



Aligning IT with Business: Can External Vendors Help?

**A White Paper on the
Canadian Perspective**

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Executive Summary

Getting IT to visibly and measurably serve the business is one of today's toughest management challenges. The discussion, however, has been primarily focused on how very large corporations and governments can re-engineer their reporting and incentive structures to bring IT in line with business goals.

For organizations that don't operate on the scale of a major multinational, the reality is somewhat different. Most Canadian organizations rely heavily on outside vendors to provide a full complement of IT services. For them, IT / business alignment is not simply an internal matter, but one intimately connected with vendor relations.

Alignment, and the role of service vendors in achieving it, is the focus of this ERC study. We used supporting data from a telephone survey commissioned by Siemens Business Services (SBS) in the summer of 2005. The responses, primarily from Canadian manufacturing, utility, and health care verticals, show just how big the challenges are. For example:

- 46% of respondents named insufficient resources for infrastructure-related projects as their number-one IT service issue, indicating a significant resource crunch.
- While virtually all those surveyed rely on IT service vendors, only 4% are partnering with outside vendors in areas that align with their top business issues.
- IT and non-IT respondents had sharply divided opinions on fundamental questions, such as the most pressing business issues facing their organization.

The survey paints a picture of organizations pre-occupied with short-term problems. Respondents appeared frustrated with a lack of IT / business alignment, but stalled in their efforts to move forward..

The experience of industry leaders has shown that there is no quick fix for alignment – organizations need to make fundamental changes to manage IT within a business, as opposed to IT, frame of reference. Essentially, this involves:

- Better communications between IT and non-IT people.
- Processes to measure and control the quality and cost of IT.
- The re-definition of IT as a set of visible and measurable business services.

Industry standards and process frameworks such as ITIL can provide the methodical framework for this transition. However, with resources already over-extended, most Canadian organizations will require help from outside vendors. ERC believes that SBS, with its global pool of IT and business resources, and its standards-based approach, is well positioned to help organizations first ease their resource crunch, and then move forward towards an IT delivery model that aligns with business goals.

The Alignment Problem in the Real World

The alignment issue begs some pretty basic questions. "If IT is not aligned with business," one might ask, "then what in the world is it doing?" Dot com or otherwise, somewhere along the road, IT took on a life of its own, and nobody seemed to mind.

Today, all that has changed. Business owners are demanding that IT investments be justified the same way other investments are. The IT / business alignment discussion reflects the desire to get the house back in order, and to get to the stage where IT can be leveraged to provide competitive advantage and further strategic goals. But organizations today are finding that this is not as easy as it sounds.

Attitudes

A frequently cited symptom of IT / business misalignment is the emergence of two cultures, where respective players see things differently. We saw considerable evidence of this in the data – in fact there were few instances where IT and non-IT responses were consistent. Some examples are:

- When respondents in the industrial sector were asked to name most significant business issue affecting their company, IT people cited operational issues 90% of the time, while the figure was only 40% for non-IT respondents. (see figure 5)
- IT shortcomings were perceived differently. Non-IT respondents showed a concern about inadequate software functionality that was not shared by IT respondents, while IT respondents showed a strong concern for maintaining system availability that non-IT respondents did not share. (see figure 4).

While sometimes subtle, these differences were pervasive (see figures 4, 5 and 7) - an indication of poor communication.

The Complexity Trap

There were also signs in the survey that the growing complexity of IT is taking its toll. Since the rise of distributed environments and the internet, IT systems have become vast virtual environments with thousands of interacting elements – many beyond our control. Management has become a nightmare, and the range of skills required to keep the average environment up to date has ballooned.

We see evidence of this even in small businesses - the LAN administrator that looked after a small IT in the early 90's might need the skill sets of three or four people to do the same job today. The organizations in our survey are seeing a huge bottleneck when it comes to finding resources to keep their infrastructure maintained. 46% of respondents in the survey cited this as their number one service issue. (see figure 3). Furthermore, the bias in vendor selection reflected a need for quick fixes: responsiveness and flexibility were the top priorities (see figure 8).

