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Mind the Gap
*Finding Where
IT Skills Fall Short
In Financial Services*



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EXECUTIVE SUMMARY

Recently, a global bank offshored a significant part of its IT development and maintenance functions. The initiative was expected to save up to 30 percent of IT operating costs. However, the bank neglected to examine closely enough the capabilities of the residual IT teams, which were lacking in significant skill sets—architecture design and the management of vendors and service level agreements, among others. Offshoring brought these gaps to the fore because the remaining teams in the IT group at the bank had lost some of the internal knowledge about technology developments that was critical to doing their jobs well. But by the time the bank learned of these issues, it was too late to avoid further problems: Service levels suffered badly and a new product rollout was delayed by more than nine months.

Typically, such IT issues surface only after a major service incident or project failure, and they can sink new projects or, more important, seriously harm business activities. Some companies tackle IT talent concerns by recruiting aggressively. But recruitment alone is not the answer: The talent war makes it difficult to find the right people for the most important jobs, and new recruits can take up to a year to train before they fully adapt to the new environment. To address these issues, Booz & Company has developed a capability assessment framework that can identify shortfalls in IT skills and capability targets based on the overall business strategy. This framework also provides a road map for improving IT teams' efficiency, value, and return on investment.

THE CHALLENGE FOR CHIEF INFORMATION OFFICERS

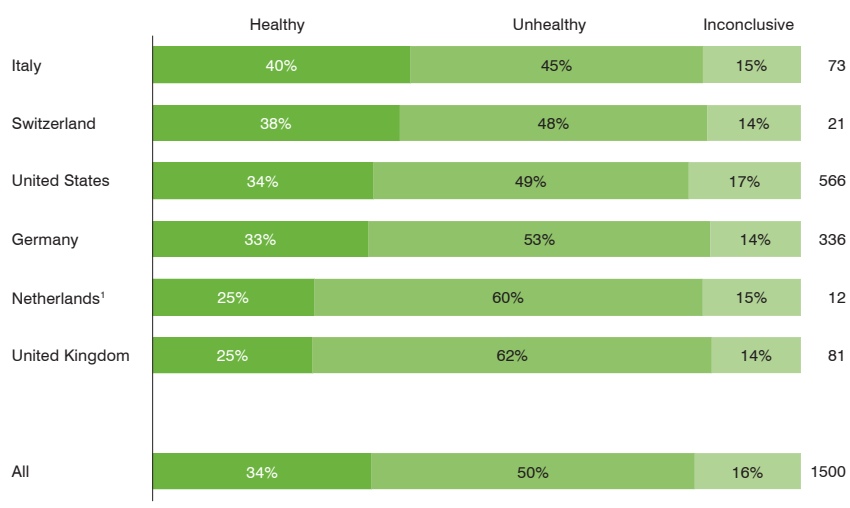
CEOs and shareholders of financial-services firms are putting more pressure on executives to deliver value that can have a direct impact on the bottom line. Support functions like IT are thus increasingly expected to help business units do their jobs, rather than simply provide strategic thinking. Consequently, it is of paramount importance that CIOs and other IT executives position and align the company's IT skills to increase value by having the right capabilities at the right places in the organization.

Misalignment among corporate strategy, IT strategy, and IT capabilities is nothing new; it has led to underperforming IT functions for years. In a recent Booz & Company survey of 1,500 companies across various sectors, more than 50 percent of IT functions within organizations were diagnosed as "unhealthy," reflecting a real gap in IT staff capabilities (*see Exhibit 1*). And a Booz & Company survey of 50,000 individuals working in global companies found that 65 percent of IT functions view their departments and companies as unhealthy.

