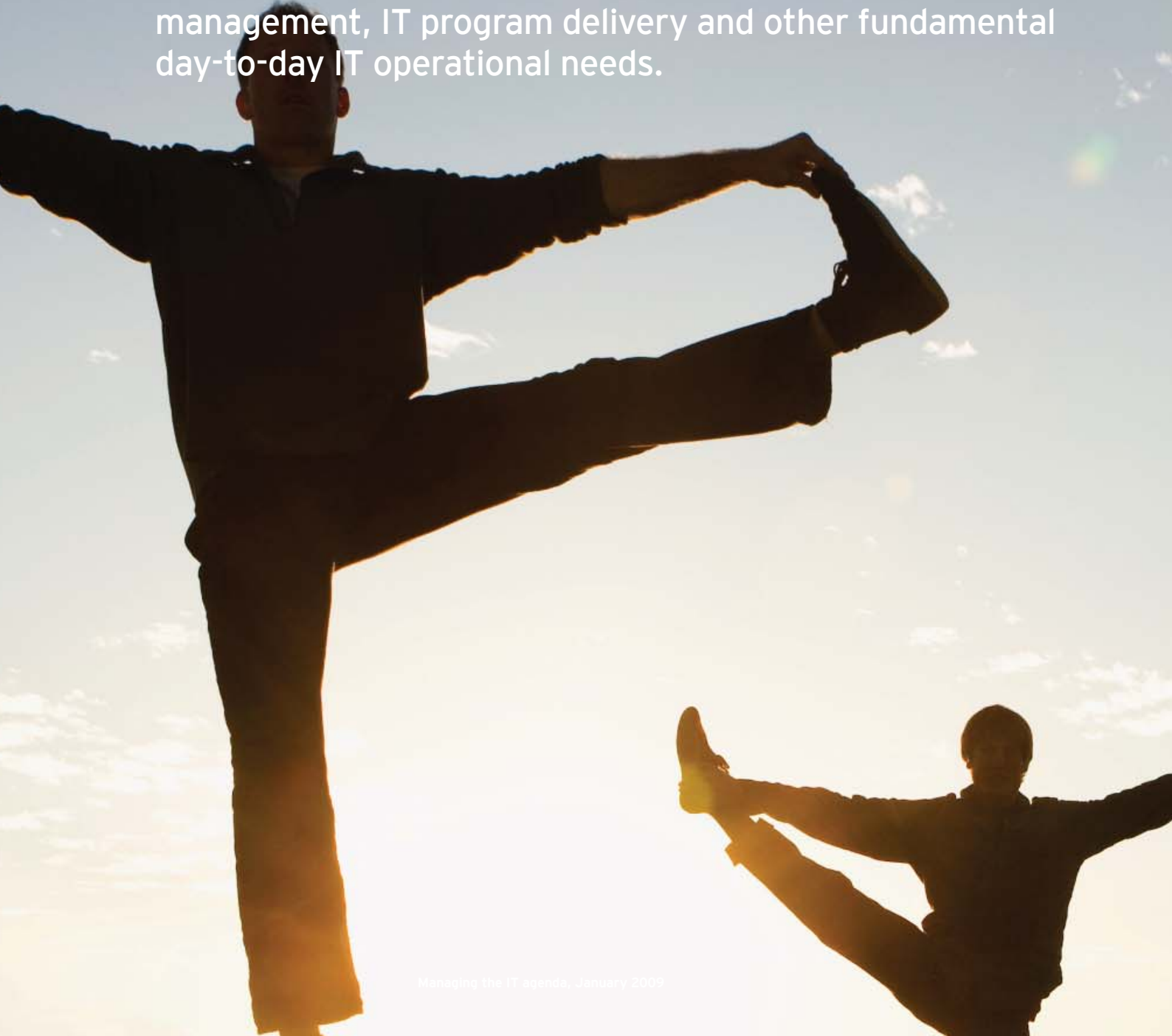


Managing the IT agenda

The balancing act for business and
IT leaders

The role of information technology (IT) is evolving. IT is being called on to do more than simply “keep the lights on.” Board members, C-suite leaders and other stakeholders are looking for IT to make even greater contributions to the success of the enterprise – to create value, rationalize costs and more effectively manage risks across the organization. Many business and IT leaders, however, struggle with balancing this vision of how IT can add value to the enterprise and still address ongoing concerns such as the levels of IT service and support, escalating concerns around security and risk management, IT program delivery and other fundamental day-to-day IT operational needs.