A Vicious Circle

The skills crunch and poor communication tend to feed off each other. IT people don't have the time to move forward towards alignment because they're too busy reacting to IT infrastructure issues. Business people see IT as a thorn in their side because it doesn't make sense to them, and all they see from IT are problems.

This is widely recognized in mainstream circles. Columnist Barbara Gomolski sums this up well in the May 2005 issue of Computerworld: "It's certainly important to have an efficient and reliable infrastructure that supports business initiatives. But when many IT leaders spend 80% of their budgets and almost 100% of their time on these activities, there's no energy left to pursue real alignment." The alignment issue has been remarkably persistent. In October, 2003, Computerworld cited a survey showing the 44% of CFO's were frustrated then with a lack of progress on the alignment issue. One can only imagine how frustrated many of those same CFO's are today.

The alignment problem cannot be solved by improving communications alone - the complexity issue has to be addressed as well. Recognizing this, industry leaders such as Siemens, CIBC, Caterpillar, and Procter and Gamble, have adopted best practices to simplify the delivery of IT.

Background: Best Practices

The best way to simplify IT is to define it as a set of services. This lends immediate visibility to what IT costs, and what it delivers to the business. This is what IT Service Management (ITSM) is all about. Most people are familiar of this mode of delivery through their experience with telecom services such as basic telephone, long distance, cable TV, Internet, and voicemail. The approach sounds simple, but it is a significant departure from the de facto viewpoint that treats IT as a loose collection of software packages laptops, cables, telecom services, servers, and network devices.

Email is a good example of an IT service. For the user, the service is pretty easy to grasp. You want good response time, reliability, an absence of SPAM and viruses, and timely updates that allow you to read all the new kinds of attachments you are receiving. But for IT, the issue is far more complex. To deliver email, you need servers, storage devices, backup systems, network devices, telecommunications services, security infrastructure, monitoring and management tools, and desktop clients. All of these elements need to work in harmony for the service to be successful.

But making end users happy is not the whole story. Email costs money, and the business has to decide how much is enough. This is where IT / business alignment really comes into play. IT needs to be able to measure costs, and determine how they are justified in terms of their contribution to the quality of the service. Business stakeholders will also be concerned about areas such as risk management, capacity planning, and ability of IT to adapt to rapidly changing business conditions.

Industry Standards

In order to develop the common processes that make service management possible, the industry uses a variety of best practice frameworks. The dominant player is a body of knowledge called the Information Technology Infrastructure Library (ITIL – pronounced "eye-till"). Developed in the UK in the 1980's to improve the delivery of IT in government organizations, ITIL has become the de facto global standard for managing IT infrastructure. Over 100,000 IT professionals are ITIL-certified, and their ranks are growing by 25% - 30% per year. Furthermore, leading IT vendors such as SBS have standardized their service operations according to ITIL.

For end user organizations, adopting a frameworks like ITIL (there are others as well) is only the beginning. You can't actually implement ITIL – you have to build a set of processes based on ITIL definitions. Building the processes themselves is a huge investment. Therefore, even the largest corporations and governments rely on service vendors with experience in ITIL to implement the processes for them. Many vendors, such as SBS, use pre-developed processes to greatly reduce the cost and rollout time of an ITSM implementation.

The Role of Service Vendors

Outside vendors have two key roles in helping organizations achieve better IT / business alignment:

- a) They can help organizations deal with the resource crunch resulting from too many required skill sets and not enough staff, and
- b) They can provide the tools and expertise to implement common processes that re-define IT as a set of measurable services to the business.

Attitudes Towards Vendors

The Canadian companies surveyed saw vendors in relatively non-strategic roles. For example, when asked which business problem vendors are helping them with, most cited reactive and tactical problems, and only 4% cited activity that aligned with their key business priorities. (see figure 6). As well, most prefer service vendors who are flexible and responsive to those who understand their business or have more comprehensive offerings (see figure 8).

In ERC's 2005 SMB study, it was shown that while IT executives predicted decreases in their need to outsource services, their use of these services actually increased. Study author Ivar Kangur speculates on the reasons: "Why then did IT decision makers underestimate their future service needs? It is possible that many were overly ambitious in terms of what they hoped to accomplish in-house, and ended up relying more heavily on outside help than they anticipated."

