In-Focus

MAY *IT* BE WITH YOU: UNLEASHING THE POWER OF BUSINESS LEVEL AGREEMENTS

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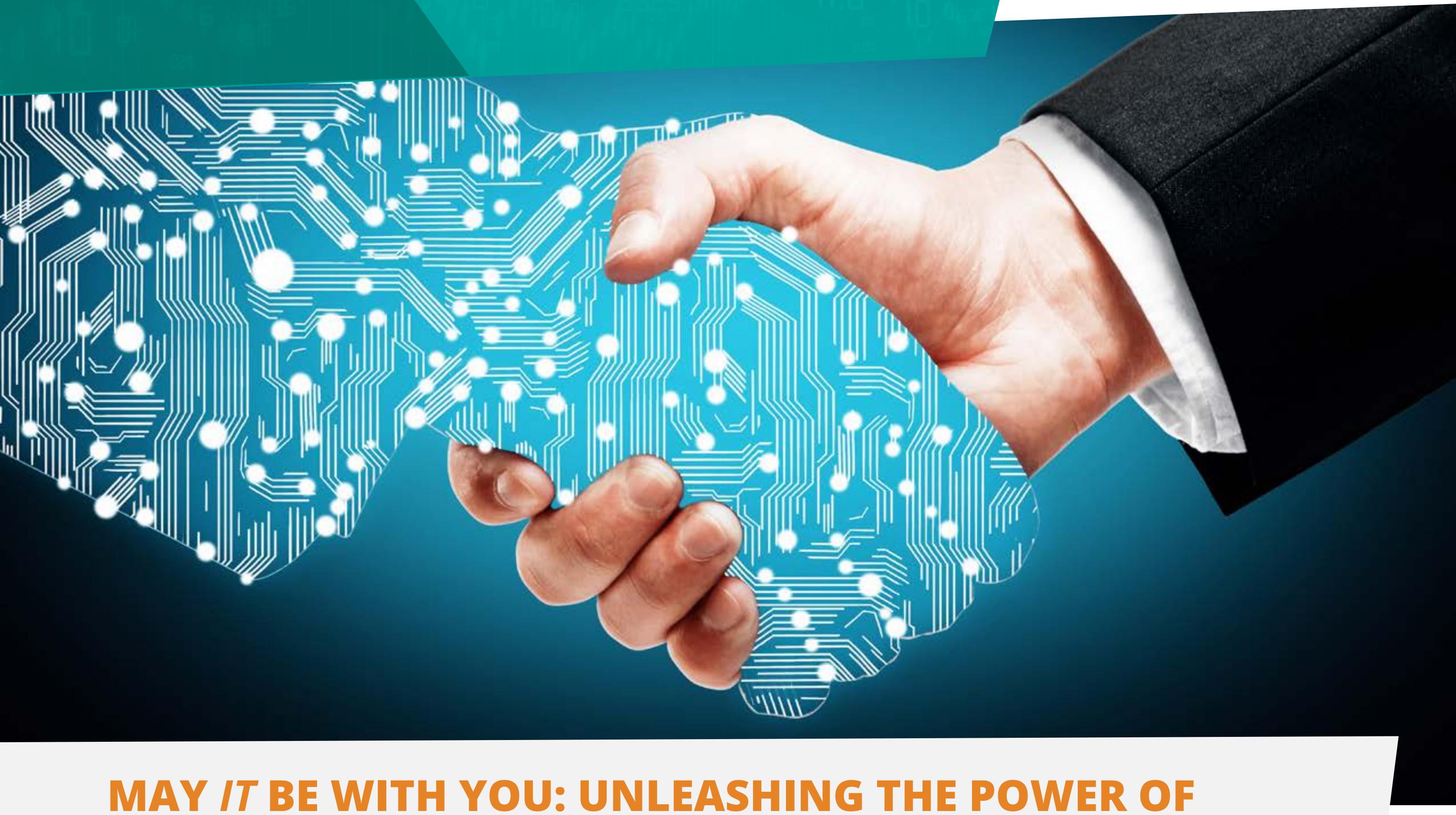

MAY *IT* BE WITH YOU: UNLEASHING THE POWER OF BUSINESS LEVEL AGREEMENTS

By Lisa Springer, CEO

Lenders struggle to advance digital solutions to support their lending business. For mortgage origination, from point-of-sale to processing, underwriting, servicing and capital markets execution, lenders want maximum efficiency, ease of use and compliant processes enabled by technology to deliver a "delighted" borrower experience.

