White paper
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IT service management in an uncertain economy: Resetting IT priorities in the financial services industry

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According to a global survey of CIOs and other IT investment owners, organizations are reprioritizing IT projects in response to economic change, and they are specifically using service management best practices to optimize IT-enabled business activities.

Executive summary

Recent economic turmoil and uncertainty are driving important changes in how financial services organizations are investing in IT, according to a global survey of CIOs and other IT investment owners conducted by IBM during December 2008 and January 2009. The results indicate that organizations are reprioritizing IT projects in response to economic change, and that they are specifically using service management best practices to optimize IT-enabled business activities.

The survey consisted of blind interviews with IT investment decision-makers in 421 organizations, including 42 financial services organizations. In every industry, those surveyed identified economic uncertainty as the number-one business issue currently affecting IT investment priorities. The financial services industry—including banking, investments and insurance—reported the highest percentage of respondents identifying economic uncertainty as the number one issue, reflecting the especially intense economic pressures that have been brought to bear on this industry in particular.

The current economic and market conditions that these organizations face have had a significant impact on enterprise budgets. But IBM's survey showed the opposite to be the case for IT budgets. The vast majority of IT decision makers (85 percent), in financial services and across all industries, reported budgets remaining flat or changing only slightly. Just 9 percent of those in financial services reported significant budget reductions, while 21 percent indicated that they were *increasing* their investment in IT. And 6 percent of financial services organizations indicated they would be *significantly* increasing their IT budgets in response to current economic and market

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conditions. IBM believes that these IT investments are continuing because these companies recognize that in uncertain economic times, IT services can not only help the enterprise as a whole to operate more effectively and efficiently but also provide competitive advantage. The IBM study indicated that most organizations, globally and across industries, view the primary role of IT as providing quality and reliable IT services that support business requirements. Financial services organizations were also disproportionately more likely than other industries to also expect IT to be an innovator, to research and recommend enterprise strategic objectives, to identify opportunities for innovation and to develop new business areas or services.

CIOs are driving a strategic and planned approach to building out the digital platform the business relies on, as well as making corresponding investments to improve their ability to manage it.

Leading CIOs are taking a business-driven approach to setting IT investment priorities today. This is a significant challenge because organizations as a whole are facing increasingly volatile conditions and changing business requirements for IT services—with relatively flat IT budgets. In order to optimize the business value of relatively flat IT investments, CIOs have to first ensure that the required areas of spending are funded, such as compliance, security, and better ways of managing the increasingly complex portfolio of IT systems the business depends on. Once these required areas are taken care of in the budget, CIOs in the financial services industry prioritize IT investments to improve the quality and reliability of specific IT services to better support the most critical business activities. Essentially, these CIOs are driving a strategic and planned approach to building out the digital platform the business relies on, as well as making corresponding investments to improve their ability to manage it.

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The financial services industry is undergoing substantial transformation, characterized by mergers, acquisitions and new business-to-business relationships, as well as a tidal wave of new and expanded government regulation.

The impact of an uncertain economy on the financial services industry

While businesses across the board have been hit hard by recent adverse economic developments, the impact in the financial services industry has been particularly profound, and the consequences have been far-reaching. The entire industry is undergoing substantial transformation, characterized by mergers, acquisitions and new business-to-business relationships, as well as a tidal wave of new and expanded government regulation.

To cope with rapidly and dramatically changing business conditions, financial services companies must be dynamic and flexible—responding quickly and effectively to:

- *Keep pace with compliance requirements, yet minimize costly operational disruption that can be associated with meeting compliance objectives.*
- *Build out the digital platform of IT services that support, enable or automate just about every business process, business service and supply chain activity. The new business infrastructure is not just the physical infrastructure, but the digital infrastructure that provides the integrated platform of IT-enabled business services that make up the enterprise.*
- *Invest in improving their ability to manage this critical business infrastructure of IT services to reduce business risk and meet stringent compliance requirements.*

Doing this requires establishing a focus on managing IT-enabled business services, rather than a technology-centric view of IT priorities. As many organizations are now realizing, the integrated digital platform of the business increasingly enables competitive differentiation as well as better control of costs and risks. This foundation is critical to growing market share and improving revenue and profit.