Strategic partnerships don't happen overnight. Organizations are most likely to initially engage with vendors based on their current tactical needs. If vendors are to help with

long-term aspects of alignment, their engagement model will have to support an evolution of roles from a tactical service provider to a strategic partner.

Example of a Standards-Based Engagement Model: Siemens Business Services

Recognizing the need for a suitable engagement model, Siemens created the SieQuence® solution. On their website, Siemens Business Services presents Siequence® as follows:

"The SieQuence® solution was developed to help manage and predict IT costs while increasing the business value that IT brings to your enterprise. The most adaptive IT solution available, the SieQuence® solution is an integrated suite of services that optimizes the stability, security and support to all or parts of the enterprise. From the help desk to the complete information and communication solution, the SieQuence solution is more than a systematic way to reduce the cost of your IT environment, it is an innovative support continuum that will continue to mature and evolve over time in accordance with industry and technology advances.

The SieQuence solution is a unique IT services solution comprised of four states which allow IT services to be tailored to match a client's preferences, requirements, capabilities and business objectives. Each state builds upon the capabilities of the previous state, from solving immediate problems to avoiding incidents, and achieving maximum availability for mission critical systems and applications."

A Maturity Model Approach

The SieQuence® approach centres around a graded model that categorizes services according to their strategic significance. Like CobIT, CMM, and other maturity model – based frameworks, SieQuence® progresses through a series of states starting with reactive and moving towards the most proactive. These states map the evolution of an IT organization to a standards-based service delivery model. The states are as follows:

State 1: Responsive Solutions

This set of services reduces the pressure on organizations caused by unplanned events. Focus is on restoring functionality to users as quickly and economically as possible when such an event occurs. Emphasis is on services such as help desk, break-fix, and call management.

State 2: Proactive Solutions

These services augment the above by helping the client organization improve service levels through a systematic reduction of unplanned events. Focus is on proactive techniques that identify long-term threats and conditions that are likely to cause repeated incidents. Emphasis is on the implementation of processes such as problem and change management to create continuous improvement of service quality.

State 3: Enterprise Performance Solutions

In this state, services are added to make IT infrastructure perform according to stringent business requirements. Systems are optimized according to industry best practices, leveraging tools such as converged network management, application and website hosting, and industry-standard process implementation to manage the availability and stability of infrastructure.

State 4: Global Network of Innovation®

In this final state, SBS becomes a strategic partner with the customer, leveraging the latest technological advances to provide a competitive advantage. Emphasis is on a wide range of services available from SBS and other Siemens companies and affiliates.

A progressive model such as SieQuence® allows SBS to serve both immediate and long term customer needs. In the short term, it can serve organizations preoccupied with reactive issues who are not ready to tackle the more strategic aspects of alignment. Over time, the relationship can evolve to a strategic partnership where the full resources of SBS and its affiliates can be leveraged.

Conclusions

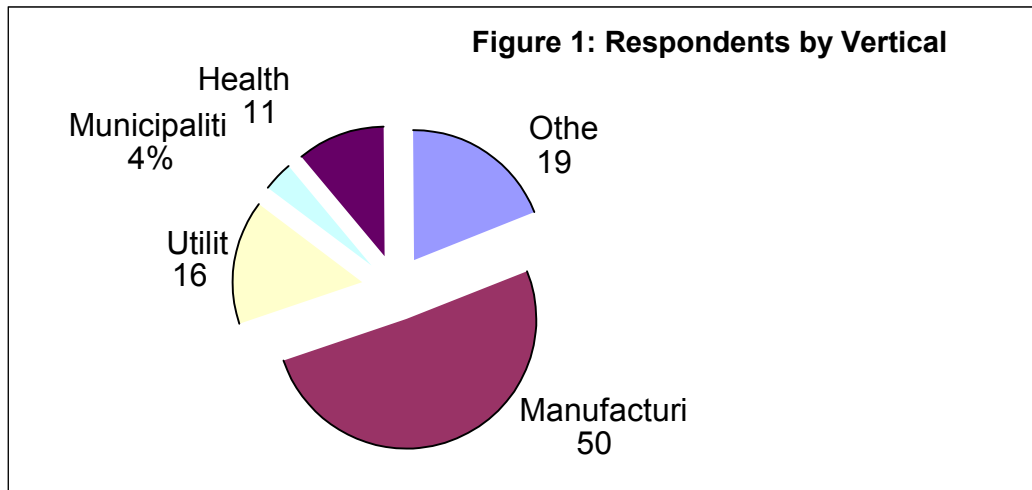
The need to align IT with business goals is well known, but the practical realities are just beginning to sink in. Like enterprise software, alignment originated as an exercise of Fortune-1000 companies and large governments. However, as sophisticated technologies get more entrenched in the midmarket, more and more companies will find that they need alignment strategies in order to ensure that the value in this technology is delivered to those investing in it.

