

[SPECIAL REPORT]

# HOW TO RUN IT LIKE A BUSINESS

Evolving from a cost center, IT is taking on the character, rigor and practices of a business within a business. It won't be easy, but for CIOs it's a matter of survival. BY STEPHANIE OVERBY

PG.  
58

#### THE BEST BEST PRACTICES

CIO Research reveals the basic building blocks of IT as a business

PG.  
62

#### THE SECRET WEAPON: INTERNAL MARKETING

How to build a communication campaign that gets the good word out

PG.  
74

#### I.T. INCORPORATED

How insurance giant USAA manages its IT business within a business

>>

#### ON CIO.COM

The special report continues online at [www.cio.com/ritlab](http://www.cio.com/ritlab)

## business

n. The buying and selling of goods and services, especially on a large scale.

You can't throw a rock in technology circles these days without hitting some soul sounding off about the importance of running IT like a business.

But what does it mean to "run IT like a business"? It sounds logical. It sounds beneficial. And for many, it sounds like just another in the long line of ill-defined catchphrases that the IT community latches onto to no avail.

But this one is different. It's not a flavor of the month; it's a mutual mandate from the CEO, the CFO and the CIO. This one will turn IT from a credibility-damaged cost center into the aligned business partner it needs to be—and always should have been. But only if IT leaders understand what it really requires.

In this special report, we explain what it means to run IT like a business, and analyze how CIOs are doing it. We'll draw insight from a new in-depth *CIO* survey of more than 100 organizations selected for the study because of their exceptional IT reputations. For these CIOs, running IT like a business is the defining principle for IT functions reborn in the post-Internet-bubble recession. We learn why they're doing it, why it's so difficult and why it's worth the effort. We identify the most prevalent practices and determine which deliver the greatest ROI. Among these are internal IT marketing, which turns out to be the secret success factor for running IT like a business. We cap off the report with an up-close examination of how one exemplar (financial services com-

pany USAA) reinvented IT as a business within the business.

To explain the concept, it's important to clear up some misconceptions.

**1. It's not all about finance.** "It's about instituting common business practices in IT," says Robert Urwiler, vice president and CIO of software company Macromedia. "It's more about corporate governance and responsibility than it is about sending out invoices to your customers."

**2. It doesn't necessarily mean incorporating the IT department.** Though some organizations operate a profit and loss IT subsidiary, most don't. And they don't need to. The IT department is already positioned to act like a business within a business. The only major difference between IT and a typical business is that instead of revenue going in and profit coming out, IT receives funding and delivers value, says Meta Group Executive Vice President Howard Rubin.

