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# IT Organization Position and Structure: Getting It Right

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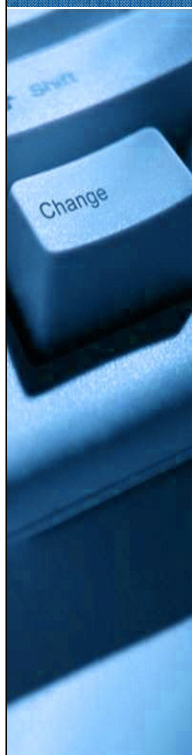
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### All Change: Role, Structure and Position of IT



At least, 75 percent of IT organizations will change their role by 2012.

At least 60%, of large IT organizations will divide into at least two organizations by 2012, one working on sourcing and delivery of infrastructure, another on architecture and change.

37% of IT professionals say most traditional IT organizations to be closed by 2012 (debate result from Symposium/ITxpo April 2007).

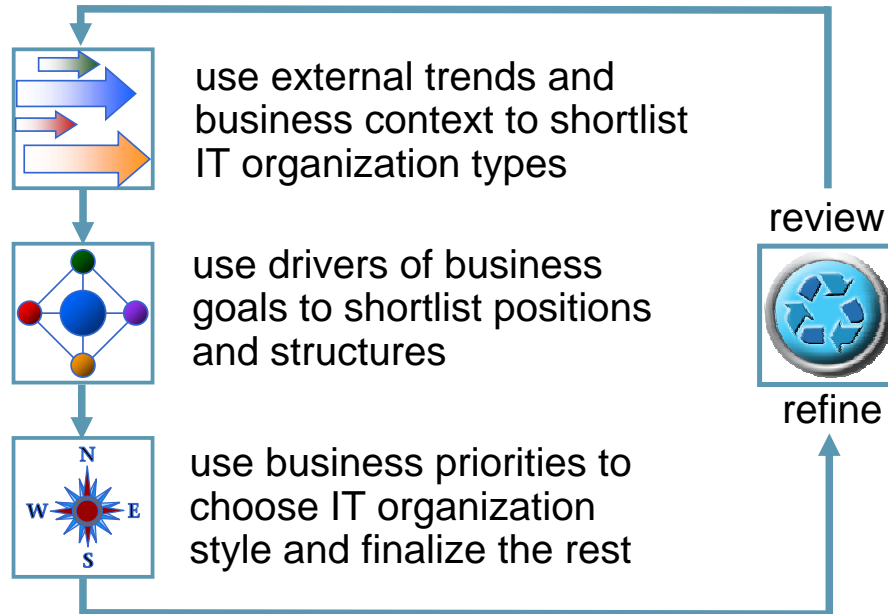
50% of business leaders expect significant mergers or equivalent restructuring by the end of 2008.

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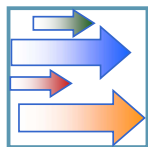
IT organizations are in transition. Their role within leading enterprises is moving from a technology focus to a focus on business processes and relationships. There are five major dimensions of IT organization transition to 2010. **Focus of the IT organization:** IT will shift its focus away from being a technology provider and toward managing sourcing and delivery of IT services, or creating and exploiting a framework of business processes and relationships. **Source of IT infrastructure:** IT will increasingly manage infrastructure sourcing, regardless of whether the source of the infrastructure is internal or external. **IT organization competencies:** IT will be expected to build capabilities in the areas of business processes, sourcing and relationships. **Complexity re-engineering:** IT will be expected to reduce technology complexity that inhibits business flexibility and efficiency, particularly in the areas of legacy hardware, applications and sourcing. This will mean preparing for service-oriented architecture (SOA), business process management (BPM) frameworks and utility computing. **Partnership sourcing:** IT will be called on to improve partnership sourcing by exploiting outsourcing outcomes and incentives defined in business terms. Overall, these build towards the business imperative for an agile, efficient and effective enterprise.

## Route Map for Selecting the Position and Structure of the IT Organization

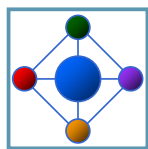


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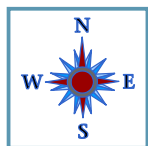
### Key Issues



What main factors determine the structure and position of IT?



What drivers are changing the position of IT?



How do the best positions for IT vary between organization types and industries?




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An IT organization's enterprise position and structure define where it reports, who owns it, how many IT units it has, and the division between central and business unit position. As IT's role transforms, making these decisions gets even more difficult.

Like most other aspects of the business structure, an IT organization's position experiences periodic change in most enterprises. Selecting and implementing the right position frequently are difficult for CIOs and other IT leaders because they need to meet the needs and expectations of a wide range of stakeholders in the business and in their IT organizations. The difficulty is compounded when the enterprise has several BUs or when it operates in several markets or geographical areas, although complexity is the underlying driver, rather than just size or geographical spread.

