

IT Executive Exchange

Doing More With Less: Stretching the IT Dollar

Moderator: Dr. William McHenry, The University of Akron

Executive Summary

While budgets have not been declining at the firms who participated in our discussion, there are more and more demands to do more work and to get more bang for the IT buck. Good alignment—e.g. doing what the customers want, being in tune with the strategy, coming in on-time, on-budget, on-function—leads to bigger budget increases. What the IT department gets can be distorted by convoluted budget processes. For these firms, the IT spend outside the IT department is not a significant factor. Capitalizing software development may be one budgetary way to get more with less.

A key to doing more with less is understand the value that IT provides. Most firms do not track this adequately after the system has been installed. Having too much headcount is a pitfall. Contractors are a way out, but should be used short-term, and as a means of teaching your people new things. Contractors should be excellent “fixers” who eliminate costs you would incur from major problems. By the same token, hiring outstanding people prevents merely adequate people from being a drain on the IT department, leading to more for less. Giving employees competitive salaries, opportunities for growth, and food (offered only partially with tongue in check) are good ways to keep employees happy, allowing managers to ask more of them. Doing the project right the first time, including getting change management right, reduces costs. Excellent project managers on the business and IT sides with accountability are important for success.

Prof. McHenry presented four strategies for managing in a downturn. All the participants have seen and used them all, but not as strategies for the entire IT department at once. Rather, they see a life cycle of systems development which may have to be extended when resources are tight, to a phase of squeezing the most out of the infrastructure, to paying mainly for maintenance, to reconsideration of the system and possibly cleaning house. A firm with no mandate for growth at all, such as one being taken over, might resort to just one strategy such as only maintaining legacy systems.

The IT Executive Exchange (ITEE) is a group of IT Executives and College of Business Administration professors at The University of Akron that meets about every six weeks to discuss pressing and leading edge IT issues faced by IT executives. The purpose of this forum is to have a healthy exchange of ideas that will be useful to all attendees. It is sponsored by the Center for Information Technologies and eBusiness (CITE) of The University of Akron's College of Business Administration. For previous topics and summaries, refer to <http://cite.uakron.edu>

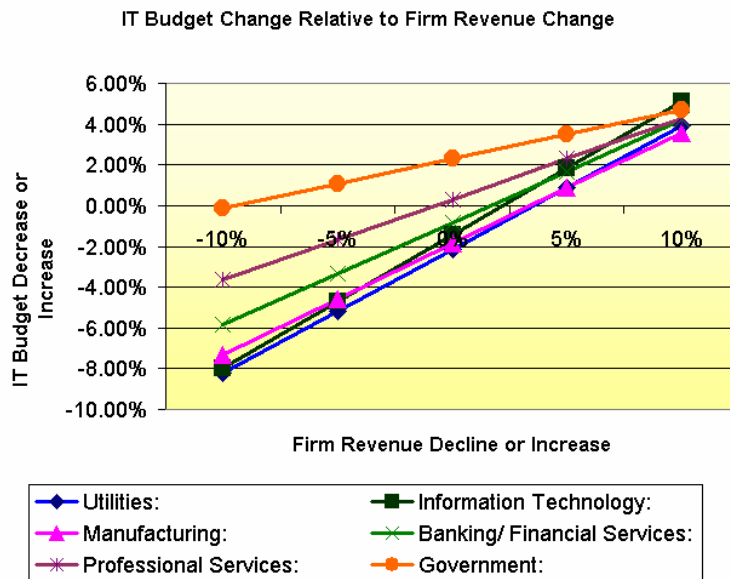
This summary and transcript was prepared by Prof. William McHenry, CBA, The University of Akron.

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Initial Presentation of Prof. McHenry

The meeting began with a short presentation by Prof. William McHenry. Since the burst of the dot-com bubble, the recession of the early 2000's, and the relentless push for greater efficiency, IT departments have faced an increasingly difficult climate. IT budgets declined in 2001 by 8.4%, “the first such decrease since 1958.”¹ Budgets have recovered somewhat in the past several years. Gartner asserted that “U.S.-based organizations plan[ned] to raise their IT budgets by 5.5 percent in 2006”² At the same time, these increases have not kept pace with increases in company revenues (See Diagram). For ex-



¹ Morgan, Nick & Loren Gary (July, 2002) “Should You Fire Your Cio?” *Harvard Management Update*.
² Gomolski, Barbara, Robert De Souza & Dean Blackmore (Oct., 2005) “Budget Surveys Show Spending Increases and Shifting Priorities for IT ,” *Gartner Research*, G00131215.

ample, firms with 10% increases in revenues experienced 3.6% to 5.1% increases in the central IT budget. Gartner also found that between 1999 and the present “business unit” funding of IT outside the central IT budget increased from 16% to 30%.³

This led to an initial set of questions that was posed to the group:

- What is happening with your (IT) budget?
- How is your budget related to the overall revenue trends at your firms?
- What portion of the IT spend happens outside your control, and how is that changing?
- Are you being asked to do more with less?
- Are declining IT budgets reducing the productivity of your firm?

