Payoff
The growing trend to decentralize the IT function and move applications development to business units is often controlled by top management. Following the guidelines presented here will help IS managers take charge of change and reap the benefits of decentralization while minimizing costs in terms of money and stress.

Problems Addressed
Over the years, companies have provided IT services to their business units through a variety of organizational models—centralized, decentralized, outsourced, and insourced. Recent technical developments and trends, however, have made adoption of the decentralized model more likely than in the past.

The heavy emphasis on client/server systems has reduced dependency on the corporate mainframe. For many companies, the drivers to decentralized organization and a migration to client/server computing are the same: the belief that systems development in the past has been too slow and will not support the rapid pace of business change.

Because the capital expenditure portions of a project are less visible in client/server environments, client/server computing has also made business units better prepared to fund their own applications development activities. Experimentation with personal computers and local area networks (LANs) has increased self-reliance. Many of the disciplines provided by a corporate IT department such as extensive security, disaster recovery, data backup, and source code control may not be present in the business unit applications—and not missed until a problem arises.

The trend toward decentralization is clear. In 1995 almost one in two surveyed businesses planned cuts in IT staff. More than 85% of the surveyed companies had reorganized within the last 18 months—and half of these organizations had moved some aspect of IT to the line of business units. At a recent CIO Forum meeting in Houston, 100% of the attendees indicated that they had experienced a major reorganization within the last 12 months or would within the next 12.

Will these reorganizations be successful? Or will another round of CIO ousters be followed by more reorganizations and more stress?

There are several factors that seem to increase the success rate of the new decentralized IT organization. This article discusses success factors that help IT managers and their organizations achieve the benefits of decentralization without experiencing many of the costs. Briefly, these steps are as follows:

- Initiate organizational change.
- Align IT with corporate strategy.
- Prepare a qualitative vision of success.
- Ensure a realignment based on facts not emotions.
- Keep IT expenditures visible.
- Develop applications in the field but develop developers centrally.
- Maintain control of infrastructure development.
- Outsource selectively and carefully.
- Operate as a consulting organization.
- Move project initiation, approval, and financing to the business units.
- Communicate effectively and continuously.

**Initiating Organizational Change**

In more than half of the companies undergoing an IT reorganization, the CEO or the CFO initiates the change, often in response to business unit complaints about service levels, systems delays, or lack of IT responsiveness to a changing business environment. When CEOs or CFOs initiate a move, they may view IT as a cost center rather than as a contributor to the business strategy. CEO/CFO reorganizations therefore often involve significant outsourcing, downsizing, and other activities aimed at controlling expenses.

The first thing IT managers should do to ensure a successful decentralization effort is to take control of the change process by initiating change rather than reacting to it. Taking the initiative allows an IT manager to implement change based on the other success factors and with a better understanding of the real advantages and pitfalls of decentralization. For example, if the CEO/CFO mandates that all IT functions move to the business units with virtually nothing remaining at the corporate level, then the IT organization often has no budget or sponsorship for infrastructure, research and development, knowledge sharing, or staff training.

**Aligning It With Corporate Strategy**

The need for IT to align itself with corporate strategy should be self-evident—but in too many companies, IT operates in a strategic vacuum. How can IT managers align their organizations with corporate strategy when management fails to effectively communicate the strategy? It makes a great deal of difference to an IT group, for example, if a company sees itself as a low-cost producer of newspapers versus a high value-added dispenser of information. The systems, technologies, skill sets, cost structure, and objectives associated with the latter strategy are far more complex than for the former. The high value-added dispenser of information may be involved with World Wide Web publishing (and paid electronic subscription), customer-driven information digests and alerts, electronically submitted (and billed) advertising, and electronic clipping and digest services for customers. Complex new systems require a different organizational strategy than a simpler focus on maintaining the status quo and making only incremental improvements.

But what happens if an IT manager does not know what the corporate strategy is? First, the manager should try to infer the implicit strategy from corporate behavior. If this behavior seems random (which is a scary thought), then the IT manager should, at a minimum, outline the likely impact of various strategies on the aligned IT organization.
Two simplified strategy scenarios from the package delivery sector provide some examples.

