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Comparing Your IT Shop To Others

Benchmark The Right Way To Gain Useful Insights

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EXECUTIVE SUMMARY

CIOs should strive to improve organization effectiveness and value. One popular way to focus on IT performance improvement is to compare an IT organization's performance to other firms through benchmarking that exclusively focuses on comparing IT costs. But benchmarking on cost is not sufficient and can be dangerous. Cost alone does not take into consideration firm-specific factors such as business expectations or context, nor does it give insight into how a firm achieves its numbers — a low-cost organization could simply do less with less. To drive performance improvement, CIOs must look at the practices that underlie costs, and they need to ensure that they are comparing themselves to CIOs at firms with similar demands and challenges.

TARGET AUDIENCE

Chief information officer

BENCHMARKING THE IT SHOP — OFTEN NECESSARY, POTENTIALLY DANGEROUS

CIOs must often answer questions from other execs about how the firm's IT compares with that of similar firms. When these questions arise during budget time, CIOs must defend budgets or show the value a firm is getting from its IT dollar. In these situations, CIOs must show that they are running an appropriately lean operation for the needs of their business and that they are pursuing ways to run even more efficiently and effectively. Comparing an IT organization to various benchmarks is an often-used tactic but a limited one because benchmarks:

- **Poorly factor in firm-specific context.** Benchmarks can be accurate and precise around commodity technology functions, such as servers per server administrator. But they are more misleading than useful when applied outside of these commodity functions. Firm-specific attributes, such as the degree of centralization, or technology's place in the firm's operational model can drive how IT operates and, thus, can drive spend. A CIO who cannot explain why his or her firm has a different cost profile will be on the defensive in all planning and budgeting activities.

- **May suggest opportunities but not explain how to pursue them.** Regardless of what benchmark numbers show, CIOs need to know how their management practices compare with known best practices, as well as practices that are feasible for firms like theirs. For example, if the application maintenance spending is higher than the benchmark, does a CIO have strong practices to manage

this demand and ensure that it reflects business priorities, not just business demand slipping in the back door? If a CIO spends less on architecture activities, does this mean that the scope of the architecture program is narrower than best practice firms? Understanding this will tell a CIO whether a "bad" number actually is appropriate or whether a "good" number shows missed opportunities.

THE PROCESS USED FOR COMPARISON DETERMINES THE USEFULNESS OF RESULTS

Firms often use a Balanced Scorecard to manage their performance.[1] The genius behind the Balanced Scorecard is the recognition that managing over time by a single dimension, such as financial metrics, is dangerous. Similarly, comparing an IT organization's efficiency using a single dimension is misleading, and taking action based on these conclusions is dangerous as well. An IT organization is a complex system, so multiple factors and dimensions should be captured and assessed together. For example, the volatility of a market environment; the portion of IT budget applied toward new capabilities; and the practices used to select, resource, and manage business initiatives should all be considered as a picture: A CIO could see whether higher spend is due to business demand or to weak project processes or both. A prudent CIO will take the following approach for comparing an IT organization to others.

First, Find Firms And Organizations With Similar Characteristics

Similar firms are likely to be similar in terms of the expectations that they have for, and demand that they place on, IT. Thus, IT in these firms provides a useful point of comparison. One way to think about this is as the business context for IT, which reflects characteristics that drive demand and expectation.[2] These are not necessarily the ones you might expect and reflect that (see Figure 1):

- **Cross-industry patterns indicate how IT is used.** Forrester has found through research and client engagements that factors such as degree of centralization, commonality of business processes, and role of technology in the business model drive patterns of organization, governance, and investment. Firms that share these behavioral characteristics are more likely to share similar IT spending and management practices. For example, a firm like Intel might compare its IT with Boeing.

- **Industry-specific segmentation is a less useful comparison.** Some factors that firms gravitate to are less useful for diagnostic benchmarking; the most common one being industry. Surprisingly, this factor is only moderately predictive of how IT is used. Firms may not neatly fit into an industry classification and may operate very differently from one another: A firm like AIG might manage IT very differently from MetLife.

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Figure 1 Business-IT Factors That Influence Management Practices

Context	Possible implications
Centralization of firm's business model	In a decentralized firm, IT tends to be aligned by business unit, with relationship-based planning and more flexible budgeting.
Diversity of firm's operational process	In a firm with common operational processes, there is likely greater focus on end-to-end process automation with larger-scale projects.
Volatility of firm's customers/suppliers/ partners/competitors	Firms in markets with higher volatility tend to have higher than average IT expenditures with more dynamic planning and budgeting.
Role of technology in business model	In firms where technology is central to the business model, business plays a greater role in IT planning and budgeting, with less year-to-year budget stability.
Firm's attitude toward IT expense (as investment or expense)	Firms, where IT expense is viewed more as an investment, have a greater focus on the business case and sponsorship for IT expenditures.
Locus of technology decision-making (at exec level or business department level)	In firms where significant technology decisions are primarily made at the exec level, greater emphasis is placed on strategic, enterprise-wide leverage of IT investments.