Prof. McHenry also introduced a framework developed by Leidner, Beatty, and Mackay.⁴ These researchers asked CIOs in about 20 firms how they handled the decline in their

budgets in the early 2000’s. Four distinct strategies emerged based on two overarching goals. One goal was whether or not it was imperative to preserve the strategic plan. The other was whether it was possible to continue thinking on a long-term basis, or whether short-term thinking had to now prevail (See Diagram, above). Firms were found to have pursued

		Retain IT Strategic Plan			
Short Term IT Perspective		<ul style="list-style-type: none"> • For those who had to absolutely slash and burn, it made sense to cancel many projects and simply “Maintain the Legacy” systems. CIOs viewed this as a last resort that was short-term in nature and could only preserve the strategic plan in the sense that it was reflected in the existing systems. 	<ul style="list-style-type: none"> • For those who wanted to preserve the strategic plan and continue with a long-term perspective, it made sense to “Extend the Life Cycle.” This strategy meant doling out limited resources to the same projects, but just stretching them out a little longer. The danger here is that the projects will cease to have relevance in changing conditions. 	Long Term IT Perspective	
		<ul style="list-style-type: none"> • Those willing to move away from the strategic plan, and also needing to take a short-term perspective, found it prudent to “Clean House.” This strategy put many or all projects on the table, and reorganized priorities to reflect just those systems that were absolutely necessary. 	<ul style="list-style-type: none"> • For those who were willing or mandated to move away from the strategic plan, but could continue engaging in long-term thinking, “Bulletproofing the Infrastructure” made sense. This strategy abandoned some application systems but tried to ensure that the remaining infrastructure was as ready as possible for the next coming expansions of functionality when the budget recovered. 		
		Rethink IT Strategic Plan			

more than one strategy. For example, when the resource constraints first began, they would try “Extending the Life Cycle.” But as resources became more constrained, they would resort to “Bulletproofing the Infrastructure” and/or “Cleaning House.” Eventually all that remained was to “Maintain the Legacy” while awaiting better times.

This presentation led to a second set of questions posed to the group:

- Are these ideas from “managing in a downturn” applicable now?
- Have you had to tear up the strategic plan, in essence, and start again?

³ Gomolski, Barbara & Jed Rubin (Aug. 17, 2006) “IT Spending Lags Behind Revenue Growth in Most Industries,” *Gartner Research*, G00142532

⁴ Leidner, Dorothy, Robert Beatty & Jane Mackay (March 2003) “How CIOs Manage IT During Economic Decline: Surviving and Thriving Amid Uncertainty,” *MIS Quarterly Executive*, Vol. 2, No. 1.

- Does short-term or long-term thinking prevail?
- Do they represent generic strategies that may be applicable in many situations?
- What other generic strategies have you observed / pursued when resources are tight?
- What is your “secret” for doing more with less?

In the following sections, statements made by the participants are reproduced mostly as they were stated. Comments made by a particular firm come in square brackets, e.g. [Firm 1]. Questions are also indicated in square brackets, and came mainly from the Professors present.

Direction of IT Budgets in Participating Firms

The general experience of the participants here was that budgets have been going up over the past few years.

[Firm 1] We did not go down in our spending, did not have forced layoffs or budget cuts in the recent past. Revenues and the IT budget are going up at about the same rate. Success breeds success—proving that there are successful projects that help the bottom line make executives more willing to invest more in IT. Short-term and long-term have to be balanced. You need short-term wins that provide quick returns, but you also can’t lose sight of the longer term strategy, direction, and vision. Bringing projects on-time, on-value for projects that bring value builds trust and continued or increased investment. What happens to the budgets depends on whether executives view it as a source of value and as strategic resource, or just as a cost center. A lot of it is in their control.

[Firm 2] Our budget has not gone down. There hasn’t been an increase in the rate of IT spending vs. other parts of the organization. There’s a certain profitability we want to maintain throughout the year. For the IT budget, we try to keep track of spending as a percentage of revenue, with a target of around 3.5-4%. That would include any of the internal chargebacks for the operating companies, support services, etc. So the importance is there. The business, executive leadership team do not view IT as a cost or overhead, they see it as strategic partnership, but you do have to make profitability, and that all ties in. And if there are issues about what to spend money on, then they look at it at the executive level to see where are our priorities, to make sure we are applying the right resources in the right area, be it software or headcount or marketing or operations or finance or whatever. Everyone makes their case and we make a decision. And IT has had pretty good success in getting resources. We could always use more. It tends to be a bandwidth issue. Everything we do is based on a technology component.

[Revenues are rising faster than the IT budget?] [Firm 2] No. They are commensurate. [Have you actually sat down with your spreadsheet and figured that out?] Not that specific question but on a monthly basis we track where our R&D spending is as a percentage of revenue, and I track forecast vs. actual budgeted just so we can make sure we are being fiscally responsible.