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Financial services CIOs and other IT decision makers are reprioritizing IT investments to optimize key business processes and specifically using service management best practices to improve the quality and reliability of IT services.

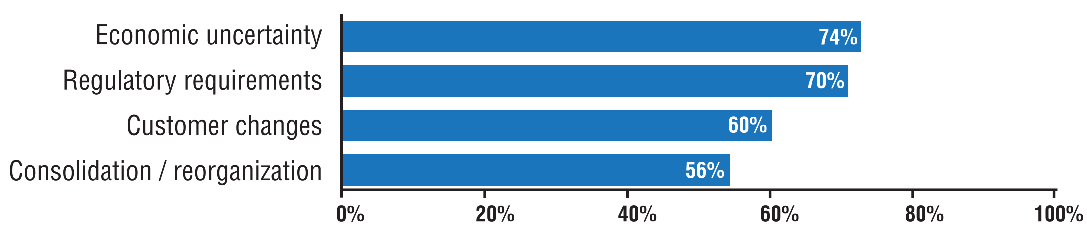
The overwhelming majority of IT decision makers in the financial services industry see economic uncertainty as the issue having the greatest effect on strategy and planning in their businesses.

To find out how financial services CIOs and other IT decision makers are navigating the economic turmoil and addressing the challenges of change, IBM surveyed IT and business leaders in charge of their companies' IT investments. The results show that the uncertain economy is driving changes to enterprise priorities and, in turn, IT priorities. Increasingly, IT decision makers are using IT budgets not just to make technology available by keeping it up and running, but to make IT an enabler of business improvement. To accomplish this, they are reprioritizing IT investments to optimize key business processes and specifically using service management best practices to improve the quality and reliability of the IT services the business depends on.

The effect of intense business requirements for IT

As Figure 1 shows, the overwhelming majority of IT decision makers in the financial services industry see economic uncertainty as the issue having the greatest effect on strategy and planning in their businesses.

Figure 1: Issues affecting business strategy and plans in the financial services industry



Source: IBM Market Insights, *Service Management in an Uncertain Economy*, January 2009.

Today, economic uncertainty is the leading external influence on business strategies and plans.

These companies are recognizing that in uncertain economic times, IT services can become a catalyst for productivity and efficiency across the organization. Because of the costs and risks related to IT services, business investment decisions have put a disproportionately high priority on improving service management as a strategic asset. These businesses have realized that just cutting costs within IT has limited business benefit and introduces unacceptable levels of risk to the entire organization that depends on the quality and reliability of IT services for efficiency, compliance, security and even competitive differentiation. If IT is 10 percent of the operational expense of a financial services business, cutting IT by 50 percent will yield only a 5 percent reduction in business operational expense, but will most likely unacceptably expose the other 90 percent of the business to significant new problems, risks and competitive disadvantage.

The challenge for IT is to respond to economic pressures by enabling the organization to get more value from the capabilities and resources it already has. This means understanding the new business priorities and then resetting IT priorities. For instance, it becomes more important to use IT to improve efficiency and reduce costs associated with business activities than to make new capital investments. Reduction in capital expense to improve the cash position has a major impact on which IT programs get funded. Projects with significant capital expense are very often cancelled or deferred. Those that are not cancelled or deferred are typically projects that enable smarter approaches to technology, such as standardization, rationalization, consolidation and virtualization of IT resources (network convergence, server consolidation, storage virtualization), and deployment of smart connected devices enabling enhanced information access and productivity in mobile workforces.

