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EXECUTIVE SUMMARY

- What is the best IT/Business Relationship Model?
- Discussion of Pros and Cons of:
 - Ad Hoc Approach,
 - Steering Committee Model
 - Profit Centre Method

GLOSSARY

- **CMM** - Capability Maturity Model is a model for judging the maturity of the software processes of an organization and for identifying the key practices that are required to increase the maturity of these processes.
- **OPM3** - Organizational Project Management Maturity Model is a model for assessing the organizational project management maturity
- **Business or Operations** – “non-IT” departments of the company.
- **Business Case** - document providing a description of the desired technology solution and the anticipated costs and benefits.
- **ROI** - Return On Investment.
- **NPV** – Net Present Value
- **IRR** – Internal Rate of Return

IT/Business Relationship: Choosing The Model That Fits Your Company

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PROLOGUE

I once worked for a very large company that had implemented a drastic reorganization of its IT department. Previously the company had close to a dozen locations across North America and Europe. Each branch had a small IT department of its own. There was a group of maybe nine or ten IT people in the head office but their responsibilities were mainly limited to system and network administration.

However, the advent of Customer Relationship Management methodology, the resulting need in a datamart and relevant CRM applications mandated the executives to consider uniting all IT resources and applications under one roof. Our CIO came up with a very daring solution to this problem. He increased the size of the central IT department from ten to close to a hundred people in the course of six months and split the team into two groups: Software Development and Infrastructure. He also decided that it was time for the IT Department to shift from the old “Cost-Centre” to the fashionable and progressive “Profit-Centre” model. What it meant, among other things, is that we were starting to charge Business approximately \$500 per man-day of our work.

It all looked great on paper: we would get business cards with new logos and justify our existence by generating some profit or, at least, by breaking even. However, there was one small problem that, unfortunately, nobody noticed: the Technology Centre (as it was known from that point on) had no project management methodology in place. The most common approach to project initiation was, “Hey, we have just been given \$3 million for a new finance system, let’s start coding!” Needless to say, all large flagship projects, most of them sponsored by the VIPs from the head office, failed miserably... Basically the only mechanism that actually performed really well was the time-tracking system we used to bill Business for the “services rendered”.

And guess what happened shortly afterwards? Business started questioning the feasibility of the model where IT people got paid a lot of money and failed to deliver any products or services. More and more people started voicing concerns like, “Why should we pay you and not get our products, when we can outsource these projects to third-party vendors or create “mini-IT departments” of our own?”

To make a long story short, eventually company executives decided that they had enough with the experiment and “took appropriate actions to remedy the situation”. Translated from “CEO-speak” it meant that all senior managers on the IT side (starting from CIO) and all members of Software Development team were laid-off and the Technology Centre returned to its original size of about 10-15 people.

This story serves as somewhat of an extreme example of how thing can go wrong if the company chooses the wrong Business/IT relationship model. However, I have heard of many other companies that struggled considerably with establishing proper framework for a relationship between their Technology and Operations departments.

AD HOC RELATIONSHIP

Selection Process: Little or none

Chargeback to Business: None

IT Department Status: Cost Centre

OPM3 Maturity Level: Low

Advantages:

- Projects requests are quickly processed
- Low probability of project request rejection

Disadvantages:

- No project prioritization process
- Projects with low/negative ROIs can be selected
- Leads to either conflict or IT department inflation
- No cost control



RELATIONSHIP MODELS

Ad Hoc Relationship

Overview

This model is still dominant in small, medium and some large business environments. These companies do not usually have a strong need for an IT component in their business model. They usually maintain an IT staff of several people who perform mainly system and network administration duties. There also can be one or two Internet developers who are responsible for maintaining company's website. Any potential and infrequent application development projects are tackled either through outsourcing or by buying off-the-shelf software. Examples of such businesses can include accounting, marketing, and law firms; auto repair shops and small and medium-size manufacturing companies.

The "project" (although the phrase "User Request" is more appropriate here) is usually initiated by senior manager of some kind walking up to an IT guy and asking him to add a couple of new pages to the company website. There is no project selection process; the number of projects is usually so small proportionate to the number of IT people that the department operates on the "first-come, first-serve" basis. As a rule, the expenses associated with the IT department are considered to be administrative costs.

Needless to say such companies are usually located very low on either CMM or OPM3 hierarchies. Project management and business analysis methodologies are almost non-existent, proper documentation is not maintained and project planning is usually unheard of.