ERC believes that a service management approach, supported by frameworks like ITIL, will be vital in helping organizations make the alignment journey. However, few organizations will have the critical mass to implement these frameworks on their own, and much of the work will be done by vendors.

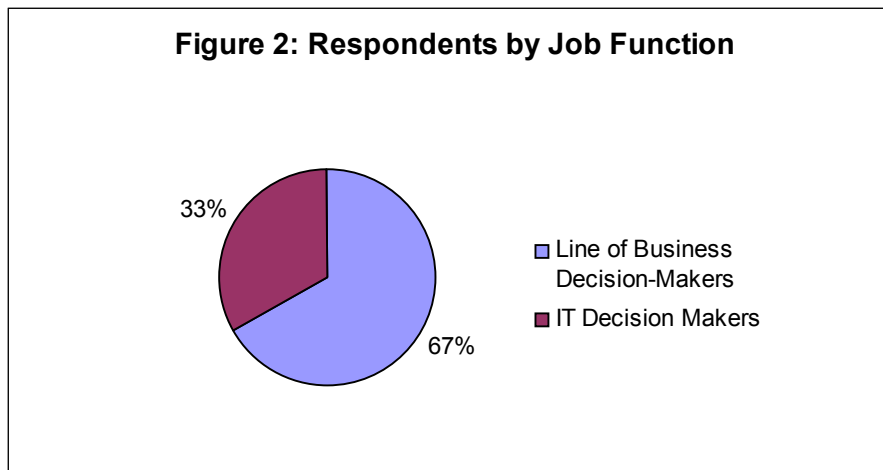
The Canadian organizations surveyed are taking a conservative approach to the use of vendors in strategic areas. Their attention is focused on reactive and tactical issues, and they will need to "clear the decks" before they can pursue the longer-term goals of alignment. There is a clear need in the marketplace for vendors who can provide the depth of resources that will allow organizations to align with business goals, but at the same time, provide a methodology for a scaleable relationship that begins with the reactive and progresses to the more proactive. SBS, with its global pool of resources, and its maturity-model approach to an evolving relationship, provides a promising option for Canadian organizations.

Appendix "A": Selected Data from Study

Background: The survey was conducted in the summer of 2005. Companies were surveyed across Canada, and responses were received in the following verticals:



Respondents included both IT and non-IT decision-makers, as follows:



Survey Questions:

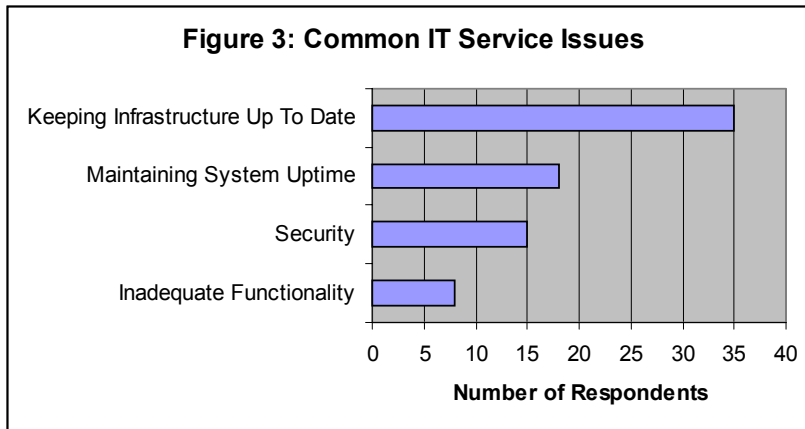
Below, we have shown response from a selection of questions that are particularly relevant to the topic of alignment.

