness Change to Encourage Alignment") covers the creation of IT strategy, the role of the IT organization and how the organization fits into the company's governance framework; that is, who holds which decision-making rights over the IT organization and how they exercise those rights.
- The **IT Financial Management** agenda (see "IT Financial and Performance Management: Develop Discipline for Decision Making") includes the IT department's relationship with its "business stakeholders," the enterprise's strategists and top management, as well as the financial aspects of IT management, including budgets and metrics.
- The **IT Service Management** agenda (see "IT Service Management 2005: Become and Remain the IT Provider of Choice") discusses IT service delivery models; that is, the linked goals, metrics, structures, sourcing arrangements, processes and roles that are needed to deliver to the company the services it needs. This agenda also covers the IT group's relations with its customers and users. (Metrics and chargeback fall under the **IT Financial Management** agenda.)
- The **IT Workforce Management** agenda (see "IT Workforce Management: Prepare for a Future Unlike the Past") discusses the people and competences needed to play the required roles in the various service delivery models and processes.

The **Compliance and Risk** agenda (see "The 2005 Planning Guidance for Compliance") covers the implications of new regulatory laws, such as Sarbanes-Oxley, for companies. These laws affect the IT organization directly — since the IT group's own systems must be compliant — and indirectly — because making business processes compliant usually requires IT.

Shared Themes for 2005

During 2005, we will deliver research on three themes that will integrate the work of our four research agendas:

How IT can contribute to improved business performance: IT managers must maximize the value they deliver. We will advise IT managers on the best practices for identifying opportunities and realizing benefits.

The future of the IT organization: The return to growth presents the IT organization with a choice. It can continue to define itself as a provider of IT services, become a broker of externally provided services or take the challenge of accepting accountability for improving business performance. In the first case, it will face powerful competition from ESPs. In the second case, it faces the threat of disintermediation by increasingly confident business leaders. In the third case, it faces the skepticism of senior business executives. We will advise IT managers on when and how to pursue each option.

Managing IT in a global, multisourced environment: Insourced and outsourced services may look the same to users, but they require separate approaches to governance and management. Metrics, processes and goals may be different. We will advise IT managers on when they should treat in-house and outsourced services differently and when they should be addressed in a similar manner.

REGIONAL HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters
Level 7, 40 Miller Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Latin America Headquarters
Av. das Nações Unidas 12.551
9 andar—WTC
04578-903 São Paulo SP
BRAZIL
+55 11 3443 1509