

RG Perspective

# Managing Information Technology

as a Business within the Business



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## 1. Introduction

Many companies have demonstrated that IT can be successfully managed as a business within the business—an organization focused on business strategy, operational efficiency, and delivery of both short-term and long-term value. The high-performance IT organizations that operate in this way have become strategic assets for their enterprises in today's increasingly competitive and dynamic economy.

Over the past 10 years, information technology (IT) management's greatest challenges have been delivering high value to the business and aligning IT initiatives with business strategy. As organizations pursue achieving optimal performance, a common challenge is breaking down the barriers between the business operational areas and IT organization. Yet, if the organization is to achieve high performance, true integration of IT into and across the organization is critical. Managing IT as a "business within the business" is one perspective that Robbins-Gioia's Corporate Performance Optimization (CPO) offering applies when addressing the IT organization's role. Most organizations that have taken this approach recognize the IT organization as a partner with the rest of the business in meeting the needs of clients and contributing to the profitability and success of the overall enterprise.

Managing IT as a business requires three capabilities: strong governance, effective business metrics, and the business discipline to deliver

value. These capabilities also require skills that until recently, have not been widespread in IT departments.

## 2. Strong Governance Creates Good Partnerships

A high-performance organization must have a strong governance function with a clearly defined mission. Good IT governance builds and reinforces the partnership between the IT organization and the rest of the business. Through the clear definition of roles and responsibilities in both strategic and tactical IT decisions, good governance facilitates the delivery of value from all projects. An IT steering group, chaired by IT with its membership predominantly made up of business leadership, is a suggested governance structure that would make strategic decisions on IT projects that align with and support implementation of the business strategy.

On the tactical side, good governance ensures that IT projects have a business sponsor, who is typically from the organization that will benefit most from the investment. This business involvement ensures the effectiveness or functionality of the IT initiative. An IT project manager supervises technology selection and delivery and is responsible for the technical efficiency of the project. A program manager, typically from a functional business unit, coordinates IT-driven or supported business improvements.

## 3. Effective Business Metrics are Critical

Business metrics that drive and assess the alignment of IT with organizational strategy are a cornerstone of running IT like a business. Likewise, development of these metrics is the cornerstone of Robbins-Gioia's Corporate

Performance Management (CPM) practice. The methodology produces metrics aligned with and cascaded down from the corporate strategic goals and objectives. The recommended approach for developing IT performance metrics is a balanced scorecard, CPM, or similar framework. These metrics must include financial and nonfinancial—as well as external and internal—measurements.

Achieving the right balance in developing the metrics is one of management's greatest challenges. External metrics show how effectively IT is delivering good value to the business and, ultimately, to the shareholders. The IT organization must look at the rest of the company as its "market." Meeting the needs of those customers—the users of IT services—and aligning with the business strategy ultimately is key to IT's success. Including the customer-facing metrics in developing the IT scorecard assists the organization in avoiding the major pitfall that most IT organizations encounter—the use of standard or typical internally focused IT metrics only. An example of these metrics would be one of IT uptime that considers when the users need the system, not just the percentage of time the system is operational. These performance metrics also identify how well IT is supporting the business in meeting the needs of its ultimate customers, those who actually purchase products or services from the company. Examples of these metrics include increased sales or a higher customer retention rate due to better access of customer data.

Internal performance metrics drive the IT business toward efficiency. These metrics, such as resources required for services delivery and percent of uptime, look inside the IT organization and assess its processes and performance against internal or industry standards. The IT business must balance efficiency and effectiveness to deliver optimal value.

#### **4. The Business Discipline of ROI**

Ultimately, a business' success is determined by ROI—both short-term and long-term—provided to its stakeholders. For the IT business, short-term ROI can be measured by evaluating returns from projects undertaken and delivered. These financial measurements are typically assessed by examining the budgets and business cases for projects annually. Assessing long-term ROI is less obvious. The long-term value of an IT organization is related to its ability to acquire and maintain the necessary assets (i.e., people, technology, and information) and attract, develop, and retain the workforce for operating and converting those technologies to deliver business value.

#### **5. Conclusion**

In keeping with running IT like a business, ensuring that the organization's human resources have the support needed to provide value in implementing the corporate strategy is critical. Strong governance and effective metrics provide the foundation for management to instill a culture of performance and value delivery within the IT organization. Adding the business disciplines of customer focus and financial accountability help ensure that the IT organization will deliver high value to the business.

As the IT business within the business matures, it should migrate to a more comprehensive set of performance measures, such as the balanced scorecard, to manage its performance and execute its strategy. Progress in this direction would include measuring the IT organization's contribution to the overall learning and growth of the core business. Because it is integral to each of the organization's functional areas and processes, the IT organization enjoys a holistic view of the business. As a source of learning and growth, IT spurs innovation by initiating new ideas or enabling the execution of new ventures in many

organizations. In either of these areas, the IT organization supports or drives the organization to higher performance.