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IT ADVISORY

IT matters as long as business gets value

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Foreword

Unprecedented changes have occurred in the global business environment over the last few years. Old paradigms were shattered and the “new normal” was set. This reprioritized the focus of many organizations from routine, as-usual business to doing the business in innovative, unusual ways in turbulent times. This meant that CIOs were also provided the mandate to reprioritize their deliverables and support business in handling this business change.

This had its repercussions in India as well. While the Indian economy has overall weathered the global recession with resilience, and is on the growth path, organizations in India have learnt to deal with working in a global business environment that has changed dramatically within half a decade. This has led many Indian companies to re-jig their organizational response strategy to the changed environment, and consequently, led to a renewed vigor in developing technology platforms that help them cope with this change. In fact, technology led business innovation is gaining pace, and the CIO is increasingly called upon to the drawing board for business roadmaps.

To keep up with this shift, the role of the Indian CIO and the responsibilities of the IT department have been evolving at a faster pace. We are pleased to present our analysis in this regard. This analysis explores how CIOs believe that long term planning with an objective to tightly integrate IT with business, face challenges such as skills scarcity as well as a need to refocus upon the KPIs that are used to measure IT performance. We also look at trends in outsourcing in Indian corporations, as well as the key drivers in the selection of IT projects.

KPMG has in the past conducted large global surveys on the subject of IT Project Management as well as the Technology Agenda. We embarked on a one of its kind initiative to discuss technology initiatives and technology project governance in the Indian context. This initiative involved face to face interactions with 140 CIOs across twenty three sectors. This report is an abridged version focused on technology agenda matters published for NASSCOM's Leadership Summit. We will be releasing our comprehensive report on IT Project Management shortly.

We hope that you will find this publication insightful and its information useful.



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Executive summary

A CIO today wears multiple hats and constantly balances priorities between keeping the lights on and leading technology change initiatives to aid businesses in realizing strategic goals. Globally, this role has undergone frequent change in the last few years. The reliance on technology has engraved the CIO role deeply at the heart of the business. In India too, scorching organizational growth, fast changing business environment and increased flavors of outsourcing have led to rapid evolution of the role of the CIO and the IT function.

We conducted a survey of 140 organizations to understand some of the strategic priorities that CIOs in India have, their response to the changing business environment, as well as some of the challenges they face.

Organizations are realizing the importance of having strategic IT roadmaps for a **longer time frame**. Whilst an organization grapples with the rapidity of business environment change, it is important for organizations to forecast needs for information technology integration over a longer term period. It is also interesting to note that the services sector in particular, which has witnessed significant change in the past few years, prefers to have shorter term IT roadmaps.

Amongst all objectives, the key objective of CIOs across sectors has emerged to be the **integration of IT with business priorities**. Companies reach an inflection point with respect to size, and as they grow larger, become more inclined to utilize IT as a competitive differentiator.

Organizations in India have traditionally preferred to retain **control over IT outsourcing** by seeking specific tasks / processes from multiple vendors, but with each vendor providing services in specific areas, except in certain examples of total outsourcing. However, the trends show that the pick up on total outsourcing is increasing, and we will witness more organizations adopt total outsourcing in IT in the near to medium term future.

Either as managed outsourced deals or in out-tasked mode, **infrastructure management outsourcing** is gaining momentum by leaps and bounds in India. Indian organizations are clearly bifurcating between innovation and business alignment as the core agenda of their in-house IT teams, while outsourcing functions keep the lights on.

Indian organizations are increasingly finding **acquiring and retaining talent in IT as a key challenge**. This trend is one of the key driving forces to adopt an outsourcing model. Talent availability, rather scarcity, coupled with the fact that HR departments in traditional organizations need a separate focus on retention of IT talent, would continue to drive this trend.

While selecting a new IT application and / or vendors, organizations are treating **value aspects as their top priority**. While costs continue to be important, value aspects such as functional fitment of solutions, technical fitment from an architecture perspective as well as alignment to the technology roadmap are weighed more when considering procurement strategies.

While IT organizations are moving to a strategic role within organizations, they are still being measured on operational metrics. While response to business

requirements comes a close second, the top most performance indicator for most CIOs is their ability to **deliver on projects**.

