

INSIGHT

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THE CIO'S PERFORMANCE PLAN

The performance plan has been part of the IT landscape for many years. Driven by Top Management, it is often perceived as carrying negative messages: the penalization (the value and the effectiveness of the services of the IT Department are not perceived as sufficient compared to their cost), the arbitrariness (it is not possible to avoid it), the urgency (the savings must be made quickly), the excess (the objective of cost reduction seems unachievable) ... sometimes reinforced by the lack of preparation of the CIOs. In this context, the reaction is often to activate “freeze” levers (abandonment or postponement of a project), which certainly produce immediate savings but which are likely to impact the productivity of the company in the medium term (creation of the technical debt). However, the performance plan is also an opportunity to improve the operational performance of the IT Department and to increase the maturity of its financial management (strengthening the cost control culture, understanding of the cost drivers, enriching the dialogue with the Business, demand management). Our goal is to provide CIOs with key areas to consider to be able to more effectively address these plans that have become unavoidable, but also to turn them into opportunities.

(1) The Performance Plan

(a) Key objectives

The main objective of a Performance Plan is financial. It could include, but not only:

- To **reduce IT costs** to align with the company's financial goals
- To **create financial leeway in order to redistribute resources** in line with the strategic direction of the company's business lines

A Performance Plan may also target other objectives, such as:

- To improve the value delivered by projects and IT operations: better responsiveness, better alignment of proposed solutions, ...
- To improve process performance: better control of all IT activities and support processes

- To improve HR performance: better attractiveness of career paths offered to staff within the IT Department
- To improve the technological roadmap: better support for technological developments, better preparation for the future.

(b) The key principles

A number of key principles could form the basis of the development and implementation of the CIO's Performance Plan.

Principle # 1: The actions carried out as part of the IT Department's performance plan must **not result in a reduction in the value provided to the Business**, nor in the increase of non-IT related costs.

Principle # 2: Each action envisaged as part of the IT Department's performance plan **must be included in a business case to compare its cost, its benefits and its risks in order to evaluate the opportunity**. This approach helps to identify and focus on high impact actions, particularly in financial terms. Any action aiming at the achievement of financial gains indeed has associated costs (which will have to be deducted from the amount of the expected gain) and presents risks (not only on the realization of the action itself, but also on the realization of the expected gains, when even the action would have been completed under the defined conditions).

Principle # 3: **The CIO's performance plan is not only about the IT Department but it needs to be considered globally**. It must involve the Business Departments. While some actions are limited to the scope of the IT Department, others may require a more or less pronounced Business Transformation. The CIO's performance plan may also involve the Human Resources Department and the Purchasing Department for example.

Principle # 4: The CIO's performance plan should not be developed in isolation, but **in collaboration with the operational staff who will be responsible for implementing it**. In particular, this principle facilitates the acceptance of cost reduction actions, while allowing a more realistic estimate of the existing room for adjustments.

Principle # 5: **The performance plan must help to make gains in a staggered manner over time**. Quick-wins will help to start the process and to engage stakeholders; conversely, deeper, longer

and more sensitive transformation actions will anchor and sustain cost reduction.

Principle # 6: The performance plan must be monitored over time, in particular to measure the actual achievement of the expected benefits. This follow-up must align with the management cycle for IT Management.

(c) Prerequisites

The development and implementation of a performance plan within the IT Department requires an initial view of the **IT cost allocation base**, which is comprehensive, shared and recognized. This prerequisite specifically helps:

- To define an objective and a cost reduction horizon in correlation with ambitious but realistic earnings potential
- To transpose this global objective within the various entities, activities and nature of IT costs
- To carry out a follow-up in time of the realization of the expected financial benefits.

The achievement of this prerequisite is not trivial. It notably involves the definition of a single management model, through its implementation in all IT entities that incur costs for the IT operations (change management, evolution of management tools, etc.), as well as through a long-term and objective dialogue between the IT Department and the Business Departments.

(2) Main levers and first selection criteria

Here we present the main levers for reducing IT costs which can be activated as part of performance plans, as well as criteria for pre-selecting the levers to be activated.