Advantages

The advantages of this model can be somewhat obscure especially for the experienced and process-oriented IT professionals. But since the projects are small and relatively unsophisticated, these companies can get away with "hey, we have a budget for a new website, let's get right to it" approach. Furthermore, there are no waiting lists for people and departments willing to implement their projects. Once the endeavour is approved by the President or General Manager, the work sometimes starts the same day.

Disadvantages

Now, to the obvious drawbacks. Since there is no formal project prioritization/selection process, Project A with a low/negative ROI can be selected over Project B with a positive ROI just because Project A was started a couple of weeks earlier. And since ROI is not estimated in the first place, the impact of such decision is usually not known until it is too late.

Another problem arises when the company, sometimes unknowingly, takes on a large and complicated project that can turn south very quickly. Remember, these guys are not very keen on project management methodology in the first place, so they can easily underestimate the scope of the impending project!

Company growth is undoubtedly a good thing. However, when the economy booms, there is additional pressure on the various teams to come up with new revenue-generating projects. Very frequently these projects have a technology component that has to be delivered by an IT department. Thus a team that used to get one or two small projects a quarter is suddenly required to take on four or five projects a month. There are three possible solutions for this predicament:

1. Continue increasing the size of your IT team until the bottleneck is



- eliminated,
2. Keep the IT team size at the same level and watch your other departments declare a war on each other!
3. Implement some kind of a project selection process

Either of the first two solution has its drawbacks. The first one can lead to an over-inflation of the IT department to the point that it becomes a burden (it is after all a cost center!) This scenario usually leads to a massive IT layoff and cancellation of all or most of the projects. Since those projects were supposed to be revenue generators, additional revenues get “annulled” along with the projects. That, in turn, leads to another round of layoffs affecting non-IT departments ... you get the general idea!

The second option is no picnic either. As the competition for limited IT resources increases, numerous conflicts arise within the company. Marketing people can not understand why the new accounting software lobbied by the Finance department gets a priority over the much-needed CRM datamart while Human HR Resources team thinks that both of them should yield way to the new HR management system.

And finally there is a third option: introduction of a project selection process, which brings about the next model we shall take a closer look at.

STEERING COMMITTEE

Selection Process: Yes
Chargeback to Business: None
IT Department Status: Cost Centre
OPM3 Maturity Level: Low to Medium

Advantages:

- Project prioritization process
- Only “good” projects are selected
- Eliminates some conflict and IT inflation

Disadvantages:

- Projects requests are slowly processed
- Needs some PM methodology
- Can lead either conflict or IT department inflation
- High probability of project request rejection
- Little cost control

Steering/Selection Committee

Overview

The “Steering Committee” model is becoming more and more popular with medium and large-size businesses. Let’s examine it more closely. The major difference between this model and the “Ad Hoc” approach is that the company has a steering committee comprised of senior executives (i.e. CIO, VP Marketing, VP Finance, HR Director, etc.)

Some time during the second part of the fiscal year all teams start planning for the next period. Each department compiles a list of projects that it thinks would be vital to their performance in the near future. Marketing team can be convinced that they need a new CRM platform, Finance people may want a new accounting system and the company HR team may think that *PeopleSoft* is the way of the future. Each one of these groups would be required to write a business case on their proposed project. The business case is supposed to provide the following information:

- Reasons for undertaking the project (i.e. regulatory vs. discretionary, strategic vs. departmental)
- Estimated project scope (in man-months)
- Estimated project cost
- Estimated future cash flows to be gained from the implementation of this project
- Project risk measures
- ROI, NPV, IRR

At the end of the year, the Steering Committee is convened and entrusted with solving what mathematicians refer to as “an equation with several variables”. They have to choose which projects will receive a green light and which projects will be postponed or even removed from the queue.

Usually regulatory projects are compulsory (e.g. Sarbanes-Oxley for companies trading on US stock exchanges or BASEL 2 for banks). Once these projects are penciled in, the strategic and departmental projects usually come in next. These are measured on their ROI, risk and scope.



Advantages

The advantages of this model are pretty obvious. Most of the problems described in the “Ad Hoc” section are taken care of. There is a project prioritization process in place, so only the best projects get selected for implementation.

Hopefully there is little ground for conflict. If the project is rejected, the project champion has only himself to blame: either he was not able to present his idea properly, or the idea was not that good in the first place.

Also there is supposedly no pressure on the IT department to grow.

Disadvantages

The first complaint you hear once the Steering Committee approach is introduced is that project requests are processed very slowly, which, according to Business people, hurts the competitiveness of the company.

Another thing that Business people uniformly despise is the requirement to write business case for each project. This method implies familiarity with such project management basics as requirements gathering, scope, time and cost estimates and financial analysis. What all this means is that a company can't simply shift from the “Ad Hoc” to the “Steering Committee” model overnight; Business people need to be prepared for a transformation of such magnitude.