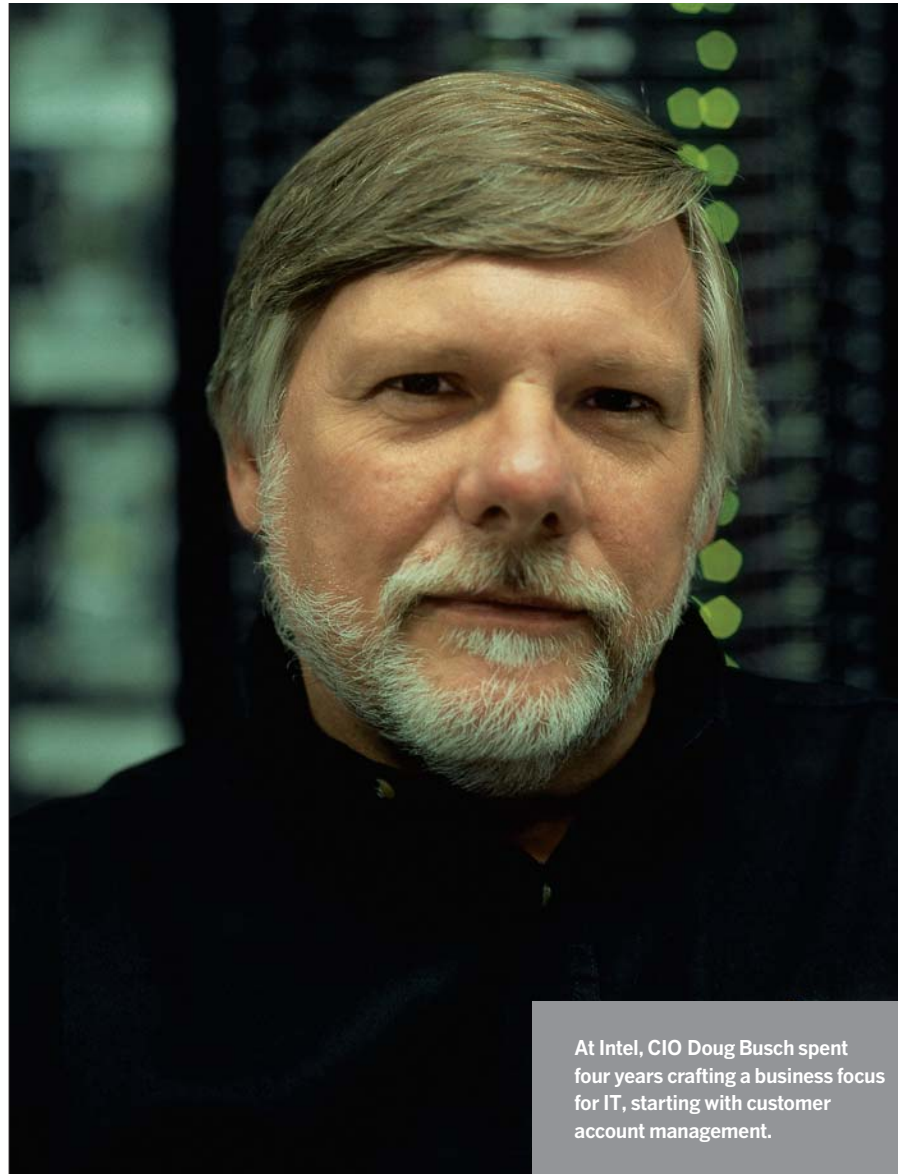
**3. It's not just another IT quality initiative.** This goes way beyond a Capability Maturity Model-level rating or Six Sigma status. "CIOs are figuring out it's not so much how IT is done that really makes the difference," says Michael Gerrard, vice president and chief of research for IT management at Gartner. "It's additional competencies like product development and management and financial capabilities that make the difference." Not to mention IT operations, supplier and human resources management, customer focus, marketing and governance.

It's about institutionalizing all these business functions and processes in a manner compatible with the larger corporate culture.

And it's about time.

#### AN OBLIGATION, NOT A CHOICE

Years of being viewed as overhead and run as a cost center—exacerbated by technology



At Intel, CIO Doug Busch spent four years crafting a business focus for IT, starting with customer account management.

hype and unfulfilled expectations—have pummeled IT's reputation. "If we behave as a cost center, we won't get the most benefit from IT, and we certainly won't earn credibility," says Doug F. Busch, CIO of Intel.

The sheer size of technology budgets demands more prudent management. "If you look at how much money IT spends here, we're the equivalent of a billion-dollar business. We

have the *obligation* to run IT like a business," says Busch.

It's not just the magnitude of the budget, but the influence that IT has throughout today's enterprise that demands a new way of operating. CEOs and boards of directors have taken note of their dependence on IT, and they will no longer tolerate IT operating by its own set of rules, as a mysterious black box with no

PHOTO BY ANGELA WYANT

apparent business discipline or accountability.

And CEOs are increasingly wise to the alternatives at their disposal should IT fail to measure up. "If your IT department can't do this internally, the business is going to say, 'We might as well outsource,' and you'll be forced through the keyhole," says Joe Gottron, executive vice president and CIO of The Huntington National Bank. "One way or another, IT *will* be a business."

#### NUMBER-ONE BARRIER: TIME

Once people grasp its meaning, running IT like a business might not sound so difficult. In fact, if you look at the individual practices (see Pages 60-61) that survey respondents employ, there doesn't appear to be much new under the sun: sound project management methodologies, regular strategic planning meetings, customer satisfaction surveys, financial audits—the list goes on. But mastering a handful of practices won't cut it. CIOs must put multiple processes in place, each buttressing another, and manage them in a rigorous and repeatable manner.

This is new territory for IT, which is why it's so hard. "Businesses measure themselves on financial numbers, on customer satisfaction," says Rubin. "If you look at the history of IT, for years, there wasn't process management in place, there weren't quality measurements or product measurements. Huge pieces were missing. For CIOs, it has been like trying to run a business before the invention of bookkeeping."

