

3 C-SUITE ACTIONS TO IMPROVE INVESTMENT RETURNS IN THE NEW AGILE, OPERATING MODEL

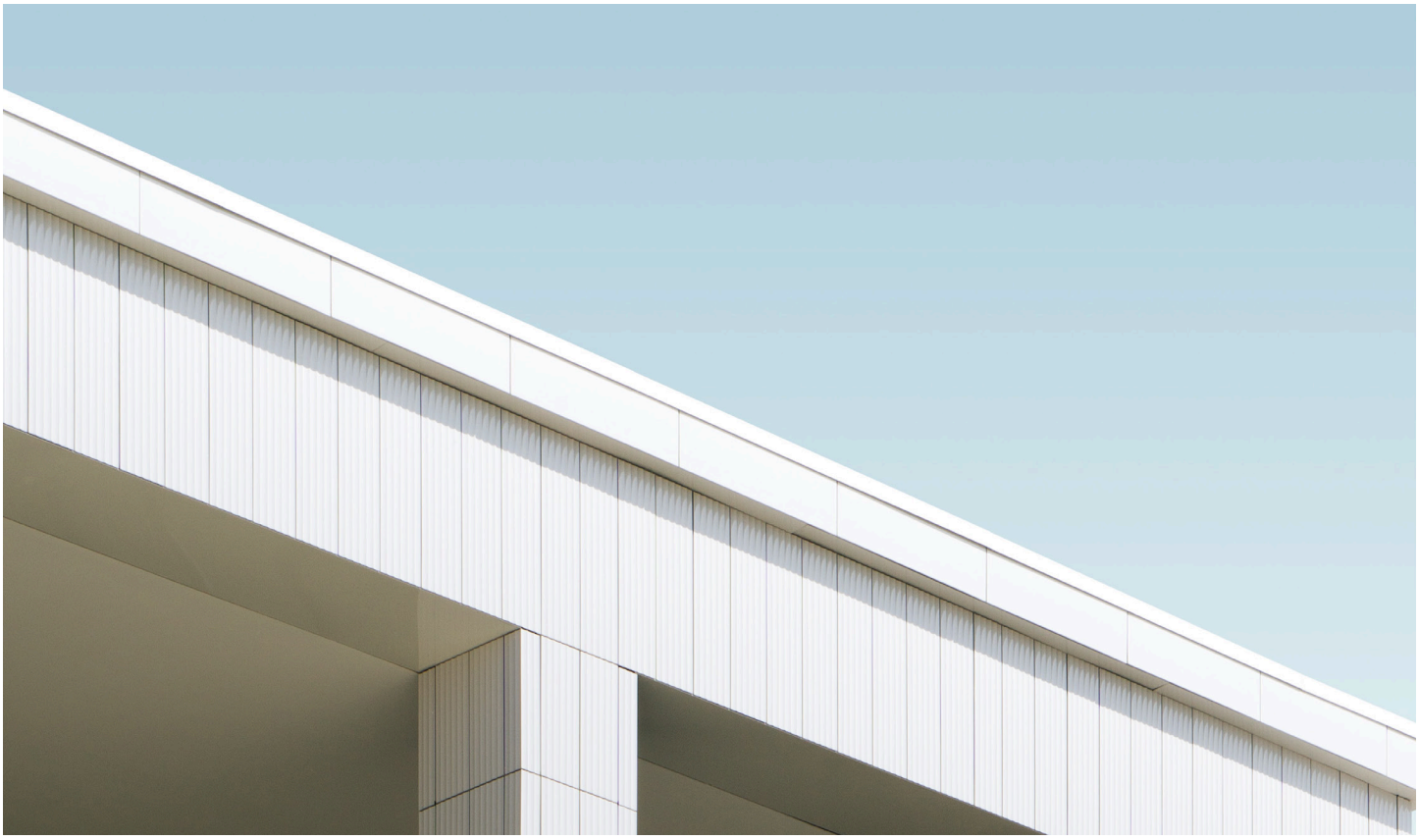


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EXECUTIVE SUMMARY

Given the critical nature of Technology in most enterprises, ones that embed the Business Units with DevOps teams for their market-facing IT applications can internalise agility and better respond to market events. However, this paradigm shift requires an enhanced discipline in its investment planning to ensure it can reap the benefits of this new model.



