

CIO: CARETAKER OR CHANGE AGENT?

/// WHITE PAPER



Staying current overshadows future plans

An EDS-commissioned study shows senior information technology (IT) decision-makers spend more time focusing on maintaining the status quo as opposed to improving how their organisations' IT aligns with their business priorities and future needs.

TABLE OF CONTENTS

Introduction	1
Maintaining the status quo isn't enough	1
So what would you do if?	2
IT strategy or IT commodity?	3
Breaking the circle	3
Conclusion	4

Introduction

Strong business information technology (IT) alignment often remains an aspiration rather than a reality for chief information officers (CIOs), according to a recent survey of almost 300 senior IT decision-makers in various industries across Europe.

EDS, an HP company, commissioned Datamonitor to conduct the study to determine how aware IT organisations are of the dynamic nature of their business environments. The study shows the goal of improved IT alignment often goes unrealised because it is overshadowed by the need to simply keep the enterprise's existing IT systems operational. The daily pressure to meet changing priorities, manage immediate crises and keep users satisfied consumes the enterprise's limited IT resources. Little is left to fuel the IT improvements that can actually change the business for the better.

For example, IT applications running on legacy systems are driving IT organisations into vicious circles of increased maintenance costs against expectations of lowering the total cost of ownership. Running on a treadmill of cost reduction that is forever getting faster allows little time for anything other than simply keeping up. The organisation is left with a portfolio of applications designed in the past and struggling to keep pace with the needs of the future.

Maintaining the status quo isn't enough

Doing business in an increasingly competitive and globalised marketplace isn't getting any easier. The ability to quickly respond to customers, competitors and market forces is not an option in today's 21st century economy. It's an operational necessity.

The EDS-commissioned survey showed that IT organisations are acutely aware of the dynamic nature of their business environments. However, more than 50 percent of the respondents noted their applications lagged behind their businesses and lacked the flexibility to support their business strategies.

Resonating across geographies and industries, a number of underlying causes for this situation became clear:

- More than half of the organisations surveyed were overwhelmed by the burden of simply maintaining their current applications portfolio. The pressure of maintaining the status quo takes priority over all other activities.
- On average, almost 50 percent of applications resources was spent on maintenance while the remainder was focused on new applications development.
- Most IT organisations worked in a reactive and tactical mode with lower priority being placed on increasing resources in applications architecture or applications roll-out planning. Asked what they would do if they had more resources, IT decision-makers said they placed a greater value on getting the job done rather than strategically planning how to do it.
- Levels of satisfaction with applications roll-out decreased markedly in large organisations with more than 10,000 employees. More value was often placed on making these applications user friendly and acceptable rather than measuring their impact on business performance.
- Almost 50 percent of the organisations surveyed reported that their applications roll-outs and initiatives lacked sufficient resources.

The study concluded that IT is managed for cost rather than value in most of these organisations and any attempts to change are hindered by the problems resulting from the use of yesterday’s applications to support today’s business models.

So what would you do if?

According to the study, CIOs and IT decision-makers recognised the redeployment of resources from applications maintenance to other activities could yield more return on investment.

Respondents were asked to rank the primary drivers that could result in a greater return on investment (ROI). “Increasing capacity” emerged as the frontrunner followed by “operational optimisation” and “increased flexibility” as shown in Figure 1. “Time to market” and “innovation” scored significantly lower. In many ways, this should be read as a hierarchy of needs rather than a wish list. The responses suggest a greater priority is placed on tactical responses

rather than more strategic initiatives, which highlights a focus on efficiency and cost by respondents rather than business performance and improvement.

This prioritisation reinforces the lack of alignment with the business as the activities identified in Figure 1 are IT and not business priorities. Because the survey respondents scored architecture and planning as a lower priority to delivering today’s needs, this outcome is hardly surprising and is something of a self-fulfilling prophecy.

Industry research also shows that CXOs identify operational business knowledge as the top CIO development need. However, CIOs are frequently forced to focus on increasing IT operational efficiency and cutting costs while still “keeping the lights on.” However, although significant opportunities bridge the gap between business and IT, equally significant organisational barriers need to be overcome to achieve this balance.