This presentation examines the options, the drivers for change and the ways the solutions vary between industries and types of enterprise. It gives principles and actionable advice to solve the problem.

**Key Issue: What main factors determine the structure and position of IT?**

Use Evolving Types of IT Organization to Select Strategic Target Role		
	<b>Type 1 Heritage</b>	<b>Tactical Technology Management</b> Deliver on promises; IT efficiency dominates
	<b>Type 2 Aligned</b>	<b>Strategic Technology Management</b> Align IT & business; IT strategic support drives
	<b>Type 3 Engaged</b>	<b>Business Systems Leadership</b> Enhance business; agility and business value drive
	<b>Type 4 Pervasive</b>	<b>Information and Process Leadership</b> Transform business inside and out Information & processes strategic assets drive
	<b>Type Z Community</b>	<b>IT Dispersed in Business</b> Business unit line management fully owns IT/OT sourcing & execution with few or no IT-specific roles


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IT organizational types are developing in response to the maturation of traditional applications of technology, the growing role of outsourcing and the greater penetration of technology into all aspects of business. Types 1 and 2 have been familiar for several years. Type 3 typifies many leading IT organizations in 2006. A new organization type is emerging — one that will take the lead on information and process. While it will grow from an IT base, its primary focus will be business transformation and strategic assets of information, process and relationships. When mature, it may no longer be identified as an IT organization. This parallels the evolving roles of IT leadership that Gartner has previously outlined, in which the strategic IT leadership role will split into business technology and business network leaders. An alternative evolutionary path (which Gartner calls Type Z because it's not part of the same evolutionary path as types 1 to 4) is for IT to be embedded in business as a dispersed commodity that is managed by business executives as part of their regular roles. In this case, IT will typically be sourced as part of a broader business process.

*Action Item: IT leaders — Identify your present and future organizational type and create personal and organizational development plans accordingly.*

**Tactical Guideline: Select IT organization structure to maximize the most important business asset and in relation to the IT organization type.**

Choose the Most Important Business Asset to Drive Structure of IT				
	Maximized Asset	Primary Structure	Matrix Mgmt.	IT Org. Type
<b>A</b>	economy of scale in IT assets and skills	technology silo	B	1 or 2
<b>B</b>	business alignment	business unit	A	2 or 3 and/or Z
<b>C</b>	service quality and effectiveness	IT service	B, A	2 or 3
<b>D</b>	business information, processes & relationships	business process or information	C, B, A	4 and possibly Z