Q1: What are your common IT services issues?

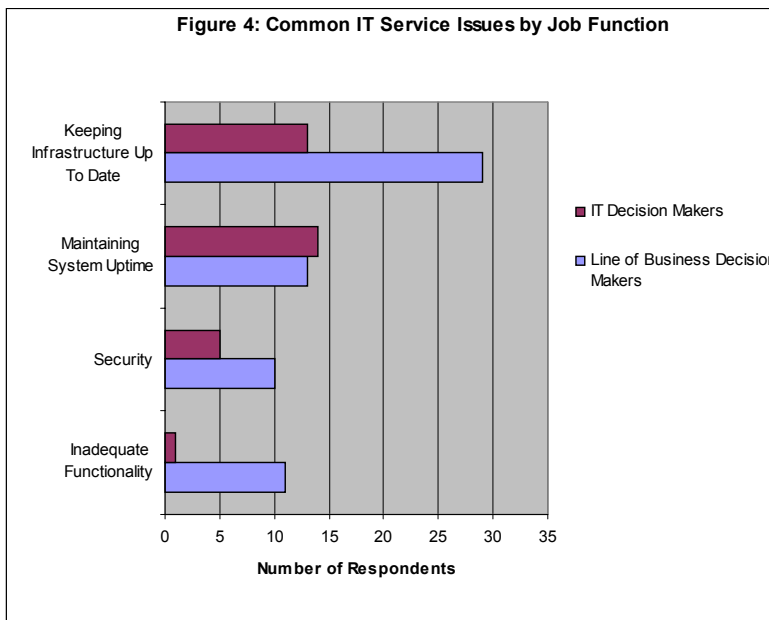
We divided the responses into the following four categories:

- Inability to keep infrastructure up to date due to lack of resources.
- Reactive problems, like systems going down, performance issues, etc.
- Security problems, including Viruses, intrusion, etc.
- Functional deficiencies indicating need for new technology.

The responses are illustrated below:



We also compared the responses of IT and non-IT people:



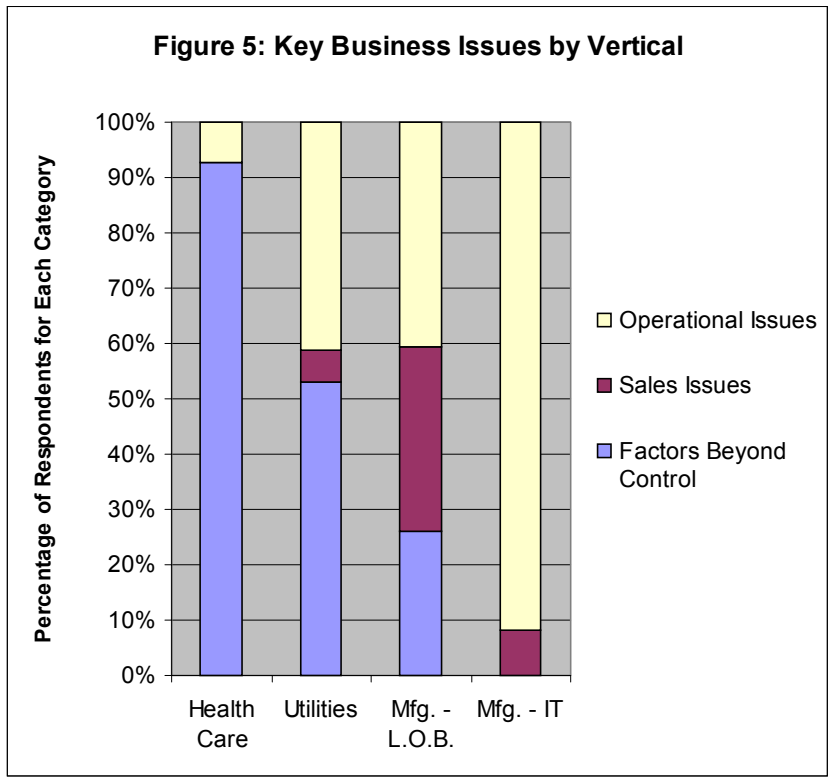
This shows differences in two key areas. IT people see reactive issues as a bigger concern than non-IT people, while business stakeholders show more concern for added functionality.