Figure 1. Primary drivers behind expected returns on redirected applications maintenance spend

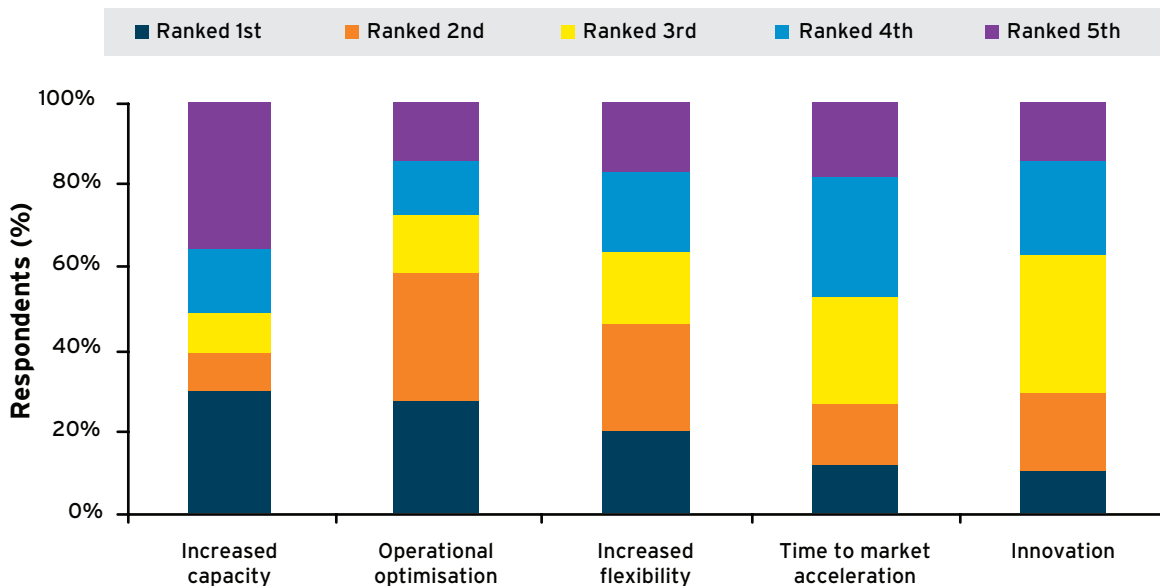
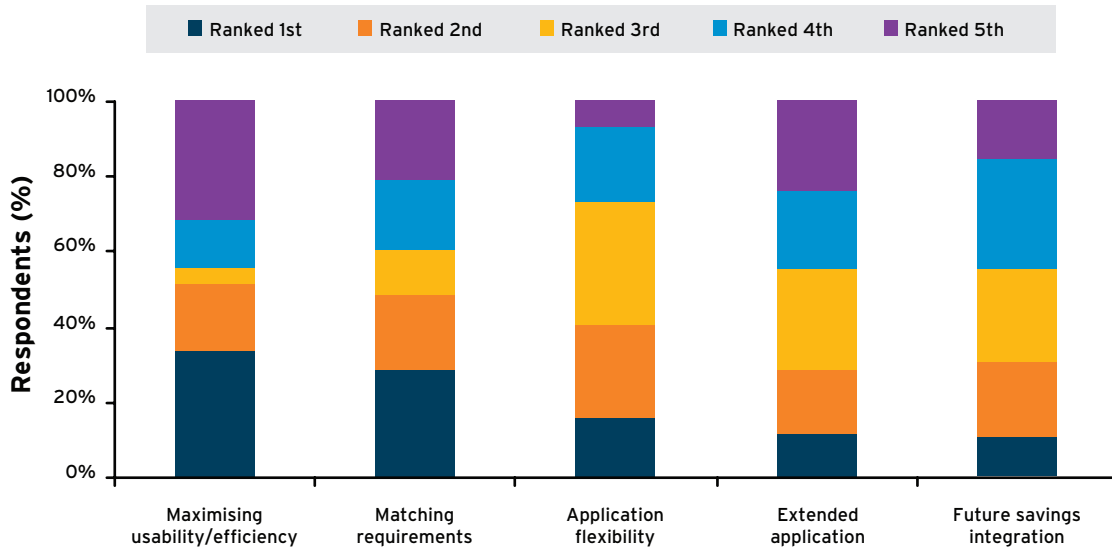


Figure 2. Ranked expected benefits from applications architecture and roll-out planning (based on 49% of respondents who believed this to be positive: 51% saw little or no benefits in architecture and planning).