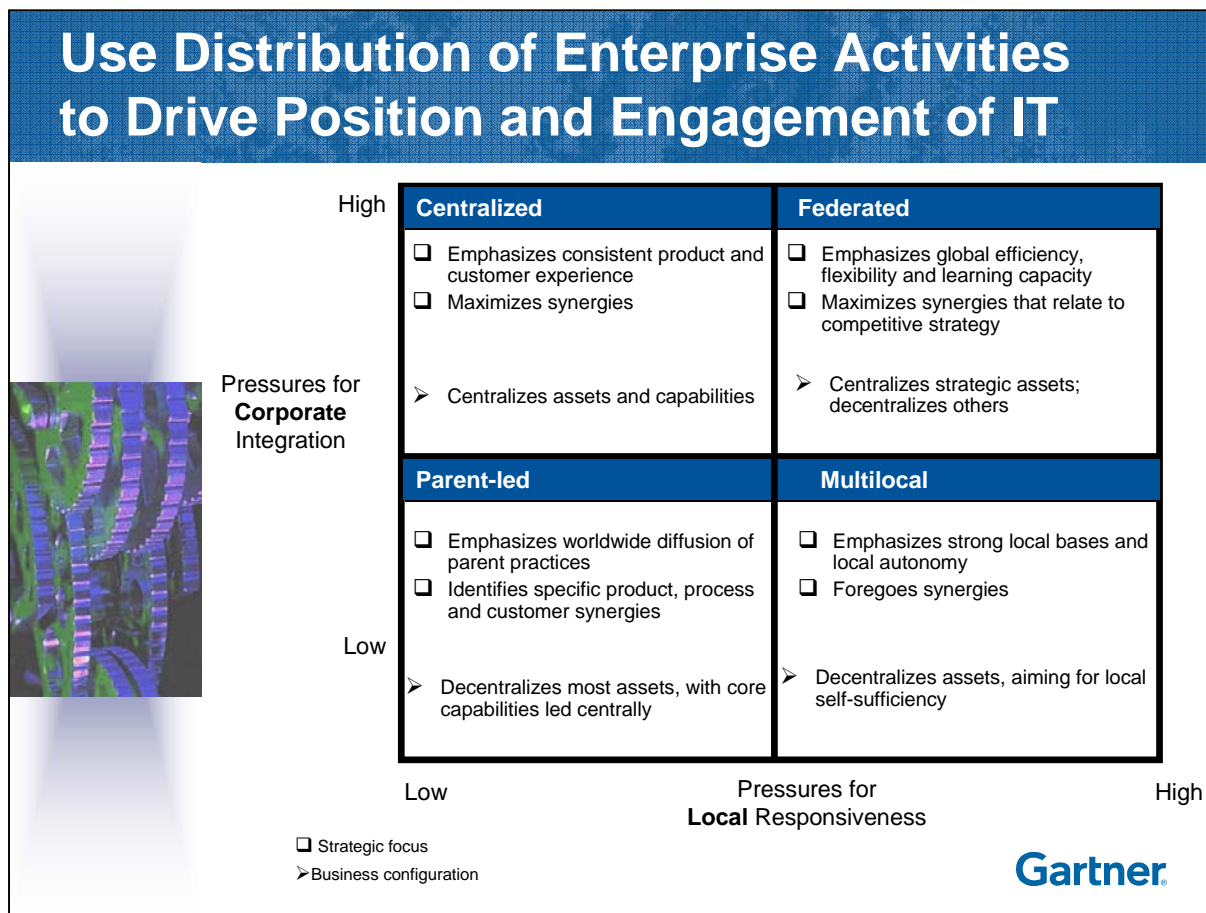


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The structure of an IT organization determines which assets of technology, people, service and process are developed and exploited. Almost all original IT organizations from the 1960s onward used technology as their primary structure. They had sections dealing with hardware and software, communications, security, and other areas. That allowed the expensive and scarce assets of equipment, software and technical skills to be consolidated and exploited to the fullest extent. This remains the most common structural choice, but it is lessening, and will be the least used by 2011 because of drivers for greater business alignment, service excellence and process focus. It is often augmented by a second structural dimension, which is a matrix management arrangement, bringing together all the resources related to particular business units.

Business-unit structure is the second most popular. It is sometimes implemented by locating IT within each part of the business, sometimes by having separate sections for each unit in a central organization and sometimes as a mixture. Typically, there is a second, matrix dimension for technology. The strongest growth, particularly in leading organizations, will be in structures based on IT service (see Gartner research on the ISCo model) and on assets of business process and information (that is, organization types 3 and 4).

*Action Item: IT executives should select IT organization structure to maximize the most important business asset and in relation to the IT organization type.*



There are four predominant business and IT global governance orientations, each with distinctive characteristics.

*Centralized* businesses strive to provide consistent product and customer experiences globally, and seek to maximize synergies by centralizing assets and capabilities.

*Federated* businesses aim for global efficiency as well as flexibility to adapt products and services locally, where possible. They maximize synergies relating to their competitive strategy, centralizing strategic assets and decentralizing the others.

*Parent-led* businesses seek to adapt parent business policies and practices across the local businesses when they can achieve specific synergies for certain products, processes or customers. Most assets are decentralized though.

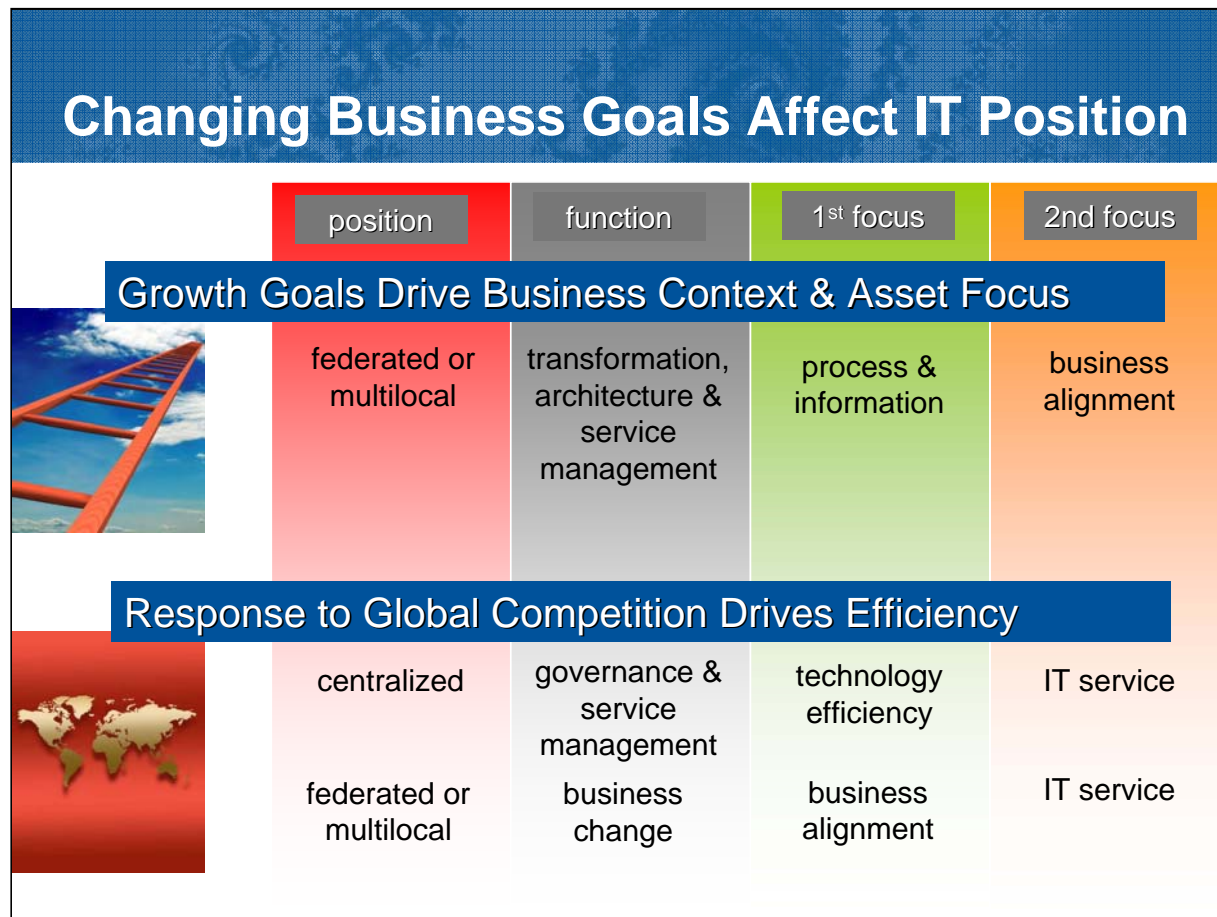
*Multilocal* businesses build strong local bases and emphasize local self-sufficiency.

