



The New Shape of IS

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Foreword

Enterprises are changing rapidly to respond to global competition and better economic conditions. IS organizations bound by their functional silo roots are having trouble just keeping up, much less enabling competitive differentiation.

This report answers the question, *How are CIOs shaping their IS organizations to meet business needs?* Chuck Tucker and Andy Rowsell-Jones led the research.

Many individuals from around the world contributed to this work, including:

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Executive summary

Enterprises are changing rapidly to respond to global competition and seize opportunities created by better economic conditions. IS organizations need to change just as rapidly and not hold the business back. So CIOs are restructuring IS to be more responsive and to exploit new opportunities.

It is clear from the case studies in this research that every enterprise is different, requiring a different organizational approach to IS. But the lessons learned apply to all CIOs who are considering restructuring. The research findings and case studies are presented in four sections:

Section 1: CIOs are recentralizing IS

To compete, IS organizations are restructuring. IT industry changes, such as outsourcing and remote infrastructure management tools, give CIOs more restructuring options.

- Structure, the focus of this report, is an important aspect of organizational design.
- Trigger events cause CIOs to consider restructuring IS.
- IS structure mirrors enterprise structure.
- IS is recentralizing and using strong governance and relationship management to counterbalance the drawbacks.
- IT governance provides balance by involving key stakeholders in decision making.
- Relationship management provides balance by keeping IS close to the business.

Section 2: CIOs are using a combination of structures

Rather than maintain a traditional functional organization, CIOs are reshaping their IS organizations by combining different vertical structures to achieve their objectives:

- Functional silos foster technical skills.
- Customer-centric structures focus on individual customer needs.
- Competency centers leverage critical skills across the enterprise.
- Process-based structures improve service levels.
- IS Lite structures improve flexibility and focus.
- Service-based structures provide what customers want.

Section 3: CIOs are creating horizontal structures to improve organizational effectiveness

Who a person works *with* is more important than who they work *for*. CIOs are designing horizontal structures to improve coordination, workflow and learning across vertical organizations.

- Horizontal structures, such as teams and communities of practice, facilitate work across organizations.
- Staffing horizontal structures requires flexible resource management.
- Matrix structures combine the features of horizontal and vertical structures and help manage conflicting needs.

Section 4: The internal service company model provides a road map for organizational evolution

With so many organizational options available, CIOs want a road map to guide their organization's evolution. The Gartner internal service company model (ISCo) links structures with management disciplines, like product management and chargeback, to prove and improve the value IT delivers to the business. The stages of ISCo maturity provide a road map for reshaping the IS organization.

- The ISCo model incorporates many of the basic structures.
- The ISCo maturity model provides a logical restructuring path.
- Shared-services structures are a stage along the ISCo path.
- Becoming a profit center is a difficult transition.
- CIOs must become IS organizational architects.

The case studies in this report are profiled on the opposite page.

Case study profiles

Company	Enterprise revenues (US billions)	Enterprise head count	IS budget (US millions)	IS internal head count	Recentralized	Governance	Relationship mgmt.	Customer-centric	Competency center	Process-based	IS Lite	Service-based	Horizontal
AETAT	NA	4,000	NA	80		✓			✓	✓			
Ahlstrom	\$1.8+	6,500	\$29	104	✓	✓		✓			✓	✓	
AIG Technologies	\$81	86,000	NA	NA			✓				✓	✓	
Allied Domecq	\$5.3+	12,500	\$90	400	✓	✓	✓	✓	✓		✓	✓	
Allmerica Financial	\$3.2	5,500+	\$110	420				✓		✓		✓	
CEPSA	\$16	10,000+	\$59	218			✓	✓			✓		
Interpublic Group	\$5.8	49,000	NA	1,800	✓	✓	✓	✓	✓		✓	✓	
MetLife	\$36	50,000	NA	NA	✓	✓	✓	✓	✓			✓	
Panasonic Mgmt. IT	NA	NA	NA	300	✓	✓		✓	✓	✓		✓	
Pioneer Electronics (USA)	NA	600	NA	50	✓	✓	✓					✓	

CIOs are recentralizing IS

Trigger events, such as a change in business strategy, cause CIOs to rethink how IS is structured. CIOs use three basic organizational models to align IS with the business. Economic and technology forces are driving recentralization, especially for infrastructure. As a counterbalance, CIOs are strengthening governance and relationship management.

“The new IS organization must be flexible, business-oriented and capable of fast reactions to changing conditions.”

— *Diane Morello*
Research vice president
Gartner Intelligence

Structure, the focus of this report, is an important aspect of organizational design

Structure—the organization chart—is the most visible aspect of an organization’s design. Structure defines order, reporting relationships and boundaries, giving people an “organizational home.” While the other design elements are important (see box below), this report deals primarily with organizational structure.

Trigger events cause CIOs to consider restructuring IS

Restructuring is rarely undertaken lightly. It can cause disruption and turmoil, employee dissatisfaction, lower productivity and turnover. It’s usually undertaken in response to a trigger event, such as:

- A significant change in business strategy
- Reorganization of the enterprise
- The current IS organization not meeting expectations
- A change in IS’s role
- A major acquisition or divestiture
- A change in leadership at the CxO level
- A change in the industry

Other organizational design aspects not covered in this report:

- Competencies—types and levels of expertise required for success
- Roles and responsibilities—outcomes expected from, or duties assigned to, a person
- Resource allocation—number of people assigned to each unit
- Reward system—compensation and incentives
- Culture—shared values and norms of behavior
- Performance measurement—metrics for evaluating organizational performance

A major change in business strategy generally requires an organizational response, from the business and IS. One example: the e-business strategies in the late 1990s. Typical IS responses to business strategy changes are shown in the figure below.

CIOs now have more ways to respond. They can tap mature external service providers (ESPs) to handle everything from help desks to

business processes onshore, near-shore or offshore. Enterprise software can be used around the world, providing common systems that can be supported centrally.

Remote infrastructure can be managed centrally using automated tools. Virtual teaming is feasible through cheaper communication services and better collaboration tools.

Business forces are causing CIOs to consider restructuring		
Typical business strategy	IS organizational requirement	Typical IS responses
Sense and respond quickly to market changes	<ul style="list-style-type: none"> • Scale quickly up or down • Deploy changes quickly 	<ul style="list-style-type: none"> • Multisourcing • Flexible resource management • Standard infrastructure
Compete globally; act locally	<ul style="list-style-type: none"> • Control architecture and IT procurement centrally • Coordinate local IS 	<ul style="list-style-type: none"> • Standard global infrastructure • Common systems like ERP and CRM • Collaborative IT governance
Focus on core business; outsource or spin off the rest	<ul style="list-style-type: none"> • Manage outsourced IS functions, shared services and spinoffs 	<ul style="list-style-type: none"> • Strategic sourcing • Shared services
Grow through innovation; develop new products and services	<ul style="list-style-type: none"> • Provide support for innovation and collaboration 	<ul style="list-style-type: none"> • Innovation competency center • Collaboration tools • Knowledge management
Grow by acquisition	<ul style="list-style-type: none"> • Conduct due diligence and form integration teams 	<ul style="list-style-type: none"> • Integration competency center • Consolidation
Become the low-cost producer through process engineering	<ul style="list-style-type: none"> • Provide shared services • Support process-based working 	<ul style="list-style-type: none"> • Across-the-board IS budget cuts • Shared services

“Business units naturally felt a loss of direct control over IT expenditures and priorities when we started to consolidate. We’ve countered this with governance mechanisms that give them visibility into our costs and plans, and a voice in setting our priorities.”

— *Yoshi Aoyama*
Chief strategic officer
CIO
Pioneer Electronics
(USA)

IS structure mirrors enterprise structure

At the enterprise level, IS has traditionally mirrored the structure of its parent. Three basic organizational models align IS with the business: centralized, decentralized and federated (see figure opposite).

In centralized IS, all IS units report to the corporate (group) CIO. IT spending is centrally controlled by the CIO. Centralization has many advantages: economies of scale, efficiency, IT cost visibility and control. But the potential disadvantages are considerable. Centralized IS has traditionally been less flexible and less responsive to local needs—and has often lost touch with the business.

Decentralized IS—where each line of business or business unit manages its own IS organization and IT spending, independent of other business units—has advantages. It’s more responsive to local needs, and it promotes joint IS-business understanding. But it also leads to duplicate efforts, architectural diffusion and a higher IT cost structure.

The federated, or hybrid, model combines features of both. The corporate, or global, CIO is responsible for the central IS unit and for coordinating the division IS units. This model is used by many large, multidivisional enterprises to balance local priorities for IT innovation and responsiveness with enterprise priorities for scale and standardization. More than 70 percent of Gartner EXP members use a federated IS model.

IS is recentralizing, balanced with IT governance and relationship management

Poor economic conditions in the past and global competition have driven IS to recentralize, even in decentralized enterprises. Recentralization reduces duplication of resources and leverages economies of scale, especially for the IT infrastructure. Enterprise systems—like enterprise requirements planning (ERP), supply chain management (SCM) and customer relationship management (CRM)—are easier to implement and maintain with centralized leadership and support.

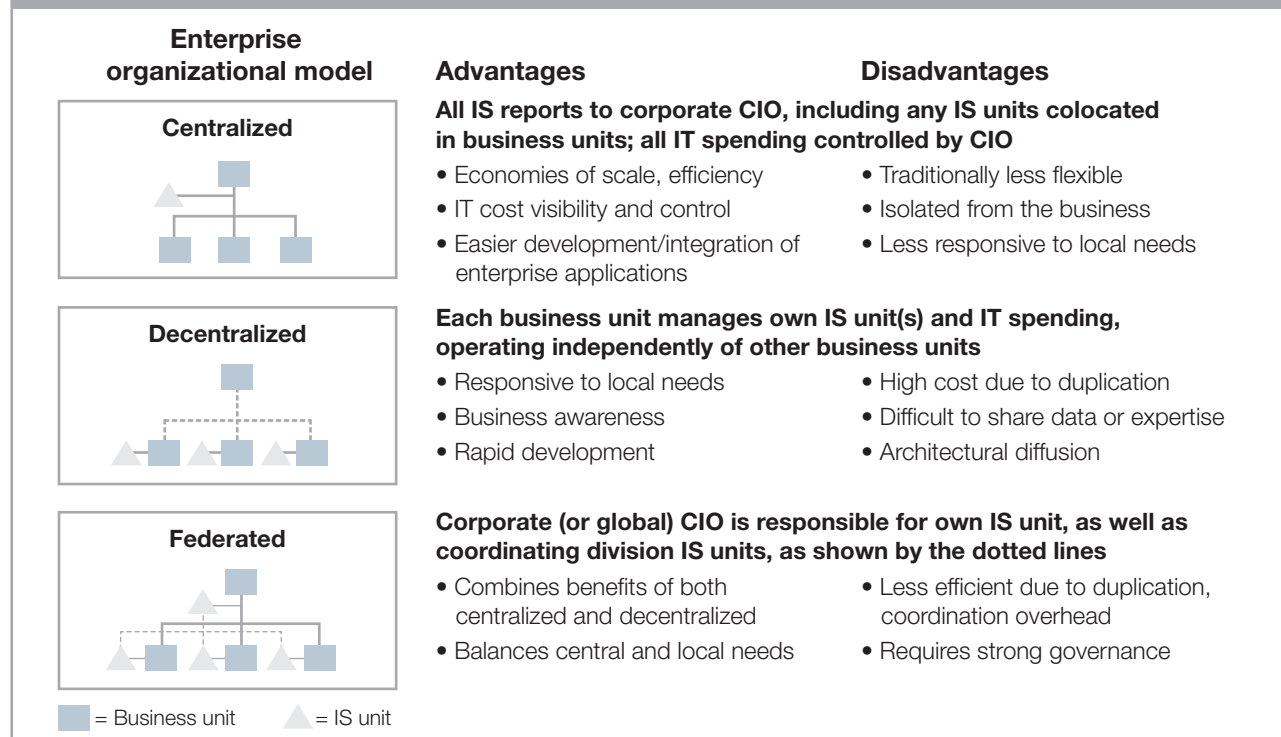
IT governance provides balance by involving key stakeholders in decision making

Centralization is not without its drawbacks—drawbacks sufficiently severe that many all but abandoned centralization last time around. But this time things are different. To minimize the inherent shortcomings of centralization, CIOs are using IT governance to give business units a real voice in IT decision making. IT governance is about assigning decision rights and creating an accountability framework that encourages desirable behavior in the use of IT.