CIOs give prime importance to their organizations' customers and technology, leading to a collaborative ecosystem between IT and business, **when conceptualizing IT projects**.

There is also an interesting shift from business led IT projects to technology led business projects.

These conclusions describe the key findings out of this exercise. We further elaborate these findings in the subsequent sections.



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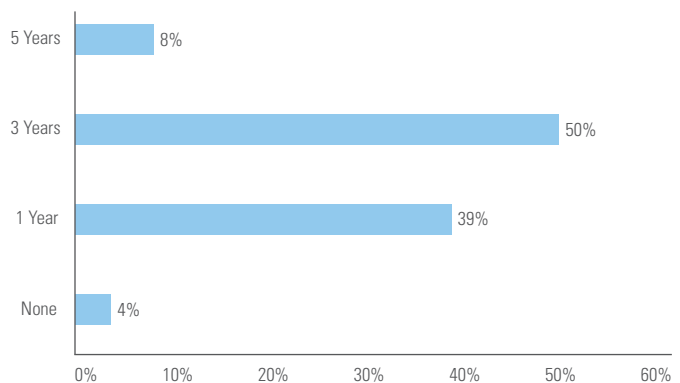
Long term planning is key



A comprehensive and well thought IT roadmap helps organizations to understand their existing IT framework to achieve better alignment with the strategic business objectives, by prioritizing and planning for the future investments in various spectrums.

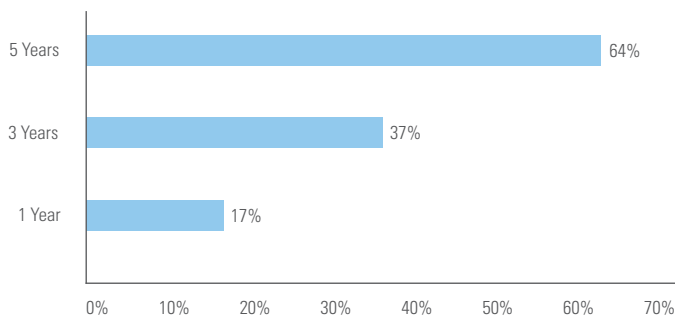
With technology being established as the cornerstone of any organization's short term viability as well as long term profitability, planning the right investment at the right time has emerged as a crucial differentiating factor to the business. Our research shows that CIOs in India clearly realize this factor. More than 57 percent of the organizations said that they have an IT roadmap for three years or more.

IT ROADMAP TIMEFRAME FOR ORGANIZATIONS



Source: KPMG's IT matters as long as business gets value, 2011

PERCENTAGE OF IT PROJECTS REALIZING OR EXCEEDING BENEFITS AGAINST THE ORGANIZATIONS' IT ROADMAP TENURE



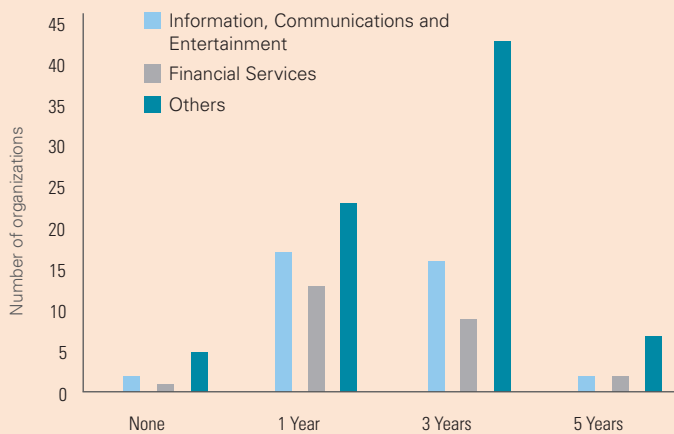
Source: KPMG's IT matters as long as business gets value, 2011

Less than four percent of the organizations surveyed did not have an IT roadmap. An overwhelming opinion among the CIOs interviewed was that in India, IT function is on a transition between being a utility service provider and a strategic business partner, with organizations at various levels of transition.

We have also found a strong correlation between organizations having long term IT planning and their ability to realize benefits from their IT projects. The longer term planning helps in establishing clear objectives, expectations and measurable benefits from each IT project thereby leading to a larger percentage of benefit realization.



