

**How** an IT-dedicated HR approach  
creates an agile, high-performing,  
IT organization\*

## Table of Contents

### Situation Pg. 02

Companies rely on IT to help execute business strategies and create value throughout the enterprise. Volatility in today's business and technology environments underscores the need for agility. Unfortunately, efforts to rapidly and efficiently align IT with key corporate objectives often stumble when the IT organization isn't capable of adapting to rapidly changing business requirements.

### Our Perspective Pg. 14

We see an increasingly acute need for companies to revisit how IT organizations are led, organized and managed. We believe that making IT an agile, high-performing, business-driven organization requires informed leadership and an IT-specific approach to human capital management. Crucial to this effort is the development of an IT skills and competency model. Also essential is an IT-specific approach to four disciplines: basic human resource management, sourcing and deployment, rewards and incentives, and performance measurement. We know from experience that companies taking such actions are more likely to realize measurable improvements to corporate performance.

### Implications Pg. 24

To build such an IT organization, start by taking a frank look at your current practices. Identify the changes necessary to make your IT organization more fluid, dynamic and team-based. And start building an IT human capital management plan that can help you maintain an IT organization that adapts to your business needs as they evolve and helps employees to build rewarding professional careers.

### Appendix Pg. 32

# Situation

When business conditions change, IT organizations must adapt or become obsolete.

Business leaders are keenly aware that a well-managed IT organization can be an invaluable partner in managing risk and creating corporate economic and shareholder value.

Translating this awareness into measurable results, however, tends to be an elusive endeavor because very few IT organizations align their measures of success with the drivers and measures of corporate performance.

While the notion of aligning IT with the business isn't new, achieving this alignment requires that the IT organization acquire and maintain the agility necessary to keep pace with constant volatility across business and technology environments.

This is a task, however, that many companies find hard to execute.

## A failure to manage IT skills risks lost opportunity.

Companies struggling to keep the skill base of their IT organizations up-to-date and under control have a critical task ahead of them. Whether dealing with training issues, staff turnover, outsourcing or a departmental retooling, companies have lacked an informed approach for managing IT skills—putting at risk a major contributor to IT value.

Skills-to-need ratio problems abound in IT organizations, due in part to the high percentage of COBOL-only programmers and developers typically on staff. As technologies shift away from the COBOL environment, existing skill sets can be left behind. Some legacy system specialists may be ready and willing to develop new capabilities, but lack access to the necessary training. Others may not have the inclination or aptitude for new language training, yet their organizational experience is too valuable to lose. Companies facing these issues may be tempted to make decisions based on what works today rather than what tomorrow may bring.

Turnover is another problem IT departments face. Churn rates may be chronically high for the department as a whole or worse, excessive among those the company most wants to retain. To attract IT talent with the desired skills, companies need to prove that they have a forward-looking technology environment. But putting one in place may seem risky when few (or no) resources are currently on staff to support it. Top IT resources know the kinds of organizations they want to work for; these often include a fast-paced working environment that encourages high performance. Ambitious staff members who don't see attractive career paths soon begin to look for jobs elsewhere, hence the greater turnover among the most desirable talent pool. By failing to attend to such resource considerations, companies can find themselves rewarding seniority and tenure over performance and innovation.

Finally, a diminishing factor in IT value is the persistent focus some IT organizations have on short-term objectives or on metrics that fail to provide an accurate picture of the group's performance. The result can be lost opportunities to improve workforce agility. Traditional IT metrics are characterized by operational ("shop floor") measurements such as up-time or server utilization, and rarely include the tracking of IT skills. Companies lacking such skills-based information can be surprised to find chronic imbalances in their workforces. For organizations who outsource, the risk can increase. Contractors cycling out of the organization may be departing with more than just their coffee mugs—i.e., enormous helpings of the company's intellectual capital.

These and other shortcomings carry consequences, as the following case examples show.

After acquiring a rash of companies in a short amount of time, one consumer products company discovered that its IT organization comprised many redundant skill sets. Unfortunately, many of these skills were focused on maintaining legacy systems—this despite the fact that meeting the new company’s goals required critical support from an IT organization skilled in addressing forward-facing, web-based technologies. The company was caught in a difficult position: it was saddled with IT skill sets it no longer needed and unable to attract the new skill sets it required for growth.