Q2: What key business issues keep you awake at night?

In order to compare their responses, we sorted them into three categories:

- Sales and other growth issues.
- Operational issues, such as production, administration, IT, HR, etc.
- Factors beyond the company's control, such as government regulation and funding.

The data from this categorization is illustrated as follows:

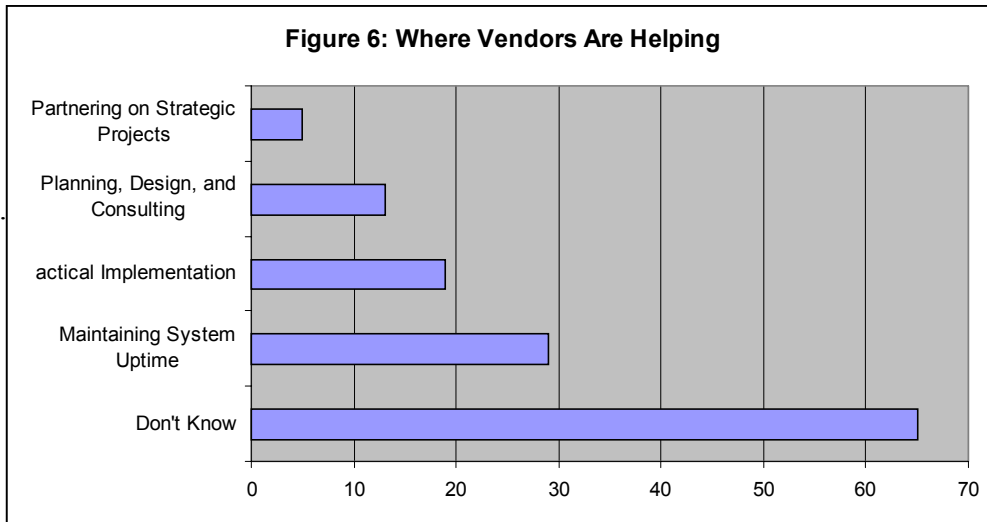


We saw a strong difference in verticals here. Health care decision makers were almost exclusively preoccupied with funding – a factor beyond their direct control. But the biggest story is the split between manufacturing line of business decision-makers and manufacturing IT decision-makers. In a classic display of non-alignment, their worries were very different. For IT people, this might have been considered a trick question – they were asked about business issues, but because they don't see business issues on a daily basis, they automatically responded by naming IT issues.

Q3: What key business issues does an external IT service solutions provider help you with?

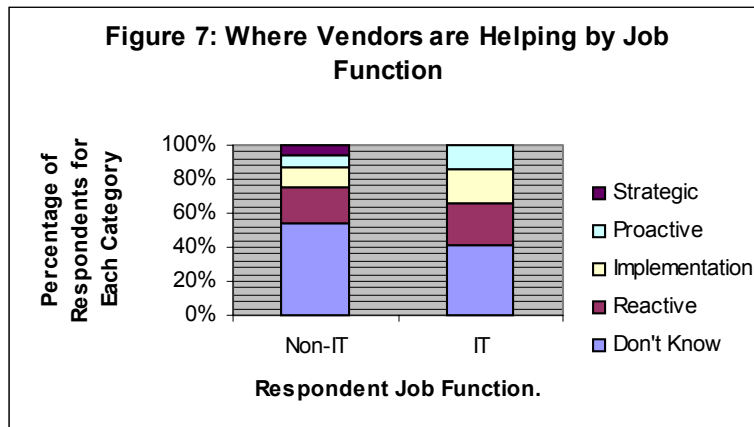
We divided the responses into the following categories:

- Strategic projects that specifically aligned with stated business goals.
- Proactive work that involved planning for IT improvements and acquisitions.
- Implementation work that involved routine upgrades, product installation, and configuration work.
- Reactive work, including break-fix, remedial help-desk, etc.