**Focus on High-Quality Aggressive Service.**
In this first scenario, the corporation sees itself as a high-quality, reliable provider of express mail and package delivery services with plans to expand into the high-cost but same-day critical delivery arenas. Meeting customer information and service-level expectations are critical success factors for the business.

**Resulting IT Alignment.**
The IT organization must be prepared to develop new systems and technologies based on a variety of media forms (e.g., the Internet, telephone, proprietary dialup) that let customers access immediate information on package status and arrange package pickup. To proactively identify and resolve problem areas, the IT organization should improve quality control and exception reporting. Effective systems that integrate commercial flight information need to be developed to support the same-day-delivery business. The IT budget will increase as a result of this strategy.

**Focus on Low-Cost Services.**
In this scenario, the company sees itself as the low-cost provider of package delivery services. Most of its capital expenditures are directed toward the purchase of aircraft and delivery vehicles with lower operating costs. Current reporting on cost of service is sufficient to manage this business.

**Resulting IT Alignment.**
The IT organization should focus on maintaining current systems and moving systems to other platforms only as a result of rigorous cost justification. IT should concentrate on outsourcing areas that are more cost effectively handled by others.

Once the sample scenarios are developed, the IT manager should review them with executive management and convey the importance of receiving feedback on which scenario most closely matches management's vision. IT managers should emphasize that management feedback will be used to guide the direction of the IT organization for the next few years.

**Preparing A Qualitative Vision of Success**

With a clear corporate strategy in hand, IT managers should prepare a qualitative vision that helps focus their departments and can be tested against the strategy for fit. The vision should be a page or less in length and avoid mention of specific technologies. Questions to consider when composing the vision include:

- Where do you want the IT organization to be three years from now?
- How do you want management to describe the IT organization at the end of this time period?

IT managers are looking of course to ensure that executives describe the IT organization as making a positive contribution to corporate strategy. Statements such as “The high performance of our IT department allowed us to reduce the time period from contact to sales close by 50%” or “IT input into our strategy planning sessions is
essential—IT personnel help us see the possibilities of using information to improve our business” are the goal.

Ensuring A Realignment Based On Facts Not Emotions

IT managers should assess each IT function to determine its logical physical and organizational home and communicate that logic to business units. User departments, for example, often express a desire to have their own LAN administrator based on their belief that the presence of such an individual would improve service. However, it is easy for an IT manager to demonstrate that centralized LAN administration is far cheaper, safer, and provides better service that departmentalized LAN services. A recent study by the Gartner Group indicated that a user population of 1,250 would cost almost $3 million more over a three-year period to support through a departmental model versus a centralized model. Recent software developments make it even easier and more effective to run a centralized LAN administration activity than in the past.

Determining the logical home of an IT function also entails dissecting the functions to their lowest level. Asset management, for example, is a prime candidate for both centralization and outsourcing, yet the function may not be explicitly recognized within the department. In today's IT shops, asset control gets done (more or less) but may not be actively managed.

Keeping It Expenditures Visible

Today's US corporations spend, on average, about 5% of revenues on information technology. Gartner studies project that this will rise to 9% over time—but that the share spent by central IT will decrease.

IT managers should not abandon stewardship of this expenditure—even if it is outside their control. Accounting and reporting systems should aid in aggregating and analyzing all IT expenditures regardless of budgetary authority—or expenditure type.

In addition, because IT expenditures are a mix of capital and expense items and separate analysis of each can be misleading, expenditure analysis should focus on both kinds of items. This ongoing analysis helps IT managers make outsourcing decisions, benchmark against comparable companies, and determine what percentage of time and money should go to ongoing operations versus improvements and development.

Developing Applications In the Field...Developing Developers Centrally

Bringing IT to the Users

Because applications development and maintenance are best done at the customer site—not just in the same building but on the same floor and in the same work areas—IT managers should ensure that the development team moves to the project's departmental home at project outset. Seating should be mixed to ensure that IT people and customers are indistinguishable, a goal that is reinforced by having IT staff adopt the customers' dress code.