In another example, a company in the fast-paced technology sector found it necessary to completely change its business model to survive. Achieving success, however, required an IT organization capable of helping drive this business transformation. Outsourcing was not an option; the entire IT organization needed to be retooled and re-skilled. The challenge faced by the CIO involved transitioning skills in a rapid and orderly manner—without creating chaos within the ranks of the IT organization and destabilizing the business.

While the IT workforce is at the heart of IT’s value, addressing these changes needn’t be daunting. An informal approach to managing skills can make a significant impact on corporate performance.

## Quantify the opportunity.

A recent study conducted with over 300 organizations in the U.S. and Europe revealed that executives at leading companies now estimate that workforce management problems are causing their companies to underperform by as much as 10% and overspend by as much as 10%. For a company with \$10 billion in annual revenue, that’s an opportunity worth up to \$1.25 billion a year.

Source: “Workforce Agility: The New Frontier for Competitive Advantage,” a 2004 survey conducted by Saratoga / PricewaterhouseCoopers and the University of Michigan’s O. Richard W. Beatty.

## Fast-moving trends are raising the stakes.

Unlike other administrative departments such as accounts receivable, the IT service function is not a static, transaction-driven support function. Instead, the IT organization is far more dynamic—a function with constraints and opportunities that are constantly being reshaped by a host of external and internal factors, as discussed on the following pages.

**Business and technology environments are volatile:** From mergers and acquisitions to corporate divestment and downsizing, business strategies are under constant pressure to adapt to markets that are increasingly global and competitive. It's imperative that the IT organization keep pace in this environment.

**Outsourcing initiatives are reshaping corporate needs:** As companies externalize IT services and resources, outsourcing and offshore initiatives are changing skill-set requirements, introducing fresh challenges in human resource change management and creating new organizational roles.

**Expectations of IT keep changing:** When business objectives change, the IT organization is expected to adapt. Sometimes it is granted a larger budget. Sometimes it is expected to focus on IT cost reductions or to reprioritize existing budgets. Yet each of these actions carries very different implications for IT HR management. Should IT executives hire new personnel, redeploy existing staff or sponsor skill development with training and apprenticeship?

**Compliance needs are driving changes in IT:** IT has always been a crucial partner in supporting compliance. Now, as executives start to focus on optimizing compliance cost structures and standardizing compliance systems across multiple regulations, the IT workforce is being asked to meet a rapidly evolving set of demands.

**Reactive approaches to hiring are out:** Just a few years ago, the task of hiring began when a needed position became empty. Today, this reactive approach is an unproductive and cost-intensive way to build an effective IT organization. Executives are coming under pressure to take a proactive stance in offsetting volatile hiring phases linked too closely to the business cycle. More and more often, they are now expected to be proactive in identifying how to keep the talent pool up-to-date with changing business needs.

**Team performance is increasingly important:** As companies get better at understanding the critical linkages between people, process and technology, they're also getting better at balancing the value of a high-performing individual with the value of ad-hoc teams that can be assembled, disbanded and reconfigured in new ways—virtually and on short notice.

Estimate the costs of high turnover.

How much does turnover really cost? Forrester Research estimates that the average cost to hire ranges from 25% to 100% of the annual salary. So if average compensation is \$75,000, cost to hire will range from \$18,750 to \$75,000 per hire.

Source: Forrester Research, "The Cost of Turnover in IT," Craig S. Symons, March 2004.

## A better approach is needed.

The apparent solution nearest at hand isn't necessarily the best one. Merely applying corporate practices in human capital management to the IT organization can be inadequate. Technology is almost always the fastest changing area of the business. As a result, IT management is under much more pressure than other functional departments to keep up.

Driven by these and other trends, executives closest to the consequences of inadequate IT workforce management are beginning to ask the following questions:

1. How do we align IT human capital resources with business needs?
2. How do we identify the skills and competencies we have, define the ones we need and lay out a plan to evolve the organization?
3. How do we develop an economic model for sourcing IT skills that will help us decide whether to build an in-house capability or source our need from outside the company?
4. How do we identify opportunities for workforce cost reduction, containment and optimization?
5. How should we set incentives for performance improvement and measurement systems to monitor progress?
6. How do we start building today the IT leaders we will need tomorrow?