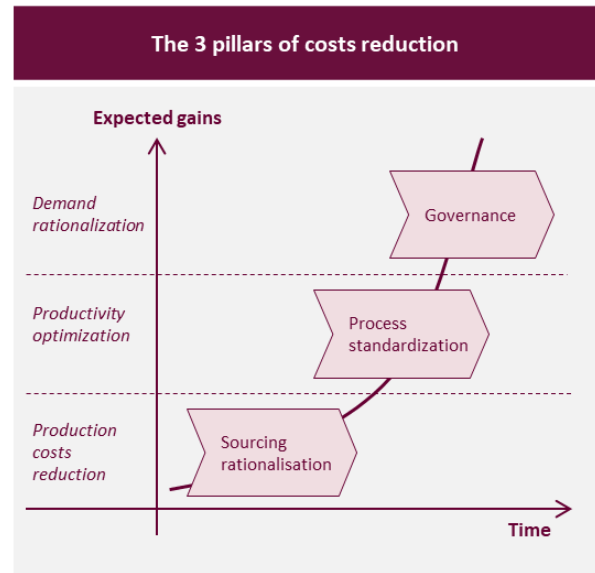
(a) The 3 pillars of cost reduction

The cost reduction practice is based on 3 pillars:

- Reducing the cost of resources ("produce with less")
- **Productivity optimization** ("produce better and faster")

- **Streamlining demand and decision-making** ("produce only what creates value for the company")

Each cost reduction lever can be associated with one of these 3 pillars. These 3 pillars can be different in terms of the potential financial gains and in terms of the time horizon to achieve these gains.



The 3 pillars of costs reduction

(b) The main levers

The IT cost reduction levers most commonly activated by CIOs are:

Axe	Levier de réduction des coûts
Sourcing	<ol style="list-style-type: none"> 1 Massification of intellectual services purchases 2 Streamlining licensing agreements 3 Optimization of telephony contracts (voice, data) 4 Outsourcing / offshoring (maintenance, operations)
Organization and HR	<ol style="list-style-type: none"> 5 Optimization of the organization (e.g. Shared Service Centre) 6 Optimization of skills and workforce (e.g. Job and Competency Planning) 7 Replacement of manual tasks by automation tools (RPA, ...)
Processes and methods	<ol style="list-style-type: none"> 8 Optimization of project management methods 9 Optimization of development methods (Agile, DevOps, ...) 10 Optimization of maintenance and operation processes (ITIL)
Demand management	<ol style="list-style-type: none"> 11 Implementation of Processes and Governance for Demand Management (Value Analysis) 12 Rationalization of the project portfolio (renunciation, report...) 13 Definition of equipment policies and rationalization of uses 14 Standardization of service offers (catalog) 15 Differentiation and streamlining of service levels
Applications	<ol style="list-style-type: none"> 16 Rationalization of the application portfolio (decommissioning, harmonization of technologies, ...) 17 Reduction of the technical debt 18 Reduced specific developments in software packages
Operations	<ol style="list-style-type: none"> 19 Automation of integration and operations activities
Infrastruct.	<ol style="list-style-type: none"> 20 Consolidation and virtualization of servers and databases 21 Consolidation of Datacenters 22 Virtualization of workstations 23 Infrastructure Outsourcing (IaaS, ...)

The main levers for reducing IT costs

(c) Identify levers adapted to the level of maturity of the IT Department

The level of maturity of the IT Department has a direct impact on the choice of the cost reduction levers. Thus, the levers on which the maturity of the IT Department is strong should be avoided, because it will be difficult to obtain more gains knowing that many optimization actions have already been conducted.

However, the levers on which the maturity of the IT Department is weak will deliver long-term gains. Quick-win levers, which will enable the IT Department to achieve immediate gains with minimal effort, are generally those for which its maturity level is neither too low nor too high.

(d) Identify levers adapted to the potential scope of action

While some cost reduction levers remain within the scope of the IT Department, **it is unrealistic y to think that the IT Department alone ca deliver the IT cost reduction targets.** Business Departments must also contribute to the effort to reduce IT costs, mainly through streamlining actions that may impact their operations. In some cases, IT cost reduction is a component of an overall cost reduction program that involves the entire company and is likely to fundamentally alter its business processes.