Effective IT governance reduces the business units' feeling of losing control of IT by letting them influence:

- Funding levels and chargeback arrangements
- Business application needs
- Project investment priorities
- IT architecture and standards
- IT principles
- IT infrastructure strategies

Three enterprise organizational models can align IS with the business



Ahlstrom combines a federated structure with strong IT governance to harmonize business processes globally

Ahlstrom, whose heritage spans more than 150 years, is a leader in high-performance fiber-based materials, serving niche markets worldwide. Headquartered in Helsinki, Finland, it employs 6,500 people and serves customers in more than 20 countries on five continents. Annual net sales are more than US\$1.8 billion. The IS staff totals 104 people, and IT spending is 1.6 percent of revenues.

The new federated IS organization mirrors Ahlstrom's organizational model

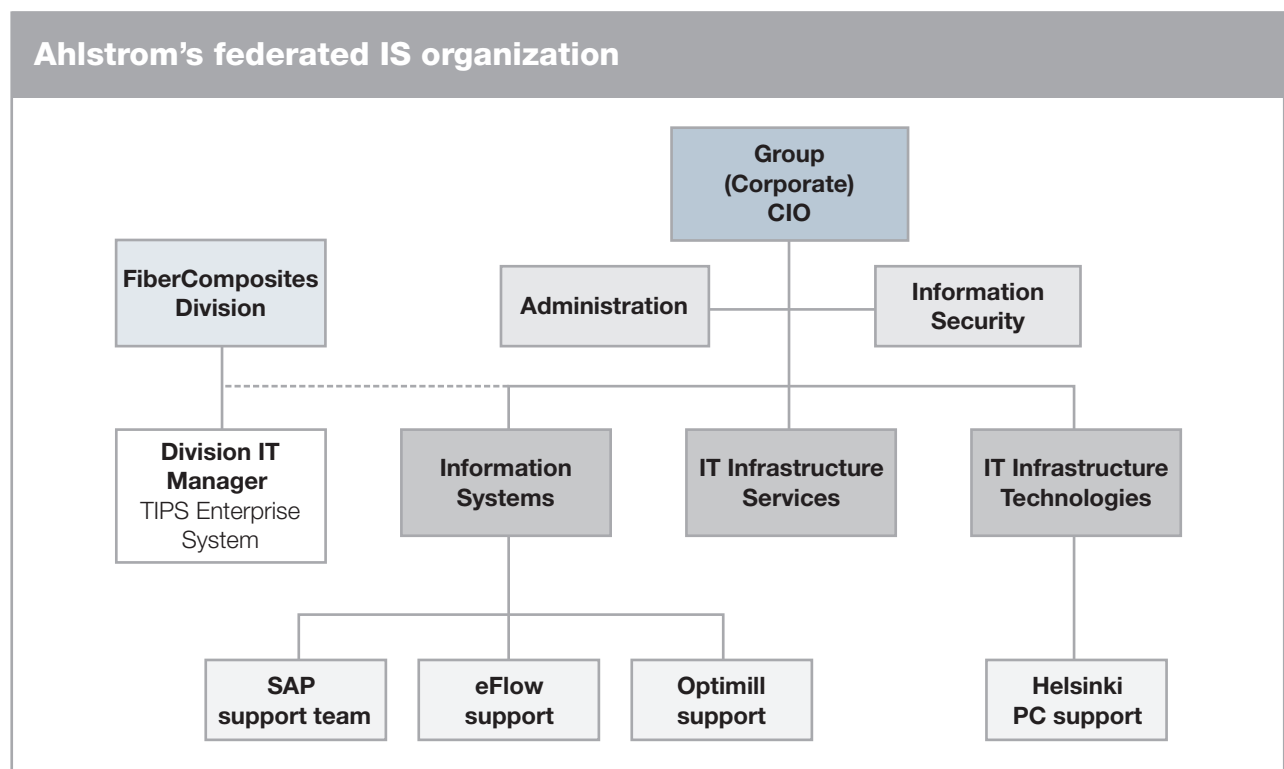
Organizing IS around the federated model reflects Ahlstrom's culture of strong divisions. The corporate center focuses on common shared services and has little involvement in day-to-day business operations. Previously, corporate IS focused only on shared IT services (e-mail, Internet, intranet and e-business platforms) and the IT infrastructure (wide-area network, local-area networks and personal computers).

Corporate IS began revising its organizational structure in 2000 in response to:

- Implementing enterprisewide SAP applications for finance and materials management
- Selling diversified businesses to focus on the core fiber-based materials business
- Acquiring a large U.S.-based company with its own strong global IS organization

The need to harmonize business processes across all divisions resulted in a new corporate IS function to implement, manage and support shared business solutions. These include SAP, eFlow (the workflow system for purchase invoices) and Optimill, which supports sales, production and distribution functions in 15 paper mills in all three divisions.

A new core operating system for the FiberComposites units—the TIPS Enterprise System—will soon be implemented. To strengthen coordination between the users of this new system and the organizations currently using Optimill, Ahlstrom's CIO created a dotted-line relationship between the FiberComposites' IT project staff and his central IS group.



“Everyone understands their role [in the governance structure]. Commitment and trust are increasing. Clarity has improved.”

— *Jouko Jurvainen*
CIO
Ahlstrom

Strong IT governance provides balance to Ahlstrom's federated structure

To more formally balance the business units' needs with the goal of having common shared services, Ahlstrom needed an effective IT governance structure.

Adopting the Gartner EXP/MIT Sloan School's Center for Information Systems Research IT governance framework, Ahlstrom created three governance committees to strengthen IT decision making:

1. The IT Steering Group (ITSG) makes enterprisewide IT policy decisions. It comprises the deputy CEO (chairman), CFO, division presidents, executive vice president of commercial operations and the CIO.
2. The IT Management Group (ITMG) reports enterprisewide and cross-divisional IT issues to the ITSG. It comprises the corporate CIO (chairman), his direct reports, division IS managers and corporate and division process owners, when needed.
3. Development Forums report IT-related issues to the ITMG. They comprise corporate process owners, division process managers, key users and IT experts.

Together, the new organizational structure and governance arrangements have improved cooperation and decision making. Neither could accomplish this alone.

Results to date are beneficial

CIO Jouko Jurvainen, who reports to the deputy CEO, sees two main benefits from the federated structure-governance combination: improved IS connection with the business leaders, and increased communication and coordination between divisional and corporate IS, which has helped harmonize business processes globally.

Business leaders are engaged through the ITSG. They developed the IT principles and defined the desired IT behaviors in the governance structure. “Everyone understands their role,” says Jurvainen. “Commitment and trust are increasing. Clarity has improved. This is a learning process for both sides.”

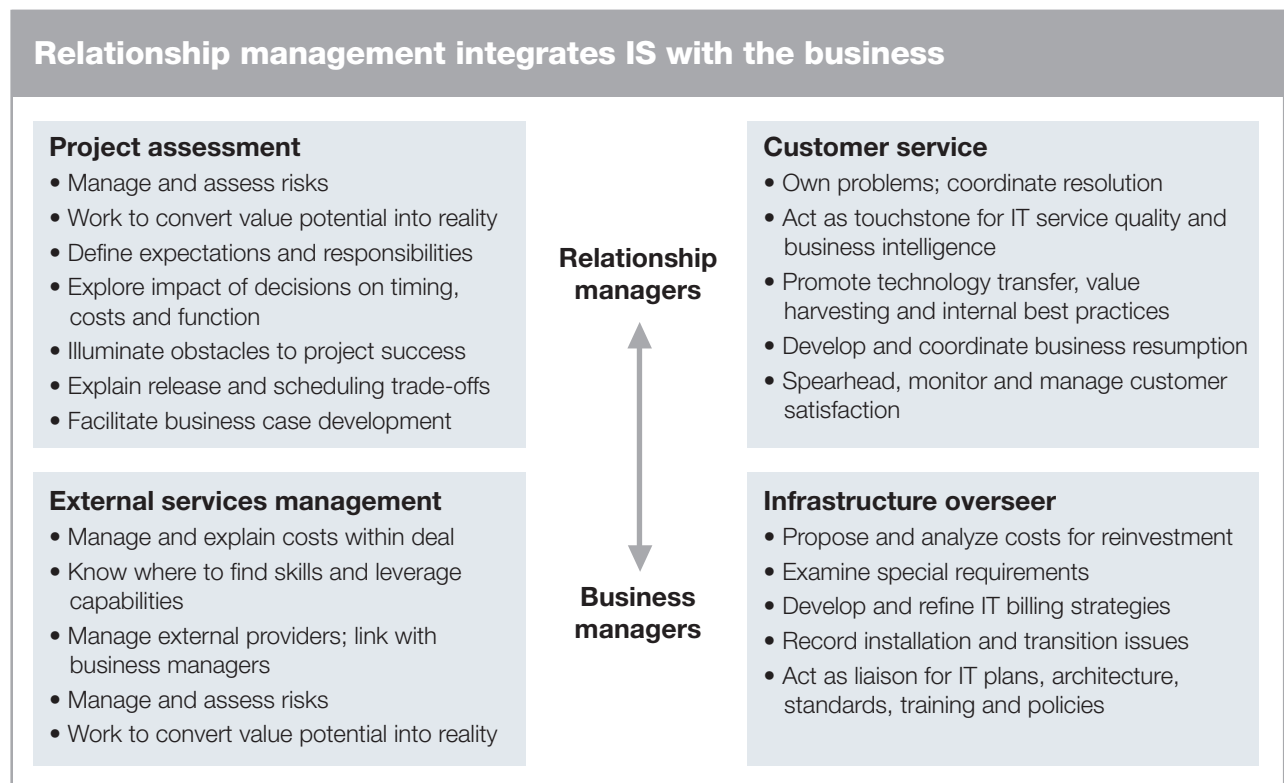
Divisions are involved in preparing proposals jointly with corporate IS. The corporate IS infrastructure group proposes standards developed in conjunction with divisional IS staff members. Divisions feel part of the process because their opinions are listened to. "Networks of expertise have formed," says Jurvainen.

Jurvainen doesn't anticipate any more major IS organizational changes before the TIPS Enterprise System is completed. When TIPS becomes the enterprise standard, moving that function into the central IS organization will make sense, to ensure its consistent use throughout Ahlstrom.

Relationship management provides balance by keeping IS close to the business

Relationship (or account) management facilitates more intimate relationships with the business. It provides a channel for business units to make their needs known and to influence IS direction and decisions. Relationship management brings business awareness to the IS organization and links business-unit initiatives with enterprisewide standards.

Relationship managers simultaneously represent the interests of the business they support and are enterprise advocates with their peers (see figure below).



“Our mission statement is ‘A global team providing the right solutions, where they are needed, when they are needed, to grow our business.’”

— *Ernie Charles*
Global CIO
Interpublic Group of
Companies

The majority of the case study CIOs use relationship management to stay close to the business. Many use both strong governance and relationship management, as described in the following Interpublic case study.

Interpublic balances centralization with IT governance and relationship management to reduce costs and improve service

Interpublic Group of Companies is one of the world’s leading organizations of advertising agencies and marketing services companies. Major global brands include Draft, Foote Cone & Belding Worldwide (FCB), Golin/Harris International, Initiative Media, Lowe & Partners Worldwide, McCann-Erickson, Octagon, Universal McCann and Weber Shandwick Worldwide. Interpublic and its operating companies employ 49,000 people in about 130 countries, including 1,800 people in IS.