Of the four, the two that appear most similar at first sight are *federated* and *parent-led*.

The key distinction between these two is that in *federated*, more assets are centrally coordinated; in *parent-led*, assets are mostly decentralized, except for those associated with specific core capabilities.

Parent-led is used very little. The majority of enterprises are or aim toward the Federated orientation although there are many variations of how that's implemented.

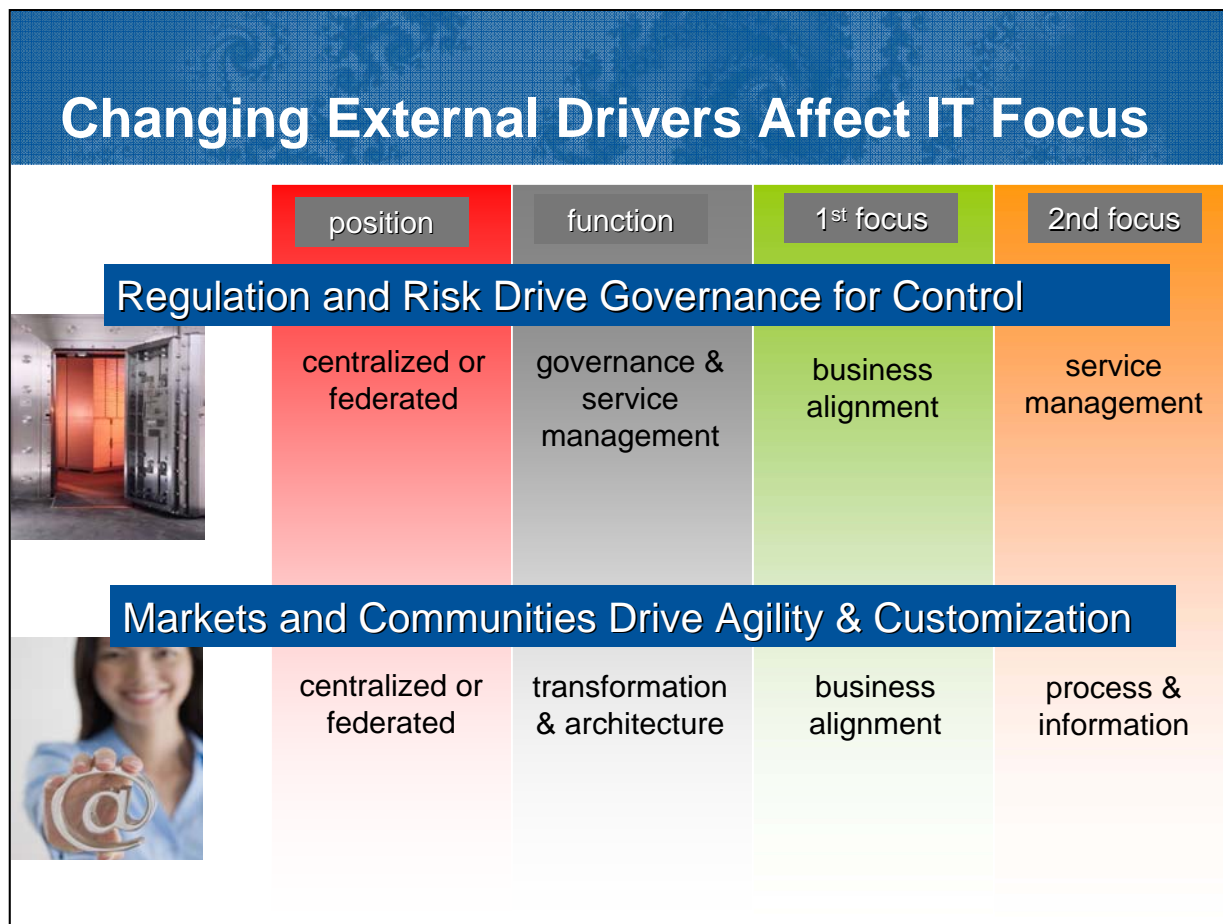
## Key Issue: What drivers are changing the position of IT?