BACKGROUND

The pandemic has demonstrated how agile companies that respond faster to market events position themselves for success.

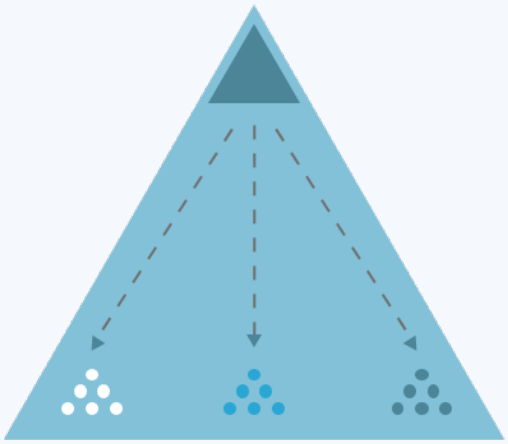
Since the start of the pandemic, over the last 15 months, the IT department addressed several priorities such as the transition to remote work, investing in digital workplace solutions and strengthening security and resilience.

One of the key priorities as organisations focus on preparing for a post-pandemic world is ‘systematising agility’. By this, we refer to a more transformational change than a mere tinkering of existing governance processes. Instead, it is a fundamental change to how organisations are organised and operate within the wider ecosystem such as its third-party suppliers.

WHAT DOES AN AGILE IT OPERATING MODEL LOOK LIKE?

Firstly, let's consider a traditional IT Operating Model.

Traditional Operating Model



Traditional IT Operating models share these core characteristics:

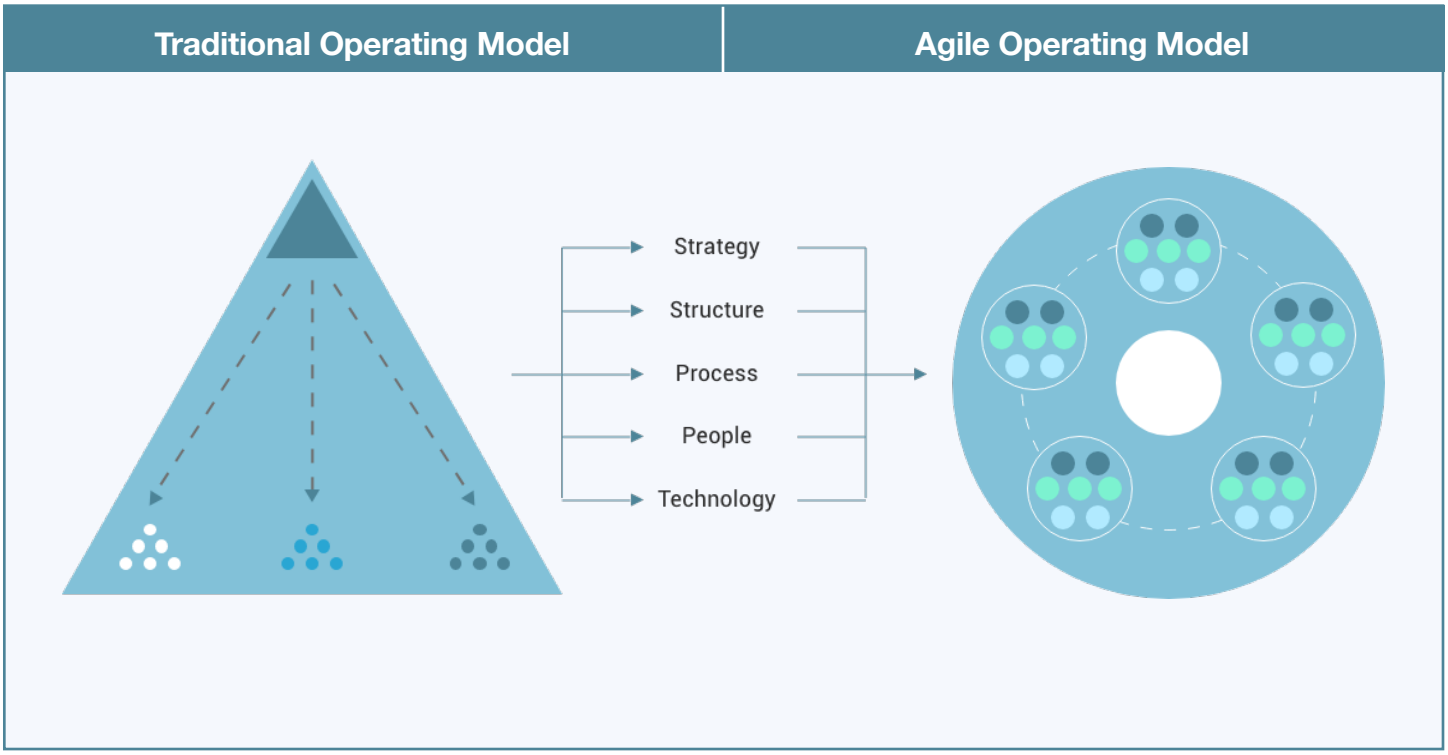
- Centralised Governance functions with a C-level leadership team that makes decisions
- Centrally provided teams for all functions grouped by skillsets such as Service Desk, Infrastructure, Security, Vendor Management, Application Development and DevOps. Depending on the scale of the organisation, these could be delivered in the form of a Shared Service entity (or entities).