Interpublic is transforming IS through consolidation and standardization

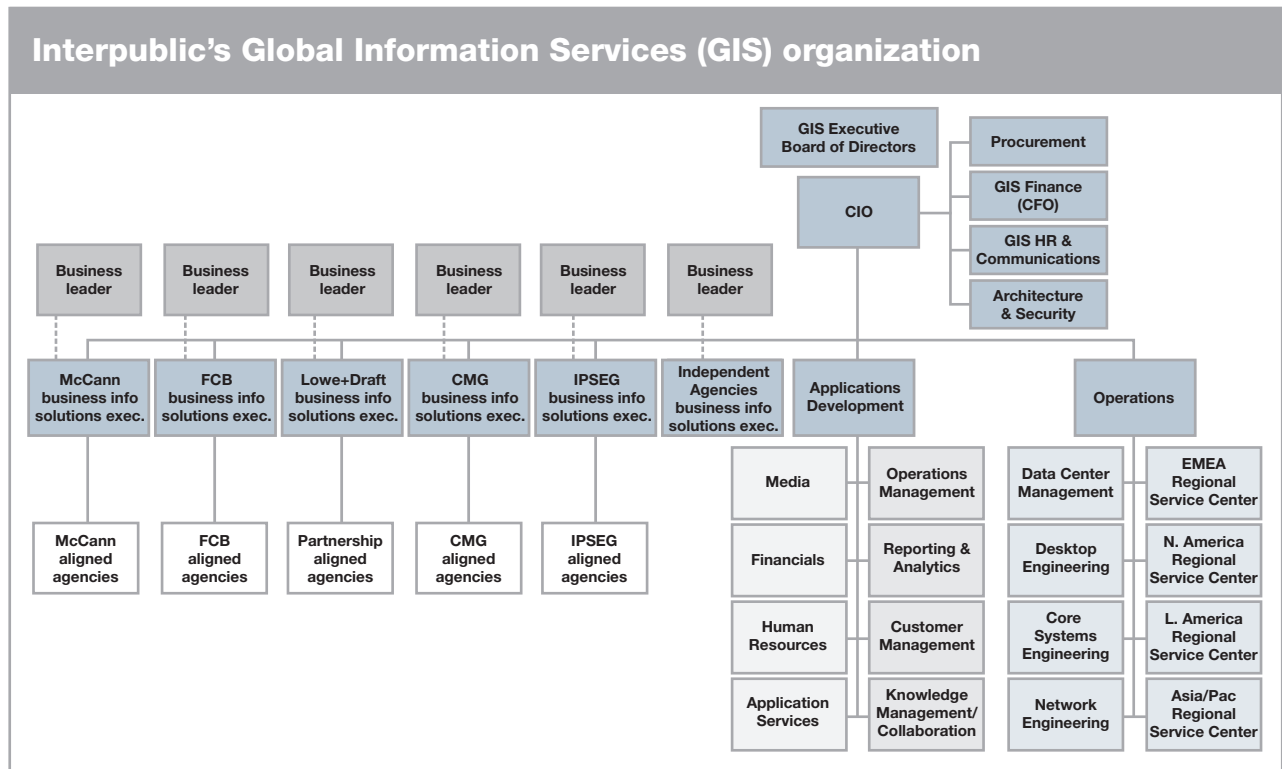
Interpublic comprises more than 800 companies, each with its own IS function. Ernie Charles was recruited as global CIO in mid-2001 to rationalize IS worldwide. The objective is to drive savings through consolidation and standardization and to improve service, especially for the small and medium-size agencies. His challenge is to maintain agency uniqueness and control while leveraging common applications and infrastructure.

After visiting more than 300 locations to baseline IT spending by category, IT assets, duplication and requirements, Charles planned a four-year transformation from the completely decentralized IS organizations to a centralized one held to business standards of financial accountability and customer service. Interpublic is in the second year of this transformation.

Global Information Services (GIS) was formed to drive the IS transformation

GIS combines customer-facing relationship managers—called business information solutions executives—with centralized application development and infrastructure managers. Charles consolidated all

applications-related work into *Applications Development*. The network infrastructure and computing were consolidated into *Operations* by developing four regional data centers within existing facilities. The solutions executives are colocated with their business leader, through a dotted-line relationship, with a solid line to the CIO.



CIO Charles formed staff groups to gain control over four areas:

1. *Procurement*—to consolidate local contracts into global agreements with key vendors and to negotiate major savings and service improvements
2. *Finance*—to manage IT expenditures globally and implement budgeting and chargeback disciplines
3. *Human Resources and Communications*—to manage the global IT workforce and communicate the transformation strategy and accomplishments
4. *Architecture and Security*—to set standards and ensure security and business continuity

His new governance structure—the *GIS Executive Board of Directors*—makes the enterprise-level decisions. It is chaired by the chief operating officer and includes the operating company heads and the CIO.

GIS is run like a business

Besides convincing the 800 companies that centralization made sense, Charles also had to change the cultural mind-set of the GIS staff. He introduced new management disciplines, such as service-level agreements, expectation management and chargeback. In some respects, he found these easier to sell to the business because they already used these techniques when dealing with their clients. But the companies are expected to make a profit, while GIS is expected to break even. “The business’s back office is our front office, which we need to manage professionally,” says Charles.

Part of the savings is being reinvested in strategic applications

Even though there are still two years of “heavy lifting” left to complete the transformation, benefits are starting to appear. Tens of millions of dollars have been cut in expenses and capital expenditures, mostly from network and server costs. The number of applications performing similar functions is being reduced, and a common financial system will be operational soon in North America and selected international markets. Finance will become GIS’s first shared-services offering.

GIS is reinvesting some of these savings to generate revenue and growth. It will standardize best-of-breed tools, like client-facing extranets, and adapt them for the small and medium-size agencies. “Providing a standard set of strategic applications to all agencies is where the real payout will occur,” says Charles.

There are many approaches to recentralizing IS

Ahlstrom and Interpublic are just two cases of enterprises balancing recentralized IS with formal mechanisms. Ahlstrom is using strong governance, and Interpublic is using governance and relationship management, to give divisions a voice in IT decision making.

While cost savings are a benefit of centralization, harmonizing business processes globally and improving service are just as important.

The next section presents other structures CIOs are using to reshape their IS organizations.

**CIOs are using
a combination
of structures**

CIOs are reshaping IS organizations to achieve business objectives using a combination of six basic structures:

- 1. Functional**
- 2. Customer-centric**
- 3. Competency center**
- 4. Process-based**
- 5. IS Lite**
- 6. Service-based**



“The traditional IS organizations is seldom characterized as agile but as an ever-expanding center of costs that ‘keeps the lights on.’”

— *Diane Morello*
Research vice president
Gartner Intelligence

Functional silos foster technical skills

Traditionally, IS has been structured around functional skill sets (programmer or operator) or technology platforms (mainframe, UNIX or Oracle). Such functional structures are most appropriate for smaller, stable, less complex IS organizations because they foster technical skill development in each function. But business skills typically get little focus. Because work is passed from function to function, it is difficult to improve the speed and quality of service delivery. Most CIOs interviewed are shifting away from functional structures and using a combination of other types of structures.

Customer-centric structures focus on individual customer needs

Customer-centric structures support specific sets of customers, usually lines of business, sectors, divisions or geographies. Thus, they can focus on their customers’ needs and satisfaction. A customer-centric structure is most appropriate for account management and development units that support a set of customers.

Typical competency centers

- Enterprise requirements planning (ERP)
- E-commerce
- Program management office (PMO)
- Integration office
- Technology standards
- Sourcing office
- Knowledge management
- Architecture
- Data management
- Development center

Competency centers leverage critical skills across the enterprise

Competency centers, also known as centers of excellence, are formed to leverage expertise and best practices throughout the enterprise. The skills are housed in one location, developed, mentored and made available to units that need them, usually on a just-in-time consulting basis. Often, IT knowledge is combined with project management, change management and other skills, creating a one-stop shop for needed technology expertise or skills. The box opposite lists examples of typical competency centers.

Sharing competency center resources allows smaller organizational units to have access to the best resources. Competency centers overcome one of the weaknesses of the federated model: replicated resources across numerous local IS units. By concentrating resources in one center, an enterprise can usually afford to develop and maintain a higher level of expertise.

Competency centers are most often located at the “critical mass of skills,” which helps to reduce the tensions of having a “center” in the federated model. A global company may have an ERP competency center in one country, a sourcing office in another and a PMO in still another.

Allied Domecq combines customer-centric relationship management with an innovation competency center

Allied Domecq is the world’s second largest spirits and wines company. Its distilleries and

wineries produce such well-known brands as Beefeater, Kahlua and Courvoisier. Retail operations include Baskin-Robbins, Dunkin’ Donuts and Togo’s Eateries franchises. Its 12,500 employees generate annual sales of more than US\$5.3 billion. The IT staff totals 400 people, and IT spending is 1.7 percent of revenues.

To align with the business, IS restructured from decentralized to globalized

Until two years ago, Allied Domecq’s IS was fragmented, with IS units in the sales regions, local business operations and at headquarters. The result was many problems and missed opportunities:

- No single person accountable for total IS spending, assets, staff and competencies
- Multiple architectures and platforms to maintain
- Multiple solutions chasing the same problem
- No consolidated vendor management or demand management
- Large variations in IS resource levels and quality among the business units
- Little collaboration or sharing among IS units

Business strategy shifted from growth through acquisition to synergy focused on core brands and top markets. The CEO wanted a single view of the truth on brand profitability, a consistent face to the customer, leveraged buying power and agility. Globalizing IT was a prerequisite for aligning with this new business direction.



“I didn’t transform the IS organization to cut costs. I promised more for the same cost. What we achieved was more for less, due to the savings from eliminating duplication and being able to negotiate more favorable contracts by centralizing procurement.”

— *Brian Jones*
Global information services director
Allied Domecq

Basic organizational design principles guided restructuring

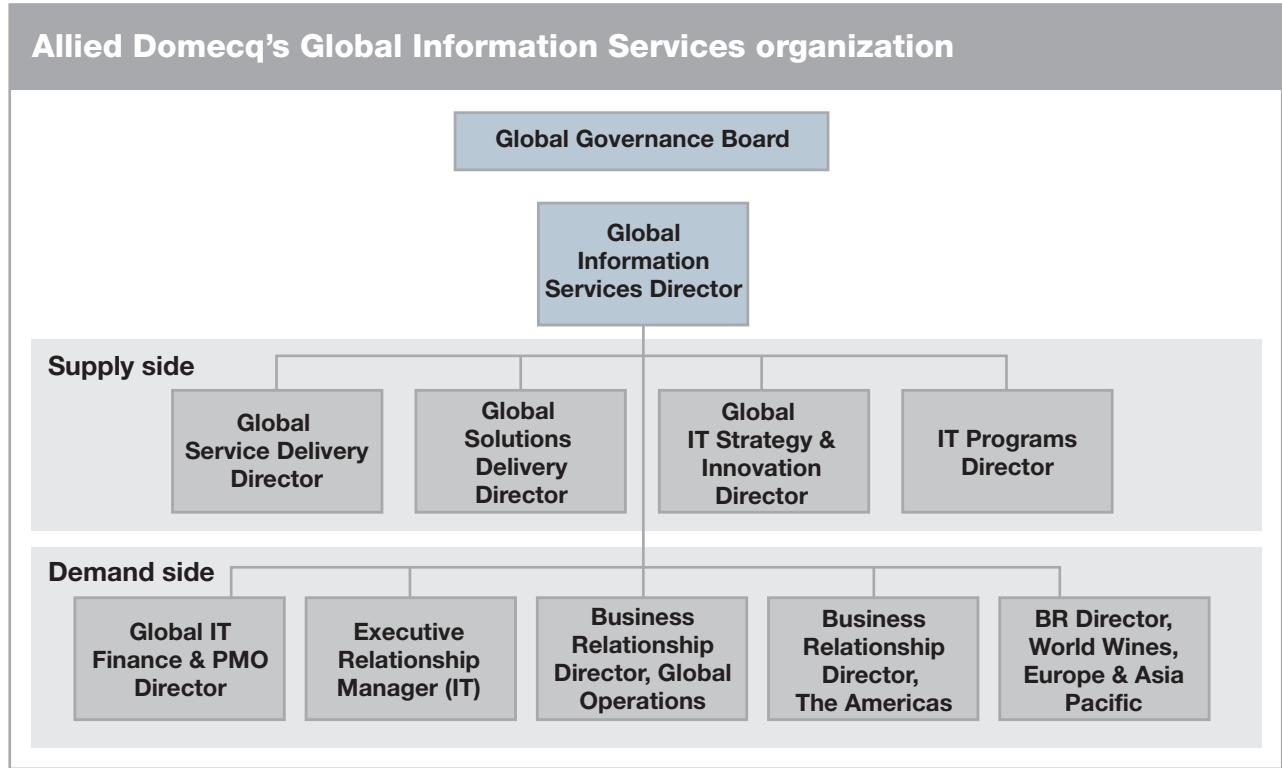
Brian Jones, global information services director, used five basic design principles to align IS with the business:

1. Separate demand-side activities from supply-side activities because each needs different approaches and skills. Organize the demand side to reflect the business organization. Its job is to give each business unit an avenue into IS, while shaping demand worldwide.
2. Make one person responsible for the supply side to create a robust and secure global infrastructure by consolidating, standardizing and taking advantage of new technology. Centralize service delivery for efficiency.
3. Have a single person responsible for global solutions development, but keep the business analysis staff close to the major customers. Allied’s three development centers are located in the three major regions, but have solid-line reporting to the *Global Solutions Delivery Director*.
4. Create special-purpose units to focus on specific needs. For example, the *Global IT Strategy and Innovation Director* is responsible for planning and introducing new technology where it can change the rules and create competitive advantage.
5. Provide an enterprisewide forum for decision making. The *Global Governance Board* determines which discretionary investments will benefit the enterprise most. It comprises the group’s chief marketing, strategy and financial officers, plus representatives of the major regions.

