

WHY IT NEEDS  
OVERSIGHT  
IF DIGITAL  
INVESTMENT  
IS TO SUCCEED

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# INNOVATION, TRANSFORMATION AND CONTROL



**Every CEO working today pays lip service to digital, but how many really get it, and how many are creating the conditions for their organisation to succeed with its digital transformation?**

Nigel Fenwick, principal analyst at Forrester, is convinced there is a gap between board room digital rhetoric and reality. 'Your CEO may be the exception that proves the rule,' he states. 'But most CEOs don't fully understand the impact emerging digital technologies will have on their industry in the next ten years.'

(Source: <https://go.forrester.com/blogs/dtquickbytes-your-ceo-doesnt-really-understand-digital>)

LOB executives increasingly hold technology budgets and talent for digital transformation, and many seek autonomy in their pursuit of digital transformation. 62% of technology spending will be funded by LOB organizations by 2019

*IDC's Worldwide Semiannual IT Spending Guide: Line of Business*

Source: [https://www.idc.com/tracker/showproductinfo.jsp?prod\\_id=1261](https://www.idc.com/tracker/showproductinfo.jsp?prod_id=1261)

The people perhaps best positioned to understand the transformative power of digital are Chief Information Officers (CIOs) and business technology leaders. They are also the people who have to re-architect the organisation to create a platform for future innovation, while running existing applications and services in a secure, reliable and cost-effective manner.

They must ensure that IT operations are able to respond quickly and flexibly to new market challenges and that IT teams have sufficient budget for innovation. To do this they need authority within the organisation and the resources to deliver the infrastructure and operations that can deliver fundamental change.

But the world of IT procurement, provisioning and consumption has changed. Software-as-a-Service (SaaS), Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS) and other service-based delivery models have enabled business units to own the purchase and consumption – but not necessarily the management and support – of critical business software.

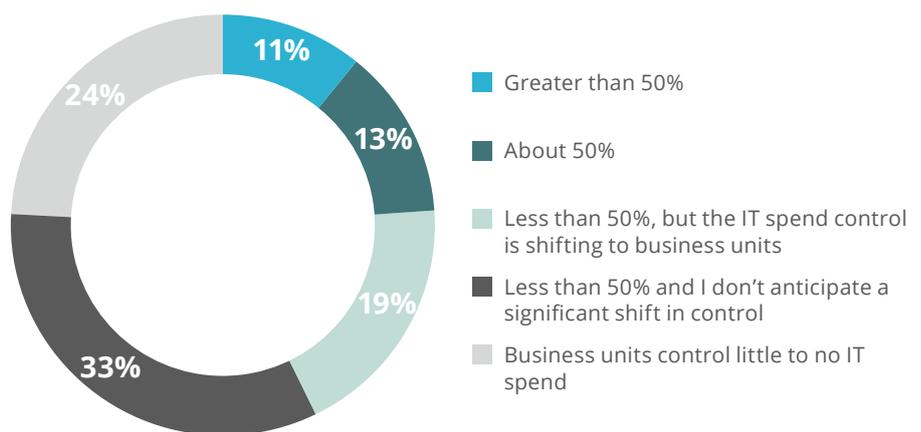
To get an insight into the current state of play in UK businesses, CIO UK and Snow Software conducted a major piece of research looking at IT leaders' relations with business unit leaders, the changing balance of technology purchasing in business and the issues this raises.

Our findings revealed a 'Disruption Gap' between business unit technology spend and the concerns of the central IT team to re-architect the business for digital and to free resources for innovation by reigning-in overspend through duplication, missed opportunities for volume purchasing and shelfware.

### CLOUD, COST AND CONTROL

There has been a profound shift in both purchasing and control of IT since the emergence of SaaS and the broader cloud economy.

**Figure 1 |** What percentage of enterprise IT spend in your organisation is controlled by business units?



Almost a quarter (24 percent) of respondents say at least half their organisation's IT spend is controlled by business units, rather than the IT team. A further 19 percent of respondents say that while less than half of technology spend is controlled by business units, control is shifting away from IT.



Not surprisingly, more than half the CIOs and IT leaders surveyed expressed concern that this change in purchasing was leading to a loss of control on their part. This concern was not about power and fiefdoms. Nor was it a desire to return to the pre-digital days when IT delivered systems and told the business to use them. It was much more about their desire to set up the whole business for secure, cost-effective digital transformation.

When asked, 'What does the increased ownership of IT spend by business units mean for you?', CIOs and business technology leaders offered a range of both positive responses and deep-felt concerns.

