EXECUTIVE SUMMARY

CIOs frequently change the structure of the IT organization to reduce costs, improve services, or increase responsiveness. Getting the organization design right is essential; the wrong design can degrade business relationships, reduce effectiveness, and damage culture. Forrester analysts have evaluated and helped redesign hundreds of IT shops. From this experience and an in-depth review of 25 organizations, we compiled 10 common organization design errors that significantly hinder the effectiveness of organizations.

GROSS IT DESIGN MISTAKES COST CIOS

A good design for IT consists of processes, structures, and a culture that all support the direction of the business.¹ A bad IT design sets up barriers that hamper a business’ movement in this direction. Most IT shops are striving to improve how they contain costs, manage services, introduce new technologies, and execute projects. And in many firms, CIOs are going beyond this to improve enterprise projects and services, establish partnerships between lines of business and IT, and increase the effectiveness of their vendors. The most serious mistakes in the structure of an IT organization run counter to these goals and create significant obstacles to the business’ progress.²

Forrester measures the magnitude of impact of design mistakes based on their breadth, depth, and duration. In terms of breadth, a design flaw that impacts multiple business units or geographies is more severe than one that affects a single group. For depth, a mistake that creates compliance problems is more significant than one that generates minor inefficiencies. Finally, a flaw that causes problems for years is worse than one that the organization overcomes in a few weeks.

Forrester Compiled The 10 Top Gross Mistakes In The Designs Of IT Organizations

The top 10 mistakes in the designs of IT shops, from highest to lowest impact, are (see Figure 1):

1. **Conflicting culture and structure.** When there is a conflict between the design of the organization and its informal norms and behaviors, the design will fail.³

   **Example:** A catalog company failed with collaboration because of its culture of autonomy. The global CIO of this 200-person IT shop set up a management committee to prioritize IT investments. However, before the creation of the management committee, investment decisions rested with the CEO — who made unilateral decisions — and the leaders of individual business units — who made
decisions for their units independently. After two meetings, business leaders lost interest, and the CIO disbanded the group. As a result, the company's history of deploying narrow solutions with poor integration continued.

2. **A management style that conflicts with IT goals.** The choice of a bottom-up (i.e., frontline employees make decisions) or top-down (i.e., senior management makes decisions) decision-making style must match the goals of the organization.⁴

   **Example:** A large life insurance company created a small vendor management (VM) function to quickly reduce vendor costs, but the VM function it chose never met this goal. The business chose a facilitative style where VM merely provided information on vendors and relied on numerous other groups to manage them. While some vendor relationships improved, the plan did not realize cost savings; the style of VM chosen had too little oversight and control to make significant changes quickly — a necessity for getting the lowest vendor costs.

3. **Metrics that don't support the direction of IT.** You get what you measure and reward.⁵ Measurements that are out of sync with the goals and principles of the organization will drive the wrong behaviors.

   **Example:** A financial services firm asked for leadership but measured tactics — and received tactical performance, not leadership. This organization measured its IT architects regularly, based on 15 to 20 detailed tactical elements, causing the IT architects to focus primarily on checking off items on this list and neglect the company's need for technology leadership. By using metrics that conflicted with its goals, the organization lost an opportunity to lead the movement to new technology and confirmed the widespread view within the organization that architects were merely techies without business savvy.

4. **Weakened strategic functions.** Architecture, planning, vendor management, and other nonoperational functions are structurally weak. They lack the traditional levers of power: large budgets, management of key systems and services, and ownership of customer relationships. CIOs further weaken these groups in a variety of ways: by dividing and distributing them among multiple groups; by having them report low in the organization; by preventing their ownership of or involvement in key processes, such as project initiation; and by insulating them from real-world responsibilities.

   **Example:** A travel company diluted the power of its architects, resulting in a loss of strategic thinking. This company distributed architects to infrastructure, applications, and other functions within IT. Dispersing them among multiple development and infrastructure groups forced them into daily firefighting and project work that prevented them from developing standards and processes that had long-term value.
5. **Overly fragmented functional groups.** Fragmentation occurs when organizations slice functional groups, such as applications development, into small pieces where everyone must do everything, including requirements definition, development, testing, and maintenance. This leads to a lack of specialization that reduces efficiency.