IT ROADMAP TIMEFRAME BY SECTORS



Source: KPMG's IT matters as long as business gets value, 2011

However, some sectors preferred a shorter planning period – Service industry, in particular IT and Financial sectors, opted for a one year IT roadmap compared to other industries. This is perhaps underlined by the fact that the services sector is facing the highest degree of business environment change in the recent past.

Integrating IT with business

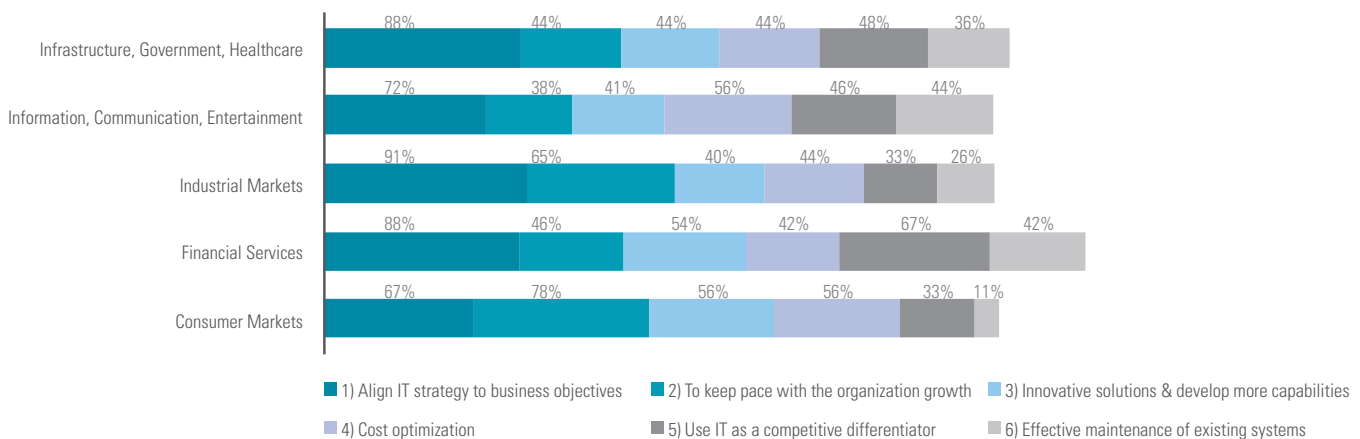
The top objective of the CIO



The India growth story is increasingly being reflected in the ambitions of the organizations to diversify, have global reach, and be leaders in the market place. Even during the tough economic environment, organizations realized that it is not enough to consolidate and run profitably in the longer term. Understanding the role of IT and priorities of the CIO hence assumes

significance. Analysis of responses for key objectives for IT department reveal that more than 80 percent of the CIOs regard 'Aligning IT to business objectives' as the top most priority. This preference cuts across lines of business as well.

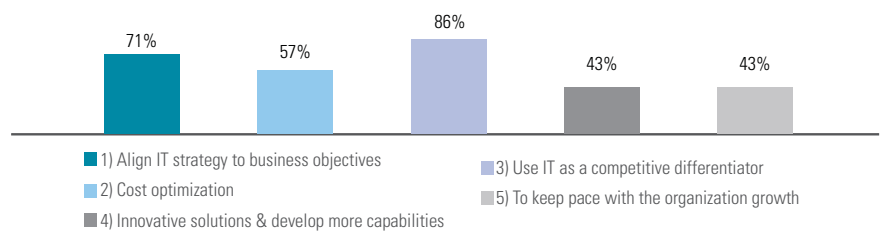
TOP OBJECTIVES FOR IT ACROSS LINES OF BUSINESS



Source: KPMG's IT matters as long as business gets value, 2011

A closer look further substantiates the claim that organizations' demand from IT is closely integrated with their business strategy. Medium-sized companies (by revenue) would tend to break away from smaller-sized companies by increased differentiation and hence such companies would want to use IT as a competitive differentiator.

