



Improving Effectiveness of the IT Function

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Executive Summary

In today's business environment differentiation through IT is getting more difficult even as it remains aspiration. It appears that permanent competitive advantage leveraging IT is coming from a series of continual temporary advantages. This context makes it imperative for the IT function to improve its effectiveness by balancing technology, processes and skills. Improving effectiveness of IT does not appear to be simple in times when IT budgets are expected to grow only by six to seven percent during 2003-2008 compared to the nine to fifteen percent growth during 1995-2000¹. In a survey of Fortune 1000 companies in October 2004, of those indicating at least a modest number of IT projects on hold, 60 percent cited budget constraints as being the reason².

Senior executives leading the IT function need to balance twin objectives of optimizing expenditures and showcase value of IT infrastructure and services. As a starter, they need to understand IT investments and operating costs using a business case approach. This will serve as a baseline on decisions on appropriate categorization of IT investments and operational costs and subsequent investment and cost rationalization. This apart, right sizing and right skilling of the IT organization is required after implementing a large software package. This is an important facet that is often overlooked. The analysis of IT investments and costs require a structured and systematic assessment of the different aspects of the IT function. *How is the IT function assessed? And how can assessments identify initiatives for cost reduction?*

***Don't believe what
your eyes are telling
you, all they show is
limitation. Believe
with your
understanding, find
out what you already
know, and you'll see
the way to fly.***

***- Richard Bach, author of
Jonathan Livingston Seagull***



IT Function Under Challenge

We are currently witnessing a phase where IT organizations are in consolidation mode and the focus is on getting more out of existing IT systems rather than invest in new ones. The accent is on improving the IT systems that helps in running the business more efficiently rather than IT systems that look at changing how business is done. This is not surprising considering the current business focus of big MNCs is improving the bottom-line. According to a Gartner report in April 2005³, "Because many IT budgets are only now recovering, little funding is available for investment in new projects and technology. This trend has forced IT organizations to focus on more-effectively leveraging their infrastructures and to emphasize process reengineering. We expect this emphasis on process to increase operational efficiency and help IT strategies align with the needs of the business."

The intent of IT organizations to improve operational efficiency is for real. This is evident from a CIO survey⁴ in December 2004 in which aligning business and IT goals and controlling IT costs are among the top five priorities for CIOs in large and medium enterprises. The same survey also states that inadequate budgets as a top three hurdle for large and medium enterprises that impede effectiveness of IT organizations.

In this context, it becomes extremely useful to have a framework to assess and identify pain points that impede effectiveness of IT organizations. This assessment can be used as the basis for identifying interventions to improve effectiveness that get rolled out as initiatives of IT organizations.

Building Blocks of IT Effectiveness

Effective IT is not just about having technology, processes & skills in place to ensure consistent high results. It is about achieving the right balance of technology, processes and skills to ensure consistent better answers to problems in executing IT plans:

- **Ineffective IT organizations**, processes and control mechanisms disconnect the IT value chain between IT-Demand (business' IT planning) and IT-Supply (execution)
- IT assets - **applications, infrastructure and delivery capabilities** - are inadequate and not balanced
- **Resource constraints** in capital, IT expertise, management focus and capacity for change impede execution

IT Effectiveness is a measure of how well an IT organization develops the right technology components of business solutions in the enterprise.. Infosys experience has demonstrated that it is necessary to review different aspects of the IT organization to improve IT effectiveness by understanding current inhibitors.

- **A health analysis of the organization's application portfolio and projects** - to ensure that IT effort in terms of creation of applications has the right impact on business.
- **A review of the process maturity of the organization** - since a mature set of processes result in timely delivery, lower costs, good quality, and improved predictability.
- **A review of organization** - to check for inefficiencies that impact cycle time and lead to increased costs.
- **A review of the technical architecture and infrastructure** - to ensure maximization of investments in technology.

Once such an assessment is completed, and key inhibitors identified, the Infosys IT Effectiveness framework (shown in Figure 1) achieves the right balance of technology, processes and skills in the IT organization.

Case Study: Assessing AutoCo's IT Function

AutoCo is a large automotive company engaged in retail and wholesale business of vehicles across eleven geographies in the Asia Pacific region. The IT organization works in the regional/local support model with the regional headquarters in Singapore. The local country CIOs were reporting to the regional CIO and a dotted line relationship to the CFOs in the country. To ensure standardization of IT systems across geographies for large applications, a center of competence was established. The role of the center of competence is to ensure that a template was followed during roll-out of large IT systems and provide second and third level support to the geographies. The objective of AutoCo was to reduce the IT G&A budget by ten percent year on year for three years. Infosys was engaged by AutoCo to identify the cost cutting initiatives.