Enterprises seeking growth usually aim to generate innovation close to customers and markets by using federated or multilocal orientations. Their goal for IT is creating transformation and agility and they use architecture and service management to do that. Their primary focus is on business process and information and their secondary focus is on business alignment. In some leading companies, this primary/secondary order is reversed to use business alignment to drive agility and innovation close to markets.

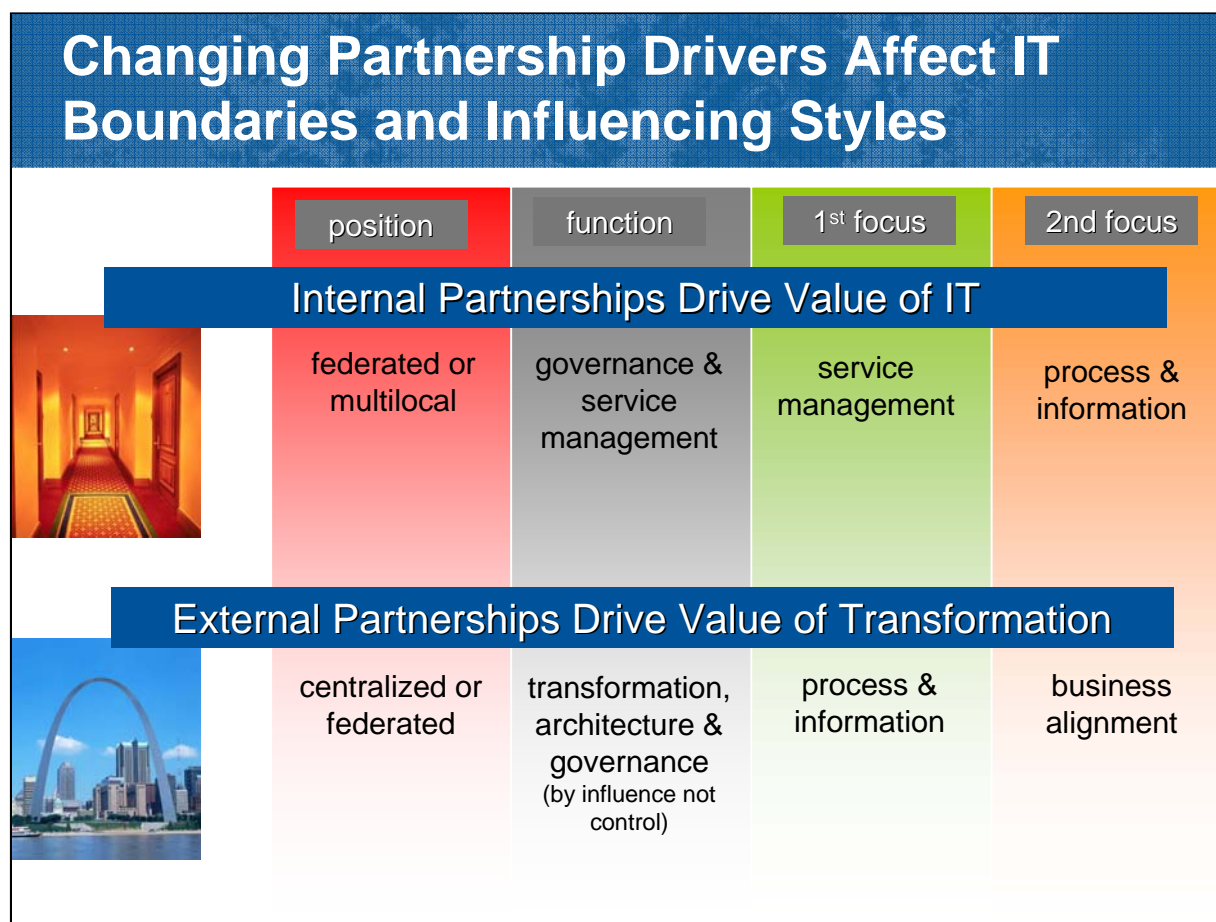
In contrast, enterprises responding to global competition typically drive for economies of scale. That, in turn, drives IT to centralize governance and service management around technology and IT service assets to create efficiencies and economies of scale. However, the typical enterprise response to global competition is also to devolve business change to federated or multilocal orientations. The consequence for IT organizations is that they use federated or multilocal business alignment as the primary focus for business change, combined with centralized IT service delivery.