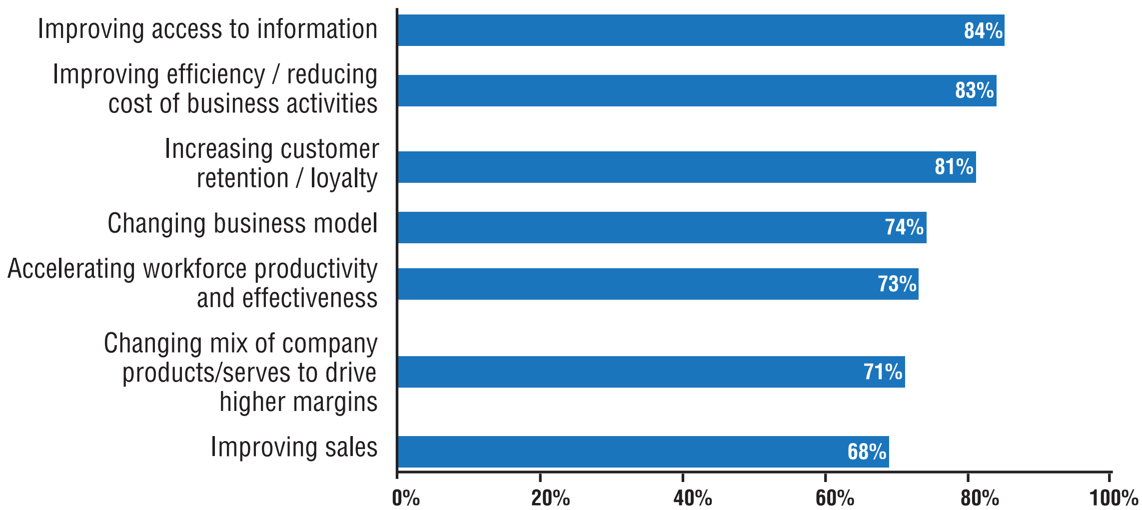
Highlights

The process of defining IT priorities to support business requirements begins with understanding current business priorities and then determining the impact of those priorities on IT plans.

Setting IT priorities to support business requirements

The process of defining IT priorities to support business requirements begins with understanding current business priorities and then determining the impact of those priorities on IT plans. The most commonly reported financial services priorities impacting IT investment plans were: improving access to and leveraging customer information, improving efficiency / reducing costs of business activities, and increasing customer retention. Figure 2 indicates the percentage of IT projects continued, expanded or initiated as a result of the influence of these objectives.

Figure 2: Effect of business objectives on IT priorities in the financial services industry



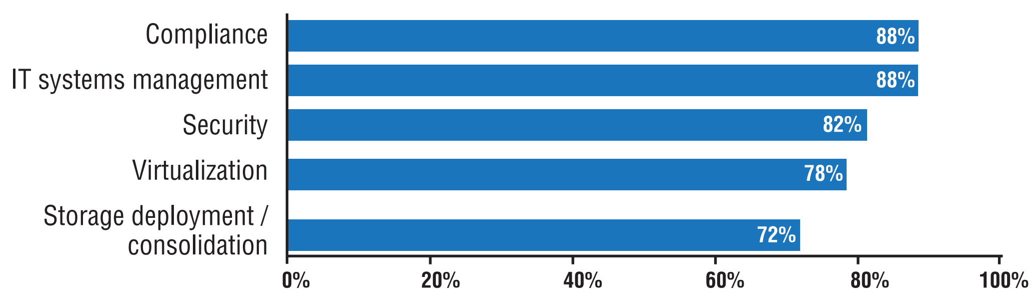
Source: IBM Market Insights, *Service Management in an Uncertain Economy*, January 2009.

Business objectives influence the percentage of IT projects that are continued, expanded or initiated.

The next step in establishing IT priorities to support business requirements is to determine which critical business processes depend on the quality and reliability of IT services, then to map those critical business processes to the IT services that support or enable them. Critical and regulated activities like processing financial transactions and accounting, as well as potentially differentiating IT services that provide integrated access to customer information, are typical top priorities. After establishing business priorities that impact IT plans, IT decision makers then begin to reprioritize IT projects.

Figure 3 examines the effect of the economic and business environment on IT programs and projects, as expressed by the percentage of programs and projects continued, expanded or initiated in specific areas. It reflects the reality that there will always be mandatory areas that must take precedence; in the financial services industry, compliance and systems management are by far the most important.

Figure 3: Effect of economic / business environment on IT priorities (essential areas)



Source: IBM Market Insights, *Service Management in an Uncertain Economy*, January 2009.

The economic and business environment influences the types of IT programs and projects deployed.