Answering these questions doesn't always have to be about increasing the level of investment in the IT workforce—although for some companies that may be a strong prerequisite for change. Plugging capability gaps with better talent isn't the solution either, because the best talent isn't worth the compensation costs if their competencies aren't carefully aligned with what the business needs.

Instead, answering these questions—and setting out to create a truly agile IT workforce—requires addressing a number of critical areas necessary to sustain a high-performing IT human capital contribution.

# Our Perspective

Today, achieving business objectives requires transforming the IT workforce.

We see an increasing need for executives to reassess how their IT organization's workforce is led, organized and managed.

Managing the IT organization is no longer about having IT personnel just perform a job. It's about helping the IT organization learn how to deliver a service—a robust portfolio of user-responsive services that are continually aligned with the business.

In fact, our experience in working with many of the largest companies in the world suggests that IT efficiency is highest when it is based on management's sustained commitment to transforming the culture of IT from an administrative task-oriented environment to that of a team-based professional services organization. The IT culture should be characterized by 360 degree insight that includes deep knowledge of the company's customers, business drivers, strategy, internal business unit needs and IT-specific requirements and solutions.

Manage the IT organization as an internal services company.

Maximizing customer responsiveness and cost-effectiveness requires the IT organization to run itself “like a business.” Adding additional business skills and reorienting the thinking and responsibilities of IT management around a customer-centric and customer-driven delivery model are major steps in this direction.

Source: Gartner, Inc., “Use the Gartner Internal Service Company Model to Maximize IT Shared Service Performance,” Michael Gerrard, December 2004.

A successful IT organization today must be dynamic and team-based. It must be supported by managers who understand that achieving IT organizational agility requires leadership, an IT professional group that is committed to continually upgrading skill sets and a coordinated approach across all disciplines in human capital management.

Crises have to be “swarmed.” Project teams must be assembled on short notice—often on a virtual basis. Managers must have a fluid ability to ensure that personnel with the right skills can quickly deploy in ad-hoc teams to deliver IT services to internal customers anywhere in the world.

## Start with leadership.

Responsibility for managing the IT human resources process today should be placed in the hands of an experienced and credentialed human resources executive with a high level of experience in IT needs. This person should have a direct CIO-level reporting relationship from either within IT or, if subordinated to the corporate HR chain of command, at least fully dedicated to IT.

This leader essentially acts as a coach to the IT workforce. He or she needs to understand that the crux of the challenge is in changing how people view their role and contribution within the organization. They need to be able to help those within the IT organization understand the variety of roles they may be asked to play in providing services to various constituents. They need to be able to compensate employees based on their current and future roles and skills, their relative value in the marketplace and their specific individual and team performances. They need to be able to help each individual understand exactly how to transform themselves into flexible, high-performance team players.

The human resource IT leader needs to encourage each member of the IT workforce to view their individual contribution as essential to transforming the IT organization from an aggregation of technical jobs involving discrete tasks and activities into a team of people building both measurable business value and long-term professional careers.

## Establish an IT skills and competencies model.

We believe that it is almost impossible to lead, organize and manage an adaptable IT organization without building and implementing an IT skills and competencies model. Such a model resides at the very core of a forward-facing IT human capital management plan. It identifies the current IT skills and competencies presented by every individual in the IT organization. It also identifies the skills and competencies the business will require in the future—both near-term and long-term—in order to support projected changes in its business-aligned IT requirements.

Such a model provides the planning, structure and discipline that allows the IT organization to continually reshape and realign itself with constantly shifting business objectives. It helps managers determine the right balance between functional and managerial skills, as well as how accountability and responsibility should be assigned. It supports the development of both technical skills as well as business management skills in key areas such as customer relationship management. It also gives managers visibility across different skills and capabilities and gives employees a clear line of sight into the specific criteria used to reward performance.

## Competency models provide good value.

Competency models are predictors of exceptional performance because by definition they differentiate between top, average and poor performers. This information can enhance recruiting and hiring efforts. It can also be used to assess comprehensive IT staff capabilities and competencies to determine the IT organization's human capital readiness.

Source: Forrester Research, "Best Practices in IT Human Capital Management,"  
Craig Symons, February 2005.