Four categories of IT cost reduction levers are thus distinguished according to their **field of action and therefore their impact on the Operations of the company:**

- The IT cost reduction levers that mainly impact the IT Department: these are the levers of the Sourcing, Organization / HR, Processes and Methods, Operations and Infrastructures axes (see Chapter 2 (b))
- The IT cost reduction levers that impact the IT Department and the Business directions: these are the levers of the Applications and Demand Management axes
- Business cost reduction levers that require IT investments: these are projects aimed at optimizing business processes by automating all or part of the activities that constitute them. Digitalization projects fall into this category
- Business and IT cost reduction levers that require business transformation. Business Process Outsourcing (BPO) projects fall into this category, for example.

The levers will have to be identified in coherence with the level of ambition of the performance plan (and therefore the involvement of the Top Management).

(3) Select the levers of cost reduction

(a) Introduction

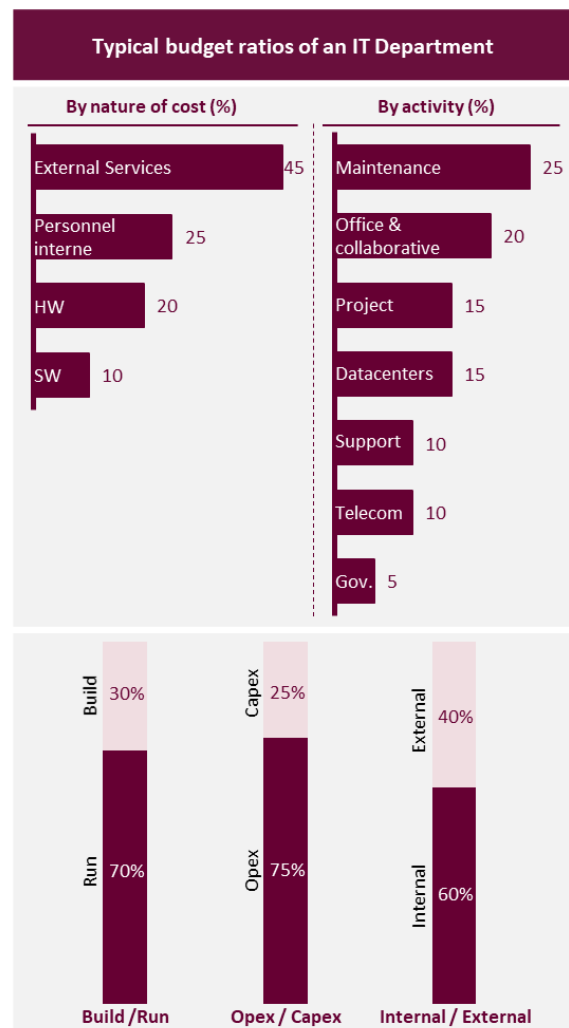
The implementation of the CIO's performance plan results in the launch of targeted actions that are expected to generate financial benefits in the long term. These actions, generally carried out in project mode, have of course a cost and associated risks (on the realization of the action itself, but also on the realization of the expected benefits). As always, the goal is not to carry out all the possible actions, but to **focus on the critical actions which we expect will deliver the best return on investment**. The identification and prioritization of these actions is carried out in two stages:

1. Firstly, identification of main axes of optimization
2. Secondly, detailed assessment of the cost reduction levers to be activated, confirming the existence of a return on investment and refining its evaluation

(b) Identify the main axes of optimization

The first step is to identify the main axes of optimization. This step is based first of all on the analysis and understanding of the cost base of the IT Department, as well as by conducting some targeted interviews. These will in particular will help identify the main items of expenditure for the IT Department, the elements of context to be taken into account and to identify first axes of optimization.

Then, the main budget ratios of the IT Department are compared to market standards (benchmarking), to confirm and refine these initial analyses. For instance, the comparison of the ratio "IT expenses / Turnover" to industry standards helps qualify the level of IT expenses: too low or too high compared to peers? More detailed budget ratios are also compared to market ratios, such as those presented in the table below. Thus, a weight of the "Office & Collaborative" activity significantly higher than the market standards might suggest an optimization of the cost of the workstation.



Typical budget ratios of an IT Department

(c) Evaluate and prioritize the levers of cost reduction by a "Business Case" approach

The realization of a **Business Case integrating the cost, benefit and risk dimensions** for each of the identified cost reduction levers makes it possible to prioritize these levers according to their desirability. The table below shows the components to address in the Business Case.

