

GETTING FIT FOR TRANSFORMATION

THE OTHER STRATEGY EVERY IT LEADER NEEDS

By Andrew Arcuri and Richard Helm

TO BUILD ADVANTAGE, ORGANIZATIONS must do more than just change. They must transform. As technology's role in business becomes ever more important, transformations will increasingly be underpinned by significant technology programs. In such technology-enabled transformations, IT leaders need two different strategies to ensure success.

One is a strategy for delivering significant changes, such as digitizing operations, replacing or modernizing systems, and standardizing infrastructure and applications. As part of this strategy, IT leaders must also develop the necessary tactics, multi-year roadmaps, and plans to deliver the technology to support the business transformation.

The second strategy, which is often overlooked, must ensure that the IT organization itself has the right functional capabilities to drive and sustain the transformation. Organizations that reap material benefits from transformations are those with the right organizational capabilities

in place—the right team, organization, processes, tools, and culture—to become truly world class. (See *Transformation: The Imperative to Change*, BCG report, November 2014.) In a technology-enabled transformation, the maturity of the IT team's capabilities is especially important.

To get their organizations fit to support a transformation, IT leaders must develop a strategy and design an explicit plan to assess and develop the capabilities they need to make the transformation successful. The plan must consider how well IT management functions and disciplines are embedded and executed across the business and encompass functions such as IT planning, sourcing, delivery, budgeting, and benefits realization.

The Importance of a Fit IT Function

When technology-enabled transformations fail, they fail hard. Average performance is not good enough. (See Exhibit 1.) In most cases, that failure arises not because intent

or talent is lacking but because the IT organization is not fit to complete the multiyear marathon that a transformation represents. Common weaknesses include inadequate management of the portfolio, program, and projects, which can erode the full benefits of the transformation, and poor capabilities in managing vendors and contracts, which can allow costs and scope to spiral out of control.

An unfit IT organization can jeopardize a technology-enabled transformation and with it benefits worth hundreds of millions of dollars.

In contrast, fit IT organizations deliver transformation programs more consistently and predictably, make better trade-offs and resource-allocation decisions, and work more effectively and efficiently internally and with third parties, including vendors and system integrators. (See the sidebar, “Getting the IT Function Fit to Support a Global Operating Model.”)

How to Get Fit for Transformation

To develop their fit, transformation-ready IT strategy, leaders must answer three questions:

- Which specific capabilities are needed to support the transformation? Different types of transformation require different strengths.
- How good are my capabilities today, and how good do they need to be? Organizations should identify where, and how much, muscle is required to reach the desired target.
- What is the right way to improve capabilities? Leaders must define a manageable set of clear, outcome-focused initiatives to improve capabilities in the areas where they are needed most.

An IT organization can rely on a framework called the IT Capability Maturity Framework (IT-CMF) to answer these questions. The IT-CMF was developed by the Innovation Value Institute, a global consortium that brings together a broad set of industry practitioners, academics, and corporate advisors; The Boston Consulting Group is a founding member. The IT-CMF is the only framework that explicitly aligns IT with business value.

The framework provides a structured and comprehensive set of 32 capabilities linked

EXHIBIT 1 | Average Is Not Good Enough

Program type	With average performance, you will...		
	deliver only...	spend...	finish...
IT-enabled business transformation <ul style="list-style-type: none"> • Core-system modernization • Digital transformation • Structural-cost transformation 	25% of the benefits	80% over budget	75% over schedule
IT transformation <ul style="list-style-type: none"> • Complete IT infrastructure transformation • Full cloud transformation • Complete IT-sourcing transformation 	60% of the benefits	15% over budget	35% over schedule
Smaller IT projects <ul style="list-style-type: none"> • Application rationalization • Desktop upgrade 	70% of the benefits	10% over budget	20% over schedule

Sources: Panorama Consulting Solutions’ 2014 ERP Report; Nexus Strategic Partnerships’ Commonwealth Governance Handbook; Oxford University; Gartner; The Aberdeen Group; BCG experience.

Note: Numbers are rounded to the nearest 5 percent.

GETTING THE IT FUNCTION FIT TO SUPPORT A GLOBAL OPERATING MODEL

A leading company with more than 100,000 employees and a global footprint was pursuing a major transformation to establish a global operating model that would allow it to run standard processes and maintain common structures across geographically separate operations and business functions. It wanted to build a leaner, more productive, and flexible organization through standardization, global efficiencies, and insights from standard planning and operations.

Technology was a critical enabler for the target state, based on standard enterprise-resource-planning systems, desktop operating environments, and global infrastructure. To move toward a global operating model, the company needed to transform the way it delivered technology by using standard, cloud-based, and smarter-sourced technology assets and service inputs.