[Firm 3] Our growth has had big jumps these last four years. I don't know that I can relate it to the IT budget. We do track IT expenses as a percentage of revenues, and we are in that 3% range. I don't know how we track that vs. the company's revenue growth. Over the past two year we've been challenged to level our budget so we're not growing. One of our challenges is the IO process, the capital improvement process. Everyone comes up with the wish list from the business side. They put the business case together, IT estimates what the IT component will be and its costs, and all this stuff goes up in front of the office of growth, and they say what will pass and what won't, and then the capital budget is built. Well then the quagmire we're into is that budgets come along 3 months later, and they say don't raise your budget over 3.5 percent. So you just said don't do any of the IOs, so why did we spend all the time to do that, you just negated it all. Our challenge is that they throw out this number that you can't grow your budget, Well we don't grow our budget. We're being given all this stuff. And we don't chargeback. Pretty much all costs are coming to cost centers that are under IT control. So we say what are we not supposed to do now. They don't go back, they just say the budget can't go up more than 3.5%. We could have one project that throws this off.

[What if you have a big investment like ERP? Is that outside the budget?] Usually a big project like that would be in the budget, but it has so much visibility that it takes precedence. Things like we were looking at a product called SmartOps, fancy software for manipulations of logistics operations for freight payments, and just the cost of the software was over 3.5% of our budget, there was just no way you could do it.

[Firm 2] Typically in my experience even if you have large projects you have to work within the constraints of what you are given from a capital standpoint. Unless there's a really extraordinary circumstance where you are starting a new business and you are going to invest heavily in it with a huge revenue opportunity then you may be able to get something outside the budget. But typically what happens, let me know what you want for capital next year (here's what you're going to get). [You have two different budgets, capital budget and operational budget?] Well there's capital and expense budget. (Firm 1 that's how we do it). Firm 2: it all turns into expense. So that's really the problem. The capital budget is considered as an investment, but even capital as you start to depreciate it or amortize it becomes an expense. You can't look at it separately.

[Firm 1] The other thing I think you guys will find is that at the end of the day a good chunk of the IT budget is fixed. Hardware maintenance, software maintenance, people. There's not a whole lot of discretionary decisionable in there, and it's a challenge to explain to management. There's not a whole lot I can do with this stuff, it's kinda the sins of the past, depreciation, amortization.

[Firm 3] Guys I don't have any control, it's decisions you made three years ago [Firm 2] No training this year

[Firm 1] Training, travel, that's about it.

Chargebacks

[Do you use chargebacks, i.e. 35 minutes for services provided?] [Firm 2] Every company does it differently. We don't get real detailed. We use a generic allocation. I'm not even sure how we do it now. At the end of the day we came to the realization that it is not even worth the effort to figure it out. We know the costs, how much it affects the business from a revenue standpoint.

[Firm 1] We don't do chargebacks, we are more of an SGA, when it comes to PC lease costs, we do pull back from the business where it's very identifiable, but that's a very small portion, we're pretty much SGA, we're not really charging IT back.

[Firm 3] We're in that same position. We're doing a little more, desktops we'll get an allocation, take Microsoft licenses, throw it all into the pot, divide by the number of machines, and say we'll charge \$50 per machine, \$100 for a laptop.

[Firm 1] We tried to do this a while back before an acquisition, doing chargebacks to the nth level of detail, we had analysts working on the operation company charged by the hour, it cost more to do it than [voices of agreement] and then we would argue about every little [more voices of agreement].

[Firm 3] I was at a company where we were laid off to 8 people and we were still doing full chargebacks. It would take me 3 weeks to do the budget. It was ridiculous. I don't know why we kept doing it.

Capitalizing Software Development

[Firm 2] The other thing you can do to offset that is to actually capitalize the software development.

[Firm 1] We do.

[Firm 2] We do it extensively.

[Firm 1] Including internally?

[Firm 2] Including internally. I've done that in the past.

[Firm 3] Do you find yourself getting into the issue that, because we have been doing that for five years, that all of a sudden there's this big chunk of money up there and all of a sudden it's coming in and it's gonna just whammy your budget?

[Firm 2] Yeah, there's always gonna be some benefit from it. The investment in year 1 is much greater than in year 4. Typically there's a three year depreciation cycle. In year 4 you're always adding on to it, you're always building it. If you were to expense it let's

say with 100% if you just expense it, by year 4 it's probably realizing maybe 70% of that, because it's going to increase year to year, so I think there's some cost savings there, but there's a lot more on the balance sheet.

The Spend Outside IT

[Do you try to handle the spend in the company for IT that is outside the IT budget? Do you know what it is? Do you have any influence over it? A line unit is out there buying a piece of software, for example.] [Firm 1] We pretty much know what's going on—there are always the renegades out there doing their thing, but for the most part any investment in IT pretty much goes through the IT organization.

[Firm 3] We're the same way.

[Does the funding go through you? There's an approval process? To make sure they're not buying something that doesn't fit into the infrastructure?] [Firm 1] Well then we would basically not allow them to do it. It still has to fit within the infrastructure. While the funding might come through their business we're still part of the awareness and approval process. But in the grand scheme of things that's a pretty small percentage of the overall buy so that's not a huge issue for us. [So that number that Gartner said of 30% being IT spend outside the IT budget...] That would be high for us.

[Firm 2] We're like them, that would be high for us, but we may be an exception as we are pretty much centrally managed with a centralized IT organization. Companies that are very diversified or non-centralized like Goodyear. Goodyear has IT organizations in all their business units, so there is no central, except for maybe some of the corporate systems, so they're not going to have that control so they may be at that 30%.