IT strategy or IT commodity?

In further probing the dichotomy of poor applications fit to increasingly dynamic businesses, the EDS survey found in two-thirds of the enterprises surveyed, strategic application of IT-based initiatives accounted for less than one-fifth of business innovations. However, more than 80 percent of respondents recognised that IT can drive innovation given the right investment. Clearly, in most cases, IT is either considered a commodity or is institutionally prevented from contributing to the business on a strategic level.

Breaking the circle

The results of this EDS-sponsored survey are in no way unique. A 2007 membership study of the Society for Information Management showed IT and business alignment as the number two management concern with 43 percent of respondents.¹ Similar results can be found in some of the following suggested reading.

The critical challenge is determining how to break the circle and make additional resources and funding available to support the strategic needs of the business. Fortunately, CIOs may explore proven methods as they strive to reach these goals:

- **Applications Modernisation** - Applications maintenance can be dramatically reduced by selective modernisation and migration of legacy applications. A structured approach is needed but when done correctly, the result is applications that align to and support the business while enabling it to rapidly respond to change. Developing a strategic framework and a multiyear road map for the incremental transformation of these applications can eventually enable regular improvements to become self-funding based on cost savings and revenue growth. This improvement provides the fuel needed to shift resources to more strategic activities.
- **Strategy and Architecture** - The development of an IT strategy that is aligned to the business agenda enables the formation of an enterprise architecture with the flexibility to respond and evolve with the business. This strategy provides a more holistic view of the modernisation agenda previously outlined. The IT strategy sets out the “why” and “what,” in terms of supporting the business agenda, while the enterprise architecture sets out the “how.”

- **Reinvestment** - Implementation of the IT strategy with continued rationalisation and migration of applications according to a solid enterprise architecture delivers hard benefits. As these are closely aligned and supportive of the business imperatives, the metrics of success and value are clear and measurable. As a result, the position of IT in an organisation starts to change from one of cost to one of value. It changes the dialogue and relationship of IT with the business. Savings can be reinvested into projects and initiatives that drive more value, moving IT and the business into a harmonious circle.
- **Leadership** - Evolving the CIO from a defensive and reactive position to a role of trusted advisor and change agent opens the door to even great opportunities. As mutual understanding and expectations become clearer based on stronger relationships and dialogue, IT moves to a position of significantly greater value within the organization. This change means much more clarity on applicability, needs and timescales. IT then has the opportunity to become an engine of growth and change in a true business sense.

These steps are part of a journey - an evolution of the enterprise's IT. They are not absolute nor do they define a necessary logical sequence as all organisations start from different positions. Plotting a course to navigate the journey starts with a good understanding of the organisation's current state and maturity. Only then can the organisation begin to understand the true distance it must cover to reach its future vision and desired destination. The CIO must take the lead in setting this course and be at the helm, not in the engine room, to help steer the organisation and maintain its heading.

Conclusion

This EDS-sponsored study of almost 300 senior IT decision-makers across Europe found:

- IT applications' activities and budgets are focused by necessity on maintenance.
- Applications roll-outs are often lacking sufficient resources.
- Applications architecture and roll-out planning are not always prioritised because of resource constraints.

As a result, IT adopts a more reactive or defensive role in responding to the needs of the business and results in applications incapable of keeping pace with the dynamic nature of the marketplace and the growing business. This in turn drives the cost focus on IT and further frustrates attempts to add value as budgets and resources become increasingly constrained.