Item	Components
Coût	<ul style="list-style-type: none"> Cost and difficulty of implementing the action
Bénéfice	<ul style="list-style-type: none"> Economic benefits: gain potential (%), cost base within the scope; Non-economic benefits
Risque	<ul style="list-style-type: none"> On the execution of the action (level of failure ...); On the realization of profits (time horizon of realization of the gains ...)

The components to address in the Business Case

The evaluation of each of these components is specific to each company, particularly because of their different maturity on each axis.

(d) Costs Evaluation

The evaluation of a cost reduction lever has two components:

1. The evaluation of the implementation costs of the lever
2. The evaluation of the recurrent costs induced by the implementation of the lever

The evaluation of the implementation **costs of the lever must integrate not only the costs related to the possible IT component of the project**, but also the costs of the other actions that will have to be carried out in order for the benefits to be realized (costs of communication, change management ...). It must also integrate the costs associated with the possible dismantling of applications, organizations, etc. In addition, certain consistency rules must be respected between the estimation of costs and the estimation of benefits (same methods for taking into account inflation, taxes and labour cost calculations).

On the other hand, in many cases, the implementation of a cost reduction lever is reflected in the setting up of new organizational structures, new IT assets, etc. which will generate, year after year, **new “recurring” costs**. The Business Case must take into account the difference in recurring costs between the case where the lever is implemented, and the case where it is not implemented.

(e) Benefits Evaluation

The benefit evaluation process was presented in an [article by Sia Partners on IT economic indicators](#) and will not be repeated here. Let's just remember that the main types of benefits are economic (recurrent savings, etc.) or non-economic (that is, the benefits that we do not know how to value in the form of economic gain).

In the context of a performance plan, the focus is on activating levers that are expected to generate economic benefits. There are 3 categories of economic benefits:

Category	Description
Decrease of a one-time cost	<ul style="list-style-type: none"> Leverage allowing to reduce in a specific way the budget of loads of the DSI Ex: exceptional decrease in the price of a consulting service
Decrease in recurrent cost	<ul style="list-style-type: none"> Leverage to recurrently reduce the ITC's expense budget Ex: human resources leaving the company, or reused for other tasks for which it would not have been necessary to hire new people Ex: rent reduction, decommissioning of an application, reduction of maintenance costs of hardware or software licenses Ex: reduction in the cost of financing
Avoidance of recurrent expenditure	<ul style="list-style-type: none"> Lever impacting the cost of construction, reducing the impact on the budget (upward or downward) Ex: Optimization is developing an application to limit costs of maintenance

The 3 categories of economic benefits

The valuation of the economic benefits of a lever consists of:

- The evaluation of the **potential gain** associated with this lever
- The evaluation of “**addressable scope**” by the lever, that is to say the budgetary weight of the types of costs, IT activities and applications to which this lever will tackle

The **earning potential** is the percentage of cost reduction that can reasonably be expected from the activation of a lever. It is generally expressed in the form of a range (% minimum and maximum gain possible):

Cost reduction lever	% gain
1 Massification of intellectual services purchases	5 - 15%
2 Streamlining licensing agreements	5 - 10%
3 Optimization of telephony contracts (voice, data)	5 - 25%
4 Outsourcing / offshoring (maintenance, operations)	10 - 30%
5 Optimization of the organization (e.g. Shared Service Centre)	5 - 10%
6 Optimization of skills and workforce (e.g. Job and Competency Planning)	5 - 15%
7 Replacement of manual tasks by automation tools (RPA, ...)	<i>n.a.</i>
8 Optimization of project management methods	5 - 10%
9 Optimization of development methods (Agile, DevOps, ...)	
10 Optimization of maintenance and operation processes (ITIL)	
11 Implementation of Processes and Governance for Demand Management (Value Analysis)	5 - 10%
12 Rationalization of the project portfolio (renunciation, report...)	5 - 15%
13 Definition of equipment policies and rationalization of uses	5 - 10%
14 Standardization of service offers (catalog)	5 - 15%
15 Differentiation and streamlining of service levels	5 - 10%
16 Rationalization of the application portfolio (decommissioning, harmonization of technologies, ...)	10 - 20%
17 Reduction of the technical debt	<i>n.a.</i>
18 Reduced specific developments in software packages	<i>n.a.</i>
19 Automation of integration and operations activities	<i>n.a.</i>
20 Consolidation and virtualization of servers and databases	5 - 15%
21 Consolidation of Datacenters	5 - 15%
22 Virtualization of workstations	5 - 10%
23 Infrastructure Outsourcing (IaaS, ...)	10 - 20%