[Firm 3] We don't have that either, we are very centralized.

[Firm 1] Our companies (here today) may be pretty centralized, for some others than 30% may be low. It depends upon how centralized IT, whether you have it doing IT for the whole corporation or plant by plant.

[Firm 2] It depends on size and scale. And the model, is it centralized, federated, distributed.

Doing More With Less

[One of the premises was how to do more with less. It sounds like for the companies here this is not a front-burner issue.] Not true.

[Firm 2] Here's my perspective. Just because our budget has increased, that's great, but the amount of work we have to do is much greater than the [amount the] budget has in-

creased. We still have to figure out how to manage that. Everything [on the framework provided] is relevant. How do we get more, what don't we do, we have to look at portfolio management, look at different project life cycles. Figure out how we get more with less. I can't go out and say I want more people.

[Firm 1] It's really, we call it getting more for the IT dollar, for every dollar we spend they want more out of it. So it doesn't matter what your budget is.

[Firm 3] Yeah that's the point, it's not necessarily less, just more per dollar spent.

Showing Value from IT

Ensuring that you are indeed getting value from IT investments (and know what the value is) is an important prerequisite to doing more with less.

[How do you measure value? How can you justify/show upper management that they are getting more for every IT dollar spent?] [Firm 3] We are trying to come up with a better way of showing the value on a yearly basis that was gained by the IT dollar spent. We are still baby-stepping that. Trying to do a better job of not only identifying the business case for every project but trying to verify at the end of a project or six months after the project ends or whenever that post mortem needs to be to see if we got those benefits and accumulate those benefits up over the year and say here is the value that the IT projects brought to the table.

[How to you quantify some of those soft benefits] Not easily. We're trying to better quantify those [soft benefits]. We used to do ROIs for every project. We got away from that about five years ago. So now it's going back to that regiment. We've got to get the business to dream up the business case but prove they got it. So really pushing that back to the business. IT's job is to get the system there. You have to prove the benefits are really there. [Are you really doing this 6-months, 9-months, 12-months afterwards measuring what they go?] We have done it for some of the bigger projects. Some of the departmental projects aren't even getting done, they are not even percolating to the [COB?]. We've got business units complaining my project never gets done, because we are working on ERP or freight recovery which is millions of dollars. So we're not getting to that middle tier. We're trying to elevate those now so they get some time out of IT. Yeah we've done it a few times but it is not consistent at all. So we're trying to build some consistency around the projects.

[Firm 1] Every company I've been at we've always talked about doing that and all say it's the right thing to do but never have.

[Firm 3] I would say we're talking. I don't know that we're getting far.

[Firm 1] But you finish one and then you're off on the next one. Everybody does these wonderful ROI cases and these PPT presentations and wow we're off on the next one. I've never been at a place where we've looked at it afterwards.

[Firm 3] I would say we are talking about it. We've only done it in a few cases. [What would you do if you found out that you didn't get the benefit? Would you take the system out?] I don't know. It's already in.

[Firm 2] I think that's probably one of the reasons we don't go back and measure because we wouldn't do anything about it. It would be a rare occasion where we would pull out a piece of software.

[Firm 3] You've already spent it. Probably what we would do is look at what did we get, maybe it wasn't the optimum. Now the other problem that we have is that the project will go in, scope creep will come in, then we'll retract it back, then we find out we're not even going to meet the estimates we set, so we cut 20% out, so we're doing the 80-20 rule, and that last 20% is where all the benefits are and we never get them. [Someone says] and that happens time and time again. [WKM: In that case you may find yourself in a situation where your system is bringing negative value to the firm. More expensive to have it than if you had never done it in the first place.] But then to take it out is an even bigger expense. So we just leave it.

Vendors and Using Contractors

[How does trying to get more with less affect relationships with vendors? Are you squeezing them harder?] [Firm 1] Oh yeah, we end up pushing them pretty hard, but at the end of the day you have to realize that they have to stay in business and so do we, so you try not to cross that line. Yeah we end up pushing vendors more, we may go the contractor route. I've always been at companies where you can hire contractors but you can't hire any permanent people. So I've done that in the past. You push vendors harder, expect more from them.

[Companies that are NEOSA members say the companies that are hiring them have given them a pretty good year this year and last. I don't know if companies like yours are spending more or more companies are spending less than before.] [Firm 2] It's much easier to bring in contractors than to hire someone. Number 1, it takes forever to hire someone. Finding them, [...], but there seems to be an abundance of consultants out there.

[But you are paying a lot of money for those companies] [Firm 1] If you do the math and extend it over a year and compare it with full timer's benefits. You probably break even or maybe a little better. But the contractor world seems to be pretty competitive these days and you can get pretty good people at pretty low rates just because there seems to be a lot of contractors these days. But it depends on the skill set.

[Do you budget separately for that?] Yes.

[Do you have a high number of contractors? What's your percentage of contractors?]

[Firm 1] We don't. I might bring a contractor in when we have a new piece of software so the contractor will train our people on it. Do knowledge transfer.