Some 31 percent of CIOs said that increasingly tech savvy business leaders means they were 'finding it easier to command boardroom attention as the organisation gets to grips with digital'.

Some 50 percent said the growing business unit tech spending meant that they were 'looking for ways for the IT function to be more innovative and consultative to business units'.

However, with tech leaders often being forced to pick up the pieces from ill-advised business unit tech spending or being forced to provide the infrastructure to run applications they had no input into purchasing, the range of concerns is not surprising.

Some 42 percent of IT leaders say they lack visibility into technology spend; 41 percent say they are being held responsible for something they can't control; and 29 percent feel they – and by extension the wider business – are losing control of costs. *(Multiple responses were allowed for this question)*

Key issues raised from business units increasingly taking ownership of IT spend include:

- More than 70 percent of IT leaders are concerned or very concerned about the increased risk to data security
- More than 60 percent of IT leaders are concerned or very concerned about the increased threat of non-compliance
- Some 90 percent expressed concern that audit preparation is becoming more time consuming and complex

## HOW IS THE SHIFT IN SPENDING FROM IT DEPARTMENTS TO BUSINESS UNITS AFFECTING YOU?

The voice of your peers:

The continued dialogue of business vs. IT is outdated... Think partnership in the same way that Finance and Marketing approach their disciplines.

The business is more engaged and being more demanding of IT to deliver digital strategies that grow the business.

Trying to reduce Shadow IT spend, whilst increasing flexibility for Business to help define how spend is allocated.

Need to increase investment to maintain existing IT investments e.g. keep the lights on. Causes tension as business units do not always appreciate the need for this.

It helps me integrate much more with enterprise-wide priorities and ensure overall organisational goals are met when deciding on IT spends.

Difficult to maintain a scalable infrastructure with uncertain funding streams.

The ability to switch off legacy investments and infrastructure needs to be managed carefully as legacy costs cannot be switched off overnight due to the integrated nature of infrastructure and enterprise licensing.

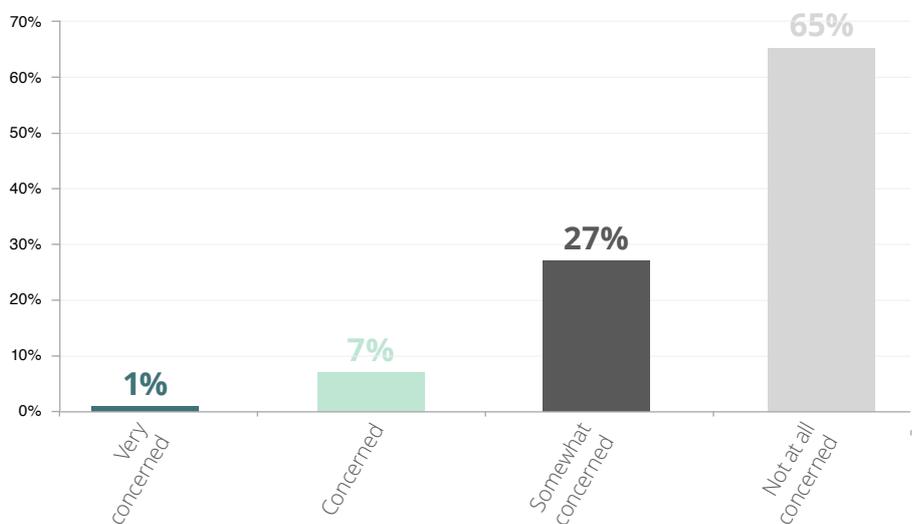
## CIOS AND LEADERSHIP

CIOs and IT leaders, whatever their concerns about the shift in IT purchasing to business units, are eager to capitalise on the new relationship with their business unit colleagues that have resulted from these changes.

Around 70 percent of IT leaders see the increasing business unit ownership of IT spend as an opportunity to be able to better support and align with the business.