To satisfy those requisites, the lender's IT team strives to integrate all mortgage related activities and processes into a unified end user experience and to then provide a supporting IT ROI case to prove that their technology solutions are instrumental in achieving these objectives.

This is a big responsibility. IT is charged with providing the tools necessary to achieve business objectives, and yet, are they sufficiently empowered to do so, properly rewarded when the business succeeds, and guided by business goals and objectives? This is the premise of our *InFocus* article this month. IT spend should be prioritized and governed by collaborative Business Level Agreements (BLAs), not to be confused with Service Level Agreements (SLAs), to make this happen.

When it comes to guiding IT, STRATMOR Senior Partner Len Tichy knows the path to take. An *MBA Tech All Star* award recipient, Len has played a lead role in close to 200 mortgage technology implementations, many at the very large project level. He was a charter member of *XML Mortgage Partners*, an ad hoc industry organization that formed and launched MISMO, and he ran several successful mortgage operations, including Lakewood Corporation, the premier origination system in the U.S. for many years. He understands the challenges mortgage IT leaders face in the day-to-day, meet-the-needs-of-the-business, world.

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An article Len wrote for *Mortgage Banking* in 2008, "The Business End of IT Project Failure," puts the importance of clarity and transparency with the IT group into perspective. He said, "…when senior executives from the business side of the aisle fail to communicate a clear vision of the company's mission, strategy, goals and values to all employees, poor IT project execution is all but guaranteed — regardless of how talented the CIO and IT staff may be." Amen and well said, Len.

At STRATMOR, we support the creation of Business Level Agreements (BLAs) in addition to traditional Service Level Agreements (SLAs) for IT projects. In most companies, IT is guided primarily by internal and external SLAs, thereby omitting the business measurements needed to give IT a voice in, and responsibility for, achieving corporate business goals.

The Difference Between a BLA and an SLA

An SLA is a service level commitment to perform services at agreed upon terms, such as the percentage of LOS uptime utilization or call center response rates. The customer is the "business" and the services provider is IT, with or without a third-party vendor involved in the project. The "level of service" is often set by the customer based on business objectives without (or with minimal) collaboration with IT.

This is where the challenge begins. How often does senior management provide an equal vote to the IT team in its strategic planning and the creation of their Target Operating Model (TOM)? The answer is, not often enough, according to STRATMOR Senior Partner Michael Grad who wrote an article on TOMs and their relationship to large scale transformation initiatives in the March 2018 issue of our *Insights* report. Like Tichy, Grad knows IT — for more than 25 years, he's successfully managed large-scale, end-to-end mortgage transformation programs for top ten lenders. Grad points out that, "Technology should not be the driver of your business strategy, but the primary enabler," and that, "There must be a commitment by the company's leader and the leadership team to invoke holistic — people, process, and systems — change."

This leadership team must include IT to enable these outcomes. A STRATMOR poll found that only 28 percent of IT executives (CIOs and CTOs) felt that their organization viewed their team as the "greatest ally for driving change." In this same poll, a whopping 69 percent from this same group of participants cited that the organization "sometimes, but not consistently" collaborated with IT to orchestrate business process improvement. Five percent said that the organization never collaborated with them at all.

Tichy and Grad both say that a Business Level Agreement (BLA) would help meet this challenge so critical to the success of achieving a lender's TOM. A BLA requires a business framework in which to work as well as an understanding of the business impact of the services being provided. By understanding the business metrics in which success will be measured, post technology deployment, both IT and the business can focus on the achievement of operational goals. For example, the BLA goal might be to reduce cycle time by 30 percent versus an SLA targeting LOS uptime. When business and IT jointly align their focus on the target, accuracy in hitting the bullseye is greatly improved.