Thus, it takes time—buckets of it—to reconfigure IT as a business. That is the number-one barrier to success, say survey respondents. At Intel, Busch first focused on establishing good customer account management. Then came the cost accounting discipline. Then measuring the business value of IT deliverables. Now he's focused on optimizing those practices. It's been four years and counting.

## 5 TOP MOTIVATORS

1. Lack of IT credibility: **58%**
2. Operational ineffectiveness: **55%**
3. Overwhelming backlog and demand for IT services: **53%**
4. Inconsistent IT quality: **50%**
5. Mandate from the CIO: **45%**

(Respondents were allowed to select multiple answers.)

## 8 MOST COMMON BENEFITS ACHIEVED

1. Closer alignment with the business: **82%**
2. Increased IT credibility with the business: **77%**
3. Improved customer service/loyalty: **64%**
4. IT quality improvements: **55%**
5. Increased IT staff productivity: **54%**
6. Expense reduction: **47%**
7. Better ability to make IT staffing and outsourcing decisions: **46%**
8. Transparency of costs and benefits of IT: **43%**

(Based on selections of 103 respondents to CIO's survey.)

CIO RESEARCH

It's an unnatural evolution for most departments, says Mark Popolano, CIO of financial services giant AIG, where he has been playing Darwin for the past six years. "What we ended up doing was a series of changes: standardization, setting up a project management office, portfolio management, financial reporting. And it didn't really start to take hold until about two years into the process," he says.

The protracted effort can take its toll on

the IT leader. "You're not looking at a three-year legacy with this kind of model," Popolano says. "You're looking at how you'll be running 10 years out or beyond, and a lot of people don't have the staying power for that."

#### DISARM THE RESISTERS

Besides the hurdle of time, cultural resistance is another challenge CIOs should anticipate. At 7-Eleven, CIO Keith Morrow was surprised at the difficulty of introducing the concept and processes both within IT and among the user community. Now three years into this effort, he realizes that unlike a function such as marketing, a change in how IT operates could affect the nature of people's daily work across every area of a company. Department heads, who once had their own distinct ways of working with the IT group, now have to comply with standardized IT business processes. For example, every IT project now has to have a business case with clear ROI and tangible benefits, even IT infrastructure projects. "This loss of control can be threatening and difficult for those involved," says Morrow.

Morrow has learned that the best way to counter this reaction is through setting expectations. "We try to be very clear and upfront about the goals, roles and the level of commitment we need to be successful," he says. "You have to have a multilevel communications plan that reaches all affected constituents." It's crucial to maintain respect for the dignity and importance of every person impacted by change, Morrow adds.

IT staff can have an even tougher time than internal customers adjusting to the new businesslike processes. The primary reason is that not many IT workers have been exposed to the kinds of governance that other business functions operate under. IT managers at 7-Eleven had a particularly hard time with the new realities of budgeting. "If you run IT like a business, then the budget process must be what it is in any good company," Morrow says.

"People didn't realize that there are very hard decisions that you have to make. You have to break contracts. You have to make gut-wrenching business decisions to cut staff."

Morrow overcame the fiscal inertia through performance accountability. IT employees are compensated based on customer satisfaction targets, financial performance, knowledge and team development, and their ability to meet deadlines, budget goals and quality metrics.

#### AVOID A CULTURE CLASH

Some well-intentioned CIOs may develop IT "business models" that are out of sync with the larger corporate culture, which can lead to entrenched resistance and resentment. Atmos Energy CIO Les Duncan saw that happen when he was director of information services at British Petroleum. Each BP business unit had an IT department run as a profit center. They all had their own internal sales and marketing professionals and competed with each other for BP's IT business. No other corporate function had its own sales team focused on making money, and internal customers didn't like having to pay IT costs that ultimately led to IT profits. "You must have the functions of a business, but you have to be careful not to look or act too differently than any other department," Duncan says.

At Atmos, Duncan mirrors the larger business by measuring IT success the same way other functions do—with formal internal customer satisfaction surveys. Other departments don't have their own HR and financial functions, so neither does IT.