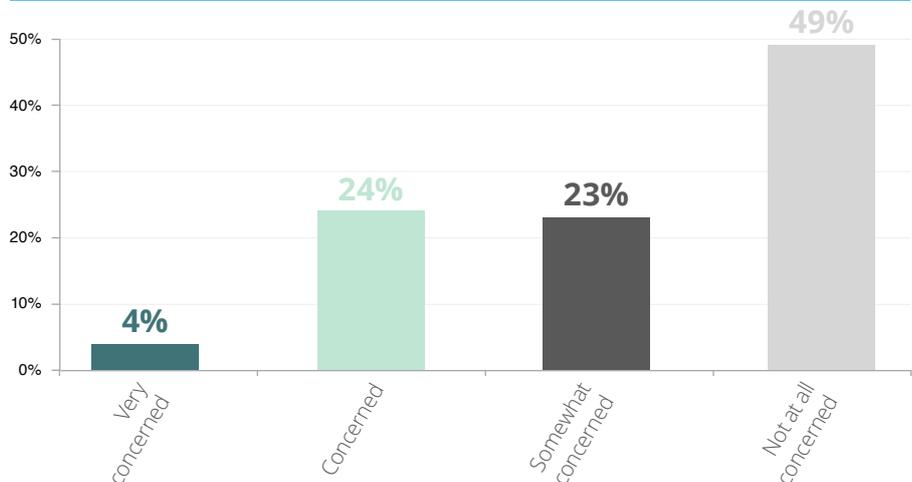
Two-thirds of those surveyed did not think that increased business unit ownership of IT spending would prevent their organisation becoming more agile and innovative.

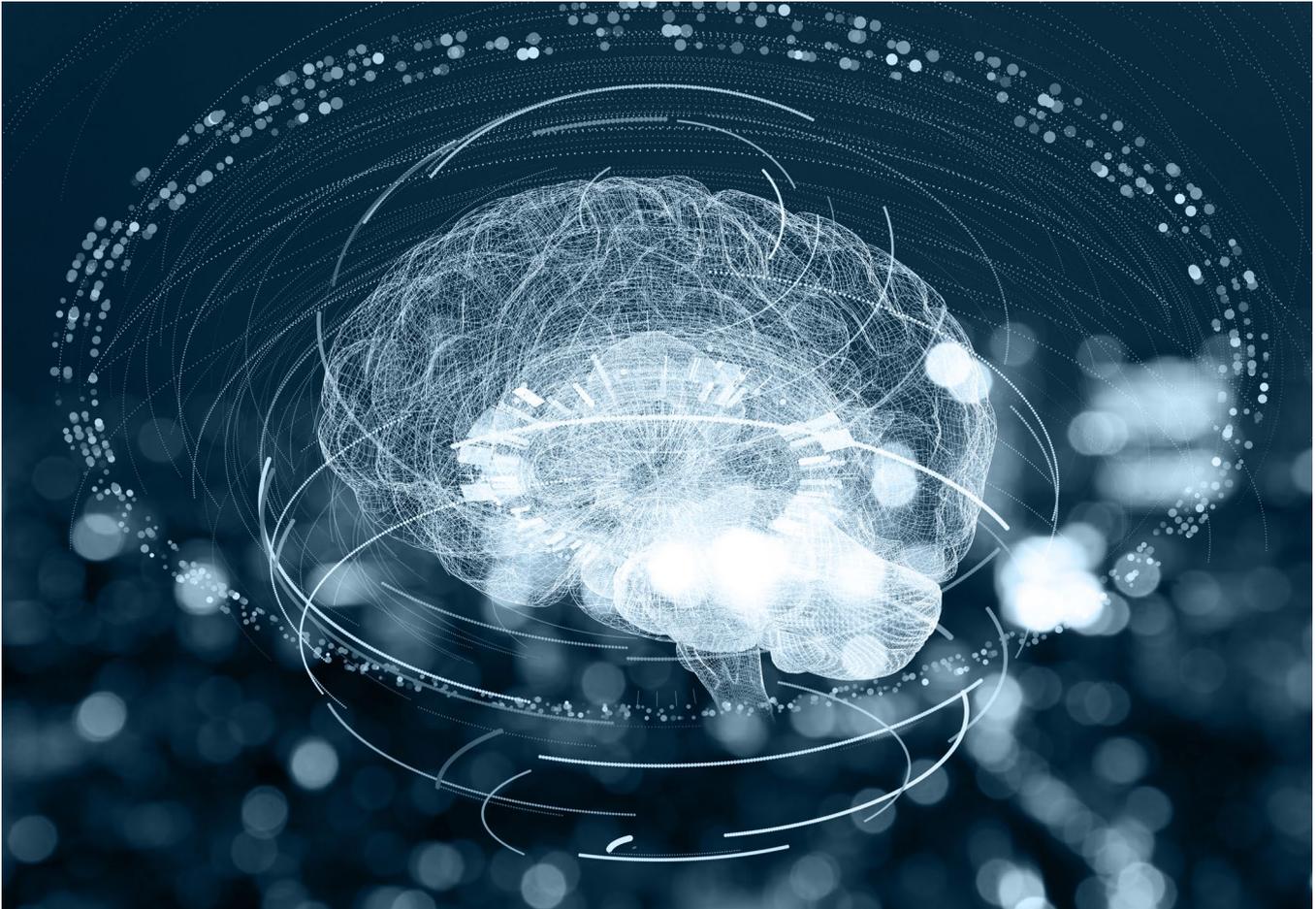
**Figure 2 |** To what extent are you concerned about the effect of increasing business unit ownership on the organisation becoming more agile and innovative?



