The Evolution of IT: Don’t Forget the People

The People Dimension of IT Transformation
Part of a series on people and organizational issues facing today’s IT function.
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Today’s IT Transformation

It used to be that “transformations” were reserved for the most innovative companies, those that were truly on the cutting edge of business. Today, transformations of all shapes and sizes seem to grow on trees. Whether a complete company overhaul or the evolution of a specific function, it seems everyone is trying to transform.

The IT function is no different. IT transformation is no longer a once-in-a-life-time event that propels a company’s IT function to the upper echelon of the C-suite. In many cases, IT transformation is the life of today’s CIOs.

And no wonder.

Twenty-first century companies are facing unprecedented challenges and changes. Globalization is creating worldwide competition for resources, talent, products, and services. This competition can put companies under relentless pressure to cut costs while improving performance.

As a result, many companies are reorganizing, merging, acquiring, and divesting to continually help create shareholder value and meet the demands of the evolving marketplace. Technology advances are also helping to reduce the barriers of time and space, as well as to accelerate the pace of change. New national and international regulatory codes are making compliance issues more challenging than ever.

And, all changes are occurring at a time when an aging workforce and the impending shortage of key skills are contributing to a global talent crisis that is expected to last for decades.

These powerful forces are causing many companies to transform the way they operate. As a company transforms, so must its IT function because a company’s IT capability is usually at the heart of its evolution. As a result, many IT functions are under increasing pressure to:

- Be relevant to the company’s overall strategy
- Add value to the company rather than acting merely as a commodity function
- Find new and innovative ways to help create a competitive advantage for the company

But, we believe there is a common mistake that CIOs often make when undertaking an IT transformation. As CIOs try to elevate the IT function to new heights of effectiveness, they too often concentrate on the technical aspects of change while largely ignoring the people and organizational challenges.

Too narrow a focus can be a “recipe for failure”

Our experience with leading companies has shown that addressing the people and organizational issues associated with IT transformation can be an important differentiator. How a company handles the people aspect can be a key factor in whether an IT transformation initiative achieves its desired results or falls flat – whether it meets expectations and achieves a healthy ROI or becomes another negative line on the P&L.

We believe that a much stronger emphasis by CIOs on the people dimension of IT transformation can pay significant dividends, boosting IT’s overall value to the company and making it a much more effective agent of change. In particular, our experience with IT transformation points to five key people and organizational areas that should be top of mind for any CIO charting a new path for his or her IT function.
A new kind of IT
Creating new IT service delivery and operating models

Designing IT's service delivery and operating models involves defining expectations, accountabilities, and the nature of IT's relationship with the rest of the organization.

Instead of simply keeping the company’s information systems afloat, IT should act as a true “business partner” within the company. In our experience, the most effective IT functions have established structures and processes that help build strong relationships with the company and allow them to be responsive. Working with IT functions, we’ve learned a lot about how they are changing the way they interact with the company and how they are helping their customers accomplish their strategic objectives.

What we’ve found
Separation of components. Many IT functions have begun to distinguish between demand-based services (e.g., account management) and supply-driven services (e.g., application design and deployments), using these categories to create discrete operating components.

Selective centralization. It’s not all about separation. Many IT functions are also moving toward selective centralization or shared-service models. Doing so allows them to consolidate key skill sets and serve the company more cost efficiently and consistently. The Center of Excellence model is increasingly popular, for example.

Collaboration with the company. There is an increased need for IT to serve as a “business partner” to the company, creating the need for structures, processes, and competencies that facilitate collaboration and relationships.

Coordinated division of responsibility. To help IT functions better address the company’s business needs, many are also distributing IT services between corporate and business units. A key component of this distribution is often a clearer definition of roles across IT while centralizing policy and governance.

Clear rules of engagement. Many IT functions have begun to recognize the need to clearly define their relationship with the company. They are creating account manager roles to more effectively understand and respond to business needs.

What’s needed
As they build new IT service delivery and operating models, it is imperative that CIOs develop approaches that more effectively support their internal “customers.” We believe the following people and organizational actions are key in their efforts to achieve this objective.

Institutionalize control, now! Develop an effective model for IT governance – including defining roles, responsibilities, and policies – is critical. Developing an appropriate model will help guide the formulation of IT strategy and implementation, help reduce the risk, and improve the value of IT operations.