The ITE framework was the used by Infosys and the engagement was divided into an assessment phase that was followed by an align phase. The assess phase involved a structured and detailed assessment of the

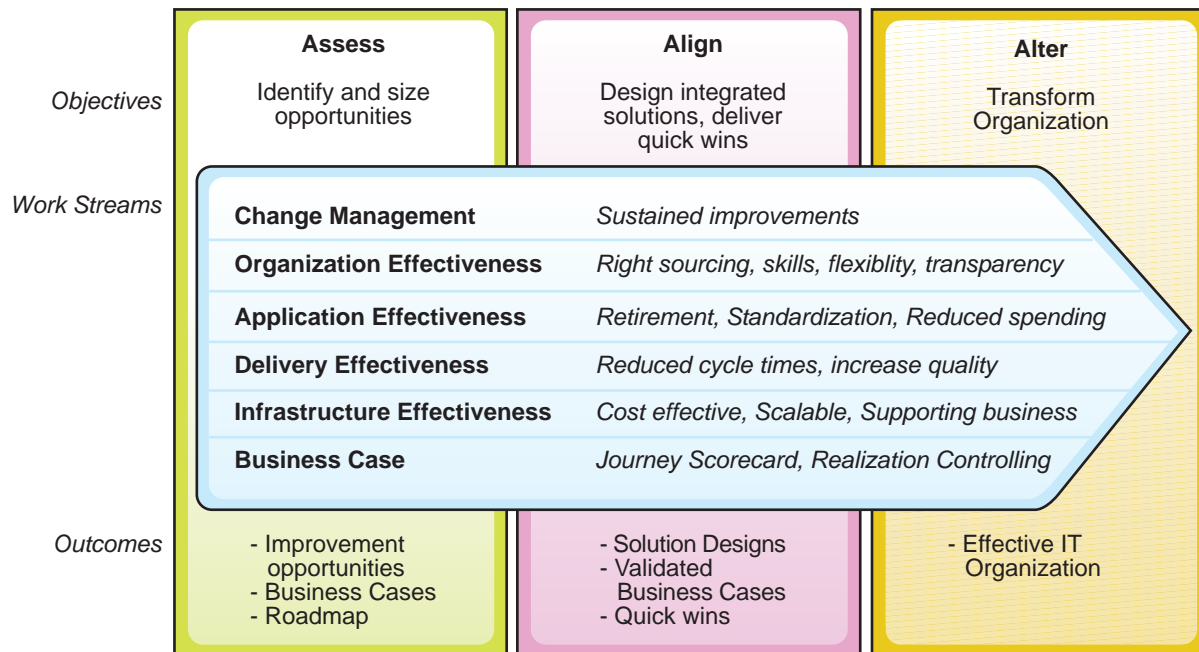


Figure 1: IT Effectiveness is a staged approach to transform all aspects of the IT organization

Source: Infosys Research

organization, delivery and application portfolio of AutoCo in the Asia Pacific region and recommending initiatives for which business case could be developed in the align phase. The assessment used a hypothesis based approach and was completed in 4 weeks. These initiatives were presented and prioritized in a workshop conducted with the local and regional CIOs. The assessment was used to rate the IT organization and delivery on an excellence framework that depicted the level of maturity of AutoCo's Asia Pacific IT organization on the different IT Effectiveness aspects.

In the organization assessment the organization structure, skills, degree of centralization (vs localization) was studied through interviews with the local CIOs, regional CIO and managers of the center of competence. The initiatives identified from an organization perspective were centralization of procurement across regions, relocation of center of competence to a low cost location, implementing shared services in the IT organization and defining a new organization blue-print for the region. Reorganization included recommendations on consolidating the CIO organization in the smaller geographies and defining the right-head count and skill levels in each of the geographies.

The delivery assessment analyzed the processes and the delivery capabilities in the Asia Pacific region through interviews and workshops. Specifically the initiatives that were identified were exploring the possibilities of other low cost countries in the region as a supplier of IT services, prioritizing all current projects based on ROI and criticality, developing a ROI process to ensure that all local projects are approved at the regional level, exploring different funding models and means to support standardization and prevent customization of template solutions and exploring how IT systems provided to AutoCo's dealers can be cross-charged.

The application assessment analyzed the various applications in the region to find out consolidation or sun-setting opportunities. The initiatives that were identified for cost reduction were CRM system consolidation, HRM system consolidation, ticketing system consolidation, Lotus Notes deployment consolidation and internal benchmarking for ticketing reduction.

Thus a holistic set of cost cutting initiatives were identified based on IT Effectiveness framework.

Leveraging IT Effectiveness

Our experience in using the IT Effectiveness framework with clients reveals both tangible and intangible benefits. The structured approach based ensures that there are no “blind spots” for the client. Very often CIOs have strong intuitions (that are mostly correct!) on how can IT effectiveness be improved. What the IT Effectiveness framework does is to put in place guidelines that formalize the thought process of CIOs. The IT Effectiveness framework not only helps formalizing hypotheses that address the root causes for poor performance but also provides a base for identifying initiatives that eliminates the root causes. The initiatives identified are balanced across organization, application, delivery and infrastructure aspects, the building blocks of an effective IT function.

As explained in the case study IT effectiveness framework can not only identify areas for application consolidation (concomitant with “sun downing”) but also put together a rigorous business case framework that helps prioritize current and future IT projects. Last but not the least, organization skills and rightsizing opportunities are identified and justified using the IT effectiveness approach. Thus IT Effectiveness helps to wrap experience with the formalism that helps CIOs better understand the IT function.

Key Words: IT Effectiveness

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