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Next, Compare The IT Organization's Scope And Structure

When there is a base of comparable enterprises, the next step is to see how the IT organization model compares. CIOs may want to look at whether there are designated groups for such functions as business relationship management, vendor management, or IT marketing/communication and determine how centralized or decentralized functions like architecture, application development, or project management are. They can also look at the approach and extent of IT outsourcing. The reason for this IT organization comparison is to understand the answers to the following questions.

- **Is there an appropriate IT structure and scope for the firm?** Enterprises that tend toward centralized and common processes are best served by IT organizations that centralize functions like planning, resource management, and architecture. Firms where technology is core to the firm's business model are more likely to have business-focused architecture and a stronger client relationship management group. By understanding the interdependencies between firm context and organization, CIOs can tune their organizations for improved effectiveness.

- **What management practices make sense for the organization model?** It is not a given that every IT best practice makes sense for every organization. For example, project portfolio management is a recognized best practice for synchronizing business demand with IT capacity, but it should be approached differently if application development is decentralized rather than centralized or if business relationship managers are senior IT staff members.

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Then, Compare Budgets Based On Spending Objectives

IT organizations spend their funds on budget categories like staff, software and hardware, and outside services. But a CIO who compares his or her organization's staff spending to other firms without understanding what the staff is being used for captures data that is at best not actionable and, at worst, may lead to unjustified actions.[3] Instead, CIOs should compare their budget allocations based on the purpose for the spending (see Figure 2). To do this, CIOs should:

- **Separate new investments and planning from ongoing costs.** Firms make different decisions about spending on new business initiatives, such as new customer relationship management (CRM), or to support firm growth than they do around ongoing operations and support; the former is discretionary, business-driven, and very visible, whereas the latter is the result of past investments, existing business expectations, and current IT practices. Similarly, spending on planning, enterprise architecture, and innovation may reflect a conscious decision to position the firm's IT for future business needs or cost savings.

- **Dig into the context behind the budget numbers.** Self-congratulation or blame based on a specific comparison may not be appropriate. For example, if costs for end user support are below the benchmark, CIOs can assume that they are running this function fairly lean or that users are not well served. And if spending for this was above the benchmark, CIOs must evaluate if this is because users are demanding more support or if they are not using practices known to reduce this cost.

Finally, Compare Management Practices That Drive IT Value

While the IT budget covers cost, IT management practices drive the value a firm gets for its spend. All IT practices at some point should be benchmarked to ensure that they are as efficient and effective as needed and/or of the requisite quality. But, there is a smaller set of practices that have the greatest impact on the value of the services. Four areas that CIOs should examine include (see Figure 3):

- **How are planning and budgeting done?** The IT budget for the upcoming year is a reflection of, among other aspects, how a CIO translates business demand into budgets and of how the IT governance structures, such as steering committees, balance strategic and tactical investments. Firms that wish to drive more IT value find that they first need to address the inputs and processes by which they arrive at their budget, for example, by expanding the charter and membership of an IT executive steering committee.

- **How are budget and resources allocated to projects and services?** IT must optimally apply constrained financial and staff resources to business needs, looking at factors ranging from alignment with strategy to project risk and existing demand levels. Firms that gain the most value from IT have strong practices for managing to business cases, scoping and prioritizing initiatives, and tracking these initiatives as a portfolio that reflects these priorities and tradeoffs.

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Figure 2 Budget Comparisons Tell Part Of The Story

Budget category	Implications
Investments in new business or IT capabilities	
New business application development	Lower than average budgets suggest either lower business demand for improved capabilities or more emphasis on small enhancements to existing applications.
Infrastructure: hardware, software	Higher than average budgets suggest either above average business expansion or weak infrastructure management leading to more purchases.
Operational expense	
Application maintenance and support	Higher than average budgets suggest either low quality of existing applications, weaker resourcing and prioritization practices, or greater business emphasis on incremental improvements.
Software licenses and maintenance	Lower than average budgets suggest strong software asset management or an emphasis on custom software development.
Data center operations	Lower than average budgets suggest effective data center planning and management, such as the use of automation and standardization.
End user support	Lower than average budgets suggest effective standardization and service delivery practices or a very homogeneous user population.
Information security and continuity	Lower than average budgets suggest either robust, integrated security architectures or underinvestment.
Networks and communications	Higher than average budgets suggest a firm with a greater geographic scope or a less efficient infrastructure architecture.
Planning, strategy, and innovation	
Planning and program management	Higher than average budgets suggest a larger scope of project management office (PMO) responsibility for project delivery.
Enterprise architecture (EA)	Higher than average budgets suggest an EA group that has a broad scope and is well integrated into IT planning and delivery.
Technology R&D	Lower than average budgets suggest either a lower emphasis on technology leverage or very informal practices for R&D.