Get the relationship right. IT’s level of collaboration with the company will rest on how it positions itself with the rest of the company. The model should be designed for strategic interaction, and it should be spelled out clearly. Be sure to include how IT can align itself to the delivery of services to relevant internal “customers.” Various options include “align by process,” “align by region,” “align by function,” and hybrid combinations.

Pool IT’s resources. Let’s face it. IT resources are usually very scarce, which means managing internal talent effectively. Strategies for achieving this goal include delivering certain common services with pooled resources and developing current resources with broad-based skills, such as project management.

Facilitate the transition. Redefining IT’s service delivery model won’t be a snap. It requires new rules of engagement, a shift in attitudes, and a new way of working for both IT and its internal “business partners.” IT must manage change effectively to create the level of readiness and to equip people with the appropriate capabilities.
The ins and outs of sourcing

Developing and executing a sourcing strategy

Developing and effectively executing a sourcing strategy requires attention to HR operations, employee issues, pre-transition preparation, and post-transition support so that the value defined in the strategy is captured through the sourcing relationship.

Sourcing initiatives continue to receive mixed reviews. In an April 2005 Deloitte Consulting outsourcing survey, “Calling a Change in the Outsourcing Markets: The Realities for the World's Largest Organizations,” 70 percent of participants have had negative outsourcing experiences and have either revised or are revising their sourcing outlook, strategies, or tactics. Many of these experiences are IT-based. We believe that greater attention to the people dimension is likely to increase the effectiveness of these initiatives.

What we’ve found

Still top of mind. Sourcing remains a key item on the CIO’s agenda. As a result, companies should continue to effectively implement sourcing strategies and manage these transitions to help reduce business disruption and yield the expected business benefits.

Outsourcing is not just about commodity skills anymore. More companies are starting to outsource deep skills (e.g., equities research, science, and diagnostics) to help diversify and distribute competitive innovation. This shift can create corresponding demands for changes in career path planning and talent investment.

Outsourcers are outsourcing. As onshore and offshore vendors expand their companies, they are looking to lower their costs by sourcing their own – and their clients – services. However, three degrees of separation will not reduce a client’s human resources control requirements.

“Hybrids” are in – and we are not talking cars. More companies are turning toward “hybrid” sourcing models, such as the “build operate transfer” or joint-venture/captive offshore models. These models can also increase the need for planning for transition and ongoing management.

Changing skills. Outsourcing means IT functions are often no longer responsible for the administration of IT support, maintenance, and basic coding. As a result, IT functions are recognizing the need for different skill sets. Many are building leadership and project management skills to collaborate more effectively with the company.

What’s needed

How can CIOs build on the progress they’ve made in developing a 21st century sourcing strategy? Don’t ignore the people and organizational issues. In particular, we feel that CIOs should:

- **Pay attention to form and function.** The transition to offshore resources can be smooth or bumpy. If the company opts for smooth, it will need to redefine organizational structures, governance, roles, and responsibilities—for both the retained and distributed functions.

- **Don’t just fight half the battle.** As companies move to an outsourced model, they will need to ramp up the retained function while distributing the current one. The “retained” function must be provided with a compelling value proposition and must be prepared to sustain the new vendor relationship.

- **Redeploy and restructure—and do it strategically.** Capability planning for the future function (three to five years) should support the selection of “what” to source in the value chain and the strategic transition of “freed” resources.

- **Build new capabilities.** As new processes are put into place, the company will need to institute effective learning and support strategies for IT practitioners and end-users. The goal: to help accelerate adoption of the new outsourcing model.

- **Hold on to your stars.** When executing a sourcing strategy, be sure the company’s star performers don’t start looking for greener pastures. The move to outsourcing requires companies to identify the critical skills and key performers needed in the retained functions and to design and implement retention mechanisms to facilitate business continuity.

- **Comply with HR requirements.** As companies implement new sourcing strategies on a global scale, they will need to work closely with HR specialists to help maintain compliance with labor relations/worker council requirements and established country and company-specific employee transition policies and procedures.
Who’s the boss?

Aligning the IT organizational structure with the company

Designing the IT function requires defining groups and reporting relationships in a way that allows IT to meet its strategic objectives and to respond most effectively to its internal “customers.”