To get the IT organization fit for transformation, the company developed a roadmap for the three most critical areas:

- Refocusing the IT organization to describe, provide, and support technology service outputs from end to end in a way that was relevant to the business, to inform business-led trade-offs involving technology volumes, quality, and costs

- Developing the capability to drive real transparency of technology service costs and performance, in particular by linking cost and quality measures to business consumption
- Building a minimum-sufficient capability for capacity forecasting and planning to provide a line of sight into future business supply and demand in terms of IT service outputs rather than just technology inputs

The plan drew heavily on the IT-CMF to frame the analysis and discussions; provide clear, business-value implications for investing in functional capabilities; and describe the practices, outcomes, and metrics for success necessary to strengthen these critical capabilities.

The completed functional-technology strategy, roadmap, and detailed implementation plans were incorporated into the company's overall IT strategy, with strong resourcing and senior-executive commitment. With the potential to reduce technology costs by as much as 30 percent, the investment in functional-technology capabilities is already returning multiples of investment, within a very short time frame. This investment is now seen as central to the success of the company's ongoing technology-enabled transformation and productivity agendas.

to the ways in which IT drives value. Individual capabilities are supported by an objective set of criteria to assess or demonstrate maturity and metrics to measure the contribution to business value. These capabilities fall into nine groups that address the different ways that technology drives value to the business:

- *IT-Enabled Business Innovation:* Value through executing product, service, process, and IT innovations
- *Agile IT Architecture:* Value through achieving system flexibility and integration capability to enable efficient business change
- *Business and IT Operational Integration:* Value through strong business and IT collaboration
- *Business and IT Strategic Alignment:* Value through an integrated business and IT strategy and roadmap

- *High-Performance Organization:* Value through an effective and efficient organization to deliver IT services
- *Portfolio, Program, and Project Delivery:* Value through well-governed portfolio-prioritization and program-delivery processes
- *Service Delivery:* Value through standard, simple services with cost and quality differentiated on the basis of business needs
- *Sourcing Management:* Value through a strategic sourcing capability that enables access to scale, efficiency, and market innovation
- *Cost Management:* Value through transparent, relevant, and business-oriented forecasting and allocation

Which capabilities are needed? To get transformation ready, an IT organization first needs a clear view of its current capabilities. Then, it can pinpoint the capabilities it needs to strengthen when getting fit for a particular transition—particularly important because required capabilities vary by type of transformation. (See Exhibit 2.)

For example, when contemplating a fundamental shift in operating models such as a core-system modernization, capabilities associated with large-program delivery will be the most critical. In contrast, during a structural-cost transformation, capabilities such as sourcing management and cost management will be essential to deliver a simpler and more efficient IT environment. And a transformation that focuses on digital innovation should focus on strengthening the capabilities encompassed in the IT-enabled business innovation group

EXHIBIT 2 | Matching Capabilities to Transformation Types

Functional-capability groups	IT-CMF key capabilities	Transformation examples		
		Core-system modernization	Digital transformation	Structural-cost transformation
IT-enabled business innovation	<ul style="list-style-type: none"> • Innovation management • Knowledge management • Research development and engineering 		Most relevant	
Agile IT architecture	<ul style="list-style-type: none"> • Enterprise architecture management • Business process management • People asset management 	Most relevant	Most relevant	
Business and IT operational integration	<ul style="list-style-type: none"> • Relationship asset management • Service analytics and intelligence • Risk management 			Most relevant
Business and IT strategic alignment	<ul style="list-style-type: none"> • Strategic planning • Business planning • Portfolio planning and prioritization 	Most relevant	Most relevant	
High-performance organization	<ul style="list-style-type: none"> • Organization design and planning • IT leadership and governance • People asset management 	Most relevant	Most relevant	
Portfolio, program, and project delivery	<ul style="list-style-type: none"> • Program and project management • Benefits assessment and realization • Portfolio planning and prioritization 	Most relevant		
Service delivery	<ul style="list-style-type: none"> • Technical infrastructure management • Solution delivery • Service management 			Most relevant
Sourcing management	<ul style="list-style-type: none"> • Sourcing • Supplier management • Capacity forecasting and planning 	Most relevant		Most relevant
Cost management	<ul style="list-style-type: none"> • Total cost of ownership • Accounting and allocation • Budget oversight and planning 			Most relevant

Source: BCG analysis.

(among others) to drive alignment, innovation, and collaboration between the business and IT teams.

The relevance of different capabilities also differs over time. In the early stages of a transformation, when funding the journey is the priority, the cost management group is likely to be prominent, for example, and portfolio, program, and project delivery will come to the fore once savings have been reinvested in IT.