**Example:** A media company chopped up its applications groups, thereby reducing the quality of their output. This shop divided its 150-person applications organization into 11 groups organized by a mysterious combination of customers, products, geography, and technology. With so many people using such a wide variety of technologies, tools, and methodologies, nothing was done well, particularly in areas of testing and reuse.

6. **The implementation of transition at the wrong pace.** Moving too quickly or too slowly to a new structure is problematic. Quickly changing to a new organization without adequate planning and participation will result in confusion over responsibilities, breakdowns in customer relationships, and generally poor designs. Converting too slowly creates anxiety as people wonder if they’ll have jobs and who their bosses will be.

**Example:** An engineering firm planned a redesign for more than a year and lost productivity; at the other extreme, a retailer reorganized too quickly, losing important interfaces and key roles. In the first case, an 800-person engineering shop spent 10 months just in the assessment phase of an IT redesign, and self-preservation calcified the organizational joints as people wondered if they’d have jobs, what their jobs would be, and who would be in charge. In contrast, a CIO at a European retailer shocked his staff by reorganizing three months after starting the job. His hasty restructuring caused long-term customer interfaces to disappear and key roles, such as testing, to fall through the cracks.

7. **Fragmented and informal management of services firms.** Companies often make the mistake of having multiple groups manage consultants and outsourcers as a part-time job. This results in inconsistent and inefficient selection and oversight of vendors.

**Example:** A global builder dispersed the management of services vendors, which led to a variety of problems. The CIO of this company let each IT group select and manage consultants as they saw fit. Most that did this took on the task part of the time and very infrequently, leading to poor vendor selection and high costs. This lack of professionalism also prevented the organization from gradually improving its management of services firms.

8. **Weakly structured and managed enterprise projects.** Enterprise projects are demanding because they require the coordination of business units that often have conflicting priorities. A frequent mistake is to run enterprise projects with a small group that merely coordinates the
activities of those executing the project. This slows implementation and increases the difficulty of integration.

**Example:** A global insurer used volunteerism to execute an enterprise project but found that the business units involved had trouble focusing and agreeing once it came time to implement the enterprise group's plan. This company set up a team of four to execute a project that combined multiple products from three major business units. It created the plan, gained agreement, and provided direction for people within the business units to execute. However, progress slowed to a crawl as the business unit teams struggled to agree on project specifics and were continually pulled back to firefighting within their departments.


Separating some functions, such as requirements definition from implementation or vendor selection from contract management, causes loss of accountability and excessive handoffs.

**Example:** The CIO of a food services company separated maintenance from development, setting up both functions as direct reports, and ended up with disparate groups that did not work together or communicate effectively. This separation resulted in maintenance groups that were unprepared to support applications built by development and development groups that built applications that were not structured to be easily maintained.

### 10. An excessively broad span of control.

Having too many direct reports forces IT leaders to spend excessive amounts of time on narrow issues.

**Example:** One government infrastructure leader created a structure with 14 direct reports and soon found himself spending most of his time coordinating between subordinates or dealing with personnel issues, with little time left for working with peers or superiors.
**Figure 1** Gross Mistakes In An IT Organization’s Design Affect Its Ability To Reach Goals

<table>
<thead>
<tr>
<th>Mistake</th>
<th>Example</th>
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<tbody>
<tr>
<td>Conflicting culture and structure.</td>
<td>A culture of business unit autonomy prevents collaboration.</td>
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<tr>
<td>A management style that conflicts with IT goals.</td>
<td>A facilitative style of vendor management prevents cost reduction.</td>
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<tr>
<td>Metrics that don't support the direction of IT.</td>
<td>Measuring architects tactically creates a barrier to leadership.</td>
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<tr>
<td>Weakened strategic functions.</td>
<td>Architects reporting within operational groups have no time to develop strategic processes because they are too busy with daily firefighting.</td>
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<tr>
<td>Overly fragmented functional groups.</td>
<td>Slicing applications groups into small pieces reduces their specialization.</td>
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<tr>
<td>The implementation of transition at the wrong pace.</td>
<td>A 10-month assessment shifts focus of staff to self-preservation; a sudden reorganization causes key functions to disappear.</td>
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<tr>
<td>Fragmented and informal management of services firms.</td>
<td>The part-time management of services firms by multiple groups reduces professionalism.</td>
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<tr>
<td>Weakly structured and managed enterprise projects.</td>
<td>A coordinating style that uses volunteerism slows an enterprise transformation project.</td>
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<tr>
<td>Functional segmentation that creates barriers, reducing coordination.</td>
<td>Separating applications maintenance from development reduces accountability.</td>
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<tr>
<td>An excessively broad span of control.</td>
<td>Having 14 direct reports buries a leader in personnel issues.</td>
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Source: Forrester Research, Inc.
RECOMMENDATIONS