Almost half of IT leaders think increasing business unit ownership of IT spend will provide an opportunity for them to focus on more strategic initiatives.

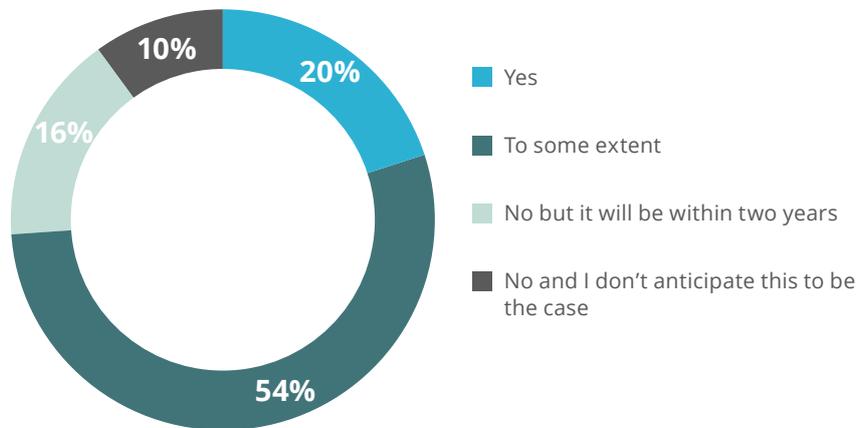
**Figure 3 |** To what extent are you concerned about the effect of increasing business unit ownership on IT being able to focus on more strategic initiatives?





When CIOs and business technology leaders reflected on how the changing landscape would affect their career path, some 74 percent say they expect their primary role in the next two years to have changed or have begun to change from directly managing IT to becoming an innovation partner.

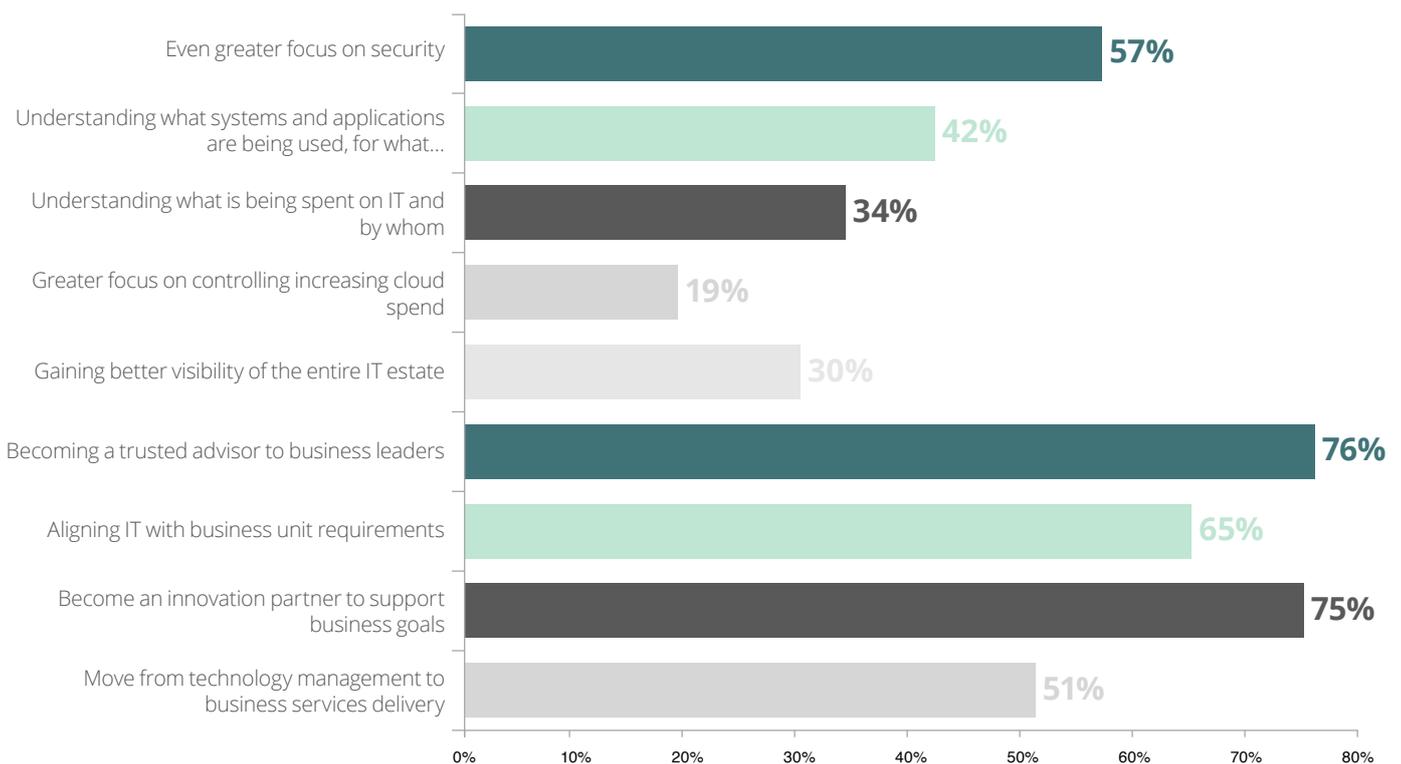
**Figure 4 |** IDC predicts that in two years, more than 70% of CIOs will change their primary role from directly managing IT to becoming an innovation partner. Is this already the case with you?