This cycle can be broken by reducing the cost of maintaining legacy applications through applications modernisation. This approach provides a source of savings and investment to shift the focus of IT to a more strategic level aligned to generating business value.

Figure 3. Alignment of IT applications with the business as a function of cost and value

		Reactive	Proactive
VALUE		Applications lag behind the business but are sufficiently responsive to generate value.	Applications are closely aligned to the business and drive cost-effective business improvements with clear value.
		Defensive	Expensive
COST		Applications not aligned to the business. Focus is on cost reduction, not value generation.	Applications are closely aligned to the business. However, TCO is too high or value generation is low.
		LAGGING	LEADING

ABOUT THE AUTHOR

Dr Donncha Scollard

Dr Donncha Scollard is the Business and Technology Strategy Leader in Consulting Services UK with responsibility for leading a team of senior consultants specializing in transformational consultancy. Dr. Scollard has been with EDS for 6 years and has worked predominantly with commercial sector clients in Consumer Industries & Retail, Oil & Gas and Manufacturing. Dr. Scollard comes from a consumer manufacturing background with 11 years international experience in Unilever spanning IT roles in supply chain, marketing, knowledge management, corporate IT strategy and business innovation from IT.

References

- 1 The Society for Information Management conducts an annual survey of its membership in conjunction with its annual SIMposium event, held most recently in October 2007. The survey findings were published on SIMnet, the society's Web site and are available for download to its members. Oct 2007

Suggested Further Reading

"The CIO as Agent of Change: Transforming IT for Proactive Business Leadership," Michael Smith CIO Executive Board, April 2007.

Systematizing IT's Contribution to Innovation Tactics to Transform New Ideas into Business Value, CIO Executive Board, 2007.

"CIOs Must MAP A Strategic Application Plan- Align IT Execution To Business Needs With Vision, Context, And Orchestration," Phil Murphy, Forrester, Feb 2008.

"Managing IT When Times Get Tough," Alex Cullen, Forrester, March 2008.

"Synchronizing Strategy And The IT Portfolio: Doing The Right Things Every Time," Craig Symons, Forrester, July 2008.

"CIOs: Nurture IT's Relationship With Your CFO," Bobby Cameron, Forrester, Aug 2008.

"The Five Essential Metrics For Managing IT," Craig Symons, Forrester, April 2008.

"Getting Started With an Effective IT Strategic Planning Process," Ellen Kitzis, Michael Gerrard, Gartner, May 2008.

Contact us

EDS Headquarters

5400 Legacy Drive
Plano, Texas 75024
USA
1 800 566 9337

EDS Regional Headquarters

Asia

36F, Shanghai Information Tower
211 Century Avenue
Pudong
Shanghai, SHA
China 200120
86 21 2891 2888

Australia & New Zealand

Level 1, The Bond
30 Hickson Road
Millers Point
New South Wales 2000
Australia
612 8965 0500

Canada

33 Yonge Street
Toronto, Ontario
M5E 1G4
Canada
1 416 814 4500
1 800 814 9038
(in Canada only)

Europe, Middle East & Africa

2nd Floor
Lansdowne House
Berkeley Square
London W1J 6ER
44 20 7569 5100

Latin America

Estrada Samuel Aizemberg, 1707
Tower C - 4th Floor
São Bernardo do Campo, SP
Brazil 09851-550
55 11 4399 8875

HP Worldwide Corporate Headquarters

3000 Hanover Street
Palo Alto, California 94304-1185
USA
1 650 857 1501

About EDS

EDS, an HP company, is a leading global technology services provider, delivering business solutions to its clients. EDS founded the information technology outsourcing industry more than 46 years ago. Today, EDS delivers a broad portfolio of information technology, applications and business process outsourcing services to clients in the manufacturing, financial services, healthcare, communications, energy, transportation, and consumer and retail industries, and to governments around the world.

EDS and the EDS logo are registered trademarks of Hewlett-Packard Development Company, L.P. HP is an equal opportunity employer and values the diversity of its people.
© 2009 Hewlett-Packard Development Company, L.P. 01/2009 96CPH2109