CIOs globally face a continuing struggle to staff IT departments. Typically, staff capabilities are inadequate; workers may be adept in different coding languages than those required by the firm, or they are not at the required proficiency level in the languages that the firm uses. Moreover, in some areas, staff capabilities may be lacking altogether—that is, firms can't find people with specific legacy-systems skills, especially when they have developed custom systems. This was the case recently at one European insurance company, which had to hold on to a handful of retirement-age engineers to maintain its mainframe systems. And when companies do have pools of good IT skills, these workers are not always deployed in the best way within the organization, whether functionally or geographically. Few CIOs can claim sufficient knowledge or understanding of their function's capabilities.

The financial-services sector faces particularly harsh realities when it comes to IT capabilities. To start, IT staffers need unique skills to understand banking, capital markets,

Exhibit 1
Health of IT Organization by Geography



¹ Data from Dutch respondents is based on preliminary results at time of printing
Source: Booz & Company IT Org DNA survey, 2007–2008 (www.orgdna.com)

or insurance. Moreover, there is a tremendous amount of legacy technology in financial services, which requires specific talents to manage. And expenditures on IT are much higher in financial services than other sectors: Machinery, which is crucial to a factory's operation, typically represents 20 percent of a manufacturer's costs, but a bank or insurer will spend up to that amount on IT.

In addition, for most sectors, either time to market or regulatory concerns are paramount. For instance, consumer goods, media, and telecommunications companies have huge time-to-market pressures, while defense and pharmaceutical companies are more focused on process and regulations. By contrast, banking—and financial services more broadly—is concerned with both, and tends to lean on its IT systems to address these issues. The virtually impossible task of meeting both regulatory and time-to-market constraints while maintaining high levels of efficiency creates an urgent need for both deep and broad IT capabilities.

Hence, CIOs across the financial-services sector must grapple with urgent questions about how to better manage their IT capability sets:

- Which capabilities must we have from a strategic perspective—and how should these be defined over one-, three-, and five-year periods?
- What level of capabilities do we currently have? And where are these skills?
- To what extent are there gaps between current capabilities and the strategic target?
- How can we best address these gaps, and in what order of priority?

THE SOLUTION: CAPABILITY ASSESSMENT

Booz & Company has worked with several leading banks to help tackle their IT skills issues, a process that often begins with a capability assessment to find the answers to the previous questions.

A typical capabilities assessment follows four broad steps:

1. Define Target Capabilities—The future capability needs and the size of the IT organization required to support the corporate strategy are identified using a framework based on the IT value chain. Included in this assessment are the key roles needed to efficiently plan, build, and run the company's IT operations. For each of the roles, the necessary skills (technical and nontechnical) and competency levels from basic to expert are determined.

2. Conduct the Assessment—A combination of interviews, self-assessments, and peer and manager reviews is used to evaluate the current IT organization both in terms of capabilities and size.

3. Analyze the Gap—The distance between target and current capabilities is assessed, providing a detailed picture of where capability gaps exist. Additional qualitative interviews, comparison with annual performance reviews, and internal “challenge and review” sessions help evaluate the results and determine whether the gaps are a result of: (1) too few qualified staff in critical roles; (2) inadequate capabilities of existing staff; or (3) wrong capabilities deployed in key roles.

4. Prepare the Action Plan—Based on the gap analysis, an action plan is created that sets out the steps necessary to close capability gaps and initiate implementation. The resulting plan may include a long-term global hiring or training plan, adjustments to the performance management framework, or even an attempt to build a case to find the needed capabilities by outsourcing.

Root Causes of the IT Talent War in Financial Services

According to a 2004 article in the *Financial Times*, more than 33 percent of employers experience difficulties in finding candidates for IT vacancies, and 42 percent have indicated that the recruiting problems they face are having a significant impact on their operations. IT staff shortages are blamed for product development delays, unmet customer service levels, IT security issues, and even loss of business to competitors. As one senior IT executive from a global investment bank put it recently: "An economic slowdown can actually be a good thing. It gives me the time to regroup and reassess my position and the skills my organization requires to move forward once the slowdown is over. I can gain a better view of competitors' IT capabilities based on the number and type of IT practitioners on the market. The available talent pool improves and is finally worth consideration."