To be more closely aligned with the company, IT functions need to be flexible and adaptable. They need to be appropriately structured so that they can deal with the unknown, help address the company’s changing business demands, and provide the appropriate opportunities for their employees.

What we’ve found

Networked functions. IT functions increasingly recognize that networked functions are not only agile, but also more innovative and customer-centric. As a result, they are aligning more resources around entire processes, such as supply chain and finance.

Flexing to meet demand. Many IT functions are moving toward a flexible structure and workforce, employing a mix of internal resources and contractors, to more effectively manage the ebb and flow of IT projects.

Governance. Many companies have recognized the critical role that IT governance structures and responsibilities can play in determining the blueprint of the rest of IT operations. Governance has become a key design component for changing IT organizational structures.

Portfolio management. The most effective companies have integrated their IT functions with their business as a way to help improve the level of understanding and service. These companies recognize that the types of projects undertaken by IT can directly influence how the IT function is positioned within the business.

Skill convergence. Many traditionally separate IT areas are converging (e.g., architecture and solution design) to offer a full suite of skills to the business areas they collaborate with.

What’s needed

Addressing people issues is critical to any CIOs’ efforts to align the IT’s organizational structure more closely with the business structure. We believe the following actions can be helpful.

Devise an effective structure. Because the collaboration between IT and the company is critical to achieving the company’s business objectives, it is important to create an organizational structure that facilitates their interaction and supports the growth and development of critical skills within IT.

Prepare the path. The growth path of high-potential candidates can be critical to retention and to overall team performance, and it is a key consideration in IT job and organizational design.

Get the measures right. Because measures generally drive behaviors and performance, the alignment of these measures with the strategic objectives of the new IT organizational structure is imperative.

Work on the “pull factor.” The impending talent shortage requires a keen understanding of what different IT employees value (compensation, flexible work arrangements, etc.) in order to develop competitive rewards packages and retention programs to recruit and keep key talent. These elements are critical in effecting IT design changes.

Boost key competencies. For exceptional employee performance, it is necessary to identify the competencies that are critical for achieving the company’s strategic goals. These key competencies should help shape the decisions about the IT function’s design. They should also become the criteria used in deciding how the workforce is developed, deployed, and connected to the company.
New IT = New Skills
Upgrading IT’s skills and capabilities

Enhancing your IT capabilities involves the identification and development of competencies and skills within the IT function that can help position IT as a “strategic partner.” With the looming shortage of talent, the emergence of new technologies, increased business focus on IT, and the move to outsourcing, IT functions need to feel confident that they have the “right” people with the “right” capabilities.

What’s needed
IT capabilities will not grow on their own. Careful attention, planning, and investment are needed to provide IT employees with the right environment for learning. We believe the following actions can help.

Identify and connect key competencies and critical criteria. Once IT functions identify critical competencies, they should make them the criteria for how the workforce is developed, deployed, and engaged with the company.

Equip to deploy. IT functions should retrain and, where necessary, redeploy workers to match skills to roles.

Send the talent around. Providing opportunities for high-potential individuals to rotate jobs can help build business-focused skills in the appropriate learning environment.

Build the ladder. IT functions should create career paths and development opportunities for key talent that encourage employees to gain new competencies (e.g., business relationship management).

Promote cultural awareness. Going global will require companies to be considerate of various cultural norms, cognizant of different time zones, and equipped to maintain virtual teams.

What we’ve found
Expanding IT skill sets. Many IT functions are changing the way they view critical business capabilities within their function. In particular, the following competencies can help position IT as a “strategic partner” within the company to help increase credibility and effectiveness:

- Account relationship management
- Portfolio and program management
- Business process design
- Change management
- Costing/financial/budgeting/business case creation
- People management and development
- Vendor and alliance management
- Business relationship management

Project management is critical. IT functions that maintain a strategic position in the company have demonstrated the ability to effectively understand and manage their IT portfolio, vendors, and relationship with the business.

Learning as a priority. IT functions that are truly focused on people development embrace opportunities to enhance training curriculums and implement structured training plans to develop their staff.

Going global. There has been a shift in IT skill requirements creating an increased demand for specialty skills. This results in the need to think about recruiting from a global talent pool, especially in the light of the war for talent.

Reduction effect. Changes to skill set requirements can arise when sourcing decisions are implemented. It may be necessary to retool current IT team members to account for changes in staff composition.