DRAWBACKS OF THE TRADITIONAL MODEL

It is important to note that there are merits to many aspects of the traditional model that could be retained as we pursue agility as they are crucial to extracting efficiencies from economies of scale. However, we must relook at some of the structures that improve agility in a manner that doesn't increase the overall costs.

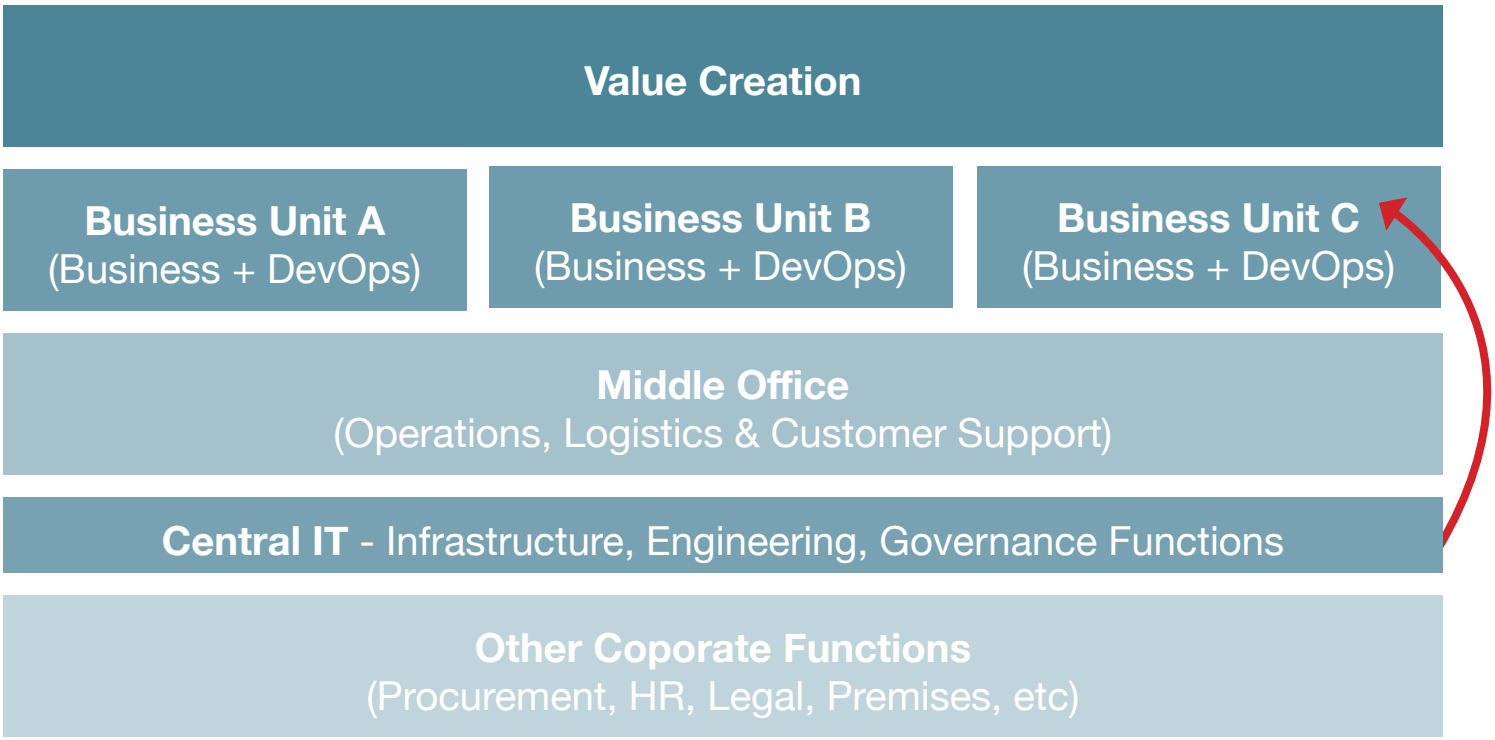
With the pandemic ensuring that Technology plays a central role in enterprises going forward, the current processes between the Business and IT involve a lot of inter-departmental back-and-forth and handoffs via governance committees that cause needless delays.

We must look at the overall model so we can contextualise the changes to the IT Department.



The ‘Agile’ model reimagines the entire organisation as a network of high-performing teams, each going after clear, end-to-end business-oriented outcomes, and possessing all of the skills needed to deliver.

