

## Are IT Budgets too Big?

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**46¢ of every \$1 spent on IT could be wasted due to lack of process control. Can a new, easier and more agile "BSM least practices" framework help the 100,000 companies of the mid-market?**

THE AGE OLD CHOICE between expanding IT staffing and controlling IT costs may be a false one. The staff vs. budget argument is based on a false assumption – it improperly assumes that resources committed to IT are used efficiently and effectively. However, in the majority of IT organizations they are not. Here are some alarming statistics plucked from recent reports, headlines and presentations:

- 60¢ of every 1\$ spent on IT goes toward infrastructure, with operating expenditures (OPEX) taking 36¢. OPEX is mostly the “human” side of operations.
- 70% of all calls for support are a direct result of incorrect operating procedures.
- 8 out of 10 IT outages are caused by a failed change.
- 90% of mid-market IT organizations use manual processes.
- The “user to IT worker” ratio for the Fortune 1000 is 512:1, for the mid-market it’s 175:1, making mid-market IT 1/3 as effective as their larger cousins.
- Mid-market IT organizations have on average 6 standalone IT software tools; and research shows that trying to use these tools together is a primary productivity issue.
- 70% of IT projects fail – either cancelled (30%), as much as 189% over budget (40%), and/or deliver just 74% of the promised functionality. By these measures only about 20% of all IT projects can be considered a success.
- Fewer than 20% manage human capital (e.g., invest in training and skills improvement for staff) or actively measure systems or worker performance.
- Staff turnover can exceed 27% and IT has been identified as the most stressful occupation on earth.

If mid-market IT is only 35% as efficient as it could be, does that mean that at least 24% of mid-market IT budget is wasted? [ $36¢ \times 65\% = 24¢$ .] It sure seems possible. And this does not include the cost of IT project failure, which comes in at around 22¢ of every dollar -- 46¢ of every IT dollar seems to vanish due to waste. Clearly, all is not well in IT-land! So what is going on here, and more importantly, what can be done about it?

Following I describe the wrong solution, and offer one solution that offers hope.

### Easy (and Wrong) Answers

The easy (and incorrect) answer is that larger companies can afford to spend more on IT. In fact, the common response from IT management to business management is the need for more staff.

Unfortunately however, the “user to IT worker” ratio clearly shows that is not the case. Larger companies of the Fortune 1000 support almost three-times (2.9X to be precise) as many users per IT staff member than mid-market companies. Put another way, it appears larger companies are more efficient and effective than smaller companies.

Larger companies usually have teams focused on supporting specific IT technologies (e.g., operating systems, networking, security, databases, messaging, etc.) Mid-market IT organizations often have a more generalist approach with a shared team and few if any specialists. These teams work harder and have less time to dedicate to any particular technology or specialization. As indicated above, fewer than 20% manage their human capital toward improvement, and this contributes to a turnover rate that can exceed 27% per year, making the workplace even more chaotic and reactive.

This difference between Fortune 1,000 and the mid-market makes the mid-market a prime target for process oriented information technology management. However, as the numbers show, 90% of the mid-market uses manual processes – which is code for “does not have or follow defined operational processes.”

The very definition of maturity as it pertains to technology and organizations that manage technology uses the distinction between reactive and proactive as a major pivot point indicating operational efficiency, effectiveness, equity and economy. Yet fewer than 20% of IT organizations monitor performance, making them more reactive than proactive, and indicating a low level of maturity, utility and return on investment.

The next most common (and wrong) rebuttal is that IT doesn't have the tools it needs. Most organizations have plenty of tools. Statistics show that the average mid-market IT shop has 6 disparate management software tools. So many tools in fact that one of the top complaints of IT organizations is that they have too many tools.

Process defines how people use tools, making process at least as important as having the tool. But most immature organizations follow the “we are experts and just know what to do” school of thought. The argument is that “we don't need process” and that process actually gets in the way. I guess this simply cannot be true given the terrible track record IT has (please re-read the introduction.)

If there is any group that needs standard operating procedures and standard service offerings it's precisely these mid-market shared service organizations. So why is it that the group that needs things like IT Service Management (ITSM), IT Quality Management (ITQM), IT Governance, Risk and Compliance (ITGRC) and IT Project Management (ITPM) the most uses them the least?

## **The Obvious (and Correct) Answer**

The obvious (and correct) answer is that they are too busy to adopt huge frameworks like ITIL, Six Sigma, CobiT or formal IT Project Management. And of course the reason they are so busy is precisely because they have no formal processes.

The average IT organization is its own worst customer and responsible for most of the outages to which it finds itself reacting! In fact, most of the work going on in the average IT organization is not productive work at all, but rather is re-work.

The sad truth is that today's IT is no different from American farmers at the turn of the 18th century. In 1922 Henry Ford described the same issue that mid-market IT staff lives today. He wrote:

“I believe that the average farmer puts to a really useful purpose only about 5% of the energy he expends. ... Not only is everything done by hand, but seldom is a thought given to a logical arrangement. A farmer doing his chores will walk up and down a rickety ladder a dozen times. He will carry water for years instead of putting in a few lengths of pipe. His whole idea, when there is extra work to do, is to hire extra men. He thinks of putting money into improvements as an expense. ... It is waste motion – waste effort – that makes farm prices high and profits low.”

It seems that the same issues: manual processes, no thought to logical arrangement of work, the belief in the need for more staff, and low returns are here today in IT as well.

The mid-market needs a different approach to managing their work and environment. They don't have the time, money or human capital to adopt huge frameworks and the requisite integrated management software solutions from a big-5 vendor.

Any of the big IT frameworks alone are not sufficient, and in fact they all indicate the need for the others. Business Service Management (BSM), which combines elements of ITSM, ITQM, ITGRC and ITPM, is even scarier to the mid-market.

## Conclusion

What the mid-market can do is to pick and choose just those elements from BSM frameworks that solve pressing issues. Success with the frameworks like ITIL, Six Sigma, CobiT and Project Management comes from analyzing the people, process and products using tools like CMMI and SERVQUAL, and then choosing the minimum set – “the least of the best.”

They need the least amount of best practice possible – call it “BSM least practice.” Don't confuse “least” and “minimum” with less than required however. Instead think of it as exactly what is required – no more and no less.

Consider “BSM least practices” as what Six Sigma refers to as the “vital few,” or the 20% responsible for the 80% of issues according to Pareto Principle. You don't have to eat the elephant all at once.

Ford was able to achieve a 60-90% reduction in costs and dramatic competitive advantage through process control and workflow standardization. Mid-market IT has the same opportunity with “BSM least practices.”

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