## Balance four key disciplines in managing IT human capital.

While an IT skills and competencies model resides at the core of the IT organization's human capital management plan, its value hinges on crucial support from four specific disciplines in IT management. These include the following:

- **IT HR Management**—Most people resist change. Guided by the skills and competencies model as well as other human resource management practices, IT leaders must work to shape, build and manage a constantly changing inventory of IT resources, skills and capabilities.
- **IT Sourcing and Deployment**—Through carefully defined sourcing and deployment decision processes, companies must be able to define roles in terms of projects or services, decide whether to in-source or outsource their particular needs and assign projects to virtual teams on short notice.
- **IT Rewards and Incentives**—Make reaching for excellence worth the extra effort. IT rewards and compensation programs should be based not just on specific performance, but also on the advancement of skills and the ability of the individual to adapt to the needs of the business.
- **IT Performance Measurement and Evaluation**—Companies that value performance measure it. Constant assessment is essential to delivering cost-effective, world-class service in a high-performance manner.

## A case for setting individual performance metrics.

One of the world's largest consumer products companies hired a new CIO with responsibility for North American IT operations and gave him a mandate to improve its IT performance. The new executive was particularly concerned about the deployment of several new technologies and a large number of operational measurements resulting from unanticipated lapses in the availability of critical systems. At the top of his list of concerns were suspicions of a critical disconnect between the performance of the U.S. IT organization and the measurement of this performance on the company's worldwide IT metric scorecard. In addition, he wanted to understand how key performance metrics could be used to create a culture of accountability within IT and between IT and the business units.

PricewaterhouseCoopers helped this CIO address significant gaps in the organization's use of baseline metrics, improved guidelines for their use, strengthened individual accountability for metric performance and established a comprehensive set of policies and procedures supporting these new capabilities. This was accomplished across the company's IT practices in sourcing and deployment, incentive alignment and performance measurement.

The client now has an IT skills measuring model in place for assessing individual performance and planning the growth and development of employee IT competencies. This measurement system now helps the IT team to immediately identify areas where stagnation in skill development is opening critical windows of vulnerability, and to take action to keep the skill-driven value of the IT organization's contribution continuously aligned with the business. Some examples of metrics that helped to create this new "culture of accountability" included ones related to the quality of relationships with the business units, enhancements to key skill and competency levels, speed of replacement of legacy capabilities, and the direct correlation of business results to specific IT initiatives.

# Implications

## Sustaining a high-performance IT workforce requires a commitment to developing employee skills.

To succeed in this effort, IT leaders need to stretch well beyond their current roles as experts in technology. As a first step in this process, they need to take a much closer look at the role that teams and individuals within the IT organization can play in placing IT in the service of business unit performance. In order to nurture and expand this ethic across their organization, IT leaders need to help their workforce view change not as a threat, but as an opportunity to build an exciting workplace environment and a promising, rewarding career. Here are some key steps on how to accomplish this.

Invest in people. Strive to develop IT professionals who are tremendously valuable to the open market. Why? Because the benefits of honing an agile, skilled and team-focused workforce that others seek out dwarf the losses that accrue when some people leave. Creating top talent is one of the best ways to keep top talent.

## How to develop an IT career, skills and competencies model.

Start by creating an IT skills grid for each staff member.

- 1. List the individual's specific skills—**Catalog all technical competencies and skills in key areas such as business management, marketing, communications, customer service and relationship management.
- 2. Define maturity levels—**Using a standards system such as the Carnegie Mellon Capability Maturity Model (CMM™), specify current maturity levels for each skill along a standardized spectrum.
- 3. Identify skills of interest—**Ask the individual to specify areas of interest that coincide with what the company will require over the next one to five years.

Work with each staff member to develop an individually customized Action Plan to help them move from their current position on the IT skills grid to their desired one.

- 1. Establish direction—**Make sure that complementary skills are developed which, when combined, represent a clear path toward responsibilities that will be more rewarding to the employee and more valuable to the firm.
- 2. Define key stages—**Design the Action Plan as a roadmap—one made up of discrete stages that provide both the individual and the company with logical touch points where progress can be assessed, achievement acknowledged and course corrections introduced.
- 3. Specify outcomes—**Decide how the individual's progress will be measured. When possible, identify benchmarks. Devise passing grades on standardized technical competency exams or numerical scores based on department peer reviews or internal user surveys.
- 4. Annualize objectives—**Incorporate this information into a career plan supported by mutually agreed upon annual objectives for the employee.

