

## The Cornerstone of Running IT like a Business

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As a customer, do you feel you get more value from a retainer service or a detailed billing of the services you have used? The retainer invoice may be very predictable, but it does not permit you to control the amount or level of service provided.

Now think about the perceptions that *your* customers may have about allocations vs. itemized billing of IT services. It is most likely challenging for them to see where their costs reside in terms of business as usual and new initiatives (products, services, cost reductions, growth). When the cost of daily operations and development isn't clear, the business decisions for new initiatives become intuitive and not fact-based.

### A Business within the Business

IT is a major service provider in every company and because of this nearly every IT organization experiences "not enough capacity" issues. They can barely keep pace with the day-to-day requests and changes that a company makes, much less with the new initiatives in other business areas that require IT services.

Because of the reliance on IT as a major component of daily business operations, people do not tend to think of it as a business within the business. Just like the services that utility companies provide, most people take it for granted until there is a problem. Similar to utility companies, IT should communicate the direct cost of a service to the customer.

The IT chargeback is one of the fundamental cornerstones that helps organizations mature in how they prioritize and weigh their multitude of initiatives. Having this disciplined method of charging for what is being produced and delivered lends credibility to the IT service provider.

### The Issue

Companies are becoming more diligent in controlling spend, which has led many organizations to a formal chargeback method. The *lack* of such a control can result in the following scenario. At one organization, the business areas (IT customers) receive an allocation based on utilization. The area with the largest allocation of IT budget receives the most attention, which is sometimes referred to as the "squeaky wheel" as there is no cost/benefit justification for the project or new initiative.

This organization does have a method in place to determine run rate and earned value of a project if there are not direct costs allocated to it. IT costs are not directly tracked to a project and therefore there is no way to know if and when to kill the project. Ultimately, since the cost overruns are not tracked, no one can be held accountable. Other observations of this organization show:

- IT department grows exponentially
- Shifting priorities lead to unfinished projects and potential morale issues
- Metrics regarding successes are not tracked as actual costs cannot be aligned with benefits
- IT becomes the administrative budget manager because they cannot support the basic analysis of project benefits without the chargeback infrastructure
- Governance and oversight of the project portfolio cannot be accomplished without understanding of costs along with benefits

The scenario above suggests that without a chargeback mechanism, IT customers tend to be *less disciplined* about requesting services. The other areas of the business often do not even have the budget to support their IT requests since total cost is not clearly defined.

This leads to another potential scenario. If the cost of a service is not clear, the customer may have incentive to look outside of their own organization for IT support in order to either speed up a proposed initiative or foster the perception of reduced costs.

## Why It's Important

The scenario presents several reasons why it is important to put an IT chargeback method into place. It is important to realize that once the decision is made to put a chargeback method in place, it is a major investment of internal staff time and cost. Transforming IT to run like a business that utilizes the chargeback method should be considered a multi-generational transition that has the support of senior internal leadership, including internal IT leaders.

Every organization is unique and unfortunately the cookbook for making this transformation does not exist, however, there are many sources to help with identification of the steps, standards, practices, tools and behavior changes that foster this transition.

## The Transformation

As companies lay the cornerstone of the IT transformation by implementing a specific chargeback methodology, there are other considerations that should be made that can possibly lead to the realization of further cost reductions. It is important for IT to look at how it aligns with the operations of other business areas within the company. This may be an opportunity to adopt other processes and standards, which lead to the realization of further cost reductions.

IT should also consider defining performance measurements, both internally and for "customers". These performance metrics should include how to measure, track and report using Service Level Agreements (SLA's) and Key Performance Indicators (KPI's).

Throughout the transition, IT should communicate what is changing, the reason for the changes and the progress both internally and to other business areas of the company. Communication will not only help employees understand the new culture, but foster adoption for it. A specific process or method should be put into place in order to evaluate employee acceptance of the new culture.

Other considerations to make as IT begins the transformation to running like a business include:

- Sponsorship and authorization from senior leadership
- Retain a Financial Controller for IT
- Transform the vision of IT success to customer success
- Investment in the systems, processes and infrastructure to support the transition

## Summary

In order for IT to provide clear expectations of service delivery and associated costs, a cornerstone must be put into place so that other business areas will begin to understand the value. The business areas' incentive to seek outside resources for IT support will be reduced. There will be clear financial justifications for their needs with appropriate cost data, and as IT begins to operate more and more like a business, it will help IT gain credibility with senior leadership and the entire company.

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