The response shows an absence of vendor presence in the strategic end, and the greatest use in more routine areas. This is especially true given that respondents were asked about key business areas in the question, and the responses often reflected IT, as opposed to business, issues.

We also compared, on a percentage of respondents basis, the response profiles of IT and non-IT respondents as follows:

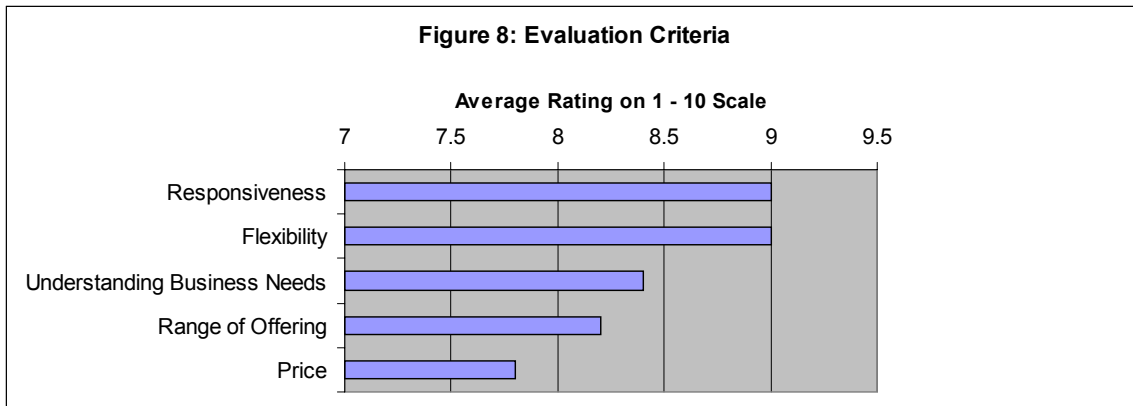


Notable here is a small percentage of non-IT respondents identified activity that aligned with key business concerns, while IT respondents identified none of this activity. It's also notable that a majority of non-IT respondents stated that they do not know what business issues outside vendors are helping with.

Q4: In evaluating an IT infrastructure service provider, using a scale from zero to 10, where zero means "not important" and 10 means "crucial", how important is

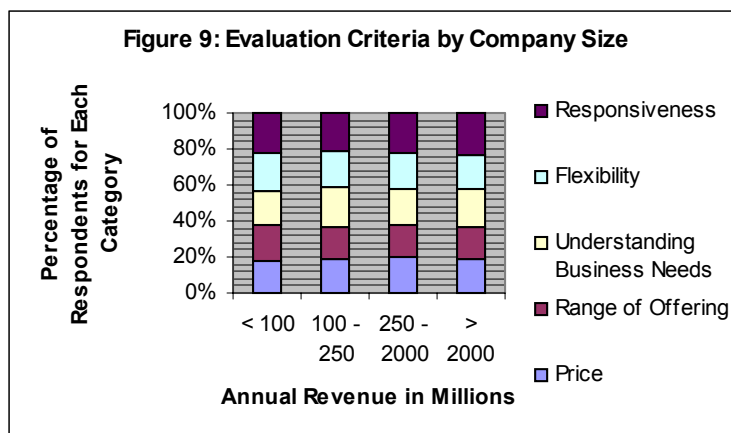
- **Responsiveness?**
- **Price?**
- **Flexibility?**
- **Understanding business needs?**
- **Range of offering?**

The results are shown below.



As with other questions, the bias appears to be reactive – companies like to have vendor’s respond when they need them, and to have them provide specific resources. Range of offering, understanding business needs, and price are less important.

It was also interesting that these results were consistent for all sizes of companies, as the attached results show:



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