The survey findings reinforce analyst IDC's prediction.

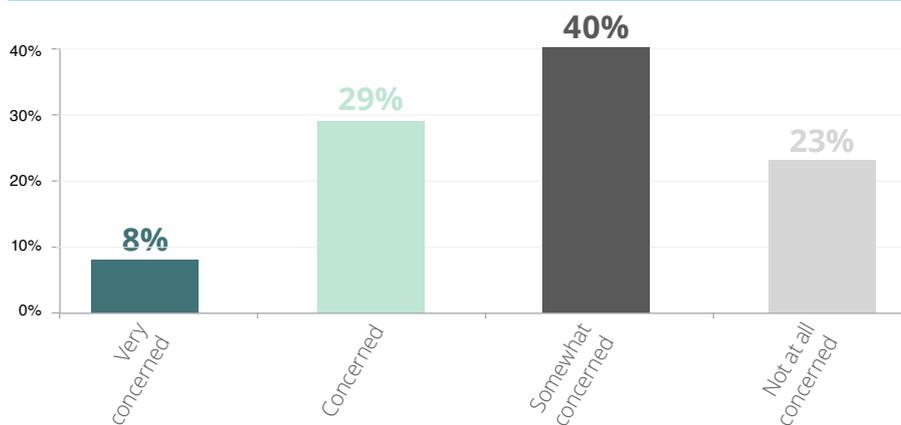
- Drilling deeper into respondents' expectation for their personal future over the next two years, the survey found:
- 76 percent of IT leaders believe their role as CIO/IT leader will evolve to becoming a trusted advisor to business leaders
- 75 percent believe they will become an innovation partner to support business goals
- 65 percent see their role changing to become more aligned with business unit requirements
- 50 percent will move from a technology management focus to more business services delivery
- 60 percent of IT leaders believe their role as CIO/IT leader will have a greater focus on security
- *(Multiple answers were allowed)*

**Figure 5 |** As business units have increasing power to initiate IT spend, how will you evolve your role as CIO/IT leader in the next two years? [tick all that apply]



- For all this optimism, CIOs and IT leaders are clear-eyed pragmatists and they recognise the problems that can and have emerged from business units' increasing power to initiate IT spend.
- When asked whether they were concerned that IT teams might lose control and influence as a result of business unit ownership of IT, only 23 percent gave an unequivocal 'no' as an answer.

**Figure 6 |** To what extent are you concerned about the effect of increasing business unit ownership on IT teams losing control and influence?



• Strohle and Suya Xiong in 'Information Is Not Enough: The Three "I"s' of the New CIO Role', August 2017 put it like this:

• “CIOs and IT executives have a unique opportunity to expand their leadership and deliver more value to their business. The world is at a major turning point — technology will enable entirely new CIOs who drive change into markets as opportunists of disruption rather than fall victim to disruption.”