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The Unvarnished Truth — IT Leaders are Central to Business Success and We Should Treat Them as Such

We've all heard the stories of large-scale technology implementations gone awry because what was delivered by the company's IT department was not what the business stakeholders wanted. In some of these stories, the rework to meet the business needs cost as much or more than the original estimates in time and money. Other stories recount months of effort, leadership changes and the eventual abandonment of the entire project.

The stories are true.

To avoid becoming another mortgage industry tale of woe, take a different approach on your next project — engage, enroll, measure and reward your IT group based on the achievement of shared business goals, supported by BLAs. The use of SLAs are relevant contributors and must be aligned to overarching BLAs.

During a recent implementation project, STRATMOR asked the VP of IT why a specific change was being added to the project a full nine months after programming of the new system started. His answer was one we've heard many times before: "When our user group started testing, the system didn't work the way they expected. Operations called an all-department meeting and they decided we needed to add it."

When pressed, this VP told us that he was in that Operations meeting and had raised the question as to whether this was a missed requirement or if the team was trying to get the new system to behave as the old system did instead of revising their processing workflow to meet the new system's functionality and automation capabilities. "It doesn't matter," he was told, "We have to process loans fast and this is how we know how to do fast." IT's questions — and counsel — was ignored.

"At the center of this all too common scenario is a fundamental misunderstanding that IT is not as central to operations as Underwriting, Processing, and Closing," says Tichy. "In many mortgage companies, IT is viewed as a group unto itself, a non-business unit expected to do the bidding of the business units who think they really know what the company needs. This approach puts IT into a near-vendor role, often keeping IT from the critical conversations held at the Big Kid's Table where the decisions about business goals, success measurements and reward factors are decided."

In effect, IT starts with one hand tied behind its back in most implementation projects," says Tichy. "The relationship between technology and business must move out of the traditional, 'Your sandbox, my sandbox' paradigm to a more collaborative playground where business and technology leaders have common goals, objectives and BLAs for achieving growth and supporting financial goals."

During the poll referenced earlier, STRATMOR asked how many CTOs / CIOs reported to the CEO or president of their organization. Only 52 percent said that they had a direct line to the leader of their organization. Another 29 percent said they reported to either the CFO or COO, while the remaining participants reported either to a production head or to a different organization all together. In this last case, the lender, as the red-headed stepchild, has no say in IT activities, and certainly not to using IT in achieving business objectives.

"Recognizing the centrality of IT to the business is the first step in optimizing this group's potential impact on all aspects of your company's business," says Tichy. "The next step is to build IT into your business strategy, including the reward and recognition structure used to incentivize business outcomes. Expand your senior team to include the IT senior executive and then establish realistic business measurements (BLAs) in which IT has a significant stake. This creates a playing field in which all members of your executive team are focused on the same end game and held accountable to achieve the right outcomes."

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A Well-Constructed Target Operating Model Incorporates Business Level Agreements

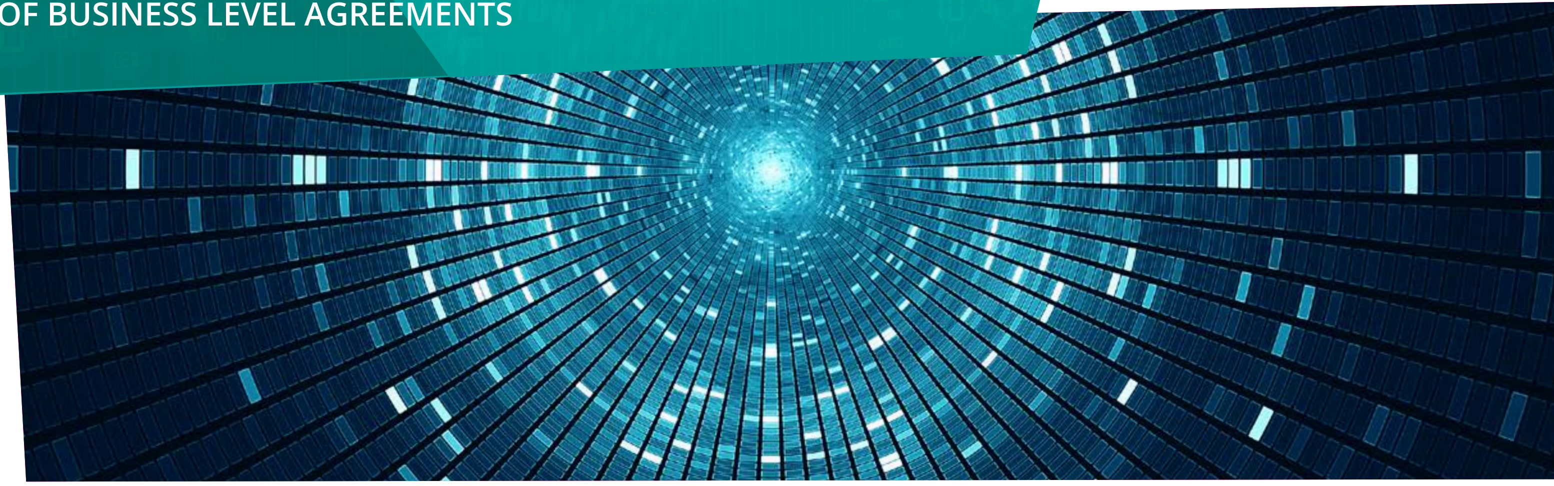
As Michael Grad noted in his March 2018 article, aligning IT with business objectives and achievable success metrics is a winning strategy. To take this a step further, incorporating BLAs into your Target Operating Model is essential.