[Firm 2] Total IT staff about 10%, software development, about one quarter. We have 50 on staff, so I have about five contractors

[Firm 3] We have about 100 and I think we may have about 10 total, maybe 7-8. We have about 10%. We got into a quagmire where we had one contractor 10 years. My old boss finally said we're not going to pay the middleman any more, so we hired him.

[Firm 2] About five years ago we had about 12 or 13 contractors that had been there multiple years. We put pencil to paper and said look how much we're spending, and based on their skill sets it was about double the cost of bringing them in house. But now we are starting to work back up because there's such a push on trying to get things done.

[Firm 3] We've done exactly the same cycle. We brought a whole bunch in, and now we're starting to use them again because the prices are more competitive. And we just can't get headcount anymore.

[Do these contractors prefer to work for your company or for the contractor company].

[Firm 3] We have two guys who are contractors that we have tried to hire multiple times and they don't want to have anything to do with it.

[Firm 2] If they've been contractors for a long time, they like the lifestyle.

[Firm 1] Plus they are fairly billable.

[Firm 2] Occasionally you'll find one who wants to come in house, if they took the contractor position as a transitional thing. But a very high skilled JAVA developer is making \$125/hour...

[When you hire the contractors do you hire independent contractors or through a company?] [Firm 2] You can do either. Our perspective is we won't hire independent contractors. There's too much of an issue with, there's too many employees to take care of, especially if you keep them a considerable amount of time. We've actually, and it's been a bit of a challenge, we have a bit of a process now, we pretty much rotate them in and rotate them out. 12 months and we rotate them out. For small companies maybe it's not such a big issue but for us it's a brand issue, deep pockets, a lot of money there, kind of like the Microsoft, [xxx], we try to keep them on a short chain.

[It seems like you are having to do a lot of maneuvering because of the HR policies or what is coming down from corporate, corporate says you have to hit this or that target, and some of things don't make a lot of sense from a rational point of view. So I guess my question, which may sound a little naïve, why does it have to be that way?] [Firm 3] For

my terms it's HR. I never understood it, I don't, and I probably never will. Our HR department comes up with the weirdest things, I can't figure out where they come from.

[Firm 1] There seems to be a real sensitivity about headcount. You don't want to add a head. In all the firms I've been at you don't want to add a head. It just seems to get all kinds of visibility and concerns, it's just easier to bring in a contractor. And then it doesn't make sense financially, it's usually cheaper to hire a person but there's just something about headcount.

[Firm 2] Within our firm one of the key productivity measures is revenue and profitability per employee, so the more headcount you have the worse those numbers are. Contractors are not heads. They are pure expense. Now whether you capitalize them and it ends up as an expense as depreciation or just pay for them it's just a lot easier to do it. Headcount just has so much visibility. It drives me crazy. I wish I knew the answer.

[Firm 3] The previous company I worked at, we were highly leveraged because of various loans, and this was purely a rumor, (my current firm has cleaned out the contractors and hired them), there it was the rule of thumb, you want to hire someone, forget it, but you can bring four contractors in to cover that headcount, and the rumor was that the banks saw headcount as a fixed cost, I never could verify that, but I heard that rumor.

[Firm 2] The organization doesn't look at headcount as a fixed, long-term asset. You hire somebody, they're there. It's not real easy to get rid of them. Contractor, you do the project and they're gone. Never happens but that's the thought. If I had to tomorrow I could cut five contractors if I had to. I couldn't cut five heads. I could but there would be much larger repercussions.

[Vijay: That's why when you're implementing a large project like ERP the outside consulting costs can be 35% of the overall cost of the implementation.] [Firm 2] In that case it's easier to get consultants to do that. Because yes it's going to cost you more short term but you are not carrying that long term employment on. If you only need those skills for a defined period of time it definitely makes sense to use contractors. It may cost you more. But you're also theoretically getting specific skills you may not need for the long term.

[What other secrets can you share?]

[Firm 3] We have found that with ERP upgrades which we do fairly religiously every three years, which I did myself until the last one (I finally retired from being project manager last time, although it always stays with you; we have done three)—we found the key to our success is to find a good Oracle consultant. Once we get a good one we hold on to him like no tomorrow. We have one right now we've had for two upgrades. He has been worth every dime we pay him. When we can't something to work he can find a patch somewhere in Oracle that you can't find. He'll pull it out of the woodwork from Oracle.

[So to summarize your secret solution is to have a fixer you can bring in]. We've had good luck with that on two upgrades. We have just found the right one. And it's not the

same guy. We've actually gone through two now. We have a second one. We are very critical about who fills that role.

[Did you find a couple bad ones before you found the right one.] We had one that went through two upgrades through us and then he got promoted and was no longer available. And then we found another one and I know he went through severe scrutiny of our tech guys. One was upgrade, one was issues we had with trying to extranet some of our ERP. Found a patch that was part of the next upgrade and he applied it early to do what we needed to do. [These were from Oracle itself.] Yes in both cases. That's one of the benefits, that he is from Oracle, he knows how to work around Oracle itself.