IT managers who implement these steps help increase user ownership of the finished product, reduce the us-against-them mentality that too often pervades development projects, and make knowledgeable users far more accessible. Bringing IT to users is also more practical than trying to relocate user experts to IT for a project's duration. Most
important, developing applications in the field defuses one of the major reasons business units demand their own IT staffs in the first place—it makes them feel as if they already have one.

**Retaining Centralized Staff Development**

The need for effective staff nurturing increases with the IT staff’s increased worries about maintaining their technical skills in an era of rapid change. The most productive IT personnel present a constant retention challenge—the best and the brightest want to move on to the next skill just as they are becoming truly productive with a current skill.

The challenges posed by skill mastery and employee development warrant keeping the career management of IT professionals under a central umbrella. A central group offers more in the way of advancement opportunities, cross-training, and diverse assignments—the very items that motivate the high-performing IT professional.

**Maintaining Control of Infrastructure Development**

Because business units are willing and eager to pay for applications but not necessarily for a new, easier-to-manage Network Operating System, IT managers must ensure that funding and visibility for infrastructure items like network operating system (NOS), source code control, and standards remain centralized. This results in lower maintenance and administrative costs, because, for example, the network operating system (NOS) configurations and wiring closet in Topeka will look just the same as those in San Diego. IT managers will find that making the business case for infrastructure improvements is much easier when they are talking about the organization as a whole.

IT managers should interpret the term infrastructure rather broadly to include, in many cases, common business applications. Companies are adopting complete integrated products such as SAP and Baan to replace their core legacy applications. Because these products provide maximum benefits to the corporation when they are adopted by all units, it is logical, for example, to develop a SAP implementation team that can consistently roll out the application to the business units—with the benefit of prior units’ experience.

Infrastructure also includes the tools and methods application used by developers and implementation of knowledge sharing. A tool-building organization should be responsible for tools selection, development, harvesting (in conjunction with project personnel), and methodologies. Because this group can quickly lose contact with the real world, staff who have recent experience in business unit applications development or maintenance should be rotated through the function. The experience of BSG Alliance/IT indicates that one harvester/tool builder for every 50 developers can mean a 10% to 15% productivity improvement in the developer group.

**Outsourcing Selectively and Carefully**

Industry publications indicate that between 85% and 95% of major companies will outsource one or more IT functions before the end of the decade. Outsourcing is going to happen—so IT managers who ignore outsourcing will have it done to them rather than through them.

A one-year honeymoon and a nine-year divorce is an oft-repeated description of past megaoutsourcing deals. IT managers not yet involved in an extensive outsourcing arrangement have the benefit of learning from the experience of early adopters. Some of the lessons learned include:
- Avoid unnecessary 10-year outsourcing deals. Three years is a good maximum length for the arrangement.

- Use multiple vendors to take advantage of the best of breed and avoid excessive dependency on one vendor.

- Determine in advance the objectives for the outsourcing deal. Early outsourcing arrangements were often focused on costs savings. Today the most commonly cited objective is access to people with the right skill sets.

- Experiment with functions that have easier-to-measure success factors, such as network operations, asset management, and phone administration. Each of these areas lends itself to specific service-level agreements and performance measures.

- Use attorneys and consultants with an established track record in this area.

**Operating as a Consulting Organization**

The IT organization is a business that should sell to its customers—the business units—just as a consulting organization would. IT managers can achieve a consulting relationship by establishing a single point of contact between the IT department and the line of business. The individual who fills this role acts as a consultant and sits in on the strategy planning sessions of the business unit. He or she should be both a skilled IT and a business professional familiar with the unit's goals, financial resources, products, and tactics.

The single point of contact should also serve as the general contractor for the business unit, meaning that the IT organization is the prime contractor responsible for the performance and quality of outside subcontractors. This avoids the problems that arise when business units contract directly with a vendor to deliver an application and then pass it on to the IT organization to maintain.