The IS transformation is exceeding its goals

Six transformation goals have been met or exceeded:

1. IS is properly aligned with business direction.
2. IS investments are focused where they will benefit the business the most.
3. IS is more agile because the demand-side organization can change quickly to stay in tune with the business organization without disturbing the IT infrastructure.
4. Procurement savings actually funded the transformation.
5. Common systems provide consistent views of finances, customers and the like.
6. Eighty percent of users report that service levels have improved.



2

One hallmark of success, believes Jones, is developing and exporting leadership from IS into the business. The IS procurement function has performed so well that it has been set up as a shared-services unit to handle “indirect” procurement for all the business units. IT finance is already providing support to other functions, and that support will spread.

Lessons learned during restructuring

The new positions, especially on the demand side, required business and interpersonal skills that some incumbents lacked. So some staffing changes were needed.

Managing IS units that are thousands of miles away is not easy, especially when they were previously part of a local business unit. To increase the sense of community among these remote IS units, regional managers spend 10 percent of their time at these sites and have a budget for team-building activities.

Constant communication is necessary to ensure that the revenue-generating units in the field don’t feel disenfranchised. “You can’t over-communicate with your stakeholders,” says Jones.

Process-based structures improve service levels

A process-based structure is staffed by specialists who work in integrated teams that cut across functions to deliver a result of value to customers. The team may include business as well as IS staff. The end-to-end process may be internal to IS (see figure opposite) or across the enterprise, such as financial reporting.

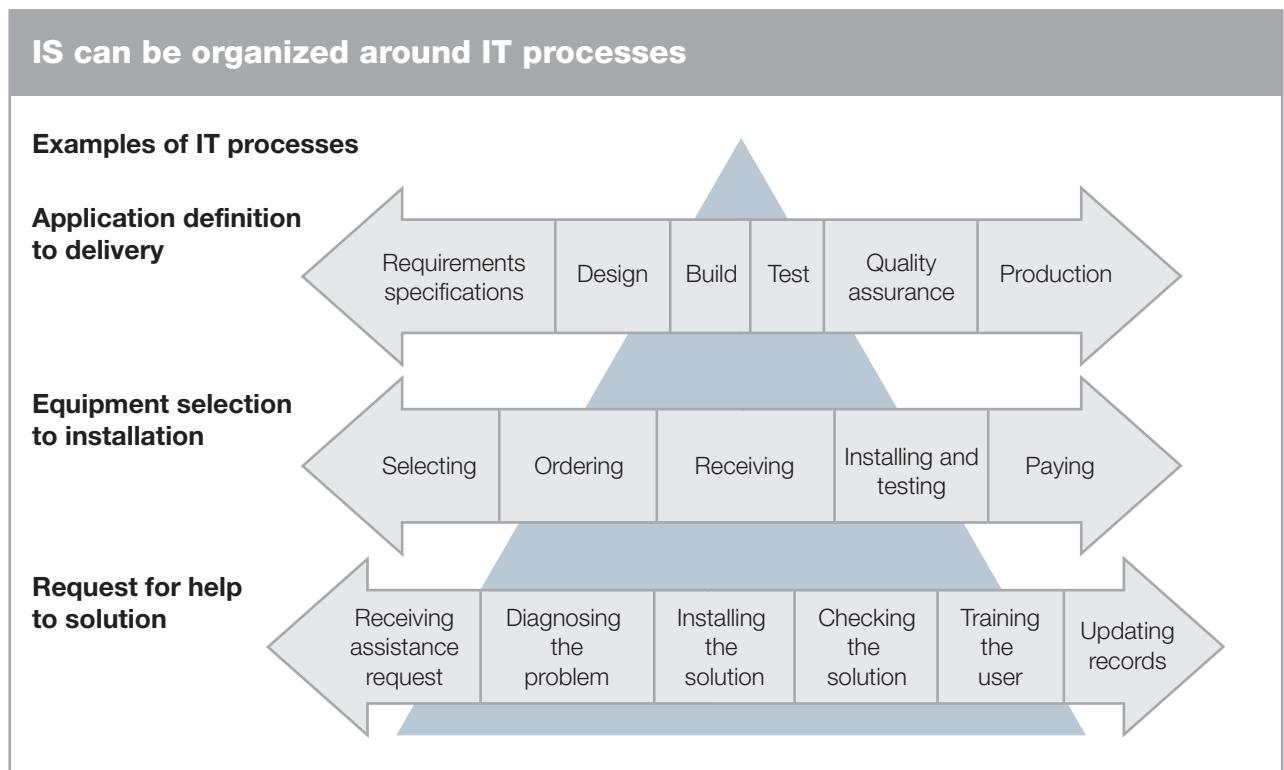
Process-based structures focus on outcomes, continuous improvement and metrics for cycle time and quality. This outcome viewpoint differs substantially from functional organizations, where specialist groups hand off work from one to another, with no one group responsible for the entire effort. Process-based structures can improve service levels and response times. The Information Technology Infrastructure Library (ITIL) is a popular source of process definitions.

IS Lite structures improve flexibility and focus

IS Lite organizations, those that have outsourced significant portions of their work, have learned that they need an in-house structure to develop and manage the outsourcing relationships (see the July 2000 Gartner EXP Club Report, *Lite and Flexible...IS for Business*). Known as the “retained organization,” it usually consists of a small number of staff who did not

transfer to the outsourcer but remain with the IS organization. Outsourcing is most appropriate for organizations wanting to focus on core competencies or wanting the flexibility to scale up or down quickly.

IS Lite emphasizes IS’s role as the suppliers’ manager. Managing suppliers requires different skills than providing the services internally. The AETAT case study illustrates an IS Lite organization that is becoming process-based.



Arbeidsdirektoratet (AETAT) outsources for flexibility and adopts IS Lite to manage ESPs

AETAT is the Norwegian government agency responsible for employment development and administration of unemployment benefits. AETAT has 4,000 employees in 250 sites. Information and Communication Technology (ICT) has a centralized staff of 80 employees in Oslo.

ICT was restructured to better manage outsourcing and IT processes

The decision to outsource was part of a broader change program throughout AETAT. ICT was restructured from a mainframe shop, with all application development and maintenance performed in-house, to a heavily outsourced, IS Lite-like organization. The three goals were to increase systems flexibility (to implement legislative changes quickly), to improve service to employers and unemployed citizens and to reduce costs.

Contract Management negotiates and manages procurement, including outsourcing agreements. *Contract Administration* is responsible for contract negotiations, purchasing and assisting the line units. *Project Management* comprises a pool of project leaders who maintain control of projects that are staffed mostly by contractors and consultants.

Operations is mostly outsourced. A new in-house function, *Service-Level Management*, ensures that ESPs meet their commitments.

User Support remains in-house, and the *Help Desk* is responsible for the incident-management process.

The *Architecture* group has a small *Systems Development* unit that does only Java development. The rest of development is outsourced. *Planning* is responsible for the change-management process.

ICT uses ITIL as the framework for re-engineering its internal processes. Change management and incident management are working well. Additional process managers are being appointed to implement configuration, problem and release management.

Challenges arose during IS restructuring

Restructuring IS faced four major challenges:

1. Regrouping and re-educating the *Operations* staff to operate in an outsourced environment where they no longer have direct control of production resources

2. Improving governance processes with the business units to clarify roles and responsibilities for new development projects and for working with third parties
3. Getting the ITIL processes to work smoothly across all four ICT units
4. Identifying staff with the required behavioral and business competencies to move the organization forward

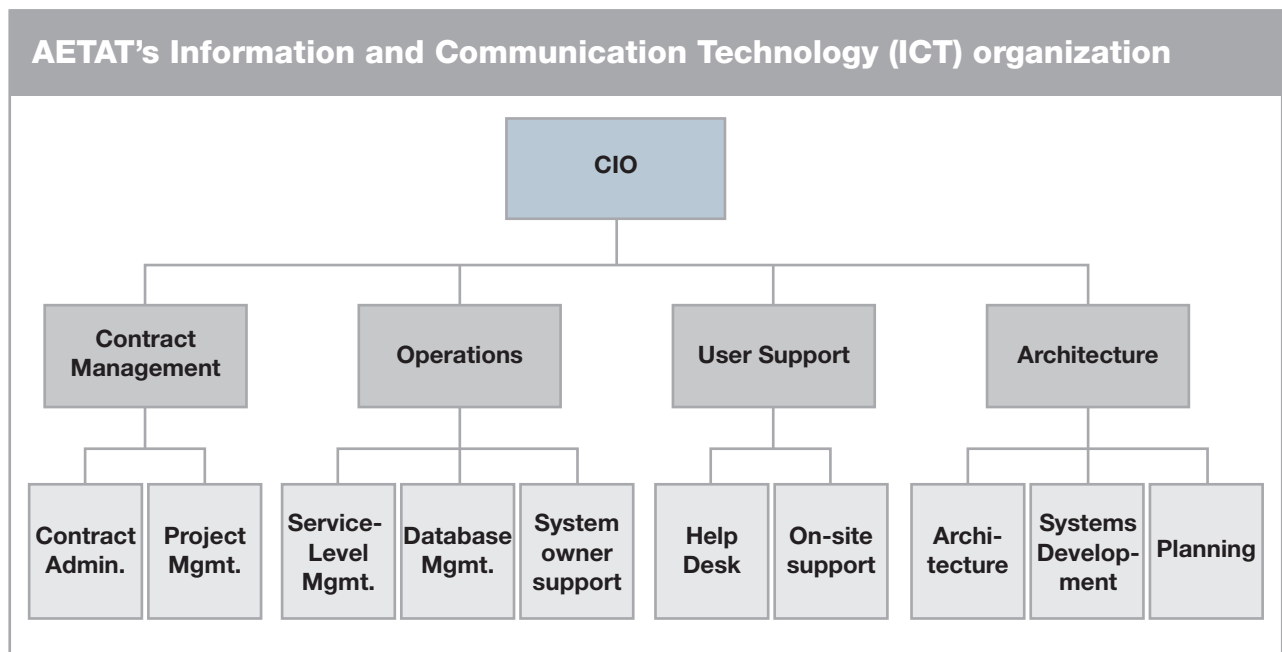
Benefits and lessons learned

“We have little hardware or code that is more than five years old,” says Trond Ingebretsen, CIO. The new applications and infrastructure, and access to external resources, allow system changes to be made quickly. Workflow has been implemented throughout, and caseworkers have better tools to do their jobs. Embedded business rules ensure that benefits eligibility is enforced consistently and that services and benefits from every office are consistent. The job-filling process and the time for clients to

receive benefits have been reduced because profiles of job applicants are now automatically matched with newly posted jobs—and alerts are sent to the clients.

“If we can fill the 350,000 to 400,000 jobs posted every year just three days sooner, the savings will more than pay for the change program,” says Ingebretsen. Employers are happy because their jobs are filled faster. Unemployed workers are happy because they start receiving benefits sooner. And system owners are happier because there is less negative press about AETAT.

Looking back, Ingebretsen believes he should have clarified the responsibilities and governance structure between ICT and the system owners sooner. “The steering committee must remind the business-unit representatives that quick-and-dirty solutions are not part of our long-term architecture,” he says. Also, ICT could have started to implement the ITIL cross-unit processes earlier.





“With the infrastructure largely standardized and the completion of core transaction systems, we needed to move toward a service-based organization.”

— *Joaquín Reyes*
CIO
CEPSA

Service-based structures provide what customers want

Service-based structures organize around what customers understand, value and are willing to pay for. Application-hosting services and project-management services are two typical examples. The offerings can be either pure IT services (like desktop support) or bundled with other services (like facilities support) to provide an integrated service (like workplace support). The services can draw from various sources: in-house, outsourcers or alliances. The focus is the result being purchased, not the source of the service.

Service-based structures are most appropriate for IS organizations wanting to operate like a business, internally or for profit. The internal service company (ISCo) model developed by Gartner Research is based in part on service-based structures and is discussed in Section 4.