The role of IT today

Over the past several years, we have seen four key trends which have dramatically reshaped IT's role within organizations. While each of these trends individually is important, collectively they represent a fundamental change in the way IT is viewed by stakeholders and what is expected of the IT function. The four trends are outlined below.

Increasing risks and expectations

IT risks have increased exponentially over the past several years with the:

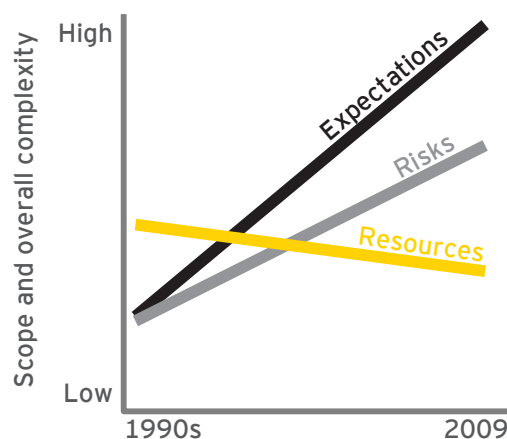
- ▶ Growth of the internet, electronic commerce and the increasing global nature of business
- ▶ Increased concerns and new regulations around customer privacy
- ▶ Emergence and widespread use of laptop computers, personal digital assistants (PDAs), cell phones and other personal storage devices
- ▶ Increased complexity of security risks and advanced threats from institutional hackers

The expectations around technology – and in particular for the enterprise IT function – have also increased dramatically during the past several years. With the increase in computing power and advances in technology, business leaders and customers (both internal and external from an IT perspective) have asked IT to do more than simply “keep the lights on.” Some of the specific expectations of IT will become evident in discussing the other trends, but the expectations tend to fall into a number of categories:

- ▶ Business alignment – How is IT aligned to support key enterprise goals and initiatives?
- ▶ Efficiency and productivity – How can IT make people and the organization more productive?
- ▶ Cost rationalization – How can IT help rationalize costs across the enterprise?
- ▶ Value and competitive differentiation – How can technology be leveraged to create strategic advantage in the marketplace?
- ▶ Risk management – How can IT be used to better manage risks across the organization?

Yet with these increased expectations and risks, the resources for many IT functions have not kept pace. In many organizations, the resources – both human and financial – are flat or have declined over the past several years (see Figure 1). This trend poses significant challenges and concerns to both IT and business leaders.

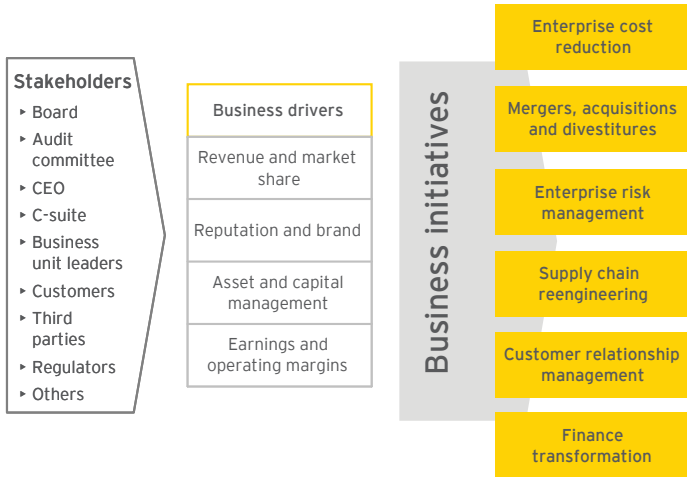
Figure 1 – Increasing expectations and risks



Increasing need for alignment

Another trend that we see is the need for greater alignment between IT and the business. Increasingly, IT is being viewed not simply as a separate function within the organization, but as a critical enabler for the business. The IT function needs to be managed as a “business,” or as a functional unit within the organization, but there is growing acceptance that IT also needs to serve as a “business enabler” for the enterprise. As a result, IT now has more interested stakeholders than in the past – including at the C-suite and board levels. And those stakeholders are more interested in understanding and influencing how major IT initiatives are aligned with the key business drivers and initiatives of the enterprise (see Figure 2).