A DRILL-DOWN INTO THE IT DEPARTMENTAL LEVEL



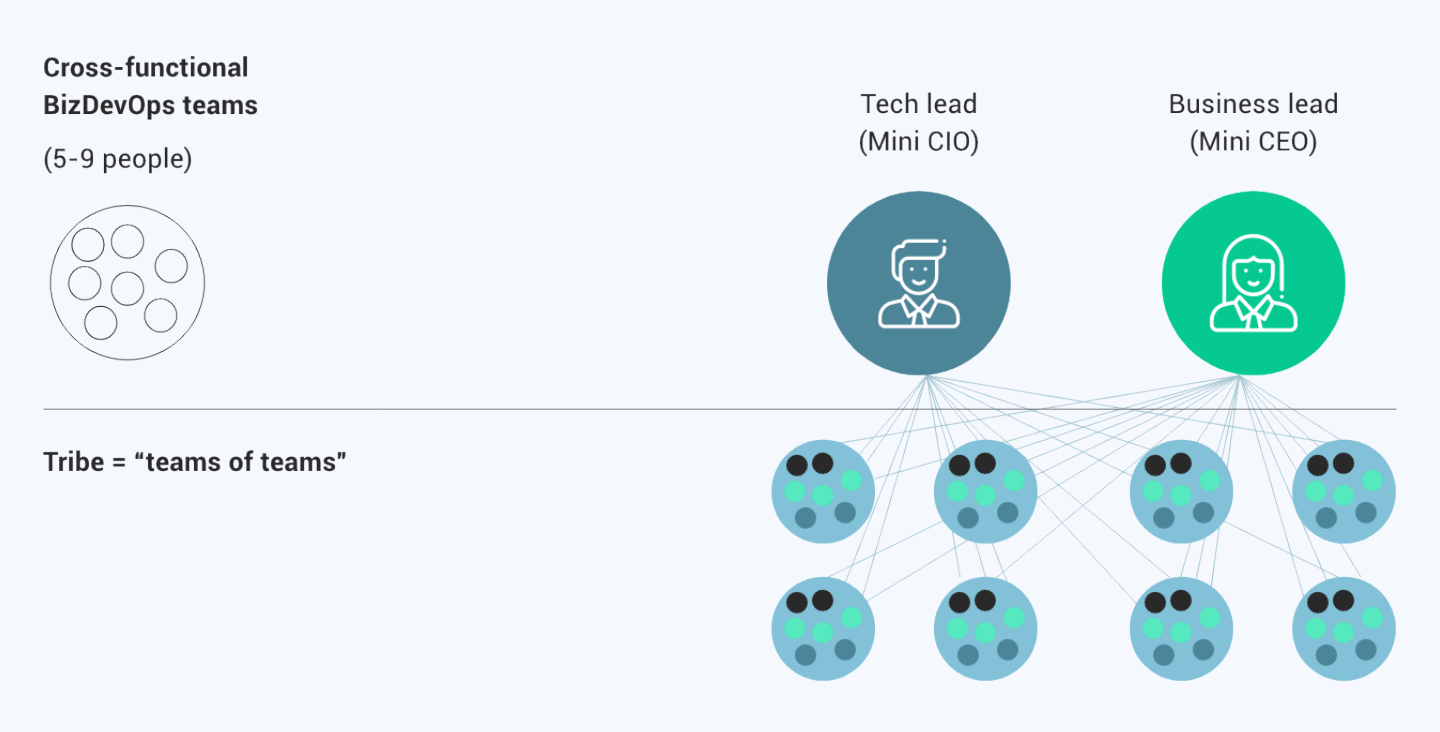
The 'DevOps' function is an integrated team that combines software development and IT Operations, teams. It aims to shorten the systems development life cycle and provide the continuous delivery of high software quality.

To ensure agility, the DevOps function is moved from the shared, centralised areas to the Business Units that they serve (as denoted by the red arrow).

These enhanced cross-functional 'BizDevOps' (aka Business-Development-IT Operations) teams are referred to as 'tribes' – and coordinate activities similar to an agile team. There are a couple of leadership options for these teams.

A DRILL-DOWN INTO THE IT DEPARTMENTAL LEVEL

Option 1: A Tech lead (a mini-CIO) and a Business lead (a mini-CEO eg Business Unit CEO)



Option 2: A Tribe Leader (a mini COO). The image is quite self-explanatory. In this scenario, instead of having 2 separate roles, they are consolidated into one.



IMPLICATIONS FOR THE TECHNOLOGY DEPARTMENT

This new Operating Model has many fundamental impacts on the IT department and the wider organisation.

1. **Fragmentation:** An agile IT Operating Model is more fragmented than the traditional centralised peers.

2. **Ownership & Accountability:** Following on from the earlier point, in the new federated IT world, who takes 'ownership' for IT Applications and their associated costs is important. If the organisation implements the mini-CIO model, it is this individual with direct accountability into the Business Unit CEO and a dotted line into the overall CIO. However, we recommend that this cost, from an Operating Expenditure standpoint, is not segregated from the IT costbase, as it risks falling into the cracks of 'Shadow IT'. The term 'Shadow IT' refers to a portion of IT that typically falls outside a 'central IT' function.

3. **Role of other central IT governance functions such as IT Security, Architecture & Design:** In most organisations, these teams provide control measures in steering disparate DevOps team to internal standards. It is important to note that there is no change to these governance functions.

4. **Outsourcing of IT Application Development functions:** Over several decades, IT departments have been used to transitioning much core IT skills to specialist Outsourcing vendors. While some of these have been undertaken to address the receding skillsets in the market due to reliance on legacy platforms and technologies, others have been undertaken purely from a cost perspective.