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Figure 3 Comparing Practices For Planning And Managing IT

Major area	Sample topics within area
Planning and budgeting	• How budgets are mapped to business areas and services • How reallocation of budget during plan years is handled • Role that IT steering committee plays in planning and budgeting • Input of IT strategy and architecture into planning
Allocating budget and resources	• How investments are scoped and prioritized • Factors used in project selection and business case • Balancing new application investments with maintenance activities • Use of application road maps to guide project decisions
Managing project performance and service levels	• Replanning and approval of projects whenever requirements change • Tracking actuals to plans for both business benefits and IT costs • Quality assurance practices to improve quality • Use of IT service catalogs to align costs and service levels
Maintaining business alignment and satisfaction	• IT-business interaction model • Roles and responsibilities of business • Relationship managers

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- **How are projects and service levels managed?** All IT shops should strive to improve quality in project and service delivery. CIOs must investigate project management, such as how they train or source their project management expertise; quality assurance, such as how they use change control; and service management, such as how they develop, track, and communicate service-level agreements (SLAs) and operating-level agreements (OLAs).

- **How are business satisfaction and alignment ensured?** IT can't succeed unless it understands and influences business expectations; and when it does that, it can ensure satisfaction with IT's services. Leading firms address this by thinking through their business-IT interaction model and defining roles, such as client relationship managers, to build and maintain the communications channels. And these organizations market IT's contribution and measure effectiveness and satisfaction over time.

RECOMMENDATIONS

BENCHMARKING THE RIGHT WAY FOR THE RIGHT REASONS GETS THE RIGHT RESULTS

Execs naturally want comparisons, and being open to comparisons gives you a baseline for yourself and an understanding of where you might improve the quality and effectiveness of your organization. Benchmarking of practices is a greater enabler for improvement than benchmarking numbers; but, you will likely need to do both. To gain the most useful insights, you should:

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- **Understand how your context and organization compare to the others.** Participate in a multidimensional benchmark, looking at how your enterprise's demand for, use of, and attitude toward IT compare to other firms and organizations. This will help you avoid pursuing strategies that don't fit your situation.
- **Pick the most important areas for improvement.** A benchmark will show many gaps with best practices, but you must prioritize what areas you'll focus on based on size of gap and importance to organizational success. Consider making these changes part of your strategy and operating plans to provide visibility and accountability.
- **Use comparison data to improve the perception of IT by your business peers.** An appropriately structured benchmark, one that is not just focused on cost, is a chance to show your peers that you are running a well-managed operation. It is also a teaching moment when you can educate them about the factors that drive IT costs and the practices that others use to manage these factors.[4]
- **Consider making a light-weight benchmark an annual activity.** IT performance improvement must be a continuous focus, not a one-time event. By making a benchmark an annual activity, you instill a management culture based on continuous improvement based on reflection, comparison, and adoption of best practices.

SUPPLEMENTAL MATERIAL

Methodology

This report synthesizes the experience of Forrester analysts over hundreds of benchmarking and best practice assessments. This experience has gone into the methodology behind Forrester's Planning & Budgeting Best Practices Benchmark assessment.

ENDNOTES

[1] The framework for an IT Balanced Scorecard was introduced by Forrester Research in late 2002. The original Balanced Scorecard developed by Richard Norton and David Kaplan in the early 1990s grew out of their frustration with the exclusive use of financial metrics to measure and manage business. Too often, the financials did not tell the whole story, leading to many unhappy surprises. The Balanced Scorecard approach incorporates financial measures but only as one of four perspectives. In addition to financial measures, Norton and Kaplan added a customer perspective, an internal process perspective, and one that they called learning and growth.

[2] CIOs rationalize IT spending to their bosses and business exec peers by comparing their own spend to industry averages. But, as many CIOs admit, this comparison makes the most sense within the context surrounding IT and the degree to which the firm's IT practices have matured. The IT Spending Context and the IT Maturity Index together predict whether IT spend will be above or below industry averages and deliver value. See the June 6, 2005, Best Practices "The Economics Of IT."

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[3] Every year, CIOs get prepared to discuss how their firm's IT spending compares with competitors. This leads to benchmarking based on overall IT spend compared to revenues or total firm headcount. Forrester believes that these benchmarks are not very useful and can be counterproductive. We recommend that companies focus on understanding how their IT maintenance and operating costs, which are a function of efficiency compare to others, and understand the difference between spend on maintenance and operations versus spend on new business and IT initiatives. See the November 20, 2006, Best Practices "US IT Spending Benchmarks For 2006."

[4] CIOs often complain privately that their business peers, the heads of functional departments and business units, don't "get" IT. Furthermore, they don't understand the basics of processes, systems, and data and don't grasp the importance of their own roles as sponsors of IT initiatives. Rather than complain, CIOs should sponsor and organize a seminar series for business execs, tackling key knowledge gaps and educating them on the role that they and their team must play to ensure that projects sponsored by the business will succeed. See the November 22, 2006, CIO Road Map "CIOs: Do Your Business Peers Need An IT University?"

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