Several trends over the past few years have resulted in a shortage of IT skills and ultimately have exacerbated the war for IT talent.

Business models at financial institutions have undergone considerable change. Frequent outsourcing of IT activities increases not only dependence on third-party providers but also the need to manage those relationships. Personnel that combine the requisite supervisory and IT skills are scarce, putting additional management pressure on the residual organizations. Moreover, as their IT functions become smaller through outsourcing, the remaining IT staff find that career growth and learning opportunities become more limited, which also makes it difficult to attract good people. Rounds of downsizing at banks and insurers have affected IT operations as well, resulting in a loss of experienced staff and an increased reliance on contractors with limited loyalty. Larger institutions with multicountry operations also face issues involving centralization and decentralization. Often locations chosen for centralization are not the most attractive to potential employees. In decentralized models, the opportunities for growth and advancement may be too limited, and firms operating internationally have the added challenge in a decentralized model of finding the skills necessary to support local operations. Trends in the industrialization of processes—which creates, for example, internal "IT factories" involved in product development, testing, or support—and the reconfiguration of value chains complicate matters further, as specialist skills are needed to back up very specific parts of the business.

Changes in technology lead to shortages in IT skills. New technologies emerge rapidly and require an influx of individuals with up-to-date training. Typically these technologies are deployed by competitors simultaneously, thereby driving up demand for skills and resulting in scarcity. Changing paradigms in IT development and architecture also drive the demand for skills. For example, the evolving need for service orientation in the IT function requires a much more business-driven architectural knowledge. Given the high cost of putting new technology in place, banks frequently choose to build on legacy systems as "temporary" measures, which more often than not become permanent solutions. Finding staff to work with these legacy technologies can be very difficult. Outsourcing, downsizing, and general attrition reduce the base of staff skilled in older technologies. Compounding both of these factors is the exponential growth in the use of technology by industry and governments, increasing demand pressure on an already stretched supply base.

Applying the Capability Assessment Tool Kit

Although the capability assessment tool kit is focused on IT roles and capabilities, it can be easily adapted for different areas and functions, such as HR, marketing, or finance. For example, in a recent engagement we undertook for a regional investment bank, the COO was keen to understand the level of change management capability within the change team. His hypothesis was that a lack of strong change management know-how and experience was one of the main causes of implementation delays in a number of programs the bank was running.

Working closely with HR, the Booz & Company team defined the key capabilities and competency levels required for a number of change management roles. The subsequent capability assessment revealed significant gaps in terms of team size (understaffed) and composition (too junior). The change management capabilities of the bank's project managers were also tested through this process, revealing an additional significant gap in their understanding and use of change processes and tools.

As a result, a number of training programs were put in place in order to develop the change management capability within the program manager community. When the capability assessment was conducted again a year later, the results showed a significant improvement in change management skills across the bank, with program managers recording a 50 percent gain in their change management capabilities.

Increased regulatory requirements, such as enhanced risk and compliance measures, typically involve solutions underpinned by IT. Often there is a need to link to multiple systems to track and analyze data, which requires complex systems interfaces and increased demand for capabilities in middleware, systems integration, and data management. As the regulatory burden mounts, reporting and monitoring grows ever more complicated, and the requirement for skilled IT practitioners expands in parallel. These requirements typically apply to the financial-services industry at large, thereby resulting in simultaneous demand for additional IT resources and skills.

Key societal trends are affecting the availability of IT skills. Education systems around the world tend to lag new technology trends and produce graduates more reactively than proactively. In certain geographies, such as Europe, the education system cannot produce enough IT-savvy graduates to meet demand. There is also a distinct trend toward greater individuality. The traditional pattern of lifetime employment with a big bank has become less attractive than self-employment. This leads to greater reliance on freelance contractors who are less loyal and not always willing or able to engage, train, mentor, or be a role model to internal IT staff.