TOP OBJECTIVES FOR IT IN MEDIUM SIZED COMPANIES (BY REVENUE)

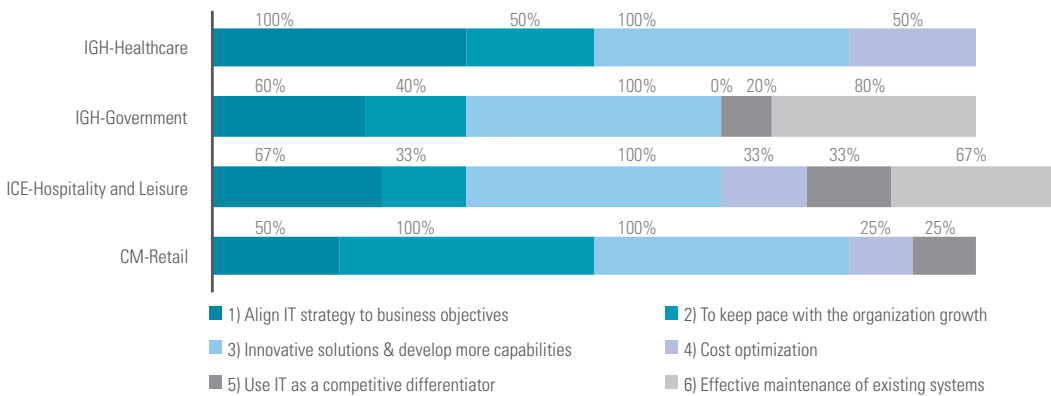


Source: KPMG's IT matters as long as business gets value, 2011

Interestingly, some of the relatively less technology intensive or technology enabled sectors want to develop newer and innovative capabilities using IT. Spending on eGovernance initiatives are on a high, and, complexities and

scale of solutions are truly big. Similarly, Healthcare, Hospitality and Leisure sectors do not just want to enhance their management systems, but are also looking to improve their delivery mechanisms.

SECTORS FOCUSED ON DEVELOPING INNOVATIVE CAPABILITIES USING IT

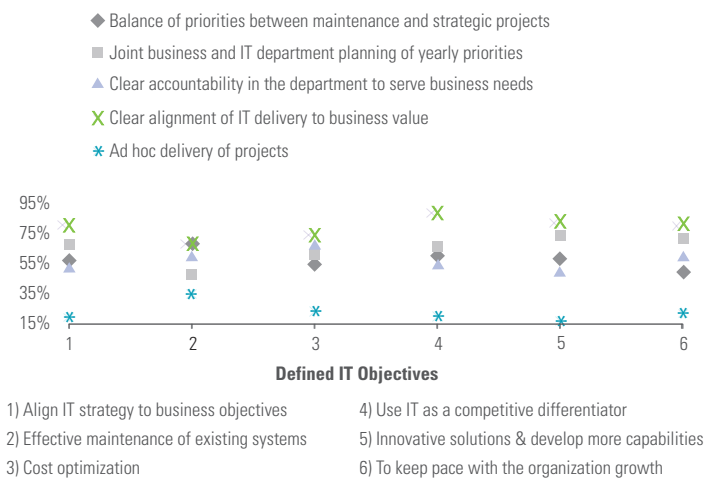


Source: KPMG's IT matters as long as business gets value, 2011

CIOs are also ensuring that priorities set for IT are backed by effective mechanisms to address them. Responses to queries on how IT addresses the objectives set for it reveals that measurement to business value, joint planning exercises with

business and clear accountability on IT to meet business needs emerged as the top three answers. Interestingly the responses mostly remained the same regardless of the objectives set for IT.

MECHANISMS TO ADDRESS IT OBJECTIVES



Source: KPMG's IT matters as long as business gets value, 2011



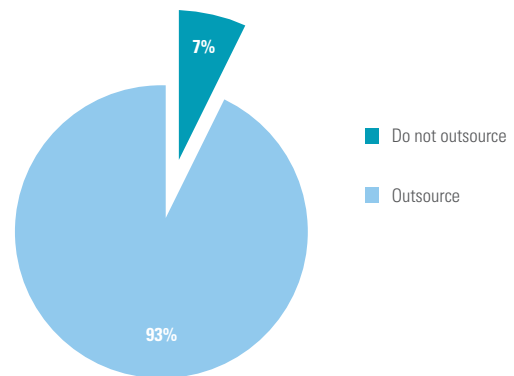
Outsourcing

Indian organizations prefer to retain control

India has always been the premier outsourcing destination for American and European organizations. Lately, outsourcing by domestic organizations is also gaining momentum with more and more companies looking to augment their IT department with service providers. An astounding 93 percent of the respondents confirmed that there is some outsourcing of IT and business processes in their organizations.