#### Read More on IT as a Business

Continue the learning curve online. We have an indexed list of articles—the **IT as a Business Reading List**—for each of the seven major practice areas critical to running IT like a business. It's all in one place: [www.cio.com/ritlab](http://www.cio.com/ritlab).

**CIO.com**

## 5 MOST COMMON BARRIERS

1. Lack of resources and time
2. Lack of business skills within the IT department
3. IT staff resistance
4. End user resistance
5. Lack of corporate backing/commitment

(Respondents were asked to rank their answers.)

## 5 MOST COMMON PERFORMANCE METRICS

1. Internal customer satisfaction scores: **73%**
2. Performance reviews: **69%**
3. Industry benchmarks: **55%**
4. Performance against service-level agreements: **51%**
5. Formal department financial audits: **27%**

(Based on selections of 103 respondents to CIO's survey.)

**CIO RESEARCH**

#### EXPOSURE CUTS BOTH WAYS

Lastly on the subject of hurdles and drawbacks, there's the unease that can accompany visibility. While greater transparency of technology costs is a goal of running IT like a business, the other edge of that blade exposes IT's shortcomings for all the world to see. "The whole idea behind running IT like a business is to open the kimono," says Rubin.

But many CIOs are reticent about revealing all. "Your flaws are exposed. The opportunity is there to fail miserably and be very visible," says Macromedia's Urwiler. "But just like when you're running a business,

you have to find a way to explain things that don't go right. If a company has a problem, on a quarterly basis they have an opportunity to talk to shareholders about what happened. And we can do the same thing."

Urwiler reveals his department's performance to the company's IT governance committee, warts and all. "Every single month we tell them how we're doing against budget, against cost-cutting initiatives, with strategic projects and systems availability," says Urwiler. The news isn't always good, but a simple explanation can go a long way. "You don't just send out raw data, there's a color commentary that goes along with it. And in the end, you find, the business appreciates being told the truth."

At floor manufacturer Mannington Mills, Corporate Vice President of IT Jim Sloane reports back to the business on IT performance every four weeks. "It's a little scary in the beginning, admitting your flaws," he says. "But I have found that IT folks work harder on fixing their flaws when they are visible to others." In fact, Sloane has noticed that major system breakdowns have decreased since IT began reporting on its performance.

#### STRIVE FOR FINANCIAL METRICS

Mannington Mills' reduced system downtime may be a good indicator of basic competency—a prerequisite for any viable IT business. But there are other ways to measure success when running IT like a business. The most often used metrics, according to our survey, are internal customer satisfaction scores, IT leader performance reviews and executive committee reviews, industry benchmarks and performance against internal service-level agreements.

But for IT to be seen as a true, credible business, performance metrics need to measure business value in dollars and cents. "Ask most CIOs if they have performance measurements in place, and they'll often pull out a notebook filled with percentages of uptime. But they don't have any measurements for IT

business value," says Mark Lutchen, senior vice president at PricewaterhouseCoopers, and author of *Managing IT as a Business*.

At Intel, Busch has made measuring the dollar value of IT a top priority. The IT department launched its own business value program with a goal of delivering \$100 million in new value for Intel. The rules are strict: Busch won't count anything that saves money only for the IT group. To be included in the value tally, initiatives must be new, not extensions of old programs. And the total return that can be accrued from any one system is capped at \$20 million. Busch measures the payoff with post-implementation audits—the same tool used by 74 percent of our survey respondents. But he doesn't stop at implementation; he continues to calculate the value accrued over time. The Intel finance organization validates the numbers at the end of the year. The total—\$184 million by 2003's reckoning—represents the business capability IT is delivering to the internal customer.

Along with a value measurement program, CIOs need a communication program to get the good word out. "Having the absolute best value measurements is meaningless if you don't have a communication program," says Lutchen. "You can build a stellar IT organization and still have it be viewed as a failure." For details on how CIOs are marketing their business contributions, see "The Secret Weapon: Internal Marketing," Page 58.

#### REAP REWARDS

What's great about all this effort is that it truly pays off. When a sampling of the survey respondents were asked to rate the success of their IT business makeovers, 66 percent gave themselves a seven or higher on a scale of 1 to 10. And the most often-cited benefits match the goals that led CIOs to make the



7-Eleven CIO Keith Morrow based IT staff compensation in part on internal customer satisfaction and financial performance.

attempt in the first place—better alignment with the business and increased IT credibility. Other benefits CIOs have realized include greater customer service and loyalty, IT quality improvements, increased staff productivity, cost and value transparency, and better staffing and outsourcing decision-making.