ASSESSMENT IN ACTION AT A U.K. PRIVATE BANK

A large private bank, with a breadth of wealth management and other sophisticated financial products, used this capabilities assessment recently when the chief information officer asked Booz & Company to determine what skills existed, and where they existed, in the various departments of the bank's IT function.

Composed of some 400 staffers, largely based in the U.K., the IT group had experienced significant organizational realignment during years of mergers and acquisitions; further acquisitions were expected. The IT team was in the middle of a time-consuming study to justify the value of applications used throughout the organization, while simultaneously pursuing an ongoing hiring effort to fill in key IT roles. Moreover, IT's uneven delivery track record, mixed with its inability to communicate its strengths and purpose, led to serious threats of cost reduction from the group executive team, further denting the function's core competencies and morale. In short, the IT function faced frequent and increasingly vicious criticism about its erratic performance and inability to serve the business. The CIO called a time-out and retrenched with his management team to seek the answers to a set of broad questions:

- What does the business need from the IT function?
- What should the target capability model for IT look like? What capability does IT currently have?
- What is the gap between the current capability and the target model? What should be the action plan to close the gap?

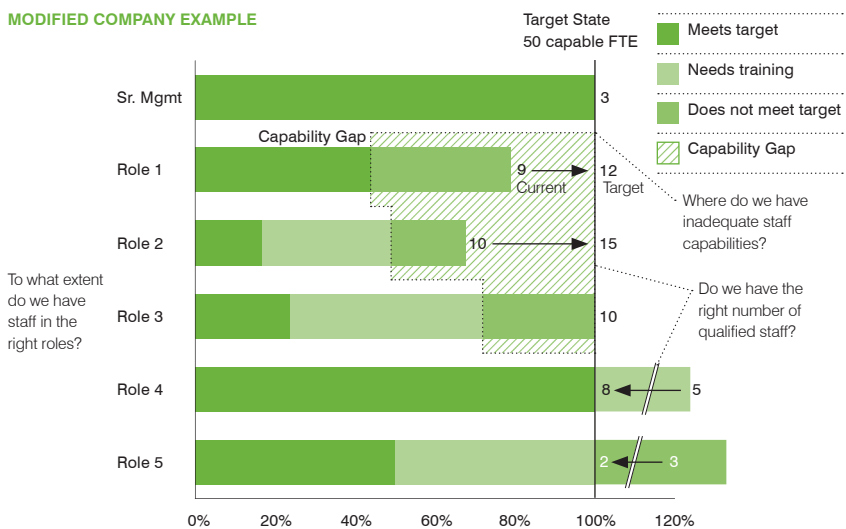
At the meeting, IT managers quickly realized that they did not have clear answers to any of the questions posed by their CIO. As the open discussion and diagnosis of the situation progressed, the CIO's management team concluded that they lacked a meaningful understanding of their own talent pool, in terms of both capabilities currently available across the entire IT value chain and skills requirements for the future. With that information as backdrop, Booz & Company began the capabilities assessment. The effort resulted in a heat map of IT skills that revealed significant gaps in such essential areas

as IT strategy, demand management, service delivery, and vendor management. There were critical gaps in hard skills such as service support and security management, as well as in the soft skills of leadership and control (see "Root Causes of the IT Talent War in Financial Services").

The assessment analyzed not only overall capability gaps, but also—by linking the results to the organizational structure—gaps at various levels in the firm. An overview of the assessment graphically illustrates the priority areas for management attention and clearly indicates where the problem was primarily skills, staff numbers, or both (see Exhibit 2). This served as a high-level road map for subsequent analysis and planning.