Conduct performance evaluations throughout the year. Provide counseling as appropriate. Update the staff member's career plan, annual plan and objectives, and positioning on the IT skills grid. Use these elements, among others, to assess incentives and other compensation.

## How to ensure HR management practices support the development of employee skills and professional objectives.

- Develop a program in human resources analytics and benchmarking that uses metrics to track key signposts in IT organizational performance such as turnover, demographics and total IT expenses.
- Encourage employees to progress along mutually agreed career paths within the organization. Support these efforts through creative opportunities and approaches to skills and competency development. This should include coaching and mentoring initiatives as well as educational options such as on-the-job training and formal apprenticeship programs.
- Reward employees for taking personal risks associated with developing and enhancing their own skills and competencies. Those who are willing and able to transform themselves and their skills into what is needed in the future are of significantly more value to the company and to themselves.

## How to use sourcing and deployment to align IT human capital with business needs.

- Assign responsibilities and tasks on a “best skill” basis through processes that optimize service and cost issues across both internal and external resources.
- Aggressively shift skills and competencies that are obsolete (or soon will be) to positions of lower value within the IT organization. While commodity-level skills may continue to be necessary and important, they may not carry the same level of value to the organization. Make sure that everyone in IT understands this “performance and value” model and its implications.

## A case for transforming an IT organization with compensation benchmarking.

Several years ago, two financial services firms elected to merge—a difficult challenge that depended in great part on the outcome of an ambitious attempt to integrate the two companies' IT organizations. The obstacles were significant. IT resources and capabilities were scattered across 100 different locations. Each office made independent decisions with respect to recruiting, hiring, evaluation and compensation. Individuals with similar skills were compensated differently. Managers spoke often about “jobs,” but rarely about skill development, career planning or enabling the business. IT employee annual turnover averaged 30% to 35% and many open positions were left unfilled because the company could not attract new talent.

Early in the process, the new CIO engaged outside advisors to assist in developing a skills and performance-based IT career model that helped individual employees understand the value of their skills within the context of the business' growth plans, as well as which skills they would need to develop in order to increase their responsibility and compensation. This model then helped the CIO begin benchmarking IT compensation within the organization to comparable skill sets in the marketplace. When this analysis uncovered broad disparities in compensation levels, the CIO commissioned the development of a new skills and performance-based compensation structure that included new formulas for annual base salaries and bonus options.

Within a year, the CIO had completely restructured and revitalized the IT organization, focusing management and users on the highest priorities necessary to support the business. With key support from the new career model and compensation plan, the CIO reduced turnover among those with highly desirable skills by over 63%, and accelerated the turnover rate for those with skills that were no longer valued by the corporation. Based on a survey by an independent entity, IT employee morale had improved significantly, along with internal users' views of IT's contribution to the organization.

**How to design an incentives program that encourages continuous adaptation to the changing needs of the business.**

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- Design an IT rewards and compensation program based not only on specific performance but also on the advancement of skills.
- Value these skills at or above market rates.
- Award bonuses according to merit, situational circumstances and team performance.

**How to measure and evaluate individual performance that supports the IT organization's alignment with the business.**

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- Design evaluation procedures that address the following areas: performance and peer review processes, acquisition of business-aligned competencies and skills, internal customer surveys and measurement of achievement against individual annual performance objectives.
- Establish measurements that are relevant and meaningful in achieving the business objectives—not just the IT results.
- Create team-focused rewards and bonuses, in addition to individual ones, that foster the close-knit relationships necessary to sustain a high performing organization.

Expect transformational results.

When the right combination of IT skills are developed, when project-specific teams are assembled on a just-in-time basis, when the IT organization can be readily reshaped into virtual high-performance teams at an hour's notice, then companies will be able to increase the IT organization's effectiveness, productivity, speed and quality of service. Today, an agile IT organization can transform critical business process efficiencies and, through this contribution, bottom-line business performance itself.

## Managing IT Human Capital Model

### Leadership

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IT human resource leadership  
IT organizational management

### IT Competencies Model

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Current skill & resource development  
Future skill & resource development

### Disciplines

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IT human resource management  
IT performance measurement & evaluation  
IT sourcing & deployment  
IT rewards / compensation

### Outcomes

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Transform workforce capabilities & behavior  
Establish a culture of accountability  
Align human capital with business needs  
Field a motivated workforce

For further information, please visit  
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or call  
1.800.639.7576

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