• (Source: [www.ciosummits.com/Online\\_Assets\\_IBM\\_Whitepaper\\_-\\_Global\\_Technology\\_Services\\_CIO\\_Plan.pdf](http://www.ciosummits.com/Online_Assets_IBM_Whitepaper_-_Global_Technology_Services_CIO_Plan.pdf))

**THE CHALLENGES AHEAD**

CIOs and IT leaders know their job is to create the technical infrastructure and the control mechanisms to allow their organisation to seize business and service opportunities and to do so in a repeatable, secure, compliant and cost effective manner.

The opportunities to move from a business technology leader to a much broader business leader are enormous for those CIOs who seize the time. IDC analysts Marc

**WHY ARE YOU MOVING TO CLOUD?**

The voice of your peers:

- Where it can be demonstrated to offer scalable cost-effective improvements to our existing ways of working we move to cloud. Cloud is NOT a panacea.
- Scalability, flexibility, elasticity. Reduction in management time. Reduced operational monitoring.
- It allows us to be more agile and focused on 'value-added' delivery rather than 'keeping the lights on'.
- Strategy initially driven by need to reduce risk related to managing our own infrastructure. Increasingly however becoming about convenience and flexibility allowing us to deploy services quickly across any geography.
- Maintain competitive edge; speed new business initiatives.
- Operating cost reduction. Simplified landscape. Access to innovative platforms and products will free the business to evolve more rapidly.
- Moving away from capex and easily to scale up and out with minimal business disruption.
- Greater agility, reduce requirement for internal support/expertise.
- To remove the dependency on on-premise equipment and data centres as well as licensing.
- Increased agility and capacity to deliver business value.
- It's not a one-size-fits-all model. Different scenarios have different optimised solutions.
- To change focus from managing technology to using it for business benefit.

## WHAT DOES 'CLOUD FIRST MEAN TO YOU?'

The voice of your peers:

- Use cloud wherever practical or sensible. However, it is not dogma and common sense should prevail where costs or poor commercials make on-premise solutions better.
- Evaluate the potential to provide services in a cloud hosted solution as the preferred option rather than using the power of cloud technologies in the first assessment and consideration when implementing new or changing existing services local on-premise delivery.
- All new services or developments should look to embrace the use of hosted services where possible in the first instance.
- Changing the mindset of local IT managers, convincing them they won't lose control, and that the benefits outweigh the cons. Aligning our overall strategy up the IaaS->PaaS->SaaS path.
- Opportunity and agility.
- Hype. Not every IT service/function makes sense to be implemented in the cloud.
- A default strategic position that is easy to understand but difficult to implement in practice.
- An asinine phrase that means well but in reality, is not achievable easily.
- Being agile and being able to be flexible in delivering systems.
- Better economics, security and agility.

● But CIOs know that many of the problems they and their organisations currently face will not disappear in the new digital world. That is why 60 percent of IT leaders believe their role as CIO/IT leader will have a greater focus on security in the next two years than it does today.

● Above all they know that building a platform for innovation in the future requires a mastery of their technical landscape in the here and now. CIOs need full visibility and control of all hardware and software across the network, including in the cloud, if they are to remove the uncertainty and the risk of unexpected technology spend and become the true enablers of digital transformation.

### KEEPING CLOUD COST EFFECTIVE

● CIOs and IT leaders understand that cloud is the key enabling technology for digital transformation. They understand that the cloud pay-as-you-go pricing model offers significant benefits to enterprises, and they appreciate the ability to spin up new services with the swipe of a credit card.

● However, many have also been stung by badly managed cloud purchases. They know from experience that it is easier to buy cloud services than to decommission them. They have dealt with hefty bills caused by developers spinning up virtual machines with a hyperscale cloud provider and leaving those machines running long after the task they were acquired for has been completed.

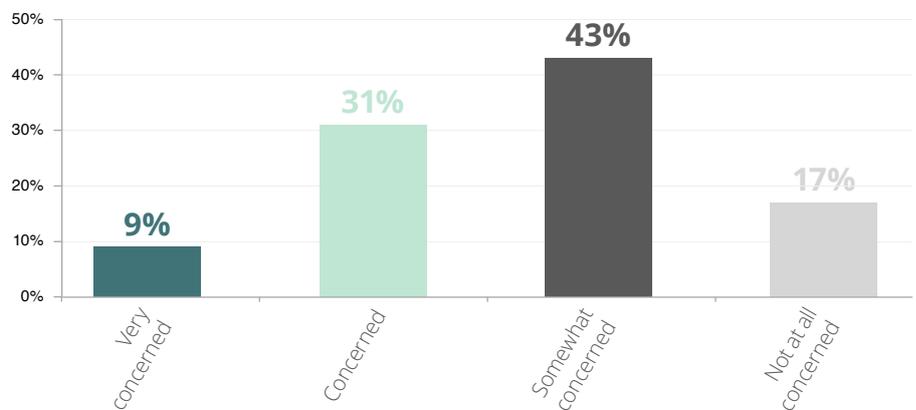
● They have seen business units purchase cloud services with no understanding of the long-term cost, compliance and security implications or the infrastructure requirements those services demand from the wider organisation.