There is still some pressure on IT department to take on more projects. Remember, tech people have the final word on how many projects can be undertaken next year. If IT team feels they can only tackle 20 projects from the list and the list contains 25 positive ROI projects, you can rest assured that CIO will hear some grumblings from the Operations. For example, I know of a company that had to postpone all of its discretionary revenue-generating projects because of the Sarbanes-Oxley Act. Since this project had the utmost priority over all other endeavours, almost all of IT resources were assigned to SOX.

Furthermore as in the “Ad Hoc” model, there is little or no cost control in project implementation. Once Business and IT agree that Project A will take 25 man-months to accomplish, Business has little incentive to keep it that way. Besides nobody usually keeps track of efforts on any given project anyways.



Profit Centre

Overview

And finally to the crown jewel of all IT models, the pinnacle of sophistication, the thing all CIOs are secretly aspiring to achieve! The “Profit Centre” model. Here is how it works: IT department operates like an external consulting company and charges Business for every project it undertakes. There is still a Steering Committee that makes sure only regulatory and highest ROI projects get selected and Operations department still has to submit a business case for each potential project. Oh yeah, and each department submitting a project request is expected to have the money to pay for the venture!

Advantages

The advantages of this model are pretty obvious. Firstly, every IT person, all the way up to CIO, no longer feels like a burden to the company.

Secondly, there can never be in a situation when they have to reject a good

PROFIT CENTRE

Selection Process: Yes

Chargeback to Business: Yes
(usually discounted or partial)

IT Department Status: Profit
Centre

OPM3 Maturity Level: Medium to
High

Advantages:

- Project prioritization process
- Only “good” projects are selected
- No ground for conflict or IT department inflation
- Low probability of project request rejection
- Cost control

Disadvantages:

- Business has to pay for projects
- Need strong PM methodology in place
- Need enterprise-level PM software
- “Why should I pay you when I can pay somebody else?” syndrome (Especially if level of service is low)
- Who pays for regulatory projects?

project because of lack of resources. They can always hire extra help (e.g. contractors) to address the temporary resource bottleneck. In this case the dreaded IT department over-inflation syndrome is completely justified – for every additional hour our people log in we get an amount of money equal or greater than we pay them! Really, it is a no-brainer! But before we start giving each other celebratory hugs and kisses let look at the flip side of the coin ...

Disadvantages

The first question that comes to mind after the initial exhilaration is gone is, “But how do we know how much to charge business?” Let’s think about that. If we have to track our time, we need a timesheet system of some kind. If we implement timesheets, we will have to break down projects into phases. It wouldn’t look nice if we just tell Finance people that we have spent 25,674 hours implementing a new accounting system. They are detail-oriented people; they wouldn’t like that very much.

While we are at it we might also divide phases into some kind of tasks so that the next time we send a bill to those bean counters it states something like “Preparing Project Scope – 80 hours”.

But wait a second! This implies knowing beforehand what tasks we will be required to perform. And if my memory serves me right, that is called “planning”... I guess you can see where I am heading with this. You need to be at a fairly high level of project management maturity model in order to pull this off. Not only your IT team, but also the rest of the company will have to be trained in project management. And that is a huge cultural shift for any business.

Another implication of this model is the need for a fairly sophisticated project management software package. Your team members will have to log their time against specific tasks set up by project managers. Desktop versions of project management software won’t be sufficient in this scenario; your company will have to purchase Enterprise or Server versions.

And finally, if you are a CIO of a company contemplating a shift to the “Profit Center” model, you better make damn sure that your team can provide the level of service comparable to that of industry leaders! Remember the beginning of this article? As soon as the level of your services starts slipping, Business customers will start questioning the feasibility of your model.

CONCLUSION

As I mentioned at the beginning of this article I was not going to provide you with a foolproof recipe that would have taken care of all problems currently plaguing IT departments around the world. My humble intentions were pretty much limited to looking at pros and cons of each of these models. However, since I don’t like to disappoint people, I will suggest the following:

- If your company is relatively small, technology is not a core of your business model and you are at a relatively low level of OPM3 – use the “Ad Hoc” approach.
- If you are a medium-size or a large company that has 20 to 50 IT projects per year, and your employees have a relatively good understanding of project management. you should consider the “Steering Committee” model
- And finally if your company has a large IT department running a multitude of complicated technology projects and your firm is relatively high in the OPM3 hierarchy, you should probably consider implementing the “Profit Centre” model.

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