The IT-CMF can provide invaluable guidance for organizations that seek to pursue a variety of strategic imperatives. Some organizations will use the framework to reduce costs in the face of high IT spending, and others will use it to target areas for investment to improve capabilities. It can also be used to align the capabilities an organization has currently with those it needs for the future.

One organization faced serious issues about the governance of its large IT-enabled transformation programs, which were worth more than \$500 million. The company had about a dozen large IT programs under way, and management was fielding regular requests from each for more funds. As a result, senior management and the board of directors were losing faith in the organization's ability to manage multiple large technology programs at the same time. Using the IT-CMF framework, the company was able to identify the necessary changes to get the transformation programs back on track: improved management of the overall technology-investment portfolio, better program and project management, and more effective ways of assessing and monitoring benefits, to ensure that they were actually delivered.

A large Asian bank with an ambitious digital agenda but immature capabilities and ad-hoc service-management processes serves as another example. Its outsourcing arrangements were not well managed, and its IT architecture was not digital ready. Talent management was also a major issue. Using the IT-CMF, we designed a new organization structure that optimized spans of

control, improved decision making, and introduced an initiative to nurture new capabilities in the areas of digital, enterprise architecture, and analytics. Ultimately, the plan led to improvements in the total cost of ownership, turnaround time, and quality of service delivery.

How good must the capabilities be?

Getting IT fit for transformation requires strengths in particular capabilities. Too often, capability improvement is considered a business-as-usual activity and does not attract the funding or attention it needs in the context of transformation.

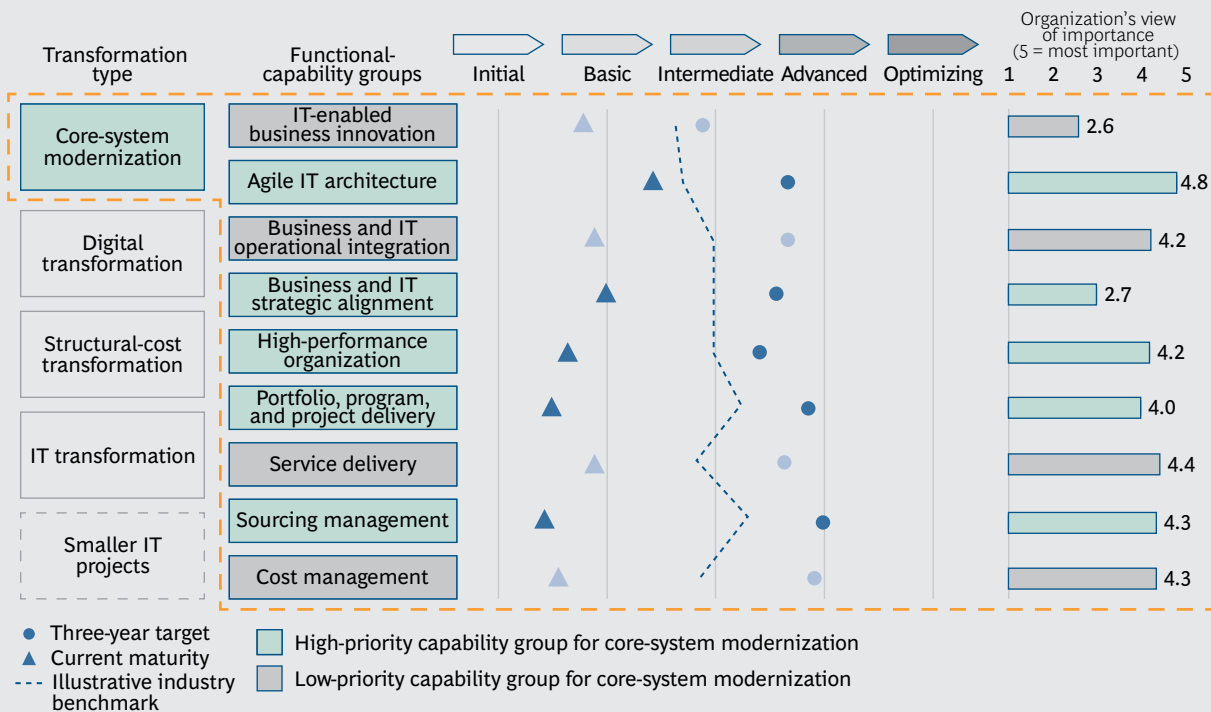
The IT-CMF provides a comprehensive, broad assessment that allows organizations to benchmark their IT functions against those of peers in similar industries. The assessment process is fast and instructive, highlighting clear capability gaps and providing global benchmarking. The results remain clearly linked to required business outcomes.