It's not unusual of course for a large or complex enterprise to combine growth goals with a global competitive strategy. In those cases, the IT organization needs to use multilayered structural and position solutions. Excellent coordinative governance is required in such situations.



When regulation and risk management are dominant enterprise drivers, the response is typically a centralized or strongly-linked federated orientation. That drives the IT organization to concentrate on governance for control of risk and assurance of compliance. Typically, it uses business alignment as its main focus and service management as its second focus.

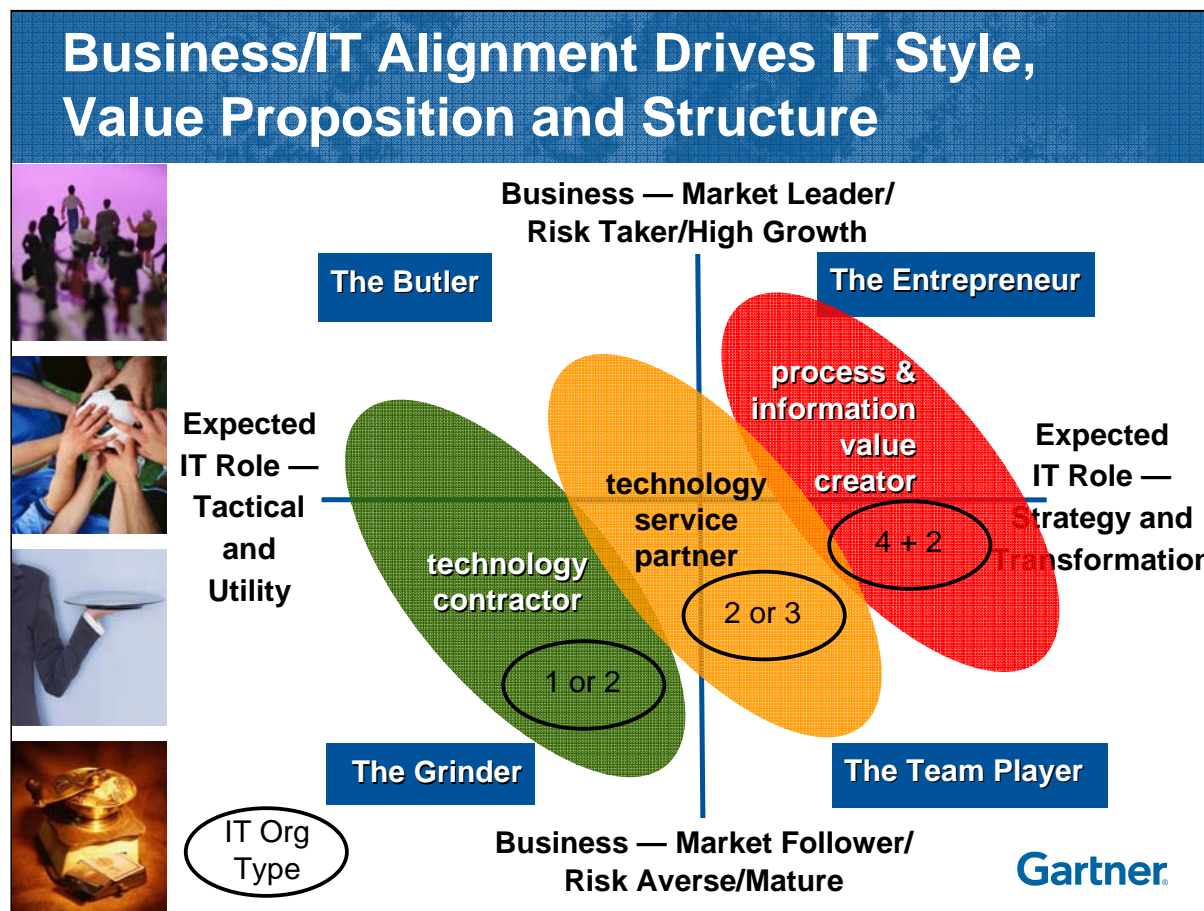
Turbulence of markets and power of communities (particularly of consumers) drive enterprises to strategies of agility and customization. Typically, they use centralized or federated orientations, either preferring to have all their responses created in one corporate position or, in more complex and responsive enterprises, aiming to combine benefits of co-ordination with those of closeness to business-unit insights into markets and customers by using the federated style. This drives the IT organization to use whichever is the dominant enterprise orientation, centralized or federated, for its transformation management and architecture because those are the two most important functions for delivering agility and customization goals. Business alignment and process/information are the two top focus issues for such IT organizations. As with combined business goals, it's not unusual for a large or complex enterprise to combine regulatory concerns with market goals. The IT organization needs multilayered structural and position solutions, possibly combined with multilayered business goal responses. Such complexity demands very clear leadership and well-coordinated governance.