Analyst groups clearly recognise the problem. Robert Young, research director, IT Service Management and Client Virtualization Software at IDC, for example, warns that IT departments and the asset management tools they use need to quickly move beyond “static inventory spreadsheets” to tools that can “dynamically manage and control the entire fleet of systems and applications, residing both on-premise and in the cloud.”

(Source: [www.idc.com/getdoc.jsp?containerId=US42511617](http://www.idc.com/getdoc.jsp?containerId=US42511617))

Small wonder then that a massive 83 percent expressed concern that increasing business unit ownership of IT meant cloud spend could spiral out of control.

**Figure 7 |** To what extent are you concerned about the effect of increasing business unit ownership on cloud spend spiralling out of control?

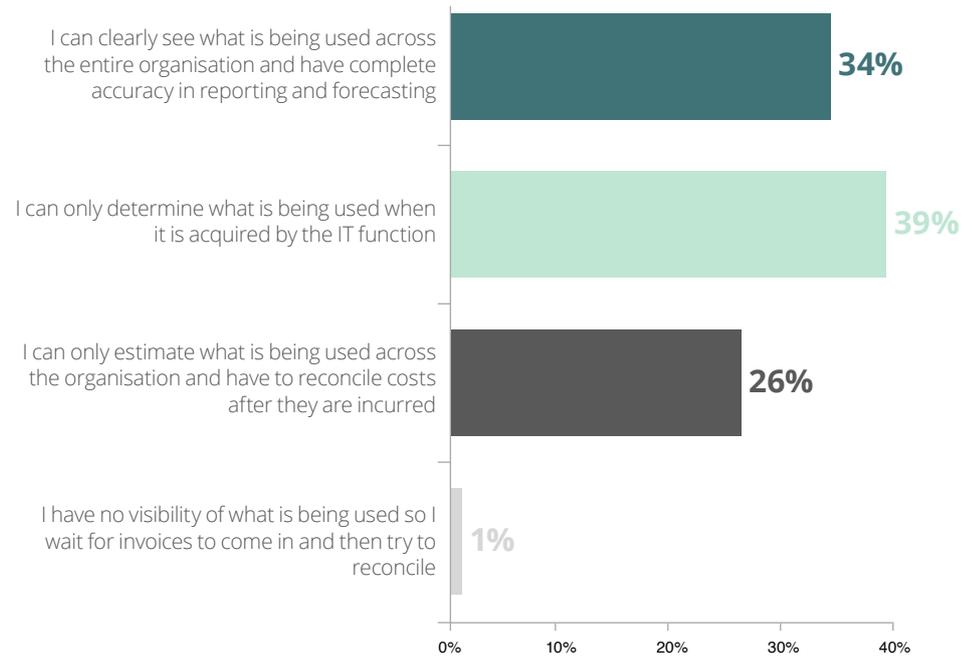


Managing and driving down cloud-associated costs is only one area of concern for CIOs and IT leaders. Security and compliance are of equal importance. No wonder then that IT leaders are worried about their lack of visibility into the as-a-service products used by their organisation.



More than a third of survey respondents say they can only determine which cloud applications are being used across their organisation when they have been acquired by the IT function, while 26 percent can only estimate what is being used and have to rely on reconciliation after costs have been incurred. More positively, around a third (34 percent) said they had full visibility of cloud applications being used. If that is the case they will, most likely have sophisticated Software Asset Management tools in place.

**Figure 8 |** How do you currently determine which cloud applications are being used across your organisation?



**HOW TO BE PART OF THE SOLUTION**

To succeed in the digital era CIOs and their IT teams must become the go-to people for business units looking to fast-track new technology adoption, to drive great deals with new or existing vendors and to create links between the efforts of different business units.

At the same time, they must provide the executive team with a vision of technology that is available now, and in the near future, and what it can do for the business, while providing a single point of reference for spend, risk and currently deployed technology.

Snow Software Asset Management solutions have helped organisations as diverse as Atos, a giant IT services company, Sun Chemical, the world’s largest producer of printing inks and pigments with an annual turnover of \$3.5bn and Velux, the €2.5bn Danish manufacturing company to manage their software estate, drive down licensing costs and prepare platforms for their digital transformation.