Next, management did some further investigation into each key role. For example, it became apparent that the business analysts in the team lacked true IT experience, technical knowledge, and functional analysis skills, but were overqualified in

Exhibit 2
Capability Gaps Analysis: Skills Surpluses and Shortfalls



Source: Booz & Company

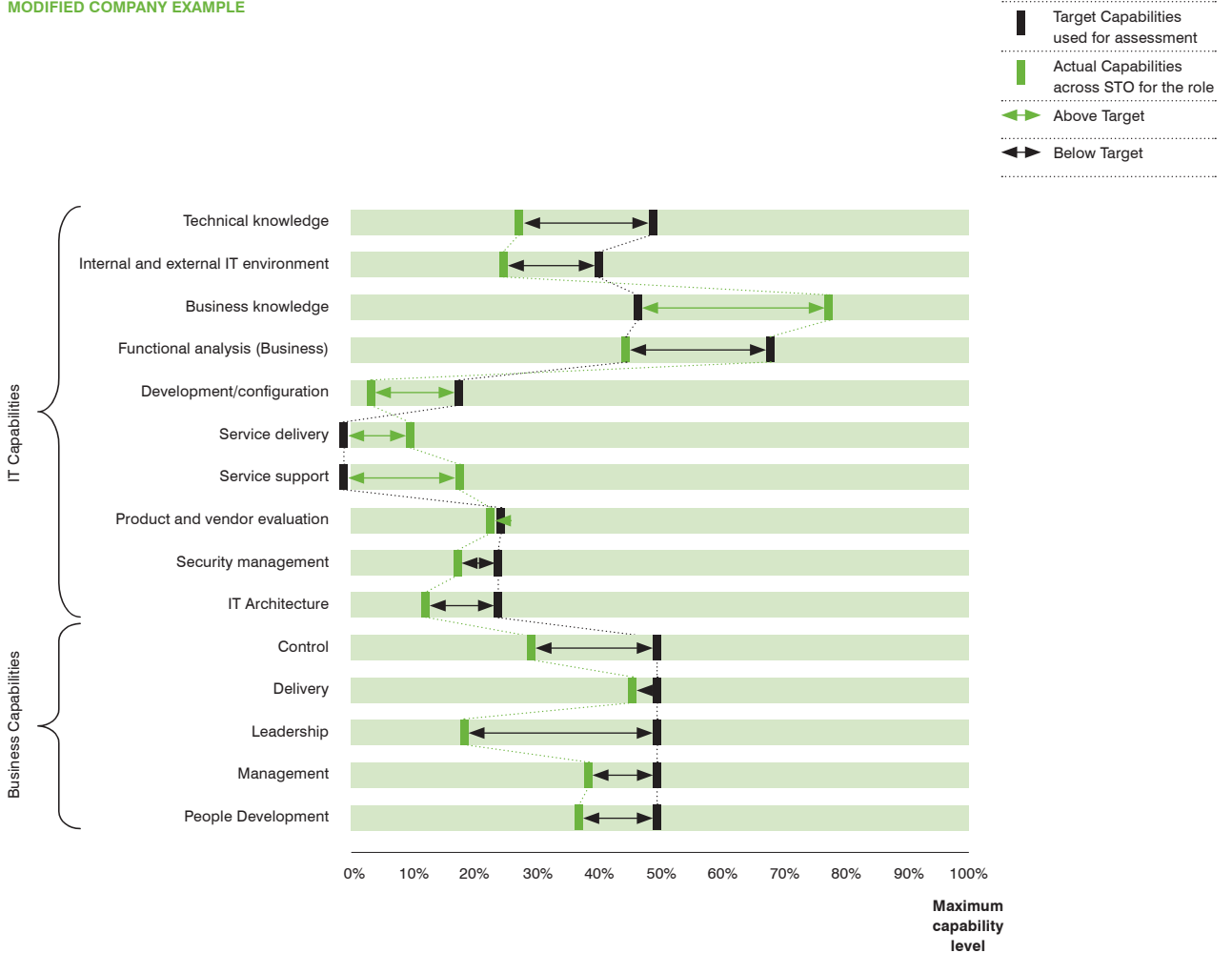
business knowledge (see Exhibit 3). Furthermore, the business analysts lacked leaders to help them in their work, while other areas of the organization had plenty of leaders and training courses available but no teams to lead. One proposed solution was to hire as leaders some of the contractors overseeing other teams, who possessed IT knowledge but did not feel dedicated to the work and were liable to walk away with little notice.