"A well-crafted BLA outlines the business expectations and standards to which IT will be (and should be) held accountable," says Grad. "As depicted in *Illustration 1*, the goal is to create an end-to-end solution that incorporates your company's business expectations and success metrics ***as a basis*** for the enabling technology initiatives. Starting with a top down, customer-centric strategy will drive the required core capabilities, processes and enabling business/IT roadmap for your firm. Technology and supporting services are the bedrock of your organization; its goal is to support and enable business objectives."

The following illustration shows a customer-centric, growth focused strategy.

Illustration 1

Target Operating Model Framework



IT as Part of a Customer-Centric Strategy

We've said it before and I'm saying it again: today's mortgage borrowers expect a digital experience. IT is about the enabling technology to do business, so if your company is truly committed to achieving customer-centric business objectives, IT needs to be at the strategy table, regardless of the topic.

In this way, the above Target Operating Model Framework effectively translates your strategy into actionable project execution as depicted in *Illustration 2* below — the TOM drives the business goals, success metrics and the high-level roadmap with your customer (borrower or member) experience as top priority.

Illustration 2

TOM Execution

An Impactful Business Level Agreement Strategy

A successful BLA will provide a direct link to enterprise objectives, be under IT's control to enable this success, and establish a valid business case and approval process that connects business outcomes to technology deployment.

To translate into mortgage industry terms, consider these metrics in *Illustration 3* as examples for measuring the success or failure of a technology deployment:

Illustration 3

Key BLA Metrics			
Customer Experience	▪ Net Promoter Scores ▪ MortgageSAT Borrower Feedback	Goals	▪ Improve by .5 per operations role ▪ Integrate for all operations users
Operational Efficiencies	▪ Closed Loans per FTE ▪ Pull Through Percentages	Goals	▪ Increase by two percent per FTE ▪ Increase by three percent
Sales Objectives	▪ Volume Increases ▪ Purchase Mix	Goals	▪ Increase by five percent ▪ Increase new construction loans by .05; Reverse by .01
Financial Measures	▪ Profit Improvement ▪ Decreased Buybacks	Goals	▪ Increase by .025 ▪ Decrease by four percent

The business metrics used to measure business performance should be the same metrics on which IT's success is measured. For example, "Did our technology enable us to decrease our cycle time in Q2?" Not, "Did we successfully deploy our new CRM platform by November 30?" What difference does hitting a "go live" target make if you didn't achieve your business objective of reducing cycle time to successfully increase originations of purchase loans?

Motivate IT to Achieve Business Objectives

Of our IT leader poll participants, only 48 percent of them said that they were compensated based on business performance. Ask yourself: Do you want to reward IT for hitting a CRM deployment deadline or for enabling the company to increase overall loan production by 20 percent? By rewarding the latter, IT is motivated to not only get this technology deployed, they are also motivated to train, optimize, and ensure user adoption. This is when real ROI is enabled.