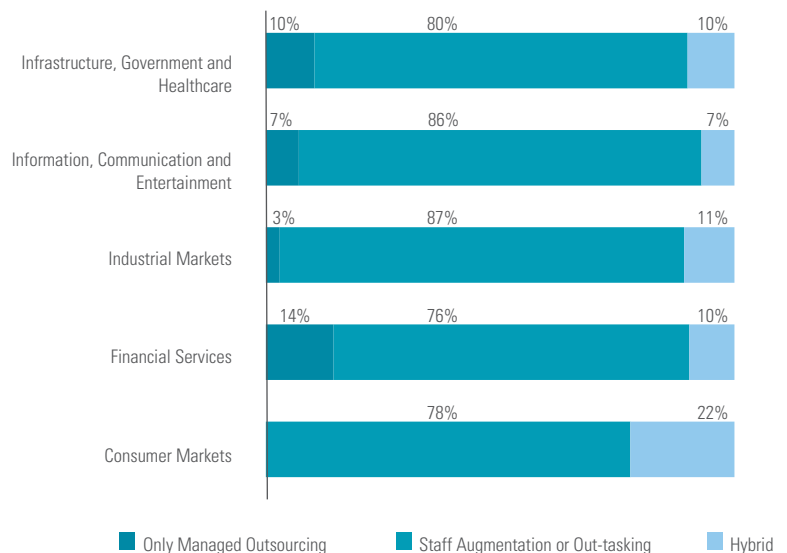
There have been quite a few multi-year, multi-function and single vendor outsourcing deals in the news, building the perception that most outsourcing deals are transformational in nature. But a closer look at the survey results throws interesting insights on how CIOs view outsourcing. More organizations prefer to outsource selectively for specific tasks, processes or projects (Out-Tasking model). Also, many roles are filled by short term contracts in a staff augmentation mode. This reflects the need to have tighter control over operations and close management of IT delivery. Very few organizations prefer managed outsourcing where all responsibilities are handled by the service provider and performance is measured on the provider's ability to deliver promised outcomes. A hybrid approach is also prevalent where separate models are selected for different function or type of activity.