As Axel Kling, CEO, Snow Software says, ‘Increasingly, the CIO is required not just to define and lead individual projects, but to provide the CFO and the executive team with an understanding of technology budgeting, aggregation of spending plans across the organisation (regardless of owner) and assurances that money is being spent wisely.’ You can’t do that, according to Kling, without the correct tool set. ‘These responsibilities are impossible to deliver without insight into technology consumption. This requires mature processes and best-in-class analytics,’ adds Kling. ■

## APPENDIX

### APIS, OPEN SYSTEMS AND HIDDEN COSTS

The digital revolution is a fundamental challenge to both end user organisations and the vendors whose products they purchase.

We are living through a profound change in enterprise IT, from the days when most systems were run from a dedicated, on-premises data centre, to a world where hybrid IT is a fact of life, with organisations running applications and holding data in on premises systems, private and public clouds. All of this is facilitated by the emergence of API and container technologies.

On the supplier side the change is equally profound as both hardware and software vendors try and establish new business models for a hybrid, cloud-dominated new world. In this new world, software licensing, always a headache for CIOs, can become a nightmare.

Software vendors have always tried to maximise their revenue from licensing which includes pushing customers from on-premises to hosted solutions.

SAP customers have found themselves embroiled in conflict, where SAP has been trying to charge customers additional licensing fees for 'indirect access' to its systems. Indirect access occurs when third-party applications access data held in SAP systems.

Given that data access and data sharing is the essence of the digital revolution, this could be a very real issue for progressive CIOs and business leaders. The potential scale of the problem can be seen in SAP's claim in a current corporate information brochure 'that 76 percent of the world's transaction revenue touches an SAP system'. ([www.sap.com/corporate/en/documents/2017/04/4666ecdd-b67c-0010-82c7-eda71af511fa.html](http://www.sap.com/corporate/en/documents/2017/04/4666ecdd-b67c-0010-82c7-eda71af511fa.html))

In 2017, SAP won a court case against Diageo after the alcoholic beverage giant's sales staff were found to be running Salesforce applications on top of SAP data. The court awarded damages of £54.5 million. The software company followed the Diageo ruling by taking legal action against Belgian brewing agent Anheuser-Busch InBev, and originally sought \$600 million in compensation for unlicensed use of its software. In March 2018, Anheuser-Busch InBev confirmed it had ended a legal battle with software supplier SAP, settling with the German tech giant out of court.

Small wonder then that CIOs and business technology leaders are concerned about the potential financial



impact of giant enterprise vendors suddenly charging for indirect access to their software as cloud and digital expand. In the survey 75 percent of respondents expressed concern or extreme concern at the issue. Worryingly, some 12 percent were not aware there was a potential problem, while the remaining 13 percent were not concerned about the threat of suddenly being hit with charges for indirect licensing.

Digging deeper, some 24 percent of respondents said they were not happy or feared discussing issues such as indirect access with major vendors such as SAP. A majority, 52 percent, said they would only initiate such a conversation 'When I have done all my due diligence and am confident that I am fully aware of my usage and licensing situation'.

Since the Diageo ruling, SAP has been in discussions with its users about introducing new pricing models and has made considerable progress with its user groups. Nevertheless, as Paul Cooper chair of the UK & Ireland SAP User Group says, 'The problem for most organisations is they have no idea whether they are correctly or incorrectly licensed.'

For Cooper, 'Despite SAP's assurances it won't ask for back-maintenance payments from organisations that are under-licensed, members have understandably been reluctant to speak with their account managers.' ([www.computerworlduk.com/it-vendors/sap-indirect-access-explained-3671760](http://www.computerworlduk.com/it-vendors/sap-indirect-access-explained-3671760))

Duncan Jones, senior analyst at Forrester, in a blog post on the SAP/Diageo ruling, insists that organisations 'should be compliant without being submissive' and that requires knowledge and expertise. He warns, 'It is too late to renegotiate or redesign when a software provider finds you have breached your license agreement. If you negotiate proactively you should be able to find a mutually acceptable solution.' ([https://go.forrester.com/blogs/17-02-21-five\\_shades\\_darker\\_what\\_the\\_diageo\\_indirect\\_access\\_judgement\\_really\\_means\\_for\\_sap\\_customers](https://go.forrester.com/blogs/17-02-21-five_shades_darker_what_the_diageo_indirect_access_judgement_really_means_for_sap_customers))