IT managers should also ensure that the IT organization bills for its services and prepares status reports and change orders highlighting variances, completion dates, and other activities. Status reports should also be tested for effectiveness regarding both development and maintenance activities. Too often, maintenance becomes a major cost (as much as 70% of total IT expenditures), but its results are difficult to quantify at year's end. An analysis of maintenance also helps an IT manager decide if IT staff is doing true maintenance (i.e., updating code to accommodate a new business practice) or providing production support (i.e., fixing bugs that prevent the successful completion of work).

Users who are billed for IT services will expect fixed-fee contracts rather than an open-ended purchase order. As a result, IT managers should plan on doing some projects on a fixed-fee basis—but only after advising users about the cost of change orders. Overruns on fixed-fee projects are charged to the IT department and affect the profit and loss statement.

Operating as a consulting unit supports other success factors—working at the customer site, providing assignment rotation, and maintaining the partner/customer relationship. Furthermore, it imposes a market discipline on the IT organization. If the business units are unwilling to pay for all the services IT offers or do not want to pay for the services of selected individuals, IT managers may need to cut back on staff—presumably always pruning the least productive providers. Under this scenario, the applications development/maintenance portion of the IT budget is set by what users are willing to pay rather than by what was spent last year plus 3%.
Moving Project Initiation, Approval, and Financing to the Business Units

Because user satisfaction is directly related to control, applications development and maintenance should be funded and approved by the business units. In this way, the capital expenditure or expense affects their capital program or profit and loss statement. The ability to authorize projects, cancel projects, and change projects increases both real and perceived satisfaction and removes IT from the position of having to deny or postpone project requests. Instead, if a business unit can pay for a project, IT makes an explicit commitment to getting approved projects done (even if this requires the use of outside contractors or consultants).

Decentralized project approval lets users make a clearer assessment of how IT expenditures compare to competing capital projects so that they can decide, for example, whether scrubbers should be installed at the factory or a new inventory control system should be acquired. It also seems to increase the job satisfaction of IT personnel: several studies indicate that IT staff working in customer-controlled sites feel closer to their customers and believe their systems are more usable.

Decentralized project approval does run the risk of suboptimizing the overall corporate investment in IT expenditures. IT managers can mitigate this risk to some degree by training the individual acting as single point of contact to analyze proposed projects in terms of their strategic relevance to the company. If too high a percentage of expenditures are going to nonstrategic projects, IT managers may need to try some guided selling to business units.

Communicating Effectively and Continuously

Why do most business executives like the idea of a decentralized IT organization? Do they want more control? More responsiveness? Surprisingly, the most common factor behind the move toward decentralization is the need for better understanding of what the IT shop does.

An IT manager's competitors (i.e., well-known consulting houses) are well aware that most business executives feel left in the dark by the IT organization. So they sponsor seminars, hold executive briefings, and send out mailings to help enlighten their target audience. Similarly once a company becomes a customer of a consulting firm, a senior-level person from the consultancy makes a point to establish relationships with business unit leadership and provide them with ongoing information about how the work is going. The single point of contact should adopt this role as well.

IT managers should also solicit feedback by holding formal meetings with business leaders at least twice a year. They should ask the following questions: If the IT group was a vendor to this company, would you provide a positive reference to another customer? Why or why not? What could the IT organization do differently to improve? Although some companies have extensive quality assurance processes—the true measure of quality is a customer recommendation.

Recommended Course of Action

IT managers can achieve the benefits of decentralized organization without experiencing many of the costs. By presenting the IT group to corporate customers as a vendor of IT development services, IT managers give customers the control to purchase IT services. Customers drive what applications work is done based on their needs and not on the ability
or availability of IT services. At the same time, IT managers provide a logical permanent structure for IT professionals that enhances career development and retention of high performers. Work that is vital to the ongoing operations of the company but less visible to the user (i.e., communications and LAN administration) is supported centrally to increase service levels, reduce costs, and achieve the benefits of selective outsourcing.

**Bibliography**


**Author Biographies**

Eileen M. Birge

Eileen M. Birge is a director with Houston-based BSG Alliance/IT, where she is responsible for the information technology division. BSG is a provider of consulting services in such areas as systems integration, business process consulting, and technology transfer.