Figure 2 – Stakeholder alignment



Evolving business and IT priorities

The third trend focuses on evolving business and IT priorities. The first two trends – increased expectations coupled with the need for improved alignment – have resulted in differing views relative to the priorities for IT. The 2007 *Gartner* EXP CIO Report fairly dramatically highlighted the different viewpoints (see Figure 3). While IT leaders tend to focus on the more “tactical” and internal IT priorities, business leaders tend to look at how IT can support broader, more “strategic” corporate initiatives, such as improving processes and controlling costs.

Figure 3 – Evolving expectations

Business expectations of IT (near-term)	IT strategies for IT (near-term)
Improve business processes	Improve the quality of IT services
Control enterprise cost structure	Improving IT governance
Attracting, retaining and growing customers	Improve the link between business and IT
Improve workforce effectiveness	Demonstrating the business value of IT
Grow revenue	Building business skills in IT

Source: *Gartner* EXP CIO Report: Creating Enterprise Leverage: The 2007 CIO Agenda

This study and others illustrate the “balancing act” being asked of IT leaders – essentially to “do more with less.” IT leaders are being asked to address increased IT risks and manage the day-to-day operations of IT with the same or fewer resources, and still focus on improving IT’s ability to positively impact the enterprise – in areas such as improving business processes, controlling enterprise costs, helping the organization better serve customers and growing revenues.

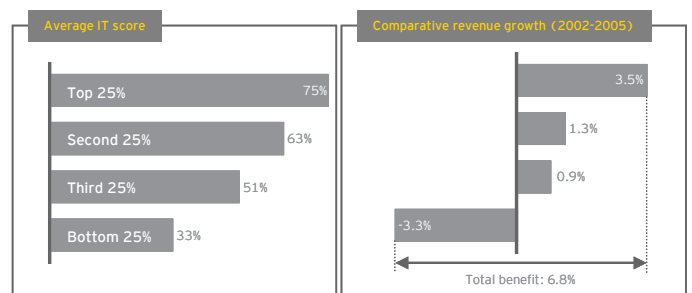
Improving value delivered

The fourth and final trend focuses on the need for IT to deliver value – in some tangible way – to the enterprise. The long-heralded promises that technology will bring greater productivity, increased efficiency, cost savings and other benefits have never been fully realized to most stakeholders’ satisfaction. In today’s challenging economic times, the pressures for IT to add to the top line and/or bottom line are more pronounced than ever.

A number of research studies have demonstrated that IT can and does add value to the enterprise. Various studies have looked at key areas, including:

- ▶ Revenue growth – One study, found that leading IT functions actually enhance revenue growth by almost 7% compared to IT functions in the bottom quartile (Source: *Enterprise IT Capability Study* by Keystone Strategy Inc. Harvard Business School and Microsoft, 2006; see Figure 4).
- ▶ Profitability – A recent study found that top IT performers generate US\$1.07 billion more operating profit on an annual basis and US\$645 million higher net profit (Source: *Delivering Value Through IT Business Value Management*, Hackett Group, April 2008).
- ▶ Shareholder value – A study by the CIO Executive Board found that overall competence in the IT function can increase Total Shareholder Return by as much as 20%; (Source: *The Performance Payoff*, Corporate Executive Board, 2006).