CEPSA reorganizes around services to respond faster to business needs

CEPSA is one of Spain's largest energy companies, operating globally in the petroleum and petrochemical industry, including exploration, production, refining, transport, manufacturing and retailing. With over 10,000 employees and US\$16 billion in sales, CEPSA recently completed a global SAP implementation, which led to the need to reorganize IS. CEPSA's IS organization comprises 218 people and 133 contractors. It has an annual operating budget of US\$59 million.

CEPSA restructured IS from product-based to service-based

During the global SAP implementation, the IS organization was product-centered, with resources assigned to develop SAP, legacy and e-commerce systems. As the end of the global implementation neared, Joaquín Reyes, CEPSA's CIO, recognized the need for a new organizational structure. “We needed a new way of thinking, beyond ERP, which was a mind-set overtaking IS.” An indicator of the need for a mind-set change was the growing debate within IS over what was in the scope of ERP and what was not. Recognizing that the business wants services, not products, prompted the shift to a service-based structure.

CEPSA's organization model concentrates on matching business needs to IS services through four units. *Planning and Innovation* is responsible for standards, architecture, risk management and, most important, the company's five-year IS strategic plan. Implementation of the plan and its development projects are supported through *Project Execution*, which contains the project management office, project teams and account managers responsible for the relationships with the business lines. *Operations and IT Infrastructure* supports service delivery. *Procurement* is a separate unit linked to corporate procurement.

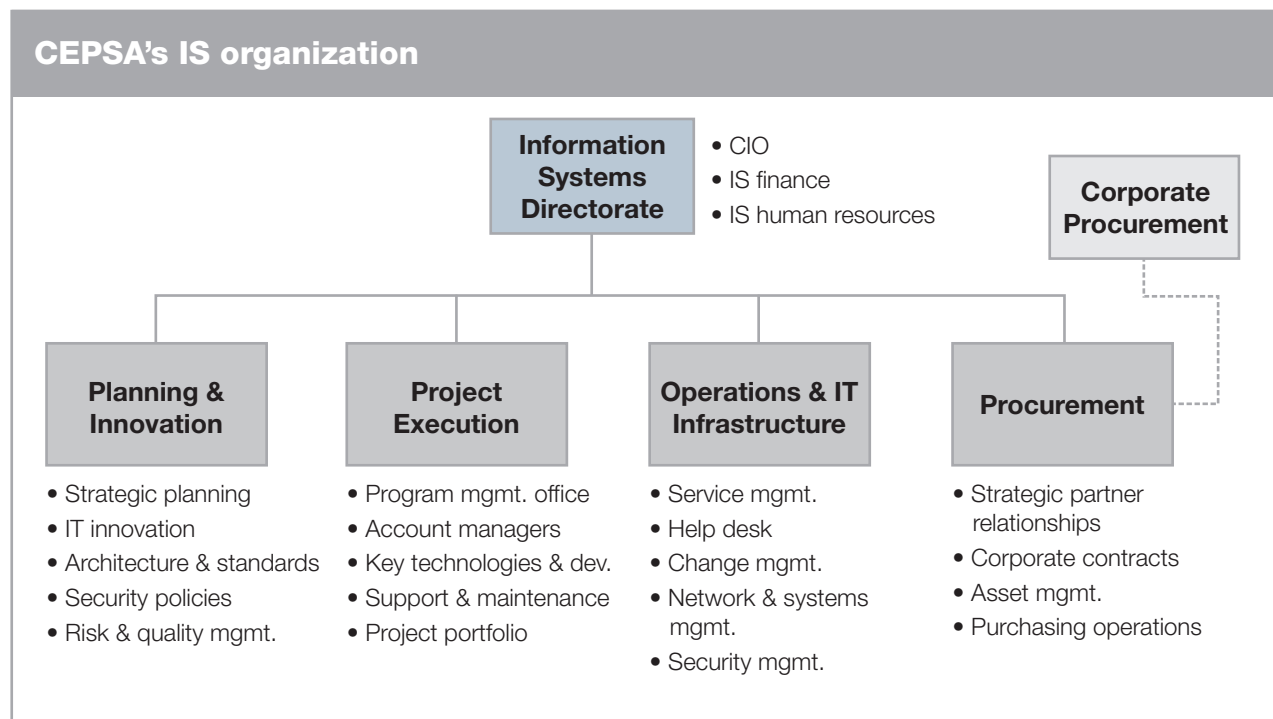
CEPSA's service-based structure is working well

The business is recognizing the flexibility gained through common systems and infrastructure. IS's move to a service orientation has increased the business's ability to innovate because service

requests are managed based on business need rather than alignment with a particular product. The IS organization has increased its responsiveness by enhancing its ability to translate business needs into services. The projects are getting smaller, as the requirements become more precise and the business gains confidence that it can accomplish more through smaller projects.

Improve vertical organization effectiveness with horizontal structures

Different enterprises are using different combinations of these six vertical structures to achieve different objectives. The next section describes the less visible, but very necessary, horizontal structures needed for IS to get its work done.



**CIOs are creating
horizontal structures
to improve
organizational
effectiveness**

Traditional vertical structures with clear lines of authority and functional accountabilities don't respond well to unstable, unpredictable, real-time business environments. Who people work *with* is more important than who they work *for*. CIOs need to create horizontal structures in their IS organizations to improve coordination, workflow and learning across the vertical structures.

“The organization chart is becoming increasingly irrelevant as a definition of job identity and accountability. Virtual matrixes are replacing it as they increase in popularity.”

— *Michael Bell*
Research vice president
Gartner Intelligence

Vertical structures are necessary but not sufficient

Vertical structures, as shown in organization charts, provide clarity and a sense of stability, which most people want in order to function within a large organization. Vertical structures also facilitate goal setting, budgeting, reporting and performance management. But vertical structures aren't flexible, and they usually don't reflect the way work is actually done in process-based and service-based organizations.

Horizontal structures rarely appear on organization charts, but they enhance effectiveness. People naturally create their own horizontal structures because they fill in the “white spaces” between the boxes on the organization chart and across organizational boundaries. CIOs are advised to design horizontal structures to support the types of behaviors they want.

Even when CIOs cannot change the vertical structure—because of political or civil service constraints—they can usually change or influence the horizontal structure, which overcomes barriers erected by the vertical structure. But that horizontal structure must be linked to employee empowerment.

Horizontal structures facilitate work across organizations

Teams and communities of practice are two horizontal structures that facilitate work across organizational units, both within IS and with business units and external partners.

Common collaboration tools include:

- Virtual team rooms
- Web conferencing and video telephony
- Shared whiteboards
- Expertise location and management systems
- Collaborative project-management systems
- Instant messaging
- Converged communication products that integrate IP telephony with instant messaging, e-mail and video

Teams are groups of people, both internal and external, brought together to work interdependently and share responsibility for outcomes. Quality assurance teams, performance improvement teams, knowledge transfer teams and product launch teams are examples, used in both the private and public sectors.

Communities, by contrast, foster learning, mentoring and personal development. They maintain esprit de corps by providing a forum for developing professional, social and other affiliations. They improve business results and add value through collaboration. For these reasons, they are among the most important structures for knowledge workers.

Technology-based tools for collaboration, knowledge management and virtual workplaces help teams and communities form and operate virtually in any place and at any time (see box opposite).

Staffing horizontal structures requires flexible resource management

Horizontal structures link staff from different organizations, some from outside IS or the enterprise, such as consultants, contractors and business partners. The goal of resource management is to identify, develop and assign the right people at the right time.

Resource management matches human resources to demand. It keeps track of where expertise is located and when it is available. It also plays a key role in developing the internal

workforce through rotational assignments, mentoring and other techniques. In some cases, competency centers are used as resource pools to staff projects.

Resource management integrates internal and external resources, allowing IS to scale up and down quickly, without painful layoffs and long recruiting efforts, as described in the following case study.

Allmerica Financial is improving agility by combining flexible resource management with multisourcing

Allmerica Financial, headquartered in Worcester, Massachusetts, U.S.A., provides risk management and asset accumulation products. Total revenues are US\$3.2 billion, the IS budget is approximately US\$110 million, and the internal IS staff has 420 full-time employees.

Allmerica IS organized for flexibility and responsiveness

The current centralized IT organizational structure was implemented four years ago in conjunction with a strategy to make IT more flexible and responsive. The model, "IT as a consulting organization," is able to respond quickly to customer and business needs.

"We run like a consulting company with service-level agreements. There is never any confusion about what to deliver because IS is 100 percent customer-driven," says Greg Tranter, senior vice president and CIO.

“We look across the whole organization to move capacity in support of business units. Variable sourcing arrangements make this possible. There is no other way to do it. A totally insourced variable model is too risky and difficult to manage.”

— *Greg Tranter*
Senior vice president
CIO
Allmerica Financial

The four basic IS organizational units are:

Enterprise IT (11 percent of IS budget, all insourced)—responsible for managing such enterprisewide IS assets as enterprise architecture and IT tools and techniques. The program management office, help desk and metrics are part of *Enterprise Excellence*, providing services across projects.

Service Delivery (60 percent of IS budget, 85 percent of application support outsourced, nearly 100 percent of utility insourced)—responsible for baseline day-to-day business operations, which include the utility functions, infrastructure, mainframe and telecom, and the application support group responsible for maintenance, break/fix and other application support activities.

Project Delivery (28 percent of IS budget, half insourced and half outsourced)—responsible for developing and integrating new applications, as well as the business units’ discretionary spending. Allmerica staff form the core of *Project Delivery*, and outsourcers augment the staff. Tranter can vary the size of the development organization in response to business changes without hiring and laying off staff, giving him great flexibility.

Leadership Support—provides the CIO finance, human resources and other IT leadership skills.

Service-level agreements are an important governance mechanism

Service-level agreements are set up much like those for a consulting arrangement, with statements of work and data that set expectations, productivity metrics and unit costs (billing rates) for resource types, time tracking and reporting. The goal is to be able to tell the business where every technology dollar is being spent.

The *Project Delivery* teams negotiate with the business to get their projects and budgets, and they direct-charge everything. “We run like a for-profit business with a profit target of zero,” says Tranter.

Allmerica's results have been very positive

Allmerica's IS workforce is engaged. They like the consulting model because it moves them from baseline work, like supporting the operational systems, to working on new initiatives, which gives them skills in working with innovative technologies.

Multisourcing enables Allmerica's IS workforce to get to the core value proposition: delivering new technology to meet Allmerica's needs. Multisourcing saved Allmerica US\$25 million in the 13 months it took to implement the changes.

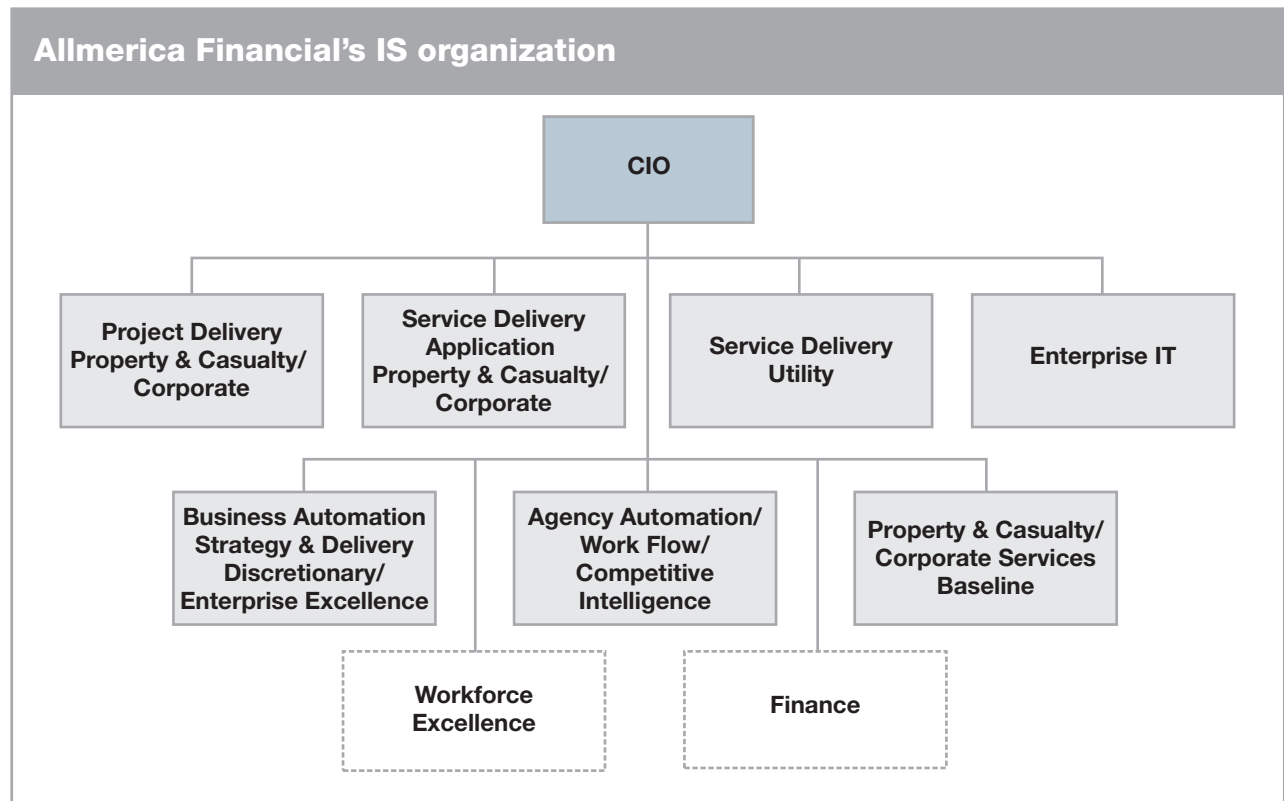
Lessons learned and future challenges

Moving to a flexible or variable model is impossible without an outsourced environment. Core staff meet demand needs internally, and outsourcers augment the staff during peak workloads.