    - In the age of agility, there is a major rethink within these organisations on how to address outsourcing, as submitting requests for a needed change is slow and no longer suitable to rapidly shifting needs. Competing with digital natives requires daily testing of minimum viable products (MVPs) and leaves little room for handovers— be it between departments within a company or with outside vendors.



KEY RISKS IN ADOPTING THE NEW AGILE OPERATING MODEL

1. **Loss of line-of-sight of costs:** The technology costbase has been steadily increasing as a % share of the overall costbase and the pandemic has further accelerated its shift and consolidated this transition. Unlike other departmental costs that are mostly comprised of staff costs and 3rd party vendor contracts, the technology costbase consists of a lot of intangibles such as software and virtual infrastructure. The fungible and virtual nature of the technology costbase has resulted in a loss of line-of-sight of costs between the consumers and providers of technology. Further fragmentation of the IT Operating Model will only further exacerbate this problem and likely result in cost increases.

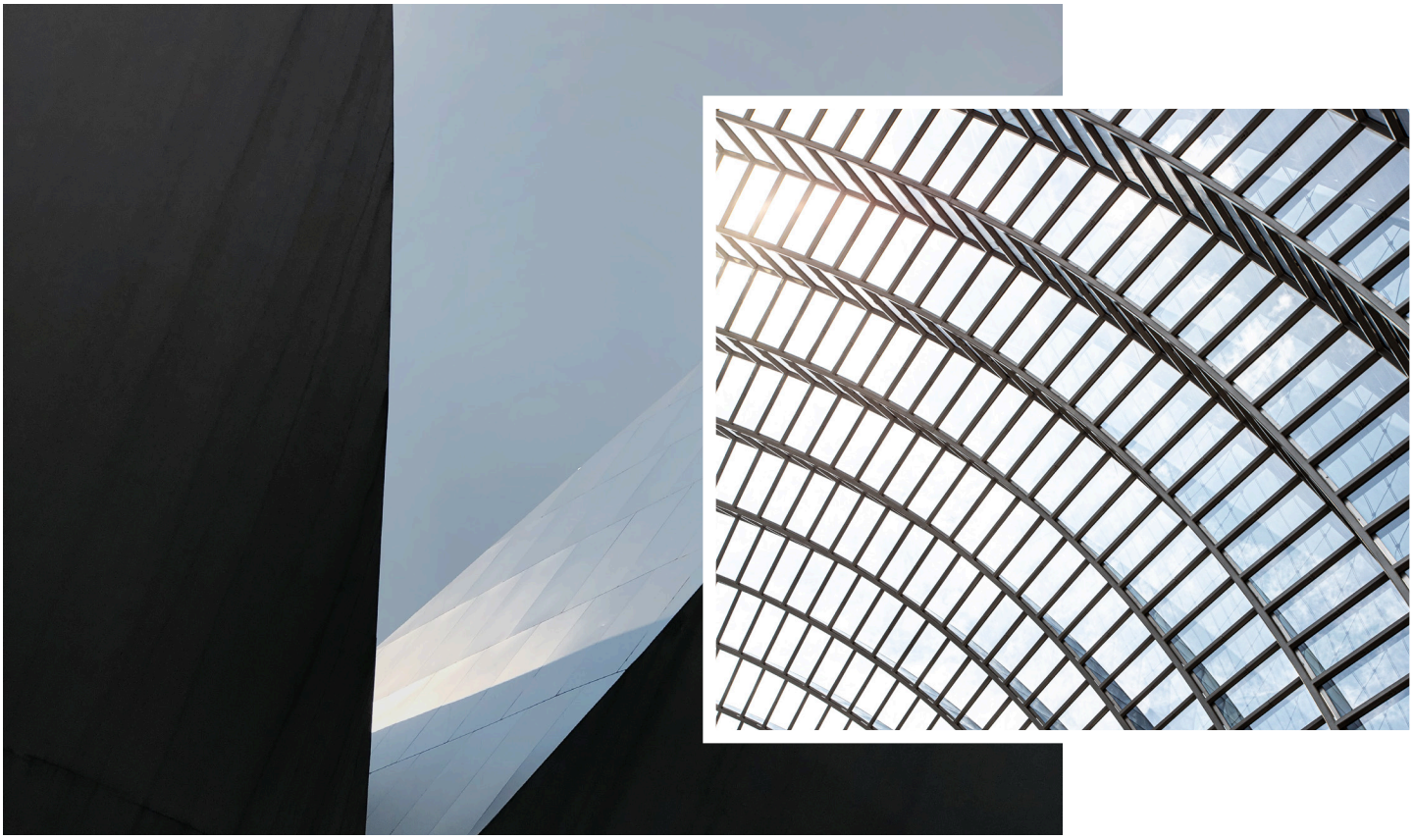
2. **Risk of 'Shadow IT':** Costs shouldn't be sacrificed at the altar of agility. While businesses pursue the agile operating model to provide flexibility to a particular business line, moving costs out of Central IT could ultimately make it more expensive if appropriate standards are not adopted.