Figure 4 – Enterprise IT capability study



Source: Research study by Keystone Strategy Inc. Harvard Business School and Microsoft



The enterprise agenda for IT

These trends – escalating IT risks, increasing stakeholder interest and alignment expectations, evolving priorities for IT and the demand for greater enterprise value from IT – along with the drive to “do more with less” form the centerpieces of this evolving mandate for IT. IT leaders need to focus on the future, while dealing with the day-to-day challenges of managing the IT function. Yet, this is not an IT issue; it is a business issue involving IT. While the chief information officer (CIO) and the IT leadership need to be heavily involved in the strategy, planning and execution to address this evolving mandate for IT, it is a broader business topic that needs to be addressed across the organization.

In addressing these new expectations for IT, what should business and IT leaders be focused on? What should be the objectives – from an enterprise perspective – for the IT function? What are the imperatives, or the areas that IT must focus on, to address these trends and this evolving mandate for IT?

Three objectives

From an enterprise perspective, we believe that IT functions should focus on three core objectives:

- ▶ Create value – How can IT help create value (e.g., revenue growth, profitability, shareholder value, competitive differentiation) for the business?
- ▶ Rationalize costs – How can IT help rationalize costs across the enterprise?
- ▶ Manage risks – How can IT help the organization better manage its risks – both IT risks as well as non-IT risks?

While IT can be harnessed to help address all three objectives, some organizations may focus on only one dimension. But these three objectives operate in concert. All three – value, costs and risks – must be balanced and effectively managed to create a leading practice IT function – a leading practice function that can deliver tangible benefits to the enterprise.

In today's turbulent economic times, for example, many organizations are focused on enterprise cost reduction initiatives. As a result, IT budgets are a prime target, often as part of an “across-the-board” budget reduction. Yet, targeted IT investments can actually reduce costs – making business processes more efficient, people more productive and driving costs out of key business units and processes. In many cases, targeted IT investments will deliver greater cost saving returns than simple cost-cutting measures. Business and IT leaders need to look at business processes from an end-to-end perspective to identify cost reduction opportunities in areas such as improving the customer experience, reducing revenue leakage and improving operating leverage.

Similarly, organizations that focus only on how IT can create value may increase the overall risk profile of the enterprise – for example, by becoming too lax with information security and data privacy to improve the customer experience. Or companies may focus only on how IT can help manage enterprise risk without focusing on how IT can drive greater value for the enterprise or rationalize costs. Put simply, managing the IT agenda requires a balanced approach.

Four imperatives

Coupled with three objectives, companies need to constantly stay focused on four imperatives, or IT “must do's.” This combination of objectives and imperatives for IT is what we refer to as the enterprise agenda for IT. This is depicted graphically in (Figure 5 on page 4).

A recent Ernst & Young study (*IT Effectiveness: Leading IT Practices in Successful Companies*) found that successful companies tend to exhibit leading IT practices in four major categories. We found that from an IT perspective, successful companies:

- ▶ Align strategically
- ▶ Govern effectively
- ▶ Operate efficiently
- ▶ Measure performance

Align strategically

In the *Enterprise IT Capability Study* from Keystone Strategy, Inc. study, leading IT functions make a quantifiable, positive difference in business performance – companies in the top quartile of IT capability grew revenues 6.8% faster per year than their peers in the bottom quartile. A major reason for this difference – not only for IT's impact on revenue growth, but in other areas such as profitability and shareholder value – is the apparent alignment between IT and the business. Strategic alignment is more than a phrase; it is accomplished through:

- ▶ IT being viewed as a strategic commitment rather than as simply a “utility” or “necessary evil”
- ▶ A strategic focus on IT as a “business enabler” at the enterprise level
- ▶ Adequate commitment from the top, including funding and sponsorship
- ▶ A formal linking of IT to the major business objectives, processes and initiatives

In Ernst & Young's *IT Effectiveness study*, over 80% of the business executives within successful companies can provide specific examples of how IT investments within their company helped promote their competitive advantage and defend their market position.

Govern effectively

As previously mentioned, we see IT as both a “business” and as a “business enabler.” As a result, the governance around IT should not be concentrated solely within IT. The governance around IT needs to be managed at the enterprise level. Successful companies are committed to implementing IT governance with a formal program to support increased process maturity within IT, which in turn helps improve IT operating efficiency and free up resources to pursue more strategic activities.