"We look across the whole organization to move capacity in support of business units. Variable sourcing arrangements make this possible. There is no other way to do it. A totally insourced variable model is too risky and difficult to manage," says Tranter.

Also important is investing in new skills and resources selectively and intelligently. It's easy to have the outsourcer or service provider bring in deep skills in new technologies, like wireless. But these new skills are the ones your internal staff should have.

The future challenge will be to separate project delivery by business unit. Currently, IT staff move from project to project across business units. This leverages technical skills but not business skills. The goal is to build better business skills through business-unit specialization.



“Matrix management must be mastered if an enterprise hopes to evolve into a highly adaptive, agile, customer-centric and real-time organization.”

— *Michael Bell*
Research vice president
Gartner Intelligence

Matrix structures help manage conflicting needs

Matrix structures combine horizontal and vertical structures. They provide dual reporting relationships to create additional accountabilities and coordination roles. Dual reporting ensures that staff focus simultaneously on balancing two organizational needs. Conflicting needs might be local vs. global, or business-unit customization vs. enterprise standardization. Matrix structures are sometimes shown on organization charts using dotted lines to indicate the secondary reporting relationships.

Matrix structures are commonly used for such roles as:

- Relationship managers, responsible to the CIO and to a business-unit head
- Process teams, which report to their functional heads and a process owner
- Project managers, responsible to a project sponsor and to the program management office
- Service teams, which report to a service delivery manager and their functional heads

Matrix structures have definite advantages. They force a multidimensional view of issues. They create a mechanism for balancing conflicting views and negotiating solutions without always resorting to escalation. And they make more effective use of specialized technical resources.

But they also have disadvantages. They introduce complexity and conflict. They reduce organizational clarity. And they can lead to decision paralysis when it's not clear who can decide what. CIOs need to exercise care when selecting people to put in a matrix structure and must realize that this structure needs significant oversight. To operate effectively, matrix structures require well-designed governance to set policy and prioritize resource allocation. The MetLife case study illustrates the use of matrix and other horizontal structures.

MetLife achieves synergy using a matrix structure and five horizontal models

MetLife is a leading provider of insurance and other financial services to a broad spectrum of individual and institutional customers. MetLife companies serve individuals in approximately 13 million U.S. households and provide benefits to 37 million employees and family members.

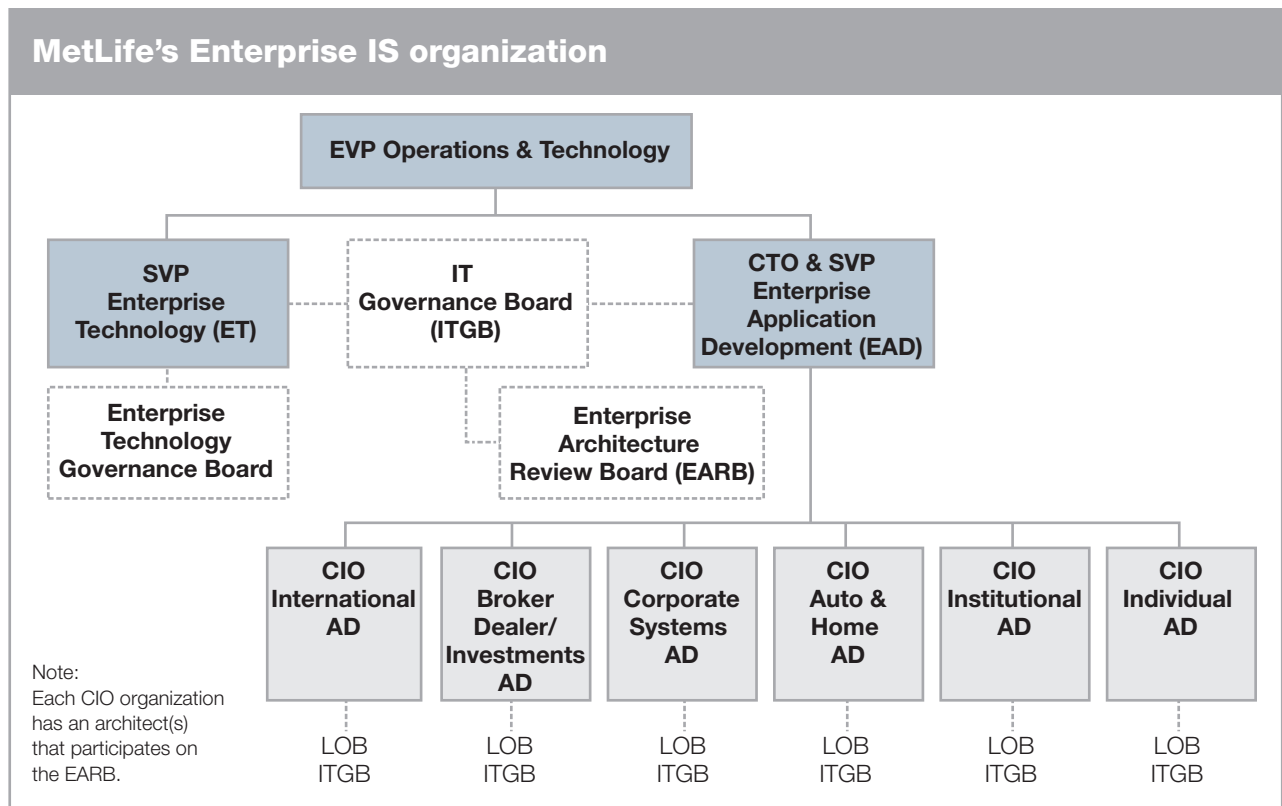
Outside the U.S., the MetLife companies serve approximately 8 million customers through direct insurance operations in Argentina, Brazil, Chile, China, Hong Kong, India, Indonesia, Mexico, South Korea, Taiwan and Uruguay. Some 50,000 employees generate annual revenues of US\$36 billion. The application development staff totals 3,500, including contractors and offshore resources.

MetLife’s IS organization mirrors the business organization

Five years ago IS was recentralized, both to provide a reliable, lower-cost, scalable technology infrastructure and to focus development activities to achieve maximum return on investment.

In January 2004, *Enterprise Application Development (EAD)* was formed under the executive vice president (EVP) of operations and technology. *EAD* manages the activities of six customer-facing application development (AD) units that previously reported directly to the EVP. The six CIOs who lead these AD units report on a solid-line basis to Steve Sheinheit, CTO and senior vice president.

They also have a strong dotted-line reporting relationship to the line-of-business (LOB) heads they support. As Sheinheit explains, “The business decides ‘what’ we do; collectively, AD decides ‘how’ we do it. The LOB heads direct the discretionary AD spending; the AD organizations manage the health and performance of the application portfolio.”



“This dual reporting relationship in application development provides the best of both worlds. We are driven by the business, but we have an enterprise view.”

— *Steve Sheinheit*
CTO
Senior vice president
MetLife

Metrics, synergies and architecture are priorities

Metrics. To support continuous improvement in cost, quality and value, Sheinheit is using a “balanced scorecard” management approach, which encompasses people, projects, financials and quality. Metrics are being developed to help set performance goals to reduce the cost and percentage of lower-value work, enhance quality by minimizing rework and problem-resolution time, improve project management and so on.

Synergies. Focusing on synergies across IS will help leverage the full power of the AD organizations. Those synergies will come from sharing best practices, reusing components and building utilities to enable quicker and more integrated solutions.

Five organizational models are being used to develop synergies:

1. Permanent competency centers to assist other units
2. Temporary task forces
3. Cross-organizational teams to establish and implement best practices
4. Knowledge-sharing forums (informal communities with common interests)
5. Cross-organization projects with a central point for project responsibility

Architecture. Sheinheit is focusing on designing solutions that present the image of “One MetLife” by using a consistent set of interfaces and processes that support customers, agents, providers and employees. The concept of “One MetLife” encompasses business and information architectures, as well as the technical and application architectures. Customers view MetLife services seamlessly across businesses, products and channels.

Three levels of governance make decisions collaboratively

Each LOB has its own *IT Governance Board (ITGB)*, which meets monthly and focuses on its LOB's project priorities, funding and return on investment. On each board are the LOB CIO and the heads of the major LOB units.

Each AD unit and Enterprise Technology (ET, the organization supporting the infrastructure) has an architecture staff. The senior architects meet weekly to resolve architecture issues as part of the *Enterprise Architecture Review Board*, another type of IT governance. As Web services become more prevalent, CIOs see a growing need for a consistent architecture.

These boards report to the *ITGB*, which makes the enterprise-level IT decisions. It comprises the LOB CIOs and the AD and ET senior vice presidents.

Positive results are already evident

Baseline metrics are helping run *EAD* more efficiently. Duplicate efforts are being eliminated and reuse increased. *EAD* focuses more on what's important to the business.

Cross-organization projects—such as single sign-on and a single customer information file—foster synergy and collaborative work.

The common architecture is easing interconnections among systems so that products can be leveraged across multiple channels and geographies.

How do I get there?

With so many organizational options available to CIOs, many are looking for a road map to guide the evolution of their organization. One such road map is described in the last section.

The internal service company model provides a road map for organizational evolution

The Gartner internal service company model (ISCo) links IS structures and management disciplines, like product management and chargeback, to prove and improve the value IT delivers to the business. The ISCo maturity model provides a road map for reshaping the IS organization, so that it focuses better on customers, improves service delivery and operates like a business.

“We run like a for-profit business with a profit target of zero.”

— *Greg Tranter*
Senior vice president
CIO
Allmerica Financial

The ISCo model incorporates many of the basic structures

The ISCo model depends on many of the same structures previously described: customer-centric relationship management structures to focus on customers; service-based and process-based structures to improve service delivery while driving down unit costs; IS Lite structures to manage outsourced resources; and matrix structures to deliver services through a process-based organization.

ISCo management disciplines include defining, developing and managing products based on customer needs; marketing IS competencies; charging for services; and focusing on quality and performance management (see top figure opposite).