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Playing by the rules
Facilitating Sarbanes-Oxley compliance

Sarbanes-Oxley compliance provides both a challenge and an opportunity: improved financial transparency and internal controls can force the introduction of new skills and responsibilities into the IT function. IT has the opportunity to lead the company to gain efficiencies by embedding Sarbanes-Oxley activities into current processes.

What we’ve found

Governance-driven controls. Companies that do not have a solid IT governance structure and framework have had issues integrating internal controls into the culture and daily activities of the company.

Increased role clarity. Internal control-related roles and responsibilities are often poorly defined and segregated from the employees’ day-to-day routine. There is a need for increased clarity of expectations and integration of individual roles to support an effective controls process and culture.

IT’s critical role. First-year Sarbanes-Oxley readiness efforts highlighted many disconnects between the IT and Finance functions. It emphasized the importance of IT’s role in supporting efficient and effective controls for the production and maintenance of high-quality financial information.

Building the skills. The internal controls skill set is new to many IT staff members. An aggressive program to provide relevant, targeted training and tools is needed to establish internal controls.

Staffing the effort. Establishing internal controls in IT requires dedicated time and resources. Many companies underestimated the increase in first-year readiness workloads. This new job requirement in IT requires the ongoing commitment of dedicated resources.

What’s needed

To deal with the continuing people and organizational challenges of Sarbanes-Oxley compliance, IT functions should start by helping to establish a solid foundation for compliance behavior at all levels of the company. We believe that the following actions can help.

Set the right tone. Communication is critical to setting the right tone within the IT function and maintaining a strong control environment. Make it frequent; make it open.

Put governance in place. There is no way around it. Increased control requirements demand that IT functions put in place a formalized compliance and governance structure. The structure should include committees (steering, disclosure), teams (internal control), offices (program management), and other structures.

Create clear accountability. Because IT plays a critical role in maintaining high-quality financial information, define IT roles and responsibilities that impact financial reporting and update job descriptions to include internal-control activities.

Embed the right skills. To keep up with the changing regulatory environment, it’s important to instill the right internal-controls skills and competencies across the IT function.

Equip to deploy. You’ll need up-to-date and comprehensive training programs, not only to equip IT with skills to understand internal controls, but also to help embed those controls into the company’s processes.

Fill in the gap. With an increase in internal control responsibilities, IT needs to evaluate current staffing levels to provide full coverage of day-to-day responsibilities, along with maintaining internal controls and building relationships with the Finance function.
Effective IT transformation begins and ends with people

The evidence is mounting -- the people dimension of IT transformation will require more and more attention as IT functions look to redefine how they contribute to their company’s bottom line. If CIOs are to achieve their objectives in the midst of constant and increasingly fast-paced change, one key component will be leveraging this human dimension of their company more effectively to better align IT with the business and to support the creation of value across their company.

Addressing critical people and organizational challenges can go a long way toward doing just that. In the years ahead, we believe those IT functions that embrace and aggressively develop the people dimension of IT transformation will increase the likelihood of achieving change faster, becoming more adaptable, and, ultimately, finding new ways to support their company in the drive to create new revenue streams and profitability.
The information contained herein is based on the experiences of our Deloitte Consulting LLP professionals.

The People Dimension of IT

Deloitte Consulting LLP’s People Dimension of Transformation (PDT) point-of-view series offers an inside-out perspective to help CXOs understand their most critical results factor – employees – and how to manage emerging PDT issues and trends effectively. Each point of view in this Information Technology series provides fresh insights to inspire change leadership and creative problem-solving, as well as a framework for in-depth analysis and discussion. "The Evolution of IT: Don’t Forget the People" is the first in this point-of-view series on PDT and IT and discusses the critical people and organizational factors for successful transformation. "Putting Business First: New Kinds of Talent" is the second in this series describes the talent challenge, as it applies to the IT function, and highlights strategies to address it. "Rise to the Challenge: Three Dimensions for Competitive IT Organization Design" is the third and final piece in this point-of-view series, and focuses on effective IT organization design principles and considerations. Related PDT point-of-views include function-specific transformation for Finance, as well as enterprise-wide transformation, such as M&A. For more information, please visit www.deloitte.com or e-mail us at HumanCapitalDTT@deloitte.com.

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