From a governance perspective, successful companies leverage their board of directors to discuss and influence IT decisions. In many organizations, IT is rarely discussed at the board level at all, and only infrequently at the C-suite level. In addition, leading companies often leverage leading standards, such as COBIT and ITIL to assess their IT effectiveness and improve their performance.

Formal and effective governance includes:

- ▶ Board and executive management involvement
- ▶ The use of leading standards (e.g., COBIT, ITIL)
- ▶ A focus on risk management
- ▶ A plan to address resource management to optimally invest and allocate IT resources to meet enterprise needs

Of the successful company executives interviewed by Ernst & Young, 61% said their board were confident and effective in influencing decisions about IT.

Operate efficiently

Another imperative is to ensure efficient IT operations. Many perceive, however, that efficient IT operations only involves reducing IT expenses. When companies perceive IT as a strategic commitment, IT

can achieve both top-line (i.e., revenue) and bottom-line (i.e., cost saving) results. Efficiencies and cost saving can be accomplished (inside of IT and across the organization) through a variety of ways, including:

- ▶ Consolidated and standardized platforms and processes (e.g., single ERP, enterprise architecture)
- ▶ Replacing manual operations with technological advancements
- ▶ Reducing service delivery costs
- ▶ Elimination of unnecessary or redundant processes using technology
- ▶ Increasing computing efficiencies (e.g., virtualization, cloud computing)
- ▶ Planned and strategic approach to IT programs and initiatives

Almost 70% of the successful companies indicated that their boards receive ongoing reports on the value contributions of major IT initiatives within their company.

Measure performance

The fourth and final imperative involves measuring the performance delivered through IT. Many IT functions neglect to spend sufficient time and energy in developing and communicating measures of success to key stakeholders. In addition, many IT functions only measure performance in “IT terms” (e.g., increased server utilization) and not in “business terms,” or measures, that are relevant to key business leaders.

In Ernst & Young’s IT Effectiveness study (May 2007), we found that successful companies tend to measure their success in terms of the demand for IT products and services, the efficiency of their distribution efforts and the return on investment (ROI) that they achieve. In fact, almost 40% of successful companies indicated they routinely report on self-assessment against

internal standards (e.g., key performance indicators or KPIs, third-party reviews and customer feedback).

Effectively measuring performance requires three elements:

- ▶ Specific measurements of actual IT performance
- ▶ Application of performance assessments against internal KPIs, IT leading standards (e.g., COBIT, ITIL), and customer feedback
- ▶ Regular communication of performance results to key stakeholders (in business terms)

Both IT and business executives within successful companies indicate that consolidation and standardization are key improvements from their investment in and active management of IT.

Figure 5 – Enterprise IT agenda





Key IT challenge areas

The journey to reach this enterprise agenda for IT, however, is not without obstacles. Given the notion that IT should help to create value, rationalize costs and manage risks across the organization, and with a vigilant focus on the four imperatives, what specifically do business and IT leaders need to do? Where should business and IT leaders focus their energies and attention?

We believe there are five major IT challenge areas that need to be actively managed by business and IT leaders (see Figure 6). These are the key areas of activity that play a major role in determining whether IT is a strategic advantage or a corporate hindrance for your organization – and the extent to which IT is a leading practice function which generates quantifiable benefits.

The five major IT challenge areas include:

- ▶ Leadership and alignment
- ▶ Program delivery
- ▶ Service delivery
- ▶ Key relationships
- ▶ Day-to-day operations

Leadership and alignment

The first challenge area seems obvious – to ensure the alignment of IT with the key business drivers and overall corporate strategy and to provide effective IT leadership, including IT governance issues.