Highlights

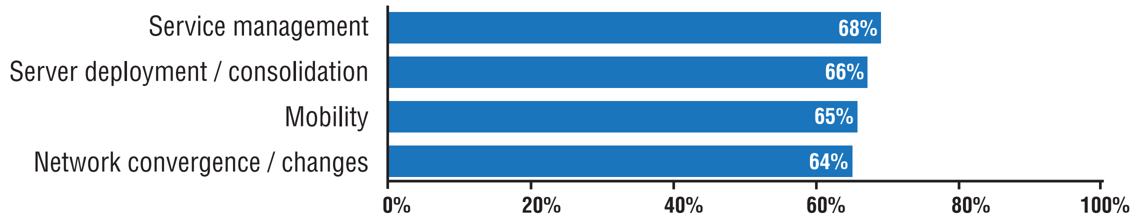
Compliance is a more pressing concern for financial services than it is for any other industry, with 88 percent of projects in this area continuing, expanding or being initiated. Healthcare respondents provided the next highest figure, at 75 percent. Like financial services, healthcare is one of the most heavily regulated industries.

Systems management ranks as high as compliance, which is understandable given that the business infrastructure that is required to enable market survival for today's financial services company is increasingly an integrated digital platform of IT-enabled business services. Today's financial services business infrastructure is more about applications, information and supporting infrastructure configured as services than it is about buildings and offices. Building out this new business infrastructure, and managing the cost and quality of this integrated digital platform, is the top priority for leading CIOs today. These activities also explain why technology virtualization and storage consolidation, at 78 percent and 72 percent, are also high on the list, coming only after security. A scalable and manageable IT infrastructure is required to provide the resilient basis for quality services.

Smarter management of IT services is the top business-driven priority for IT. Service management builds on foundational capabilities that provide the basis for the reliable IT services required by the business.

Smarter management of IT services is the top business-driven priority for IT. Service management builds on foundational capabilities—security, compliance, managing IT systems, and virtualizing and consolidating the physical infrastructure—that provide the basis for the reliable IT services required by the business. As shown in Figure 4, the percentage of service management projects continued, expanded or initiated as a consequence of the economic and business environment was 68 percent—ahead of technology areas such as server deployment, mobility and network convergence.

Figure 4: Effect of economic / business environment on IT priorities (non-essential areas)



Source: IBM Market Insights, *Service Management in an Uncertain Economy*, January 2009.

Service management tops the list of IT priorities once industry-critical needs have been met.

As reflected in these figures, service management is critical to managing a dynamic infrastructure that can respond to rapidly and dramatically changing economic and business conditions. By integrating service management with consolidation, virtualization and other aspects of a dynamic infrastructure, financial services companies can improve service quality, reduce business costs, and manage risks. The following table lists the kinds of service management projects in financial services organizations that were maintained, expanded or newly initiated as a result of new business priorities.

Objective	Approach	Priority projects
• Improve the quality or reliability of IT services	• External provider for process design improvement • External provider for software implementation	• Service strategy, portfolio, catalog and service request management • Service level and availability management • Governance of service management • Incident, problem and service desk • Education, training or briefing services • Event management and monitoring
• Increase workforce productivity	• Internal process design project • External provider for software implementation	• Service level and availability management • Event management and monitoring • Performance and capacity management • Education, training or briefing services
• Reduce or control costs	• Internal project to design process improvements • Project with external provider to implement software	• Asset and configuration/change management

