

CIOs and Performance Management: Know Your Metrics Before Cutting Costs

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In the face of mounting economic pressure, many government agencies are looking for ways to reduce their costs. One of the first areas to be affected is usually human resources, since this typically accounts for the lion's share of operational costs. When it comes to IT support (another, usually large financial burden), government IT managers and CIOs are being asked to review and reduce IT support center resources and study the cost benefits of outsourcing service components. Here the challenge is to know which elements of the IT environment are best kept in-house (often as much a control as a cost issue) and which can be cost-efficiently handed over to an external service provider.

Doing More With Less

The directive by government to reduce IT spend usually comes with the instruction that service levels, especially those that are citizen-facing, should not be endangered. In other words, IT departments must find more with less while retaining the same, or better, quality of service. This is a balancing act that is often very difficult to get right. The Catch-22 is that the strategy to cut costs and improve efficiency is usually expected to be won using new technology. The problem is that in a recession, new technology investment is likely to be cut as well. That leaves only one option: increasing the efficiency and productivity of existing infrastructures and service units.

Which Bricks Are Load-Bearing?

So, given all these challenges, how does a government agency identify the people, processes and technology components that can safely be downsized, eliminated, improved or outsourced? To use an analogy: Which bricks can be safely removed from the structure without causing the edifice to collapse?

Making an informed decision about the structures that sit at the heart of an organization is best achieved by a scientific, fact-based approach and cannot be left to subjective reasoning alone, or at worst, best guesses. CIOs must have access to objective benchmarks on key performance indicators (KPIs), best-practice processes, competitive market pricing and a range of other metrics.

Unless this review is based on a thorough analysis, making random staff cuts or freezing IT projects can have more serious and negative long-term cost implications than near-term savings. Often managers take a "do-nothing" stance when spending restrictions prevail, on the basis that people rarely get fired for not losing money, even if the lack of investment leads to even greater opportunity loss. In the long run, this lack of action seldom benefits the organization.

Measuring Value

To accurately measure the value of an IT service, one cannot look at cost in isolation. This is because the per-head cost for providing, say, desktop, help desk or e-mail support services (whether in-house or outsourced) may be \$10 at one government ministry and \$25 at another. At first glance, the second price may seem expensive. And yet the \$25 per-head option may deliver a higher overall business advantage that enables the CIO to deliver a superior product or service and so be more competitive, thus justifying the additional cost.

Meeting Business Needs

Likewise, the cost of an IT employee, service team or support center must be measured against KPIs, such as rates of productivity. A cost may be low but performance may be even lower. And yet measuring cost-to-performance ratios alone can also be misleading. Costs may be minimal while the productivity volume is high, and yet the result of this output could be poor, inefficient or misaligned to business needs. It may be wide of the mark when it comes to meeting key objectives like delivering customer satisfaction, providing mission-critical system availability or providing accurate, real-time information at the point of decision.

Best-Practice Processes

This suggests that accurately measuring the business value of an IT service, support team or technology component (network, Web site, document management, databases, etc.) requires they be examined in the context of how well the service meets the organization's business objectives and the level of process maturity in any particular environment. The more mature the environment, the more likely it is to be standardized around best-practice processes and incorporate structured methodologies designed to deliver predefined business outcomes. While this may demand a more complex and expensive technology infrastructure, the advantage is that here is less room for error, fewer obstacles and guaranteed results -- all of which contribute to lower overall cost of the service and IT ownership.

The High Cost of Complexity

Another factor that impacts the cost, performance and quality of government IT services is infrastructure complexity. It might be complexity resulting from sophisticated process maturity, but more likely it is the result of disparate legacy hardware, applications, databases, connectivity platforms and so on -- all of which have formed into a complicated mishmash of diverse equipment and connectivity platforms across multiple departments and geographies. This type of environment requires complicated, high-maintenance workarounds in order to link them together and the cost of maintaining them is much higher than a modern, standardized and integrated platform.

Finding the Weak Links

So far we have covered just a few of the considerations that a government CIO must take into account when tackling the very difficult question of how best to streamline his or her IT resources and increase efficiencies. In fact, identifying staff reductions is probably the last port of call, not the first. The place to start is by revisiting the organization's business objectives and then working backward to find the "weak links" or blockages to achieving these goals. This might involve looking at the costs of propping up redundant or inefficient systems and re-engineering some key practices or processes.

Safeguard Mission-Critical Support

Whatever the outcome of the CIOs cost-cutting study, in order to guarantee the ongoing support its many customer-facing services -- many of which are mission-critical, such as social benefits or public housing -- cost-cutting should only be undertaken when it is backed up with a thorough analysis of best-practice cost, performance and efficiency options.

Other Aspects

- When assessing the current situation and making comparisons against others to determine best practice, avoid staying exclusively within the government IT market. Where a particular agency or ministry may appear to be very efficient and cost effective compared with its peers, against the wider marketplace it may not fare so well, and other savings opportunities may be revealed.
- As discussed earlier, implementing new systems gives government an opportunity to introduce new processes and making savings as a result -- either within the IT department itself or across other departments as well. When making procurements, government will always follow procurement regulations and tender for new systems. While this will undoubtedly provide the most cost-effective options, but when compared with the wider public- and private-sector markets, the short list may be simply "the best of a bad bunch."
- Many governments have long-term outsourcing contracts that are reviewed at regular intervals. A cost-cutting review is an opportunity to make use of a specialist consultancy that has access to current market price and service data so CIOs can negotiate new contracts with their supplier from a position of strength and an ability to best use this knowledge of comparative market pricing.

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