OUTSOURCING BY ORGANIZATIONS



Source: KPMG's IT matters as long as business gets value, 2011

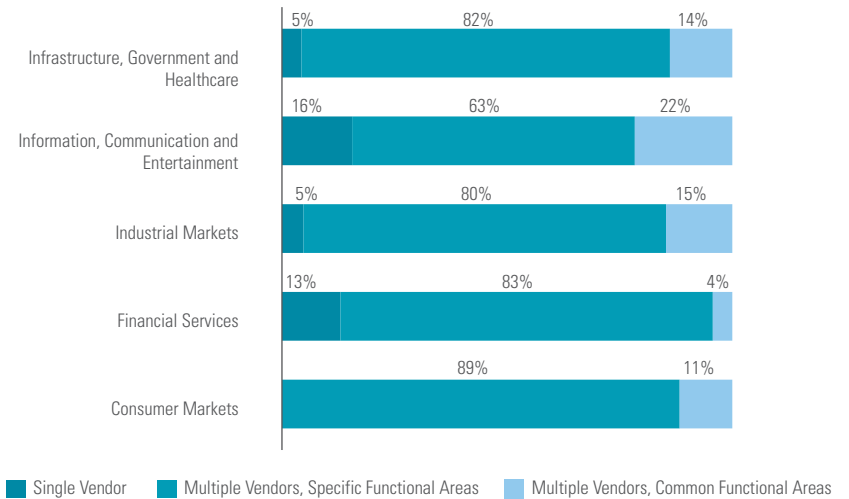
TYPE OF OUTSOURCING AGAINST INDUSTRY SECTORS



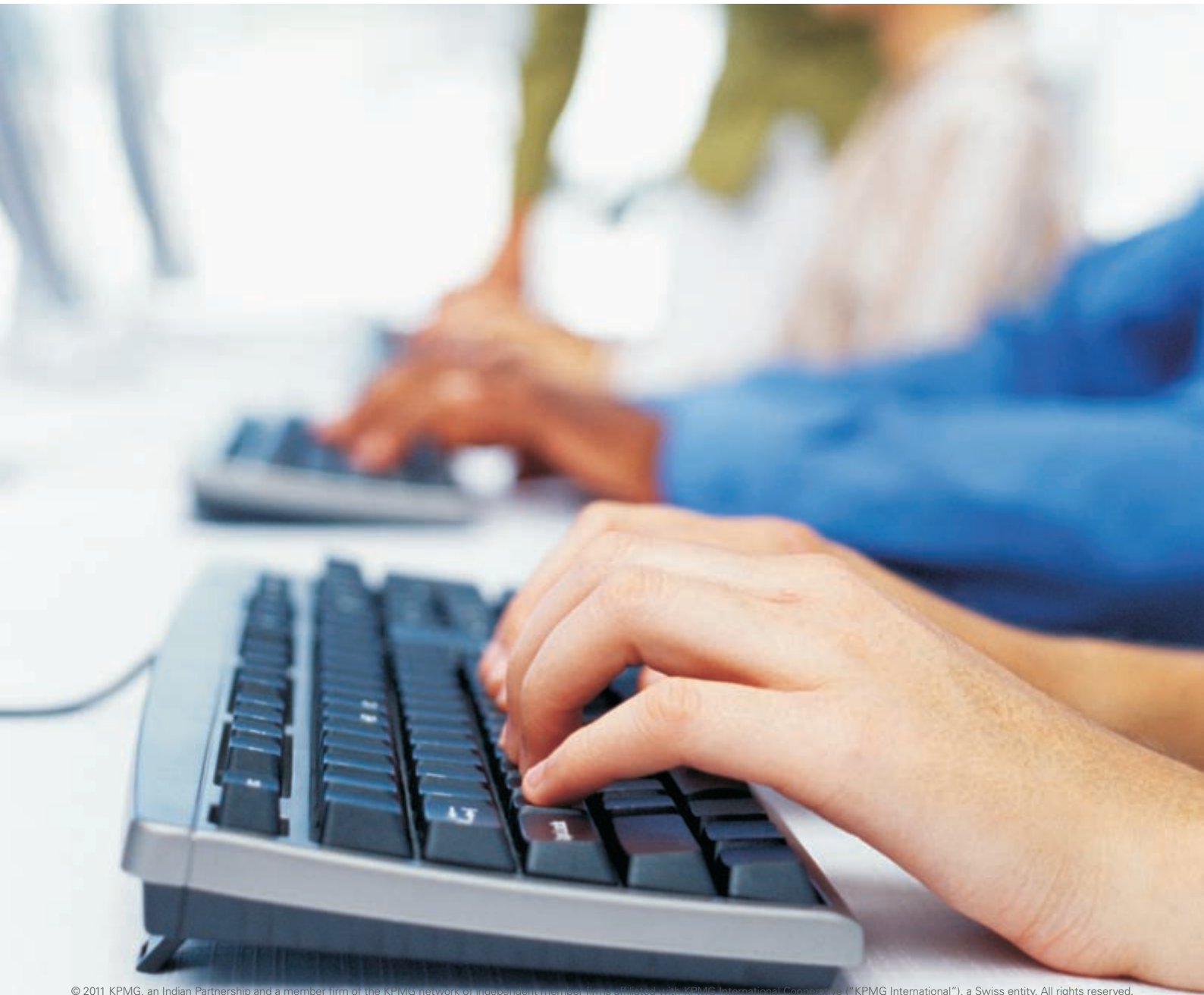
Source: KPMG's IT matters as long as business gets value, 2011

Need for control is also visible in the preference of number of vendors in providing services. More organizations believe in having multiple vendors based on their specialty areas either supporting different functions or sometimes competing for the delivery of the same function. Effective vendor management becomes key where there are multiple vendors involved both for managing delivery against the contracts as well as for conflict management.