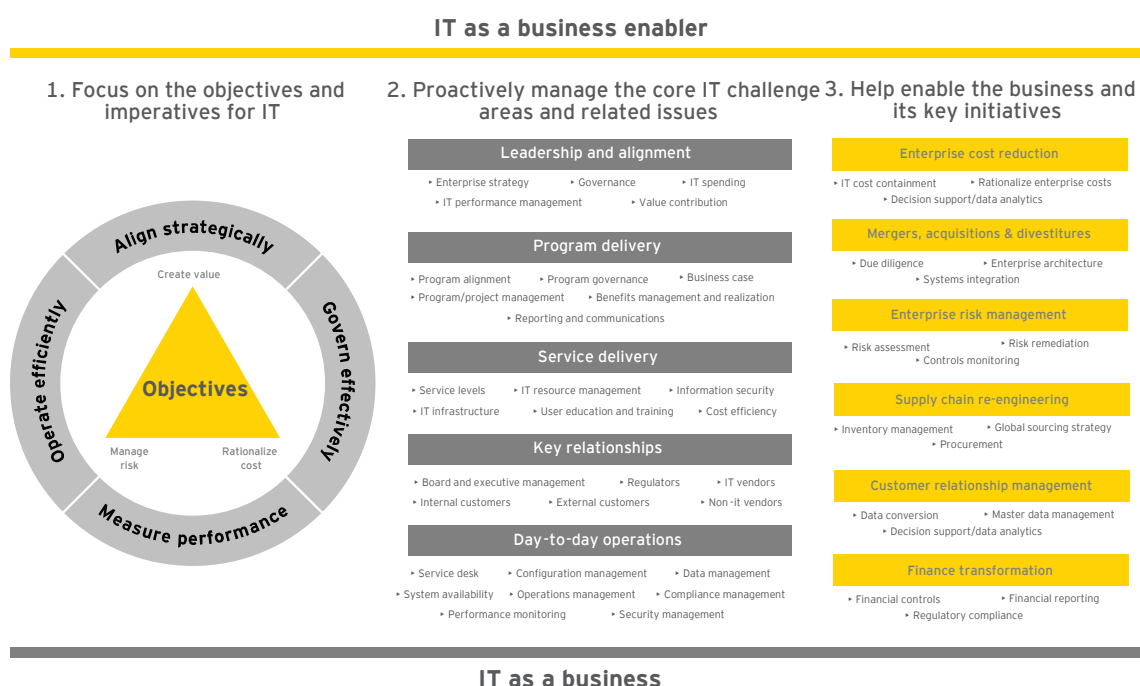
Yet many IT leaders struggle with this area and many business leaders ignore this area, preferring to relegate this to simply an “IT issue.” In addition, many business leaders expect IT to take the lead in offering ideas and recommendations on how IT can improve the organization – for example, in improving business processes, controlling costs, etc.

A recent study by Forrester Research highlighted the expectation gap in this area: only 28% of CEOs characterized IT as offering proactive leadership; 34% portrayed IT’s role as poor or mediocre; and 24% characterized IT as innovating only when pushed to do so (Source: *Closing the CEO-CIO Gap*, Forrester Research, February 2007).

Some of the key questions for leadership to consider in this challenge area include:

- ▶ How does IT support critical strategic initiatives and create competitive advantage?
- ▶ Is IT sufficiently addressed as a topic at the board level?
- ▶ Is each IT dollar spent relevant to the strategy and focused on improving business ROI?
- ▶ Is the current IT function organized to leverage competencies or house silo functions?
- ▶ Are IT goals and progress defined, measured and communicated to key stakeholders in business terms?

Figure 6 – Managing the IT Agenda Framework



Program delivery

Another challenge area for many IT functions is ensuring that major IT programs, projects and initiatives (as well as the overall IT portfolio) are effectively and efficiently managed. This includes delivering programs on-time, on-budget and to the agreed-upon scope. In fact, a number of studies have shown that most IT programs are not effective. A recent study showed that 62% of organizations experienced IT projects that failed to meet their schedules; 49% suffered from budget overruns; 47% had higher-than-expected maintenance costs; and 41% failed to deliver the expected business value and ROI (Source: Tata Consultancy Services, based on survey results of 800 middle and senior IT managers from large companies, December 2007).