With investments being compiled at a BU level, enterprises need to undertake the following 3 actions to ensure they maximise portfolio returns.

1. **Establish consumption-led profitability baselines at the Product and Business Unit (BU) levels.**
   While businesses have good measures over their costs, revenues and profitability at an aggregate level, this becomes much hazier at the unit level – such as the BU or Product. BU profitability methodologies can vary from a simplistic methodology of "divide support costs equally by all BUs" to mildly sophisticated methods that develop rudimentary models in an offline Excel spreadsheet. The flaw with these systems is that they are not transparent and don't aid with accurate and near real-time investment decisions. Adopt consumption-led methodologies that articulate the end-to-end costs of servicing a BU or product to establish clear baselines for product and BU-level profitability.

2. **Implement a circular benefit realisation monitoring programme.**
   By its very nature, agile enterprises tend to make quick decisions. It is essential that the C-Suite implement a data-driven programme that undertakes regular, periodic benefit reviews as a feedback mechanism to BU-leads, so companies move away from a 'blame-game culture when certain investments may not pay off to an iterative and learning culture that the enterprise can utilise to feedback from for future investments.

3. **Establish a mechanism to assess the end-to-end impact of new investment cases.**
   Most modern enterprises string together a complex, integrated ecosystem of applications to deliver business value. While adopting this new Operating model, enterprises need to put in place appropriate governance to ensure that business cases consider the impact of changes to the entire downstream ecosystem.



CONCLUSION

The pandemic has forever changed the role that technology plays in enterprises. Adopting an Operating Model that embeds technology within the heart of the business allows for speed in responding to changing market conditions.

TORI can help the C-Suite ensure they continue to enforce cost discipline, improve profitability, while balancing the needs of the business in enhancing agility and responsiveness.

TORI's IT Cost Transformation offering can:

1. Undertake a review of the IT Operating Model to recommend one that is fit-for-the-future.
2. Evaluate the scope of existing outsourcing arrangements to determine if it is in line with the desired target state Operating Model, and, if not, recommend alterations.
3. Undertake Governance & Process reviews to identify any bottlenecks that could impede agility and align them to the new Operating Model.

ABOUT TORI GLOBAL

TORI Global is a Management Consultancy focused on the financial sector. In 2001, a small group of C-level executives from some of the world's leading financial institutions founded TORI, united by their frustration with consulting services, and by a shared vision to build something better.



ABOUT AMALYTICS SOFTWARE

Amalytics Software is a market-leading provider of IT Cost Management software. Our tool, CostLens, helps to generate strategic insights on a cost structure to rapidly analyse the cost base and identify opportunities for optimisation.

To learn more about Cost Transformation contact one of our experienced and knowledgeable consultants at toriconsultants@toriglobal.com

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