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Publisher

itSM Solutions™ LLC
31 South Talbert Blvd #295
Lexington, NC 27292
Phone (336) 510-2885
Fax (336) 798-6296

Find us on the web at: <http://www.itmsolutions.com>.

To report errors please send a note to the editor, Hank Marquis at hank.marquis@itmsolutions.com

For information on obtaining copies of this guide contact: sales@itmsolutions.com

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david
NICHOLS

By [David Nichols](#)

As an IT leader, when was the last time you asked yourself, “What business are we in?” What was the answer? All too often the circumstances of daily survival in IT have a tendency to keep us focused on putting out today’s fires.

IT professionals have all experienced the increasing rate of technological change. In fact, it is not just the rate at which the world around us is changing, but it is how it has changed that has profoundly impacted IT and IT’s ability to understand what is important.

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We do not seem to have the luxury of time to wonder about abstract things like why we are doing the things we do; we just do them. After all, isn’t IT just about getting it done? Sound familiar?

However, because we have not asked the question often enough, we find ourselves in the situation where we spend our days (and sometimes nights) rushing our valuable resources from fire to fire.

To break out of this constant cycle of reaction, IT management has to reexamine the business it is in and refocus its resources on only those things that are **important**.

Boiled Frogs

There is an analogy that explains why IT organizations often fail to recognize and react to the change that is going on all around them, its called the “boiled frog syndrome.”

It goes like this; if you place a frog into a pot of boiling water, it will jump out. However, if you place a frog in a pot of room temperature water and slowly raise the heat they frog will boil to death. Frogs are unable to notice the gradual degradation of their environment. (Please note, no frogs were harmed in the preparation of this article).

If you examine your own IT environment you can identify many gradual changes occurring. IT has evolved from mere “data processors” to mission critical support of business processes. IT is now on the cusp of another evolutionary change -- IT is becoming part of the business value chain, and, in some instances, IT has become the business. In effect, IT has evolved from being the recorder of transactions to the enabler of those transactions.

Businesses have gone from producing real to virtual goods. This results in business caring as much about information as the goods it produces. Business has shifted from products to services, often adopting virtual organizational structures characterized by horizontal process boundaries across functional silos.

Shifting Paradigm – New Focus

Lest we too succumb to boiled frog syndrome we need a new way of thinking about what we do and why we do it. The changing IT and business environments call into question what and how we manage, organize, optimize, and invest. IT must evolve from a provider of technology to a provider of business enabling services; IT must transform itself into a “service provider.”

To become a successful service provider, IT must understand and *invest* in activities that are central to the company's ability to compete (important activities), while exerting control over all of the other activities that are not central to a company's ability to compete, but still important to the successful functioning of the enterprise.

In his book "Living on the Fault Line," Geoffrey Moore offered a way of thinking about the problem of "... what's important?" He said, "The problem facing the IT organization, which is in microcosm the same as the problem facing the corporation as a whole, is that too much time is being spent on tasks that are **context**, too little on tasks that are **core**." He went on define **core** activities as those that directly affect the company's competitive advantage; while everything else is **context**. Core activities then are "important." Like all things in life "important" is not a black and white issue; there are shades of importance.

In order to sort through the different "shades" of importance, we can create a two-dimensional grid where the vertical axis represents process criticality (**core & context**) and the horizontal axis represents organizational capability (**critical & support**). Moore referred to these as hygiene issues; what had to be done versus what needed to be done.

When the grid is analyzed, the related business and IT processes can be grouped into one of four quadrants. Business and IT must concentrate their efforts and invest their resources in those activities that are both **core** and **critical** (see figure 1). At the same time, business and IT must exert control over those activities that combine **core** and **support** or **critical** and **context**.