Nicole Yung, STRATMOR's senior partner in charge of our data and analytics programs, shared some interesting AHA moments based on our annual Compensation Connection Study results, shown in *Illustration 4*.

- CIOs are less likely to have incentives tied to profits than their other executive peers.
- CIOs' largest component of incentive compensation is based on discretionary awards — plans are not based on tangible business results or achievement of strategic objectives.
- As mentioned previously, most lenders include a senior level IT position, but Banks are more likely than IMBs to not have a dedicated CTO or CIO for mortgage.
- Some seven percent of CTO/CIOs do not receive any incentives.

Illustration 4

	Chief Information Officer	Chief Financial Officer	Chief Credit Officer	Head of Secondary	Head of Production
Based of Production Volume	1%	0%	0%	5%	31%
Profit/Financial Targets	26%	40%	45%	46%	57%
Achievement of Objectives	19%	14%	31%	20%	0%
Discretionary Awards	41%	32%	22%	24%	11%
Parent Company	13%	12%	2%	5%	1%

According to the Society for Human Resource Management (SHRM), incentive compensation should clearly communicate an organization's objectives and then reward accordingly. The role of incentives, then, is to drive business results and reward those who achieve them, and the metrics used to determine these incentives should be clear and easy to measure. As noted earlier, this has not held true for IT executives in the mortgage space, but we can (and should) change this paradigm.

When Teams Work Best

Business Level Agreements established for IT based on business strategy and objectives should represent an understanding of the business service, its measures, and the Target Operating Model. And, BLAs should motivate IT to be in line with these objectives.

Therefore, IT needs to have a seat at the strategy table. IT's participation in strategy design ensures that the organization has a well-rounded representation of business and technical experience and problem-solving capabilities at the table to work through the challenges of doing business.

So, then what? With your executive team in place, what does it take to really get things done? Frank LaFasto and Carl Larson, authors of *When Teams Work Best*, conducted a survey (you know how STRATMOR loves data...) of 6,000 team members and leaders from a variety of organizations. Their goal was to identify what encourages teams to succeed and what discourages them into failure. According to this study, five crucial factors emerged.

1. **Team Members.** A successful team begins with the right people. We just spent a lot of time encouraging business to include IT as part of the team. The qualities necessary to be an effective team member include: experience, problem solving abilities, openness, supportiveness, action oriented, and a positive, motivational personal style.

2. **Team Relationships.** To foster team relationships, members must be willing to, and adept at, providing and receiving candid feedback. Frankly, this is what makes STRATMOR's team so strong and why our clients choose us as their trusted advisor. This attribute is a "must have" for strong teams.

3. **Team Problem-Solving.** Effective teams are very clear and focused about that they need to do. These teams also encourage open and clear communication in a "safe" environment.

4. **The Team Leader.** A strong team lead focuses on the goals, ensures a collaborative climate, instills confidence in the team, demonstrates competence, sets priorities, and then monitors and manages performance.

5. **The Organizational Environment.** The environment should facilitate a clear direction to align effort and delivery results, ensure that the best decisions are made quickly by the right people, and systems are in place to provide reliable and applicable information to drive the right behaviors and measure results.

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A Leader's Role as a Catalyst for Change

Change is inevitable. It is imperative for leaders to start any change process by introducing new ideas, strategically planting seeds, and by sharing the benefits of how a change will positively impact the organization. And, change should start with the right team and a well-contemplated strategy.

As a leader in your organization, your role is to create the right environment and empower your teams to execute a successful Target Operating Model that drives effective BLAs and optimizes your company's ability to achieve corporate objectives utilizing enabling technology.

Bottom line: give your IT leader a seat at the strategy table to develop business goals and objectives, incorporate IT Business Level Agreements into your Target Operating Model and then — reward your hard-working IT team based on achievement of your company's objectives. It's a win-win for everyone.

WE WELCOME YOUR FEEDBACK

If you would like to talk about how your organization could incorporate BLAs into your business strategy, please email your STRATMOR partner or principal, or contact Lisa Springer at lisa.springer@stratmorgroup.com.