The effectiveness and ease of formation of partnerships between business units and increasingly between enterprises will be a critical enterprise differentiator for surviving tough times, finding a way through the global economy and achieving growth. This is one of the major forces reshaping the context for IT organizations away from internally oriented value sources such as efficiency and control or technology asset optimization, toward externally-oriented, IT-enabled business models and processes. These value sources are themselves more complex for the IT organization, because they engage processes, stakeholders and activities over which the IT organization has little or no direct control. This requires new leadership behaviors and skills for ensuring coordinated visions, strategies and tactics between the IT organization and the wider enterprise and the business environment beyond.

All this drives change in IT organization structure and position. The effect is to position IT more strategically and to focus it externally, meaning its structure gives greater prominence to architecture for the value chain beyond enterprise boundaries.

**Key Issue: How do the best positions for IT vary between organization types and industries?**



IT leaders should connect their organizational and personal value contributions with the style and market position of the business as a whole, combined with the expected contribution from IT. They should use multilayered value propositions where required by the size or complexity of the business. **The Grinder**-dominant choice of value proposition is technology contractor, if the business is strongly technology-oriented and the IT contribution is strongly cost-driven. An alternative choice is technology service provider when the Grinder alignment style also contains elements of the Butler or the Team Player. **The Butler**-dominant choice of value proposition is technology service provider, unless the contribution of IT is very strongly cost-oriented. In that case, the technology contractor is more appropriate. **The Team Player**-dominant choice of value proposition is technology service provider. Most Team Player situations also require basic services delivered by Grinder alignment. In some enterprises, both Contractor and Partner value propositions exist, one each in separate IT organization. **The Entrepreneur**-dominant choice of value proposition is process and information value creator, because in the Entrepreneur situation, those assets must be synthesized across the business and exploited. Most Entrepreneur situations also require Team Player, Grinder and sometimes Butler approaches. These are usually delivered by an IT organization with the technology service provider value proposition. The two value propositions will increasingly be delivered by separate organizations in the enterprise, one Type 4 and one Type 2.

## Your Priorities Are Efficiency and Security? Use Service Management and Centralization

 <ul style="list-style-type: none"><li>★★★★ best</li><li>★★★ good</li><li>★★★ just ok</li><li>★★★ poor</li></ul>	<b>The Butler</b> ★★★★★ 	<b>The Entrepreneur</b> ★★★ 
	<b>The Grinder</b> ★★★★★ 	<b>The Team Player</b> ★★★ 


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For enterprises or parts of enterprises where efficiency and security are dominant issues, the Grinder style of IT organization is typically the best. Regulated utilities such as electricity generation and distribution are examples.

The Butler style is also appropriate if the enterprise also has substantial growth ambitions combined with its concerns for efficiency and security.


The Team Player style is much less effective. The Entrepreneur style is a poor match, and likely to be an impediment to efficiency and security goals.

## Your Priorities Are Mergers and Coherence? Use Governance and Federation



  

- ★★★★ best
- ★★★ good
- ★★ just ok
- ★ poor


**The Butler** ★★★




**The Entrepreneur** ★★★



**The Grinder** ★★★



**The Team Player** ★★★



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For enterprises or parts of enterprises where mergers are important and the need for coherent activities throughout the whole business is significant, the Team Player is the best style. Major financial institutions are typical examples. They need synergies of products and services to cross-sell and up-sell across their customer bases, and the leaders use architecture of processes, information and technology to facilitate that in a Team Player IT organization that is very well connected to business activities.

In some utility organizations, an Entrepreneur IT organization acts to facilitate business transformation around the physical business infrastructure as well as creating centers of excellence that can assimilate and exploit assets acquired in mergers.

Many global corporations that operate in emerging markets use Butler-style IT organizations in those countries and regions to ensure technology does not impede business growth or flexibility.

The Grinder style is the least effective for these business goals, although once a merger is completed, some of the IT work in the new steady state may transfer to a Grinder-style organization.