IF IT ISN’T SUPPORTING THE CIO’S GOALS, EXAMINE THE DESIGN

CIOs have goals for their organizations — whether they include addressing deficiencies in cost and quality or transforming IT so that it has a close partnership with the business. But when a CIO is not achieving these goals, a company will frequently react by demanding a restructuring of some or all of the IT organization. If CIOs don’t refrain from making ill-considered changes, though, they risk making gross mistakes. CIOs should first clarify their goals and then design IT to support these goals. The design must complement the organization’s culture, metrics, and style. It shouldn’t divide groups in ways that reduce their power bases, increase handoffs, or build up administrative overhead. If an area, such as the management of services firms, has scarce expertise but is high risk, the design should consolidate that function and specialize the roles within that area. Finally, a good design only brings an organization halfway toward meeting goals. CIOs also need to develop transition plans that are long enough to be complete and inclusive yet short enough to be accomplished without exhausting the organization.

ENDNOTES

1 Business expectations of IT continually change, driven by the business context and needs of particular businesses as well as the ways they embed technology in their strategies and operations. CIOs realize that with these changing business expectations, the IT organization can’t stand still. CIOs should continually monitor the performance of their IT organizations against business needs and expectations. IT’s performance is a function of its design — the structure, processes, and organization skills and how they reinforce each other. When looking at changing business context and the resulting needs, CIOs need to: assess the current state of IT shops; identify gaps against business needs in skills, structure, and processes; and develop strategies to fill those gaps. See the January 10, 2008, “Shaping The IT Organization For Today And Tomorrow” report.

2 The structure, processes, and culture of an IT organization can be barriers to success; therefore, CIOs should periodically assess their IT shops and make improvements. “Assessing Your IT Organization” uses the lessons learned from more than 200 Forrester engagements to describe an effective assessment methodology. From our experience, we’ve found that the scope of these assessments should include how IT is organized as well as the state of processes, company direction, culture, and other factors. Furthermore, because organizational assessments can be threatening to staff, they must be run quickly, with tightly controlled communication and the participation of senior IT and business people. See the October 23, 2007, “Assessing Your IT Organization” report.

3 IT management should facilitate adoption of the new operating model by taking specific steps to create the new organization culture. See the February 9, 2006, “Rebuilding IT Culture After Organization Change” report.

4 To be effective, different functions need to take on styles ranging from highly prescriptive (top-down) to largely informational (bottom-up). The top-down functions tend to be those in which: the enterprise’s risk
of failure is great, such as with security; the tangible returns are high, as with vendor management; and there is great consistency in how they operate. Bottom-up functions, such as planning and architecture, provide information and connections between business units (BUs), but decisions are made within the business units. See the September 11, 2007, “Upgrading Corporate IT For Enterprise Coordination” report.

Once the change domains have been identified and the desired state understood, the next step is to identify the metrics that will be used to measure performance. The IT Balanced Scorecard is an ideal framework to measure and drive performance. See the April 30, 2007, “Transforming IT With Strategic Measurement” report.

Many CIOs use the same staff to perform applications development and maintenance work. However, dividing these responsibilities into separate groups provides greater oversight, clarity, and efficiency. New development groups are mostly commonly aligned to a project, a set of customers, or business processes. But some firms organize applications people into internal consulting groups to better leverage their hard-to-find skills. See the January 12, 2007, “Structuring The Applications Group” report.

Forty-seven percent of the North American companies Forrester surveyed have vendor management offices (VMOs). These firms have a more centralized IT organizations that are closely aligned with the business. Organizations that have a VMO want to consolidate the number of suppliers they work with. VMO groups have responsibilities ranging from hardware suppliers to facilities management providers. See the April 19, 2007, “Trends In North American Vendor Management” report.

As technology continues to become ever more embedded in business, business-oriented technology management executives seek multiple ways to synchronize the work of their organization with what the firm needs and expects. See the October 25, 2007, “Beyond Alignment: BT Synchronization Examples” report.