IT Investment Focus

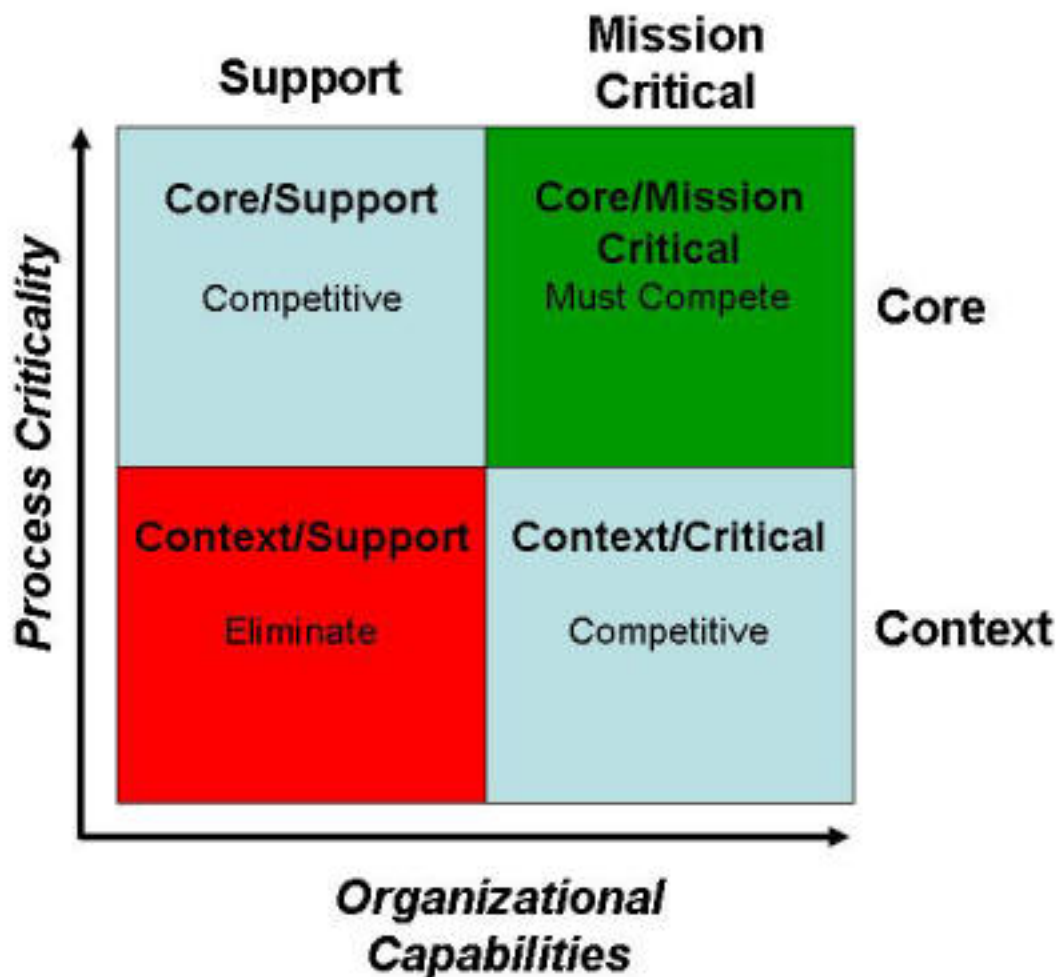


Figure 1. Moore's Quadrant

This technique identifies those activities that are important for the business and therefore important for IT to enable via its services. Let's exam the grid. The upper right quadrant represents **core** and **critical** activities. These activities enable the enterprise to differentiate itself in the marketplace (be competitive), and they must be executed successfully. Successfully executing these activities can result in significant rewards, whereas failure to execute can result in significant losses.

The upper left and lower right quadrants represent activities that need to be executed properly, but do not actually contribute to a company's ability to compete. In effect, there is little or no upside to over investing in these activities. However, there may be a significant downside in failing to execute properly. An example would be payroll. Employees must be paid, but once a company can execute (pay their employees the correct wage or salary on time, all the time) there is no competitive advantage of over-commitment of corporate or IT resources in doing so.

Both sets of these activities once understood and controlled can be candidates for outsourcing. That is why payroll processes have been outsourced for years. There are companies that can do a better job at a lower price than can be done internally.

The problem that has always faced IT has been the ability to identify what those **core/critical** activities are, and to ensure that the necessary resources are invested. What happens over time is that what was once core to a company changes as the marketplace matures or as technological innovation is introduced.

The investment in IT personnel and infrastructure is often disproportional to its importance. Human nature and organizational behavior conspire to maintain the status quo, or, in some instances, expand organizational or technological fiefdoms even when no meaningful competitive advantage results.

Because all of these activities compete for the same resources, we often find, as Moore pointed out, that IT is spending scarce resources disproportionately on activities that do not enable the business to compete. If IT is doing that, what resources then are available to be invested in those activities that do enable a competitive advantage?

This is really the nub of the matter. IT organization must, working with the business, identify those activities that enable the business to compete successfully and focus or invest resources there. At the same time, IT has to ensure it exerts control over the other activities (executes properly) to ensure support of ongoing business support activities. These other activities become candidates for outsourcing.

In fact, Nicholas Carr in his Spring 2005 MIT Sloan Management Review article “The End of Corporate Computing” asserted that technology no longer offered a strategic advantage to corporations, so they should avoid risk and utilize “IT utilities” where possible to outsource IT functions. Henry Marquis countered in his Summer 2006 MIT Sloan Management Review article “Finishing IT” that corporate dependency on IT services, not technology, actually dictated outsourcing decisions.

When viewed in the context of understanding what is important for the business and IT, both authors make valid points. Carr is right in stating that IT is not about technology any more, so organizations should not invest in IT technology in the hopes of gaining a strategic advantage. Marquis is right in stating that the organization’s need to control IT to enable **core/critical** business process precludes it from outsourcing those activities because it must control them in order to become or remain competitive.

Moore seems to concur with both Carr and Marquis, and recent articles that examined trends in outsourcing, confirmed that when an organization understands and controls **core/support** and **critical/context** processes, it can successfully outsource them.

By the same token, those processes that are **core/critical** are never candidates for outsourcing because they do not lend themselves to “standard” delivery and because the organization must retain control of those activities to achieve a competitive advantage.

Deriving "Is" from "Ought"

I once had a manager that said “One can’t always derive ‘is’ from ‘ought’.” What he meant was that just because something ought to happen, does not mean that it is happening. As IT professionals

far evolved from frogs, we must continually examine our environment and reevaluate business and IT priorities. The reality is that as soon as we think we understand what is important, things change; then we have to do it all over again.

Moore's simple yet elegant technique of identifying and understanding where to focus scarce resources provides a method IT and the business can use to understand where to make resource investments and where to establish efficient and effective controls.

Carr's and Marquis' approaches to the same issues reveal slightly different views, but result in the same supporting arguments. Once an IT organization understands what activities are important, it should move to control them and look for ways to free up valuable resources by making IT service sourcing decisions that support the efficient and effective support and delivery of enabling IT services.

Almost since the beginning, IT management has acted as "gatekeepers" to protect scarce IT resources. We have actually raised a couple of generations of IT professionals whose behavior leads them to hoard resources. As IT transforms into a service provider, and to fulfill its niche in the enterprise value chain, successful IT organizations must learn to when and where to "invest" their resources for the best return.

Those that learn to invest wisely will better enable their companies to be successful in the marketplace. Staying aware of changes in your environment and taking the right action is a necessary survival trait for IT professionals and frogs.

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