Stronger alignment is palpable at Mannington Mills. "There's no longer the need for constant realignment of priorities. The IT staff truly gets it," Sloane says. "All the IT managers are watching their budgets closely and are not requesting expenditures without first explaining the benefits to the business. The entire staff understands that we exist to service the needs of the other

PHOTO BY REID HORN

departments in our organization. They are our customers.”

CIOs no longer need to panic when they are called on the carpet to defend IT spending. According to Busch, “If someone is concerned about how much is being spent on IT, we can say, ‘Here’s the website that shows our unit-cost strategy, what you’re paying for IT, a history of our cost reduction, and what we’re planning to do next year.’”

The full visibility of IT cost and value also helps the business make fair comparisons when considering outside providers. Gartner’s Gerrard points out that outsourcing the help desk might seem like a no-brainer, unless someone realizes that the internal help desk organization also does asset management and tracking. “A whole chunk of service may be done behind the scenes,” says Gerrard, “but the general description is ‘help desk.’ So when the cost is compared to the outside entity, it’s unfavorable.” Within the first week of an outsourcer taking over, it will become painfully apparent what tasks the external provider is not doing that the internal organization used to handle.

Although it may take more time to make over a deficient IT department in the image of a business, the results will be all the more dramatic. Five years ago, Northeastern University’s IT group was “behind in every category you could think of—value to the customer, reliable technology, budget justifications,” says CIO Bob Weir, who has spent the past five years trying to run his university IT like his former employer IBM ran its business. “We’re prioritizing resources to

## Out of Business?

Paul Strassmann warns that CIOs who overemphasize running IT like a business could be at greater risk of technology failure

“CIOs are missing the boat if they think running IT like a business will solve all their problems,” says Paul Strassmann, a 42-year veteran of corporate and government IT and author of *The Squandered Computer*.

That’s not to say that Strassmann doesn’t believe in the benefits of running IT like a business. After all, he did just that at Xerox, where he ran the company’s information services function as an operating division from 1971 through 1994. When he was appointed to an external task force by the U.S. secretary of defense in 1991 to evaluate the Department of Defense’s IT organization, Strassmann recommended recasting the Defense Information Services Agency as a business.

Issuing P&L statements, benchmarking unit costs and offering incentives for meeting performance goals, says Strassmann, can be critical steps in achieving IT efficiency. And that’s what CIOs must do if they plan to compete with external services providers. However, he cautions, “you can be efficient—but what happens if you’re doing all the wrong things efficiently? That can happen very easily.”

An obsession with running IT like a business could distract CIOs from technical operations, to their peril, Strassmann says. CIOs must focus on technical operations and “keep their nose to the grindstone. All the [business discipline] in the world won’t go far if the executive floor doesn’t get their paychecks [because of an IT mistake] or if the e-mail system goes down.” Success depends on maintaining a balance between the technical and the strategic.

In the end, it’s likely CIOs will continue to struggle, whether or not they run IT like a business, Strassmann concludes. CIO turnover was just as bad last year as it was in 1995, according to his research, and he doesn’t think businesslike IT will do much to increase CIO tenure. “The life expectancy of a CIO is still about 30 months. Everyone is struggling, without exception. The turmoil has not changed,” says Strassmann. “Sometimes the changes you make in the IT organization will work. And sometimes they won’t. There is no magic.” —S.O.



Strassmann

get the biggest bang for the buck in a repeatable and measurable way,” Weir explains.

Today, service-level metrics are up, anecdotally customer satisfaction has increased (Weir is instituting a formal survey this year), and Weir won enough credibility to be able to double his budget and increase his headcount by 50 percent within his first three years at the university.

It was no picnic for Huntington **cl**o.k’s Gottron either. “It was tough. At times I was ready to throw open the window,” he reflects. “But I’m glad I went through it.” That hard

**The entire IT staff** understands that we exist to service the needs of the other departments in our organization. They are our customers.

—JIM SLOANE, VP OF I.T., MANNINGTON MILLS