A practical way to apply the framework is for IT and business leaders to jointly work through the priority capabilities and their relative importance and then determine the target level of maturity. This exercise not only gives senior stakeholders insights into the highest-priority capabilities but also builds stronger engagement between the business and IT.

Exhibit 3 is an example of one organization's current functional IT capabilities, future aspirations, and comparison with industry peers. This type of output can support decision making about which capabilities an organization should invest in to become fit for transformation. Notably, this example shows that an organization's own perspective of the capabilities that matter most for a transformation is often different from the capabilities identified using an objective, evidence-based framework like the IT-CMF.

For a company that was shifting to a global operating model for technology and a global sourcing model, the IT-CMF assessment indicated the need to invest in the IT organi-

EXHIBIT 3 | IT-CMF Shows Where to Invest to Become Fit for Transformation



Sources: Innovation Value Institute's IT-CMF executive assessment; BCG analysis.
Note: The exhibit shows an illustrative IT-CMF assessment.

zation's capabilities for cost accounting and allocation, service management, and supplier management, as well as in systems to support packaging and billing the IT services that the function provided to the business.

What is the right way to improve capabilities? Improving organizational capabilities is hard. It typically takes 18 to 24 months of focused, well-resourced, and disciplined effort to lift a single capability area by one maturity level. This effort will include embedding accountabilities, processes, tools, and decision making.

The IT-CMF defines the set of activities an organization must undertake to reach the next level of maturity. For example, to move up from level 2 to level 3 in project and program management, where IT contributes directly to business value rather than just being a service provider, requires the following steps:

- A move from rudimentary project- and program-management disciplines that are inconsistently applied across the

IT organization to consistent, well-defined, organization-wide project- and program-management approaches applied everywhere

- A move from basic and project-specific benefit assessment and tracking approaches that are applied inconsistently and only for some projects to a standard, enterprise-wide discipline for defining IT and business benefits and tracking them against project milestones
- A move from simple project budgeting done by project managers in isolation and with inconsistent detail, time frames, and reporting to project budgets that are set and monitored in a way that enables regular comparison of project budgets across the entire IT project portfolio and at both top and detailed levels

Typically, these activities will translate into a portfolio of three to ten initiatives, with time frames ranging from 3 months for rapid, quick-win enhancements to 18 to 24 months

for more-structural reforms. The work needs to be supported by clear accountabilities, milestones, and definitive metrics that can demonstrate improvement in functional capabilities. Including these initiatives within the wider organization's project portfolio in terms of getting approval and funding is essential to making sure they get done. Regular reporting on progress helps to maintain momentum by securing strong commitment and decisiveness from the most senior leaders of the IT business.

For example, a European bank was spending more than €150 million a year on IT infrastructure and seeking to unlock savings. The IT-CMF revealed key capability gaps in the bank's technical infrastructure and a clear need to increase maturity for most of the IT-CMF's critical processes and lifecycle phases. As well as identifying quick wins, the resulting strategy focused on closing long-term capability gaps in two key areas. On the basis of a three-month assessment, the bank was able to save several million euros annually by improving its de-commissioning practices.

Leading organizations that use the IT-CMF undertake periodic (often, annual) benchmarking of their IT capability maturity to assess how far they have progressed toward their goal of becoming fit for transformation.

ORGANIZATIONS THAT SYSTEMATICALLY strengthen their most critical functional IT capabilities early in a transformation are consistently better at delivering on the promised value. Indeed, an explicit and early focus on the most critical capabilities and the right investments in resources, effort, and management attention are what separates success from failure.

While the task may seem daunting, in practice, we have seen highly committed organizations use reliable and tested tools like the IT-CMF to enhance their most critical transformation capabilities in the course of just a few months. In this way, organizations can get fit quickly and lay the foundation for a successful business transformation.

About the Authors

Andrew Arcuri is a principal in the Sydney office of The Boston Consulting Group. Andrew has deep functional expertise in IT in both the public and private sectors, with a particular focus on IT strategy, IT transformation, IT sourcing, and cloud strategy. Before joining BCG, Andrew was the managing director of a technology solutions company, supplying ICT equipment and managed services to education providers. You may contact him by e-mail at arcuri.andrew@bcg.com.

Richard Helm is a partner and managing director in the firm's Sydney office. He is a core member of BCG's Technology Advantage Office and has spent more than a decade supporting technology-enabled transformations in multiple industries. Richard is an internationally known authority on software architecture and has published widely on the subject. Prior to joining BCG, he worked for IBM, including a stint at the Thomas J. Watson Research Center. You may contact him by e-mail at helm.richard@bcg.com.

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