Some of the key questions to consider in this area include:

- ▶ Is the portfolio of IT projects reflective of the goals and objectives of the enterprise?
- ▶ Are program/project sponsors held sufficiently accountable for the success of the program?
- ▶ Does an approved business case exist and does it include less favorable scenarios?
- ▶ Are program plans achievable or overly-optimistic, and do they include critical information?
- ▶ Does an internal control framework exist to assess, evaluate and mitigate key risks?
- ▶ Are program reports produced on a timely basis and do they report the true situation?
- ▶ Are program benefits assessed accurately and reviewed and reported regularly?

Service delivery

The third challenge area is focused around IT service delivery – ensuring that the required IT support services, infrastructure and applications are provided to meet the needs of internal and external customers. This area, along with day-to-day operations, represents two key aspects of the “balancing act” required by today’s IT leaders. Managing IT as a “business” means colloquially that the “lights are on” and the “trains are running on time.”

Some of the key questions to consider in this area include:

- ▶ How strong is the alignment between IT service levels and the demands of the business?
- ▶ Is the existing IT infrastructure sufficient to support the required availability of key systems/applications?
- ▶ How formal and effective are plans to fully protect IT assets and minimize security incidents?

- ▶ Is there an IT human resources plan in place to meet changing business requirements?
- ▶ What is being done to assess end user satisfaction and still ensure proper protection of information?
- ▶ How satisfied are key stakeholders with IT’s overall cost efficiency and its contribution to business profitability?

Key relationships

Developing, maintaining and managing relationships with key stakeholders and beneficiaries of the IT function is also a challenge area for many IT leaders. This includes relationships with the Board, executive management, internal and external IT customers, as well as IT vendors and partners. Again, a key point is that this should not be viewed as simply an “IT issue”. C-suite executives, business unit leaders and others can be very instrumental in working cooperatively with IT leaders to further the IT agenda.

Some of the key questions to consider in this area include:

- ▶ Has appropriate involvement been secured for IT planning and decision making?
- ▶ Is the organization too dependent on vendors, and/or in effectively managing interactions with vendors?
- ▶ How satisfied are internal customers with the IT function?
- ▶ How effectively does IT understand the needs of each business unit?
- ▶ How well-defined is the impact of IT on customer experiences and overall satisfaction?
- ▶ Is IT sufficiently involved in the design stages of key business processes, as well as the vendor negotiation stage?

Day-to-day operations

Managing IT as a “business” means paying attention to the demands, and “fires,” which emerge from day-to-day operations. Some of the key aspects of the IT function include: resources and budget; staffing and people management; and providing appropriate security and controls around systems, applications and data.



This can be a challenging, frustrating – and often unrewarding area for many IT leaders. A Forrester study, for example, found that 54% of CEOs were not impressed with IT's ability to track and report on assets – people and equipment – with only 31% observing that IT was effectively managing assets as part of its ongoing day-to-day responsibilities (Source: *Closing the CEO-CIO Gap*, Forrester Research, February 2007).

Yet these critical day-to-day operational issues, such as applications and information security, pose significant risks to the enterprise and to shareholder value. For instance, news stories about hundreds or even thousands or even millions of records containing customer information being lost, stolen or inadvertently released to the public have almost become commonplace. The potential cost per record lost or stolen could be anywhere from US\$100 to US\$300 once all costs are calculated and failure to comply with an ever-expanding and increasingly complex regulatory environment could lead to significant fines per incident and per regulation.

Some of the key questions to consider in this area include:

- ▶ How compliant is IT with applicable regulations and standards and at what cost?
- ▶ How effective and responsive is your organization's Service Desk, and how does that impact IT's internal reputation?
- ▶ How can the organization spend as little as possible and maintain delivery of required IT services?
- ▶ Is the data the business needs to operate readily available and secured from theft or other risks?
- ▶ How quickly can IT services and infrastructure recover from failures, attacks or disasters?
- ▶ Are IT services available as required and are IT infrastructure resources optimized?
- ▶ What is in place to assess cost-effective service quality, improvements and IT results?
- ▶ Is critical and confidential information sufficiently protected and are formal response plans in place?

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