NUMBER OF VENDORS PROVIDING SERVICES AGAINST INDUSTRY SECTORS



Source: KPMG's IT matters as long as business gets value, 2011



Infrastructure management outsourcing

Gaining momentum in India



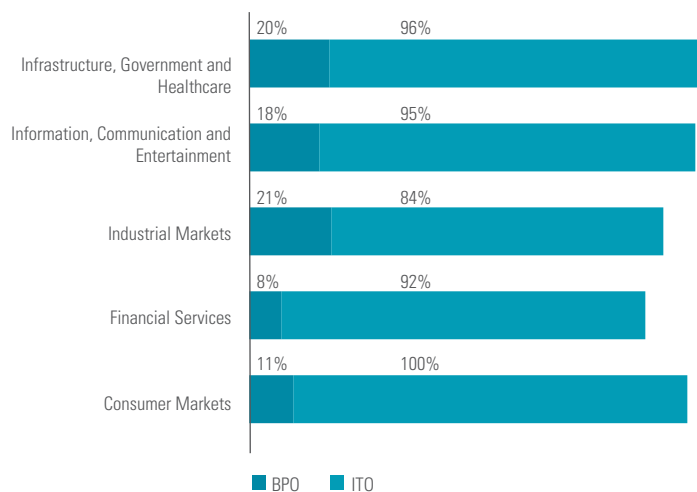
Organizations are open to outsourcing most of the IT functions while the outsourcing of business processes is currently limited. This trend is prevalent across sectors without any exceptions.

Traditionally, IT Outsourcing primarily involved Application Development & Maintenance services (ADM), and providers were contracted for specific projects and activities. Risks were managed with short term contracts and work was being done in staff augmentation mode.

As IT is now perceived to be a significant driver to enable business strategies, IT infrastructure investment has grown significantly and management of the same is becoming more complex. Availability and response time requirements are higher than ever before. Either as managed outsourced deals or in out-tasked mode, there is a significant shift in IT Infrastructure Management outsourcing. Most service providers are now providing remote infrastructure management support for the distributed WAN network and data center infrastructure.

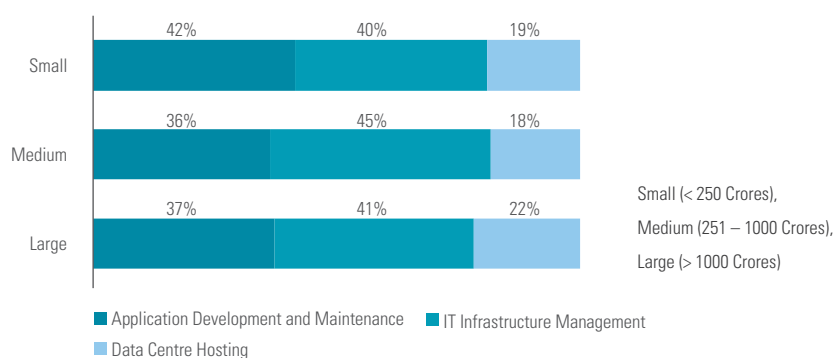
It is also significant to note that the momentum shift is not limited to the revenue size of the company, clearly showing that there are significant IT infrastructure investments being made across industries. IT is no longer a luxury, but a necessity and an enabler.