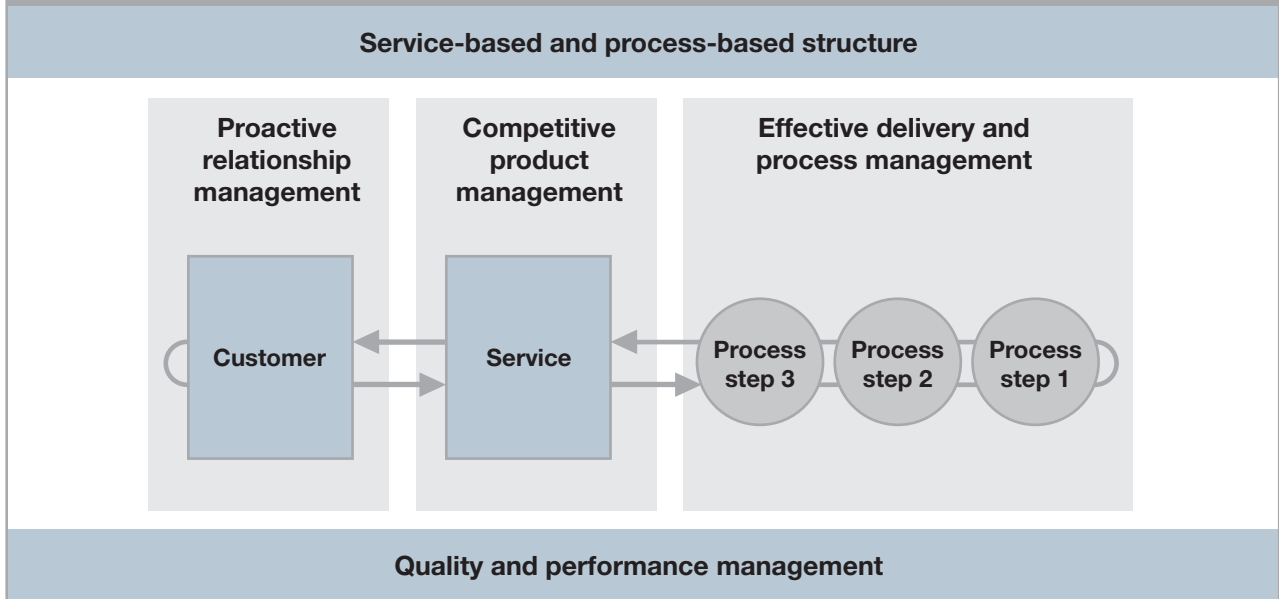
ISCo aims to improve the value IS delivers to the business by adopting the best practices of ESPs. These include understanding the needs of its customers, designing services to satisfy those needs, teaming with others for services it can't provide, marketing its services at a competitive price and measuring and communicating its performance.

The ISCo maturity model provides a logical restructuring path

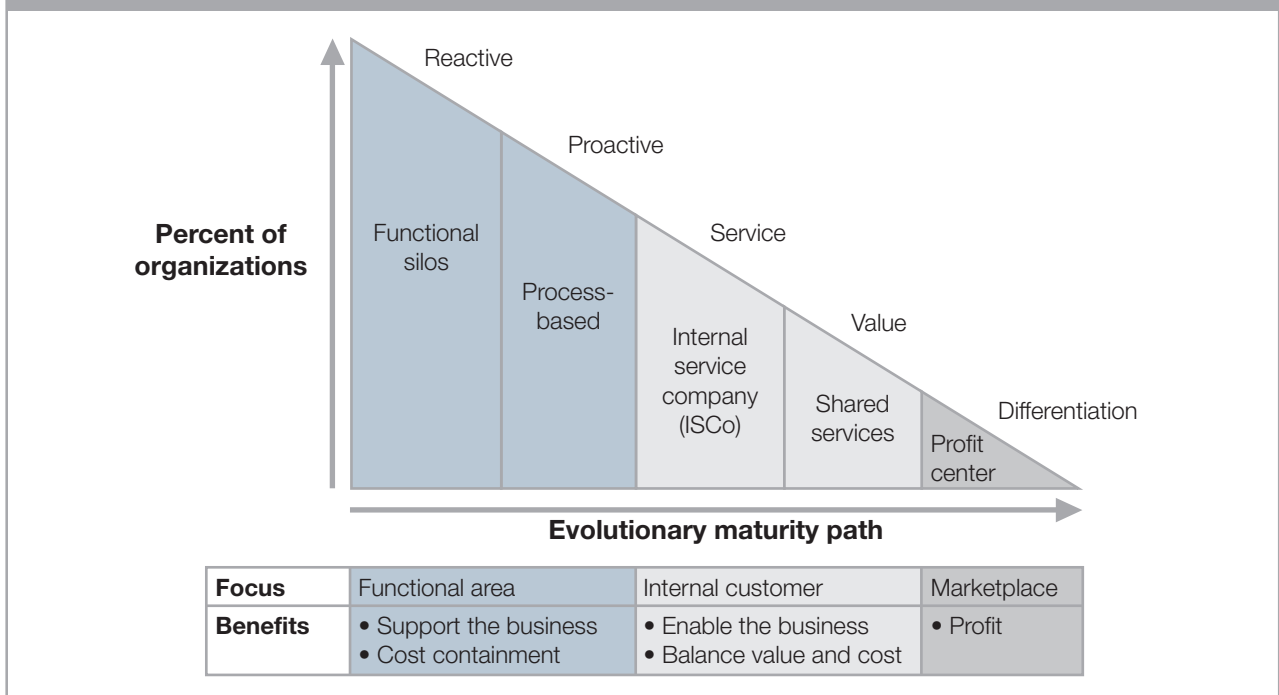
The ISCo maturity model sets out a five-stage evolutionary path (see bottom figure opposite):

- Stage 1: Functional silos. Operating as cost centers, silos are the typical starting point on the evolutionary path.
- Stage 2: Process-based. IS moves from functional silos to processes that cut across the silos to improve service. As noted earlier, one approach is to adopt the Information Technology Infrastructure Library (ITIL) process framework.
- Stage 3: ISCo. The processes formed in Stage 2 form the underpinnings for this service-based model. Services are defined in terms customers can understand and value, and are willing to pay for. Strategic sourcing is used to fill gaps in IS capabilities. In short, IS runs like a business.
- Stage 4: Shared services. The ISCo model is extended through development of common services that provide value to many organizational units.
- Stage 5: Profit center. ISCo generates profits from servicing both internal and external customers.

The ISCo model links service-based and process-based structures



Evolutionary stages of ISCo maturity provide a road map



Although a five-stage path is laid out, not all enterprises need to evolve through all the stages. For many, becoming a profit center is not the goal. Getting to the ISCo or shared-services stage meets their needs. The goal is running IS like a business, not necessarily making a profit.

Shared-services structures are a stage along the ISCo path

Shared-services structures combine similar services formerly performed in multiple, dispersed and largely autonomous units. Shared services achieve economies of scale (by negotiating from a larger base), economies of scope (by providing services units could not afford on their own) and streamlined, simplified, common processes.

The largest cost savings come from aggregating routine high-volume transactions, such as those in accounting, finance and human resources. But for shared services to succeed, the enterprise must have an effective service delivery culture and a strong governance structure that can resolve the inevitable tensions that arise between the shared-services provider and its customers. Pioneer Electronics (USA) provides an example.

Pioneer Electronics (USA) recentralizes IT as a shared-services unit

Pioneer Electronics (USA), a leader in audio, video and computer products for the home, car and business, has approximately 600 employees in the United States. Its Strategic Services Division provides shared services—such as accounting, human resources, facilities management and IT—to 17 Pioneer companies. IT has about 50 employees in its Long Beach, California, headquarters.

IT consolidates to improve service and reduce costs

Until four years ago, each business unit had its own information technology resources. IT is now organized to support the 17 business units in North and South America. This new structure allows the business units to focus on selling and servicing Pioneer products. It is also intended to improve IT services to the units and reduce overall IT costs by leveraging best practices, investments and assets across units. About 70 percent of the IT work has been consolidated.

IT Services supports the business units with a single help desk and manages relationships to ensure customer satisfaction. Work is outsourced selectively where advantageous. *IT Infrastructure and Operations* has outsourced its network. *Supply Chain Management Systems* and *Corporate Systems* use contractors for much of their work, but control project management.

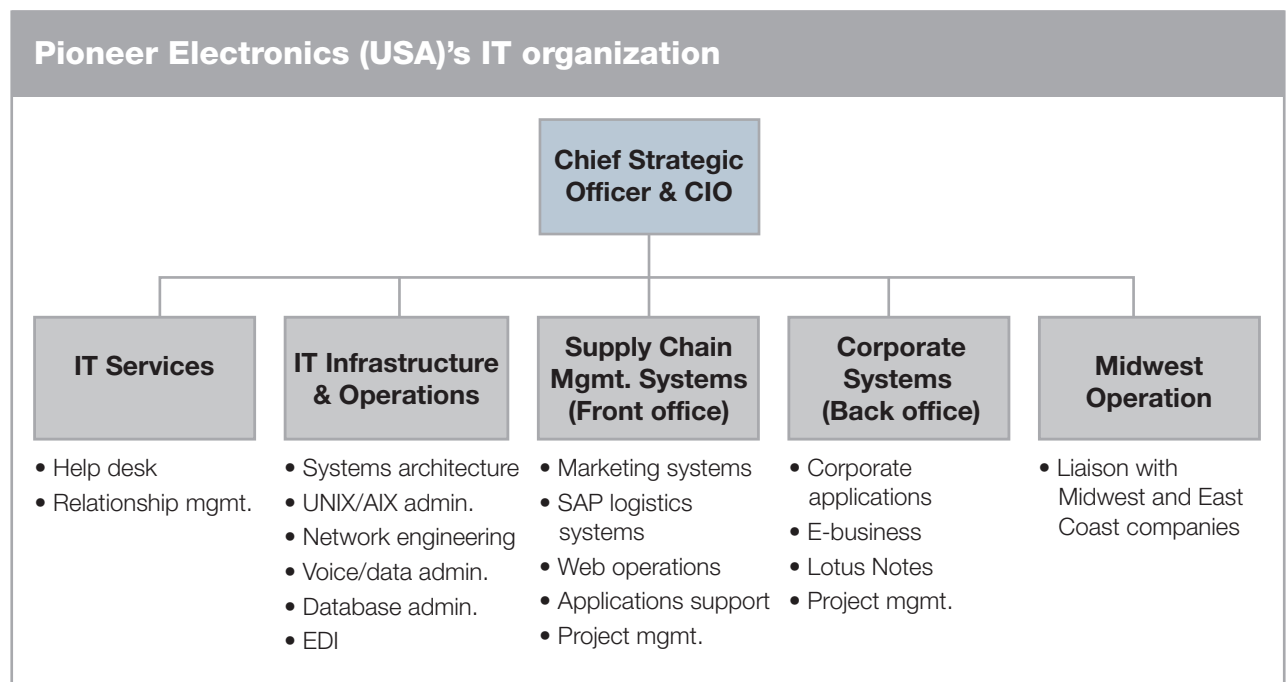
Governance is a key success factor for shared services

“Business units naturally felt a loss of direct control over IT expenditures and priorities when we started to consolidate,” says Yoshi Aoyama, chief strategic officer and CIO. “We’ve countered this with governance mechanisms that give them visibility into our costs and plans, and a voice in setting our priorities. We formed an IT steering committee that meets every other month to agree on project priorities.”

A two-step process allows the steering committee to fund only the planning phase of a project, to determine its scope and develop its business case. Then the committee decides whether to fund implementation. Service-level agreements, budget reviews and chargeback give customers the visibility to understand what they are buying and the costs.

The shared-services environment requires different staff skills

The shared-services environment requires IT staff to be more proactive. When IT was part of the business unit, it could be passive and respond to business-unit requirements. But to propose initiatives with the greatest benefit for all, a shared-services unit has to understand the business needs of multiple businesses and their current capacity to invest. The shared-services staff must also be good communicators, to sell their services by demonstrating their value to each business.



“Transformation to a profit center environment is motivating strong financial discipline in planning, chargeback and benchmarking, and in re-engineering internal management processes.”

— *Bob Parker*
 Director
 Headquarters operations
 Panasonic Management
 Information Technology

Each business unit has a different profile. Some understand the strategic value of IT, are growing and are willing to invest. Others are not as willing to invest. Proposing initiatives they all can live with takes good business and communication skills.

Lessons learned and future plans

Aoyama believes shared services is the right approach for Pioneer at this time. But in hindsight, he thinks he should have pushed for faster implementation and focused earlier on the marketing and communication skills of his staff.

The top priority is to complete the consolidation of the remaining 30 percent of the work. “We plan to expand the role of *IT Services* into quality assurance and metrics to determine how well we are meeting our customers’ needs,” says Aoyama. Two other functions, *Sales Order Administration* and *Logistics*, will become shared services this year, and Aoyama is helping coordinate that transition.

Becoming a profit center is a difficult transition

Evolving into a profit center takes time and requires a long-term commitment to cultural change. Moving from a traditional IS functional organization to a for-profit ISCo is a multiyear process. Making the final transition from a shared-services organization to a profit center is difficult and lengthy, as the following case study illustrates; it describes a shared-services organization in the process of becoming a profit center, but not there yet.

Panasonic Management Information Technology is making shared services a profit center

Panasonic is Japan-based Matsushita Electric Industrial’s global brand for both consumer and commercial electronics. Its principal U.S. subsidiary, Matsushita Electric Corporation of America (MECA), has its own IS unit: Panasonic Management Information Technology (PMIT), headquartered in New Jersey. PMIT’s 300 employees provide information services to all Panasonic sales, service and logistics units in North America. PMIT is chartered to generate profit from external business.