[If firms are implementing an ERP and are looking for a consulting firm, would you recommend that they hire a third party firm or consultants from the vendor itself?] I can't say that. We have gotten some bum consultants from the vendor. Especially on the application side. Maybe they are not as picky as my tech guys are. We don't from an infrastructure side we don't have any contractors at all. I have no contractors working on the infrastructure, our philosophy is that if we can't support it and we can't fix it, we won't support it. We do bring in brains. A contractor for me is a hired brain on a short term, 1-2 weeks, a month max, to siphon off what you can learn from him and get my people up to speed and then we take it over.

[Firm 2] Especially when you are dealing with a specific vendor software, typically you have good luck, especially on the short term, when you have to have deep skill knowledge, within the vendor. When you are looking at a longer term engagement you probably want to shy away from it because they are going to cost you.

[Firm 3] Yeah you can't afford it for a long time period. I'm not saying we pay cheap, and we don't get these guys cheap either.

[Firm 1] That's why we don't want them that long.

[Firm 2] They're trained to do that. When you're looking at a third party vendor, unless you're, some of the big consultants like Deloitte or Bearing Point, they're going to say they have expertise in that, and we have used that and had marginal success, some better than others, but in general when you need to drill down and understand that product, go down to Oracle, otherwise go to others.

[Firm 3] We have used Bearing Point a lot and had the good and bad, whatever people you get.

[Firm 1] By using someone from the vendor you can keep their feet to the fire a little bit more, instead of a third party. Having our people engaged, had a little more noose around their neck rather than buying the software and hire some third party. Less finger pointing.

[Firm 3] With an upgrade the finger pointing thing is less of a big deal. It's more you're looking for the in depth knowledge or the capability of where to go to get the knowledge.

Manage Employees Well

[With a declining budget how do you motivate your IT employees if you can't give them financial incentives?] [Firm 2] They don't care about money, all they care about is good opportunity. That's a joke.

[Firm 3] That's not such a joke.

[Firm 2] Well, the money's obviously important, but most of them want an opportunity to learn, to do new things. Well there are some resisters in IT too although it's hard to believe. I have a person who works for me who has been with the company 12 years, same position. He does a decent job at what he does and has no desire to move up. And he won't. But he's happy. More or less.

[That's an example of a structural thing that prevents you from doing more with less, because there's a limit of how much you're going to get out of that person no matter how hard you try, whatever you try, so that's an inherent limitation you have.] There are borderline too where they are performing good enough that you can't get rid of them but someone else in that position could do so much more. Of course they're pretty low in the organization and you're not paying them a whole lot of money.

[Firm 1] You have to make sure you continue to expose your people to new technologies and tools, that's what IT people like. But you still have to worry about the money thing, people are doing it because they want to get paid. Just because you are dazzling them with new stuff, you still gotta make sure you are handling compensation OK.

[Firm 3] Now have you had the challenge where they want to bring in new things but you can't justify it.

[Firm 1] Oh yeah

[Firm 3] Blade servers. A few years ago my guys wanted to bring in blade servers, then I find out to break even you need 40 servers, well we don't have 40 web servers. It's toys for toys sake. We have definitely initiated correctly that, you don't just bring in toys, there has to be a reason. But that tends to not make them happy either. I found to feed them every week. Bagels on Friday are required.

[You should hire a chef. If you had gourmet lunch once or twice a month...] [Firm 3] It's expensive but Ken Stewart's once or twice a year. A couple of guys on the Java project goes a long way. Highland software has a high quality cafeteria with a staff that they employ themselves. Their landscapers are also Highland employees. [That's what they do in India. Most of these IT companies have free lunch, breakfast, regular cafeterias, that's one of the perks.] It's not free, but really cheap. They charge a small amount for the food. Four bucks for a hamburger and fries.

[The Russian companies have cafeterias too with high quality food. It builds a lot of camaraderie. The conversation is brisk. People are seeing each other, getting work done, and also building their personal relationships. I think in that society there are not as many restaurants, if the companies don't provide lunches there is no where to go, and the tradition of a hot lunch, which is dinner to them.] [People are spending more time at work, they get paid for it.]

[Firm 1] We have a company cafeteria but I don't use it because I run into senior management I don't necessarily want to see. Or the classic. I walk back from the cafeteria. The car stops and the executive says "Should we buy SAP"? And what if I give the wrong answer?

[Firm 1] That's a no win.

[So another way to do better is to avoid having the wrong conversation with senior management.] Just bring your lunch.

[Firm 3] We didn't buy SAP. I made my statement: why would we pay \$40M for something we already have. I didn't lose my job.

Screw Up Less

[Another thing I'm getting from the discussion is that a way to get more bang for the IT buck is to screw up less on your part. The screw ups are the things that cost you less money.] [Firm 1] Like I said earlier, success breeds success. If you screw up all the time you'd be crazy to go and ask for more money. They're not going to give you more money. Sometimes we in IT have this "woe is me" attitude, but what I have found is that if you are successful, that will loosen the purse strings. You're right, screw ups cost you money to dig yourself out of the screw up, too.

[How about any more ideas on how to get more bang for the IT buck] [Firm 1] Maybe this is more how to ensure a successful project. Having a very strong project manager on the IT and business sides. I use that term in quotes. If you have strong project managers it will really help ensure a ensure a successful project. If you are missing either one of those, you're doomed to fail. You can have the best IT project manager in the world, but if you don't have the right business involvement you're dead. That may sound like common sense, but I've been on a lot of projects where you haven't had that. If you get those two people paired up and they work well together you get a lot done quickly.