Gain potential by IT cost reduction lever

The “**addressable scope**” constitutes the indispensable complement of the potential of gain for the evaluation of the profits. The addressable scope represents the budgetary weight of cost types, IT activities and applications that a cost reduction lever will tackle. For example, a lever with a potential gain of 30% may look appealing. Its appeal will however be limited if this earning potential only applies to costs and IT activities which only represent 2% of the IT Department budget.

(f) Risk evaluation

There are two types of risk which are fundamentally different:

1. **The execution risk**, which concerns the respect of the objectives, costs and deadlines of a cost reduction lever
2. **The risk on the realization of the economic benefits**, even if the action of cost reduction would have been carried out under the foreseen conditions (objectives, costs, delays)

The sources of risk, which may be endogenous or exogenous, represent the main causes of risk associated with a cost reduction lever. The main sources of risk are as follows:

Risk	Sources of risk
Risk on the execution	<ul style="list-style-type: none"> • Context • Scope • Solution • Stakeholders • Project Management • Critical dependencies • Outsourcing • Security
Risk on the realization of profits	<ul style="list-style-type: none"> • Economic environment • Regulation • Clients • Competitors • Internal stakeholders • Partners and suppliers • Time horizon of gains realization

Main risk sources

The assessment of the execution risk (low, medium, high) is made from a questionnaire aiming at identifying the size of the cost reduction lever, the number of entities involved, the existence of a manager having all the necessary legitimacy, the level of mobilization of the participant.

The risk assessment on the realization of the benefits helps to identify:

- A low risk when the realization of the gains is almost automatic when the lever has achieved its objectives in terms of deadlines and respect of requirements
- An average risk
- A high risk, typically when the cost reduction leverage is likely to generate strong resistance to change

- An exceptional risk when the realization of the benefits requires to go beyond its own field of experience

The time horizon of realization of economic benefits is also a risk component. Indeed, the realization of the gains is more uncertain as the time horizon of realization is distant (change of context limiting the impact of the expected profits, new or changing costs of realization of the actions necessary to the cost reduction, ...).

The **overall risk** is the result of the execution risk and the risk on the realization of the economic benefits.

(4) Implement the cost reduction plan

(a) Define the targeted gains to be achieved

The targeted gains to be achieved, usually expressed in dollars or as a percentage of a known and recognized baseline, must be set and shared at the beginning of the process. This objective must also specify the **time horizon for the realization of the gains**, the cost base on which they must be realized (recurrent costs / projects, P & L / Cash-out), as well as the assumptions made (inflation, exchange rate, etc.). Gain targets must also be reflected in each entity's budget notification in order to fully integrate them into the management cycles of the IT Department. Finally, **the management of the IT Department must be objectified on the achievement of these gains** to ensure its full involvement.

(b) Set the rules of the game

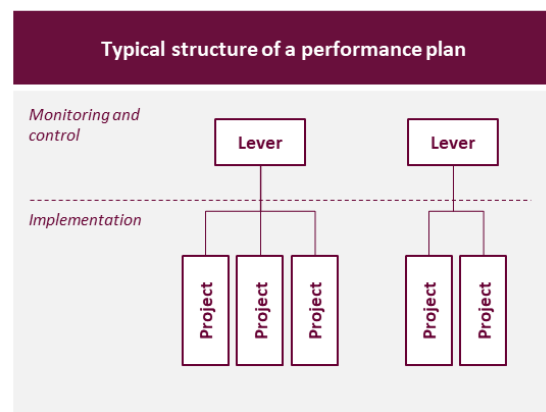
The rules of the game must also be clarified and shared from the beginning of the process. These rules include:

- The methodology for recording the gains
- The methods of distribution of the gains concerning several entities
- How to deal with changes in scope (in relation to the planned budget approach during the construction of the performance plan)

- How to deal with avoided costs (example: should trade-offs be considered as gains?)

