Corporations rethinking IT's role in cutting corporate costs, boosting productivity

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The current recession has focused top information technology executives on cost-cutting, but they are not slashing jobs the way they did in previous economic downturns, according to a 2009 benchmark report commissioned by the Society for Information Management.

"While IT organizations have slashed spending on infrastructure, they don't seem to be laying off IT people; the IT turnover rate is at 6.9 percent. In fact, the most successful IT organizations are not being asked to cut their own expenses, but to help the overall business reduce their costs.

"The bad news is that they're not hiring like they have in recent years. Instead, they are filling gaps by outsourcing domestically because this is faster than going overseas, but that will change next year," said Dr. Jerry Luftman.

Luftman is a Distinguished Professor and an Executive Director of Stevens Institute of Technology's School of Technology Management. For the past six years, he has conducted the IT Industry Trends Survey for the Society for Information Management.

Established in 1968, the Society for Information Management (SIM) was one of the first professional societies devoted to using information technology to improve organizational performance. Its more than 3,800 members include senior IT executives and top academics, consultants, and thought leaders in the field.

The society's IT Industry Trends Survey dates back to 1980. Since then, it has become an essential tool in identifying emerging practices and trends within the industry, as well as providing guidance for schools developing IT curricula. The 2009 survey questioned top IT executives form nearly 250 companies about management concerns, technology developments, and organizational issues.

Changing Management Concerns

The survey asked participants to rate 39 managerial concerns. In past surveys, the top issues remained relatively steady. In 2009, however, they shifted dramatically.

Managers ranked business productivity and cost reduction as their top concern by a wide margin. It ranked seventh in 2008.

"In other business downturns, business executives went to IT organizations and said, 'Cut, cut, cut, we don't care how,'" Luftman said. "In this recession, which is even worse than previous recessions, they have rethought IT's role. They are asking IT to help cut the costs and improve the productivity of the rest of the business."

Aligning IT and business was the second most important concern, down from number one last year. IT Business alignment has been a top-ten IT concern since the SIM's first survey in 1980.

Business agility and speed to market ranked third, and business process re-engineering (automating business processes to reduce manual labor and cost) ranked fourth on the list. Neither appeared on last year's top 10 list.

"This year's top four management concerns all relate to IT obtaining immediate returns by reducing the cost of doing business," Luftman said. Reducing IT costs, which typically moves to the top of the list in a recession, ranked fifth in 2009.

Improving IT reliability and efficiency (sixth), IT strategy (seventh), income-generating IT innovations (eighth), security and privacy (ninth), and CIO leadership (tenth) rounded out the top ten.

Some of last year's top concerns, such as making better use of information (which ranked fifth in 2008) and managing change (sixth), never even cracked the top 10. Human resource concerns fell to seventeenth in 2009. Last year, HR issues ranked much higher: building business skills in IT ranked second, attracting new IT professionals rated fourth, and retaining IT professionals was eighth. This year they are off the list.

Technologies

The recession caused IT executives to rethink their application and technology priorities, though not as radically as their management concerns.

Business intelligence was the top technology in 2009, up from number two in 2008 and 2007. The technology involves mining data to find trends. Credit card companies, for example, use business intelligence systems to compare each new charge with previous transactions to uncover possible credit card fraud. Other companies use trends to determine possible causes of warranty repair or to identify customers with fast-growing businesses.

"This is a very complex technology, and IT organizations have been struggling with it for many years," Luftman noted. "It requires your data repositories to be in good shape, and that is hard to do."

Server virtualization moved up to number two, from number five. Server virtualization involves partitioning larger servers into several smaller virtual servers. Using fewer large servers makes it easier to manage resources and improve availability while reducing server sprawl.

"This is an infrastructure investment, but there is an important message behind it," Luftman noted. "Companies could make other infrastructure improvements, such as software as service, cloud computing, and grid computing, but they're off the list. Virtualization is on the list because its costs are relatively low and it is relatively quick to deploy."

Enterprise resource planning (ERP), an application streamlines the flow of information through a company, jumped to third place among technical priorities, up from fourteenth in 2008. This is because ERP reduces costs by automating more processes, Luftman stated.

Cost cutting is also the drive behind the fourth technical priority, internal and customer portals. These Web-like interfaces reduce manual labor by making it easier for business partners to interact with a company without human intervention. Portals ranked fifth in 2008.

Enterprise application integration and management rose to the fifth position, from twelfth in 2008. Continuity and disaster planning dropped to sixth in 2009 after it tied for third in 2008.

The top application focus in 2008, antivirus protection, fell out of the top 10 applications entirely.

"There were not a lot of big strategic initiatives in 2009," said Luftman. "The technologies and applications that received funding were designed to reduce costs and improve productivity inside the company quickly."

Going Forward

About half the companies surveyed said their IT budgets declined in 2009. Just over half, 52 percent, said their budgets fell, and 23 percent said they remained flat. One in four companies increased spending, though this was down from 46 percent in 2008 and 61 percent in 2007.

Budgets will stabilize in 2010. Forty-five percent of IT managers expect budgets to remain flat, 28 percent see them falling, and 27 percent see them rising in the year ahead.

There were some significant changes in spending patterns. Infrastructure -- hardware, networking, and software - fell to 33 percent of total spending, from 43 percent in 2008.

Spending on both internal and domestic outsourced staffing rose. As a percentage of overall budget, internal domestic staff rose to 39 percent in 2009, up from 35 percent in 2008. Spending reached 12 percent for consulting services (up from 10 percent in 2008), 8 percent for domestic outsourcing (from 5 percent), and 4 percent for offshore outsourcing (from 3 percent).

Next year, IT executives expect to spend modestly less on internal domestic staff and consulting, as well as infrastructure. Domestic outsourcing will grow to 9 percent in 2010.

The big moves will come offshore. Offshore internal staff will rise to 6 percent in 2010 from 4 percent in 2009, and offshore outsourcing will rise to 6 percent from 4 percent. This will boost the percentage of IT spend overseas to 12 percent in 2010, from 8 percent in 2009.

Source: Stevens Institute of Technology

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