[Are those two people accountable for the project?] Oh yeah, they're accountable. Fully. They know going into it, on the line together, accountable together.

[Firm 3] I've found, and we're kind of going through part of a trying to do a better job with evaluating projects, we're trying to standardize our project management across the company, and some people do it one way and some another (all over the map). We're try-

ing to standardize that methodology. A couple of people over the application side want big project teams, they want everyone involved, and my feeling is that is the way to dilute the accountability so that no one is ever accountable for the project, and it fails. I feel strongly that you have a good project because someone is accountable. [Firm 1] I agree

[Firm 3] Accountability is key to a project's success. Someone has to have his neck on the line. That doesn't mean you have to chop it off.

[Firm 1] They have to have the accountability and the authority and the responsibility, they all go together. That's very true.

[Firm 3] We have to get rid of this diluting until it's ridiculous. And then the project slows down.

[Firm 1] If you want to speed a project up, take people off.

[Firm 3] I got a lot of pressure as PM for the ERP. We would have these meetings with 20 business units. I came back and said I have a project team of six. Three business, three IT. Those guys were accountable for three areas, we're done. I've succeeded twice doing it. My motto was the smaller my team, the faster I move. And it works.

[Firm 1] I agree.

[You've heard of Brook's law, which says that adding more people to a failing software project the slower it gets.] [Firm 1] I would agree with that.

[Firm 2] So it fails later? The failure happened after I retired.

[Firm 2] Having the right resources is crucial. It's not only outside contract people. We don't have a lot of opportunity to hire people, so when we do, we have to be very careful. We have to get the right people. We've made a few mistakes but we have mainly gotten the right people, senior level technical people. Make sure there is alignment with the business, making sure we know what each player brings to the table, making sure the business side is committing as well as the IT side. We want to get out of this, well IT is going to develop it, here you go, well that's not what I want, don't listen to what I say listen to what I think – so having that alignment is key. And frankly being able to say no to the business, we're not going to do this because here are five other things we're doing that you said are more important, and here's why you said they're more important so getting their agreement. How you push off things that are not as important,. We're very focused on things that are generating revenue, increased productivity, reduce cost or enhance customer experience. If it doesn't do one of those three things then why are we doing it. Some things are direct benefit or some are indirect. There is no magic answer to that. Those are the kinds of things we do. I'm also thinking about the idea of doing it right the first time, having good streamlined lightweight processes in place to make sure you're doing things consistently, your development life cycle, your change management process, we don't want to overburden our folks with going through some huge methodol-

ogy on development, we want them doing it the same way every time, we want them to go through a change management process, where we're notifying that we're changing the infrastructure we want people to know that we're making changes so if its impacting them they can react to it before it they have problems, so they can make the appropriate changes. So we don't have to worry about spending the extra time to solve those issues, get it right the first time.

Build the Right System

[So I guess the way you are managing contractors is one of the most important ways you are trying to get more bang for buck.] [Firm 1] I don't think there's any one answer. The other one is just to be smarter about you're working on, make sure the business is aware of what you are working on and probably more important what you're not working on, and if you're kinda locked up with them. The worst thing is if you are off doing something they're not aware of and they don't perceive value of it. Granted there are things we have to do, but I have found that it times of trying to do more with less, the more my business partners know about what I am working on, it seems like there are no surprises, then we're getting the right things done, at least in their minds. A lot of it is communication.

[It seems like if you have that ideal relationship with them , then there is not the feeling of having to do more with less, but the feeling that you are doing the amount that is expected, necessary, strategic. In other words you are doing the right amount with the right amount of funds.] [Firm 1] You're right but there' always more they want you to do. At least their understanding what you are supposed to do. Even if you are lock step with them, there's always more they wish you could do. But they may understand why you can't.

[Firm 3] That's the challenge to get them to understand why you can't.

[Firm 1] That's the challenge. They don't always get why you can't do it all. It's hard to get them to understand that this is going to take two months and not two days.

Get Change Management Right

[What happens when you don't spend enough money on training, and because of that your change management doesn't work very well, and so some kind of user resistance arises. Does this happen?] [Firm 2] It always happens. There's various levels, people vary on how they accept change, some people it's not an issue at all, some are very difficult. Lately over the last couple of years we have done a lot of implementations putting in web-based applications into place, replacing our legacy [xx], green screen kind of thing. You find that the younger, newer people adapt to that much easier than some of the older folks. They did not grow up with the PC, they don't know what instant messaging is, what a web browser is, so we definitively try to take the time to make sure than our learn-

ing components are involved even in development and requirements analysis so they know how to build that training. You always have issues with different people adapting differently. [Firm 1] You're always going to have the resistors. There are always the handful of people who just can't handle change. You always have that. [Firm 3] It's amazing how strong some people are. I remember going to down to a plant to change out a PC. There were four people in this guard shack and the guy was complaining that his text was no longer blue, now it was green, and he was having a total hemorrhoid over it. And it was taking three people to talk him into it. We told him he couldn't change it, that's the way it came. He was just having a coronary over it. [He probably had resistance because he was used to tinkering with it and now you took away his tinkering capability.]