With a clear picture of its most serious capability gaps, the bank was able to rebalance and rebuild a more resilient IT function. Headless teams and team-less leaders were better matched, unsuitably staffed IT specialists were either relocated to other roles or provided with the appropriate knowledge to do their current jobs, turnover was reduced by half, and business users' happiness with the IT function increased significantly (although this was not scientifically

measured). To continuously measure the performance of the IT unit against target capabilities, the bank rolled out the capability assessment tool on its intranet, offering staff incentives to keep the information up to date. For instance, to qualify for training, a staffer's capability profile has to be current, and a team's capability profile has to be filled in before its leader can obtain more resources for projects. The assessment tool is also clearly linked to incentives via the

Exhibit 3
Results of Investigation into Business Analyst Role

MODIFIED COMPANY EXAMPLE



Source: Booz & Company

performance development cycle, performance review forms, and bonuses.

In addition to this private bank, Booz & Company has worked with many other financial-services organizations to support their IT functions and implement programs to transform their capabilities using a similar top-down assessment approach (see “*Conducting a Successful Capability Assessment*,” page 9).

- A global credit card company restructured its IT function and used the capability assessment to determine important areas to address going forward. The IT function shared the results with internal clients in various business units to ensure the assessment also reflected the projected needs of the businesses. With a new focus on improving project delivery, the department reduced project time lines and costs by more than 30 percent.
- A global bank wanted to centralize and streamline its diversified IT functions. A capability assessment of the business and IT delivery functions indicated that there was a high degree of overlap in roles and skills in these two areas. The bank decided to merge the IT resources

in both parts of the organization, resulting in a 20 percent reduction in overall IT costs.

- The COO of a regional investment bank used a capability assessment to revamp hiring criteria, ensuring that skill gaps would be filled to meet a time line of critical system and architecture changes. To focus attention on these needs internally as well, the bank amended employee performance evaluations to include improvement benchmarks involving critical skills. The COO credited these changes with supporting up to 50 percent of the revenue growth of the bank over the following two years.
- At another regional investment bank, the IT organization used the findings from a capability assessment to better understand the dangers the organization faced from losing employees approaching retirement age with critical knowledge of legacy systems. By pinpointing the key areas of concern, the bank was able to prioritize recruitment activities and train staff to ensure continuity of operations.

CONCLUSION

As demand for high-quality IT talent continues to increase, financial-services organizations must proactively identify their capability needs and undertake long-term measures to build capabilities. Furthermore, as cost pressures escalate, CIOs must realize that addressing IT staff capabilities increases the value of the function to the overall company because employee costs represent more than 25 percent of all IT expenditures.

Capability assessment measures can dramatically elevate the effectiveness of the IT function and also provide a clear path to meet capability targets, making it easier to recruit top talent into a function that knows precisely which skills are required where. As a result, product rollouts and service levels will improve significantly; so will the impact on the bottom line.

Conducting a Successful Capability Assessment

1. Demonstrate visible senior management buy-in—for instance, by applying the same assessment to the executive team, and through supporting memos, town hall discussions, brown bag group lunches, and executive team meetings about the effort.
2. Provide detailed definitions of competency levels tailored to the specific IT organization so that scoring is objective, thereby avoiding “good” and “bad” judgments.
3. Assign a single implementation point person and clear owners of individual areas—for instance, the head of the program management office could lead the implementation of project management capabilities. As a rule, the more senior and visible the implementation leader is, the more likely the implementation will be successful.
4. Direct human resources and corporate communications to lend their respective expertise to the process. For example, HR can support the effort to rationalize job titles, and communications might lead on stakeholder management.
5. Measure improvement over time by conducting periodic assessment and review. Ask questions like: After three months, how many job descriptions have been updated? After six months, how many gaps have been addressed through retooling, training, hiring?

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