## Your Priorities Are Agility and Customization? Use Architecture, Alignment and Partnerships



- ★★★★ best
- ★★★ good
- ★★★ just ok
- ★★★ poor

**The Butler**

★★★★



**The Entrepreneur**

★★★★



**The Grinder**

★★★



**The Team Player**

★★★★





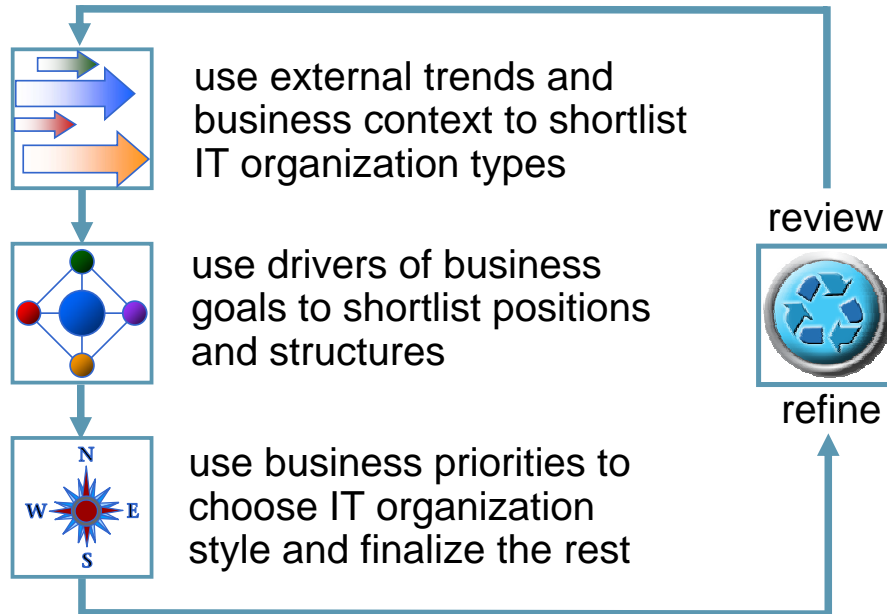
Leading enterprises with goals for agility and customization typically develop Entrepreneur-style IT organizations. Several major pharmaceutical corporations are examples, using business process transformation fused with IT to create new source of business insight and value.

The Butler style is a good choice, too. For example, some natural resources companies such as oil and gas exploration and processing invest proactively in IT linked with their operational engineering capabilities to identify novel ways to find resources or to exploit exiting ones.





The Team Player style is used to good effect for customization goals by other enterprises. Major retailers, for example, embed technology capabilities in their product and service design teams with initiatives such as loyalty cards and product cross-selling facilitated by well-aligned and responsive IT organizations.

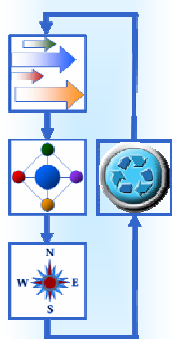
The Grinder style, inherently more monolithic and less flexible than the others, is a poor solution to agility and customization goals.


## Route Map for Selecting the Position and Structure of the IT Organization



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Summary: Selecting the Position and Structure of the IT Organization		
	tactical efficiency technology contribution	strategic effectiveness technology contribution
alignment type	 grinder  butler	 team player  entrepreneur
federated business structure	coordinated, IT support service, multisourced Type 2, 3 and/or Z	shared strategy and infrastructure; multilocal development and support Type 3 or 4 + 2 and/or Z
multilocal business structure	multiple IT orgs owned by BUs or multi-outsourced Type 2, 3 and/or Z	multiple BU-based strategy, infrastructure and applications Type 2, 3, 4 + 2 and/or Z
centralized business structure	single in-house or outsourced support service Type 2 or 3	central strategy, infrastructure and applications Type 3 or 4 + 2





The table shows the typical choices for positioning the IT organization within an enterprise structure in relation to the two key factors of business orientation and intended IT contribution. These are extremes. Actual situations often require a blend of choices, but it's important to understand the components of that blend and to make explicit, managed choices, which should be reviewed as circumstances change.

*Action Items: IT leaders should use the table to identify the best choices for position and structure of IT within their enterprise.*

**Recommended Gartner research:** "Answers to the Perennial Question of How to Organize IT" (G00136667); "Consolidating IT: How to Score the Benefits and Barriers" (G00113894); "Global IT Leaders Must Choose From Multiple Organization Styles" (G00144038); "How to Assess Your IT Organization's Structure" (G00142041); "How to Determine Whether the Matrix Organizational Structure Is Right for Your Organization" (G00129237); "The Reality of IS Lite" (G00117022); "There's No Single, Right Answer for Organizing IT" (G00129886); "Adopt Multisourcing as a New Management Discipline" (G00141763); "The Six Myths of IT Service Management" (G00141173); "Shared Services Differ From Centralization" (G00127212); "How to Best Position the IT Organization in Your Enterprise" (G00147374); and "The Period to 2012 Will Be Years of Transition for IT Organizations and IT Management" (G00137063).

# Recommendations: Use Seven Guiding Principles for IT Position and Structure



### Short term

1. Create strategic goals for IT that follow choice of value contribution and business asset focus.

### Midterm

2. Use strategic goals to create IT processes.
3. Use IT processes to identify relationships, competencies, resource needs and sourcing options.
4. Design pattern of IT position to follow enterprise structure (such as central or federated).
5. Then develop the organization chart.

### Long term

6. Use the goals, assets and processes, not the organization chart, as your ongoing management tools.
7. **Review and adjust regularly: There is no single right answer and the right answer changes.**

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*Action Item: IT leaders should use these principles to design, implement, manage and review the position and structure of their IT organizations.*