[Firm 2] Yeah the thing that works best and I don't think there is a magic answer to have any issues, but what seems to work best for us is to make sure that when we know a new system is going in just make sure it is openly communicated, here's what it is, here's what it will look like, here's when to expect it—so at least they know what to expect. It seems to help.

[Firm 1] The other thing I've always found that whenever you're putting in a new system there's usually a ring leader, the person everyone looks up to. Get them on board and they can bring allow the resistors. Everyone knows who they are. It may not be the manager or director. A champion.

[Firm 3] You have to find the right champion. Sometimes it is not easy.

Strategies for Managing in a Downturn

[Did any of the strategies I presented ring a bell with you? Such as extending projects out?] [Firm 3] We do that. [I would think one of the dangers there is that by the time you get that done, users don't need it anymore.] One of the problems we've had in the past is exactly that. We'll do it all and we'll slow everything down. And the problem is getting that momentum of a project. You get it up and then all of sudden it's stalled. And you have so many balls you're trying to juggle at one time that nothing gets done, and finally the users give up on you.

[Firm 1] And the other problem is theoretically there was some benefit to doing that, so if you're extending it then you're extending the time the business doesn't have that.

[Firm 2] That's probably the biggest thing. It's not so much an issue that you find yourself extending the project, and the impact is more on not delivering those sooner or later. You still get the benefits when you deliver but if you have 10 things and you prioritize so five things are on the back burner, by the time you get there, there may be three things you don't need any more. There always seems to be five years of work.

[That is the perceived backlog. The people who asked who are on hold. What if the people are not even asking thinking that if they ask they won't get it anyway] The unidenti-

fied backlog. Because they're so frustrated they don't tell you. There's stuff that's on the list and stuff that did not make it to the list.

[What about the idea bulletproofing the infrastructure? Have you even found yourself in the situation where you're pulling back and saying that the best thing we can do right now is to eliminate servers that are non-standard or make sure all the network components are from the same vendor or let's replace all the PCs to get rid of the onesies and twosies that are out there.] [Firm 2] When I first look t this I kind of compared it to what our IT organization looked like. I wouldn't say that I would pick one of these things as the strategy of the organization. There are multiple areas within the organization that have strategies. We do all of them. We are constantly looking at bulletproofing the infrastructure. Looking at improving information security. Looking at how we get total cost of ownership for hardware down, pushing [...] virtualization

[Firm 3] We're big into that right now too

[Firm 2] so looking to see how we get more bang for the buck out of what we're spending on hardware and software. We're also always looking at things like why are we using this system, if it's not providing value. [So you are always Cleaning House.] Yeah there's always there's areas within IT that are in various positions of this matrix you have here, it's an ever evolving cycle.

[Firm 3] I would agree with that. It's not like I'm just bulletproofing. I have never seen us just go into this. You go where the pain is. If I'm having network outages, oh yeah that's a big priority. That doesn't mean you stop every project. Some high value projects are being done at the same time.

[Firm 1] I would agree. I don't think these are separate and distinct. We do all these things, just different areas of the operations. [So some days you find yourself taking a long-term perspective, some days a short-term perspective, some days consistent with the strategic plan, other days revising from the strategic plan.] All of the same day. It depends on the area. I probably do these every day. We almost have to.

[Well thanks you just ruined one of my classes!] [Firm 2] There could very well be companies that are in one of these quadrants. It could be a company that is not growth oriented, so we're going to basically shut down everything, we're going to maintain legacy and not do anything else. Or you are a growth company and focused totally on the strategy. If you are strategically focused you're going to have these legacy systems and you're going to have to figure out what you're going to do with them. Based on that area of the business or system you have to keep going through that life cycle to see where the value will unfold. [Firm 3] It's not that you're not doing them, just that some are more emphasized than others, different years, different times of the life cycle.

[Let's say you implement an ERP system, which lasts 3-4 years] 3 or 4? 11 for us!
[Doesn't it depend which cycle you're in? I just heard of a company that has an ERP in one business unit and now they've decided to make an ERP for the entire organization

and now they are ripping out the one they spent several years putting in for the business unit...] I'm glad it's not me. [One can go back and change the long-term strategy] Right. We've talked about it. So let's say you implement an ERP. You may be extending life cycle. Once you get that implemented you really need to bullet proof that infrastructure, make it work, get as much life span out of it as possible. Then ultimately you'll be maintaining that legacy system, then 10 years down the road you realize this is not providing the value we want so you circle back around and clean house.

[So this really represents the life cycle of one individual system, and the firm, with many systems in different phases, is an amalgamation of all the system life cycle points it is in. From the point of view as tool it might be more useful to think of this matrix as a tool for portfolio management. This raises the question about how you are doing portfolio management.] [Firm 2] If you are looking at a growth oriented company, that's what you would see. But if you are talking about an acquisition, the whole strategy might be maintain the legacy. It depends on the strategy of the organization. The strategy could lend itself to falling into one of these quadrants. [The premise was that these were organizations that had had to respond to cuts. Your organizations may have hidden cuts in the sense that you have to do more with what you have, but you still have some room to maneuver.]