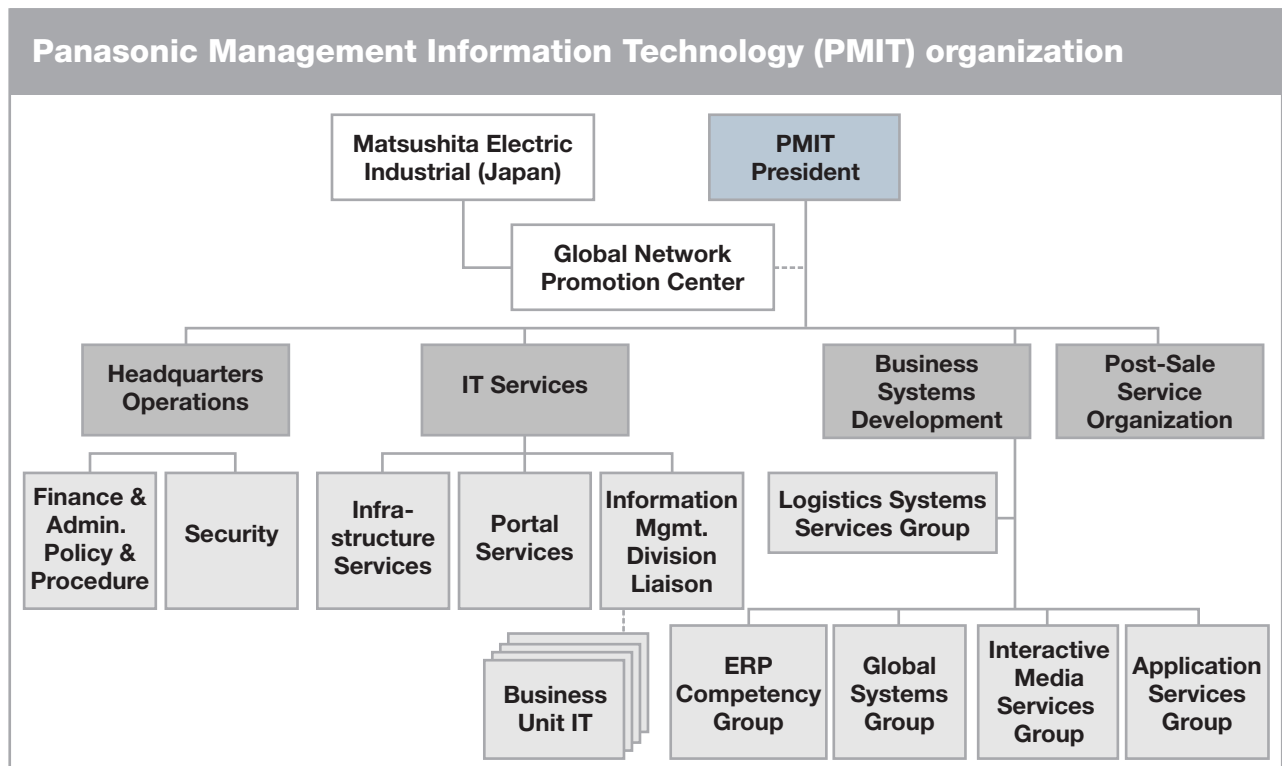
Consolidation led to a for-profit IT organization

MECA consolidated certain support functions into shared-services units to reduce duplication and drive down costs. All report to MECA's CFO. But many MECA units still maintain certain IT functions, such as plant sites maintaining their own manufacturing systems.

PMIT was formed from MECA headquarters' IS organization when it expanded to provide IT shared services, drive down overall costs and improve efficiency. The shared services are mainly for infrastructure, such as break/fix, help desk and SAP support. PMIT also established an *ERP Competency Group* to service all MECA units.

Three years ago, PMIT started transforming from a cost center into a profit center and developing external customers besides supporting internal ones.

A recent cost benchmark against peers and outsourcers established and validated PMIT's competitive pricing. PMIT has implemented formal processes to ensure a high level of service delivery in such areas as change management and problem/incident management. Service-level expectations are being set, but service-level agreements are not yet in place. To help communicate its value, PMIT recently developed a balanced scorecard to report on 22 objectives.



A marketing department, once developed, will focus on identifying and communicating with high-potential customers. Until recently, sales efforts have been handled by *Portal Services* in *IT Services*. This group develops software that can be sold with MECA hardware products. PMIT's outsourcers use PMIT as a hosting site and recommend PMIT to their customers, in effect acting as sales agents. The need for relationship managers is under discussion, but the role has not yet been formally implemented.

A high-level IT governance body identifies opportunities

MECA formed the Strategic IT Planning Group to better understand the IT needs of the (approximately) 35 Matsushita companies operating in the Americas and to identify opportunities for synergy, shared resources and savings. Members include IS representatives from the companies and PMIT's director of headquarters operations. Chaired by PMIT's president, the group reports to MECA's CFO.

More work is required to achieve profitability

The *ERP Competency Group* has been well received and provides a higher level of expertise to internal customers at lower cost. External revenues are defraying some of MECA's IT costs. Still, PMIT needs to be more aggressive in marketing, relationship management and service-level agreements before external customers will significantly affect PMIT's financial performance.

The final stage in the ISCo maturity model is IS as a profit center. AIG Technologies, described in the following case study, is one of the few companies that has successfully reached this stage.

AIG Technologies operates as a profit center

AIG Technologies (AIGT) is a member company of American International Group (AIG), the world's leading international insurance and financial services organization with operations in more than 130 countries. Headquartered in New Jersey, U.S.A., AIGT sells managed IT infrastructure services to both internal and external customers.

Being a for-profit subsidiary benefits both internal and external clients

In 1995, AIGT began working with non-AIG clients to provide the same infrastructure services it offers internal clients. There were four reasons for converting the in-house function to a for-profit business:

- To ensure competitiveness by validating costs and service levels with the IT services marketplace
- To keep skills sharp by working on large migrations and projects for external clients, and to keep skills broad by supporting a wide range of computing platforms
- To develop a customer-centric focus by competing for business in the open market
- To lower the cost of services to internal clients

AIG clients receive the benefits of more competitive costs and service levels—and access to sharper, broader staff expertise. External clients leverage world-class data centers and experienced IT resources. And AIGT has a greater capacity to hire the best talent and invest more in its people.

4

“Whether you only service internal clients or have a mix of internal and external clients like AIGT, you need the same structures and processes for client engagement, product definition and consistent service delivery.”

— Paul Madarasz
President
AIG Technologies

AIGT’s organizational structure is similar to the Gartner ISCo model

Some 18 months ago, AIG merged its data center operations and external outsourcing business to form AIGT. The result is the organization shown in the figure opposite.

Professional Services houses program managers who execute and track the hundreds of projects in progress and plan and assist in migrating client workloads to AIGT.

Client Services includes all customer-facing functions. Account executives, the single points of contact for both internal and external customers, are responsible for managing client expectations and satisfaction. Service delivery managers develop service-level agreements, measure AIGT’s performance, report performance to clients and follow up to ensure client satisfaction. Putting this function in *Client Services* rather than *Global Operations* eliminates the potential for operations staff to become distracted by customers’ requests.

Outsourcing Business Development generates new and add-on business from external customers.

Product Management, a key function for AIGT (and the ISCo model), evaluates market needs, defines new products to meet those needs, manages their development and handles marketing for new and existing products.

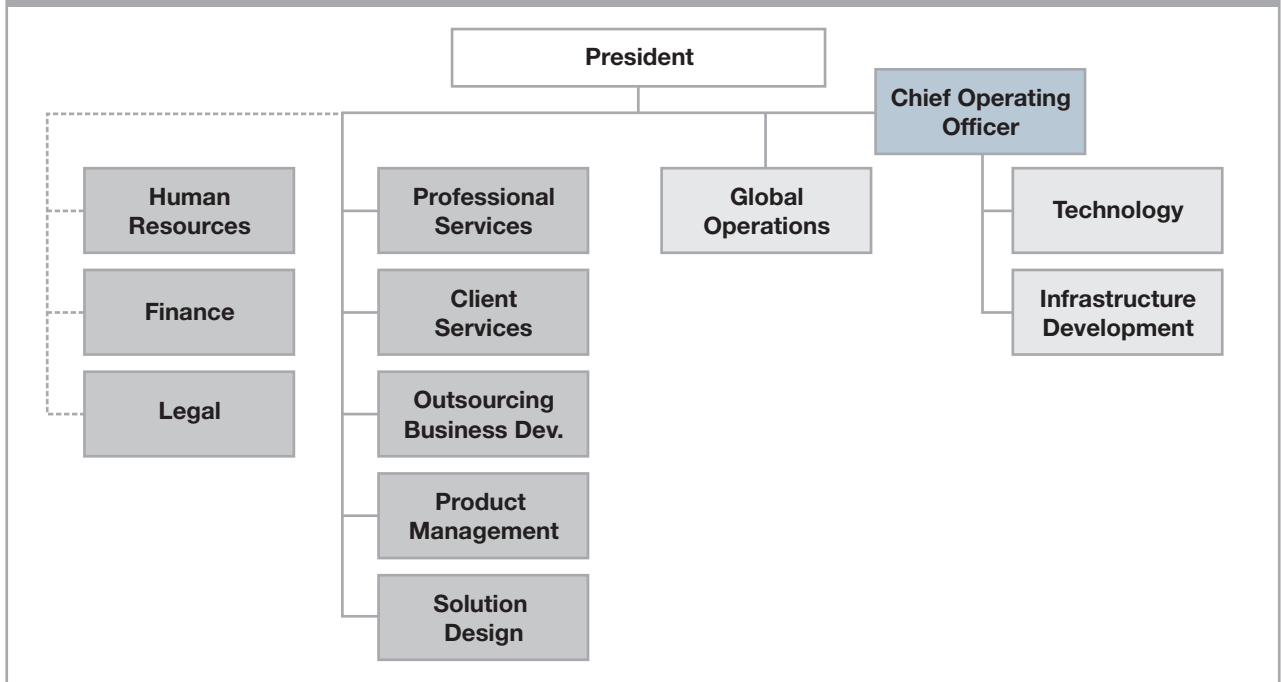
Solution Design assists internal and external clients in determining their needs and proposes AIGT solutions, including pricing.

AIGT also has its own *Human Resources*, *Finance* and *Legal* departments and operates like an independent business.

Global Operations manages the primary and backup data centers and network. Its integrated support process is a single closed-loop service-management system. Tools to track service incidents and perform root-cause analysis support the company’s continuous improvement approach.

Reporting to the chief operating officer, *Infrastructure Development* handles planning, focusing on process optimization, organizational efficiency and capacity for growth. Along the same lines, *Technology* helps to shape the company’s technology focus and direction.

AIG Technologies (AIGT) organization



CIOs must become IS organizational architects

Developing and running systems, and providing technology expertise, may no longer add much business value if these capabilities can be purchased outside at lower cost and higher quality. IS's main sources of added value increasingly come from brokering solutions and managing relationships and alliances, providing IS and business transformation consulting expertise and supplying mechanisms for sharing and leveraging intellectual capital throughout the enterprise.

IS is center stage in a business world characterized by global competition and the need for sense-and-respond flexibility. This is clearly the time for CIOs to ensure that their organizational structures are in tune with the times.

CIOs must become IS organizational architects, able to envision and create the appropriate vertical reporting structures and horizontal coordination structures to operate efficiently and effectively.

We thank the CIOs and other senior executives of these IS organizations who shared their experiences with us so that other Gartner EXP members might learn from them and shape their IS organizations to better meet business needs.

Further reading

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(A broad selection of practical tools, templates, instruments, options and how-to tips, this book is a hands-on guide for executives and managers at all levels.)

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(Suggests different approaches to organizational structure from an IT perspective. Covers such topics as outsourcing, resource management and fitting the IS organization within the parent business organization or enterprise.)

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(Analyzes the changing nature of work and how organizations will have to transform from the "command and control" model to a more flexible "coordinate and cultivate" model.)

Nadler, D. and Tushman, M., *Competing by Design: The Power of Organizational Architecture*, New York, N.Y. and Oxford, U.K.: Oxford University Press, 1997

(Provides a blueprint for designing an effective, flexible, competitive organization using an integrated process that includes structure, work processes, human resource capabilities and culture.)

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