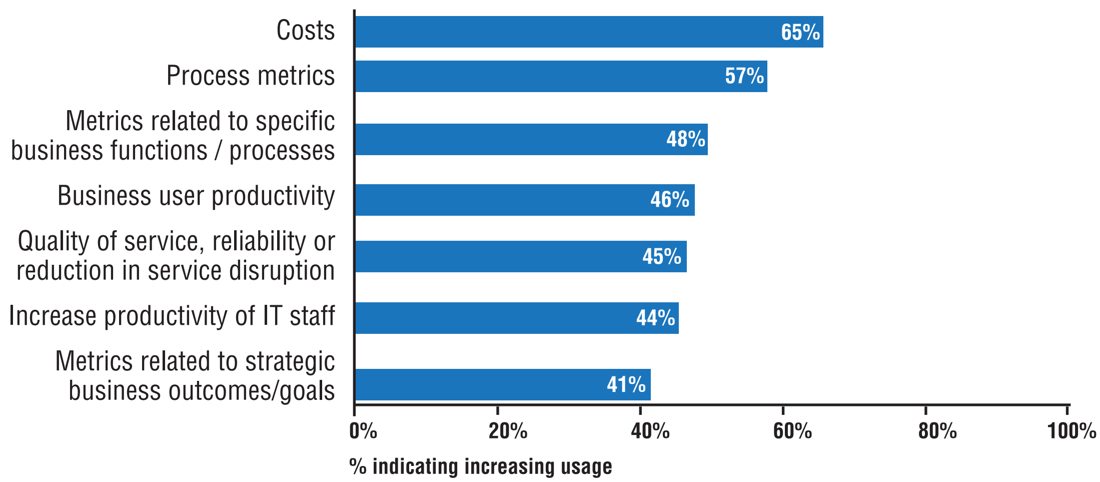
Highlights

IBM's study shows that financial services companies place a higher-than-average focus on process and business-oriented metrics, when compared to other industries.

Measuring the value of IT projects

When it comes to measuring the value of IT service management projects, IBM's study shows that financial services companies place a higher-than-average focus on process and business-oriented metrics, when compared to other industries. As illustrated in Figure 5, IT leaders in this industry expect to greatly increase the use of metrics related to costs, processes, and specific business functions.

Figure 5: Changes to IT service management metrics in the financial services industry



Source: IBM Market Insights, *Service Management in an Uncertain Economy*, January 2009.

Financial services IT leaders are increasingly focused on process and business-oriented metrics.

IBM's survey also asked IT decision makers in financial services to describe what they saw as the most common inhibitors and critical success factors for achieving value through service management initiatives. They tracked closely with their peers in other industries in describing insufficient funding as the main inhibitor to achieving ROI and in crediting communication with stakeholders as the main contributor to generating value. Successful CIOs focus their service management improvement plans on improving the quality and reliability of IT services that matter the most in today's business environment. Rather than focusing on optimizing technology subsystems or individual processes, successful CIOs start their service management plans by focusing on optimizing critical IT-enabled business services. This approach enables them to gain sponsorship for the projects as well as to ensure that value is delivered. Process improvement initiatives are then more successful when they focus on achieving business outcomes.

Conclusion and recommendations

According to the results of the IBM study, IT leaders in the financial services industry are reprioritizing IT projects to focus on optimizing IT-enabled business processes. Accordingly, once they have met urgent requirements in areas such as compliance, systems management, virtualization/consolidation and security, they are investing in smarter management. This business-driven approach to service management emphasizes the role IT services can play in improving the efficiency and effectiveness of the organization as a whole rather than on the type of cost-cutting within IT that can produce negative and unacceptable business risks.

The study results point to the following key recommendations:

- *Improve the quality and reliability of IT services that process financial transactions, provide integrated access to and leverage customer information, improve customer loyalty and retention, enable workforce productivity and support compliance.*
- *Prioritize smarter ways of doing things through service management and technology consolidation.*
- *Revise measurements and reporting to provide more visibility to process performance, quality of service, outcome metrics, costs, and business value.*
- *Change the focus from technology and optimized subsystems to optimization of IT-enabled business activities. This includes building out the digital platform of the business and improving the ability to manage it as the new business infrastructure.*
- *Apply some investments to tactical quick wins—but also work toward eliminating service-quality inhibitors through longer-term strategic initiatives.*

In today's uncertain economy, companies are no longer focusing on optimizing technology or process subsystems. They are working to improve IT-enabled business activities through smarter management and improved measurement practices that focus on IT service quality and business outcomes.

For more information

For more resources and information on service management, contact your IBM sales representative or IBM Business Partner, or visit **ibm.com**/services/us/cio/optimize

About IBM Service Management

IBM provides industry-specific business solutions, including application innovation services. We provide the business planning, model innovation and service-oriented architectural approach to the design of the digital platform on which the business relies. IBM also provides the infrastructure planning, design and implementation needed by the application innovation. Service management strategy, assessment, planning, design and implementation services can help organizations take a business-driven approach, improving their ability to manage the digital platform. Additional options are available for organizations that prefer to outsource some or all of their IT services to a reliable and scalable partner.

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