(c) Structure the performance plan and set up a program governance

The performance plan consists of one or more cost reduction levers. Each lever is broken down into different projects. The "lever" constitutes the level of monitoring and steering of the performance plan. The "construction site" is the level of the operational realization of the plan (actions, projects, ...).



Typical structure of a performance plan

Each lever must be the subject of a detailed description, formalized in a **dedicated descriptive project plan**. Beyond the objectives of gains to be achieved, this plan is a real roadmap of the actions to be implemented and their leaders. It thus enables the action plan to be steered over time and contributes to achieving the expected gains.

In order to meet cost reduction objectives over a limited time period, **dedicated program governance** needs to be put in place. This governance is based on:

- A **high-level sponsor** with the goal of reducing costs at company level. This is usually a Management Board member
- A **strategic stakeholder** with the authority and legitimacy to orchestrate the implementation of the performance plan. This is usually a member of the staff of the IT Top Management
- A **dedicated central management team**, explicitly mandated to monitor the achievement of gains targets, to coordinate the execution of action plans, to identify risks

and interdependencies between sites, to link the budget processes of the IT Department, etc. This is usually the central management control unit of the IT Department

- **Operational “relays” within the entities** of the IT Department concerned by a given cost reduction lever. By having a good knowledge of the operational reality of their entity, they are in charge of quantifying and implementing one or more levers. They also report to the central management team. This is usually the PMO team

(d) The role of IT Management Control

Beyond its role in steering the performance plan (see above), IT Management Control adds value at several levels. It can first assist the operational staff who carry out cost reduction projects in the **evaluation of the costs and gains** of these projects and help them plan the savings over time. On the other hand, IT Management Control must implement the model of cost and gains monitoring according to the various analysis axes (organization, nature, activities, applications, etc.) and ensure their good articulation with the management cycles of the IT Department. Finally, the IT Management control should raise awareness of the operational staff on the fact that it is important not to reason in the short term. The removal of certain projects will reduce the costs today, but it may have a detrimental effect in the medium term: degradation of the quality of the service offered to the customer, increase of the recurrent costs by the maintenance of technologies or unsuitable solutions, etc.

Conclusions

Performance plans have become essential for CIOs, given the demands of cost reduction from Top Management. Their implementation requires the knowledge and control of the economic and financial aspects of running an IT Department.

The implementation of a performance plan within the IT Department is a unique opportunity to improve the operational performance of the IT Department as well as the maturity of its financial management. In doing so, it lays the foundation for an objective and balanced discussion with the Business around the value of IT Operations. These discussions concern for example the optimization of the cost / performance ratio of the IT Department, its alignment with business needs, and the necessary investments and innovations to deliver simpler, better and faster services.

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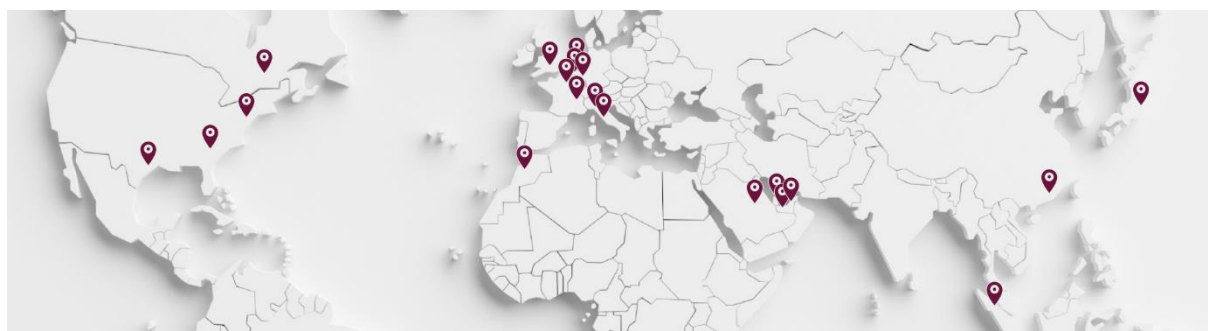
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