OUTSOURCING FUNCTIONS AGAINST INDUSTRY SECTORS



Source: KPMG's IT matters as long as business gets value, 2011

OUTSOURCING SERVICES AGAINST SIZE OF ORGANIZATIONS



Source: KPMG's IT matters as long as business gets value, 2011



The biggest driver of outsourcing in India

Skill scarcity



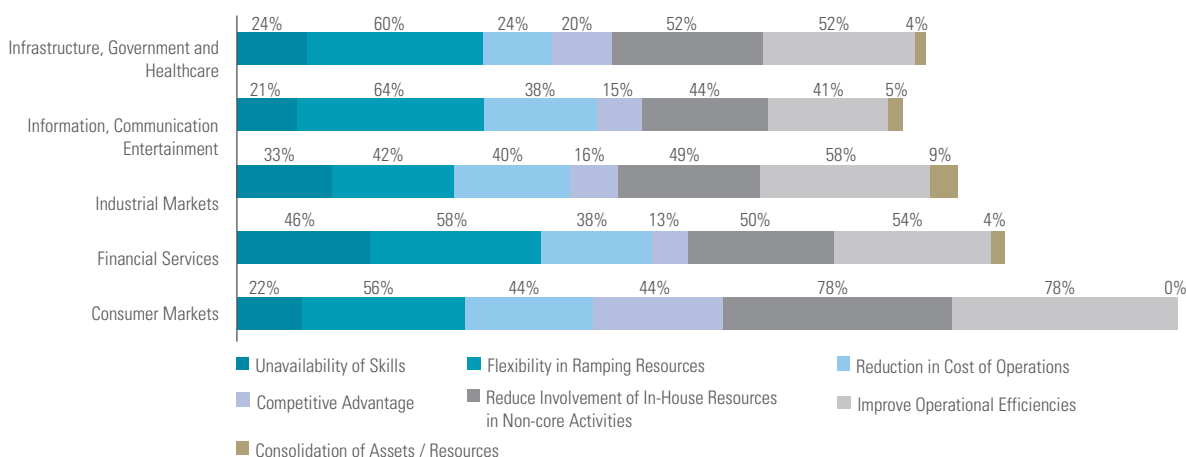
Most common reasons for outsourcing to destinations such as India from other countries have been to the advantage of the cost arbitrage. Within the domestic market there is limited play for direct cost arbitrage. Even then there instances where service delivery from tier III cities and scale efficiencies enable savings on cost. But significant advantages for domestic organizations come from talent availability,

improvement in operational efficiencies, take advantage of the best practices of the service provider and thereby, leverage in-house expertise for the core activities of the organization.

With diversified operations, organizations find it difficult to acquire talent for both centralized operations as well as field support. In India, where the IT/ITes service industry is booming and is very attractive, it is also very

challenging for organizations to retain talent. Managing IT talent becomes a separate HR requirement which they could well do without. It is not surprising to find most of the respondents consider skill scarcity as evidenced by the unavailability of skills and need for resourcing flexibility, as the prime driver for outsourcing.

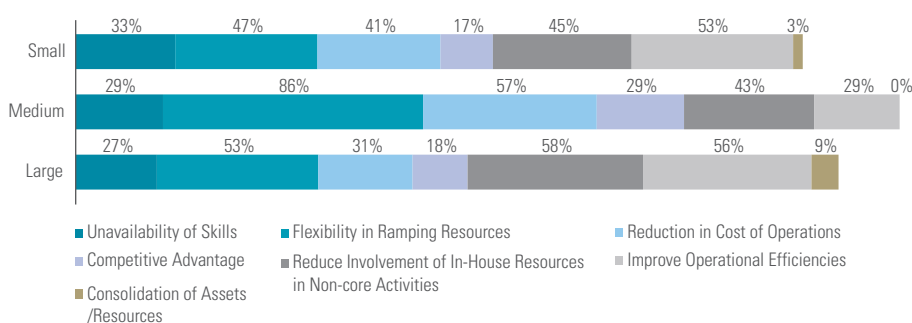
DRIVERS FOR OUTSOURCING



Source: KPMG's IT matters as long as business gets value, 2011

We could find this trend across all sizes of companies.

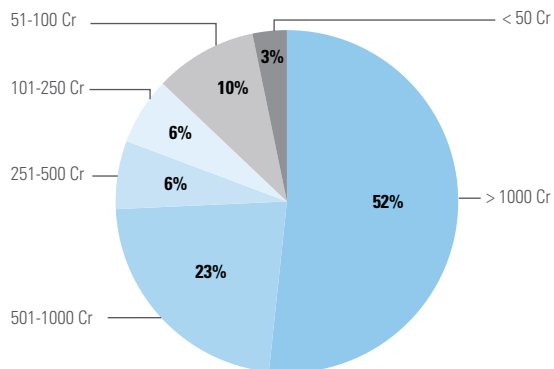
DRIVERS FOR OUTSOURCING BY SIZE OF ORGANIZATIONS



Source: KPMG's IT matters as long as business gets value, 2011

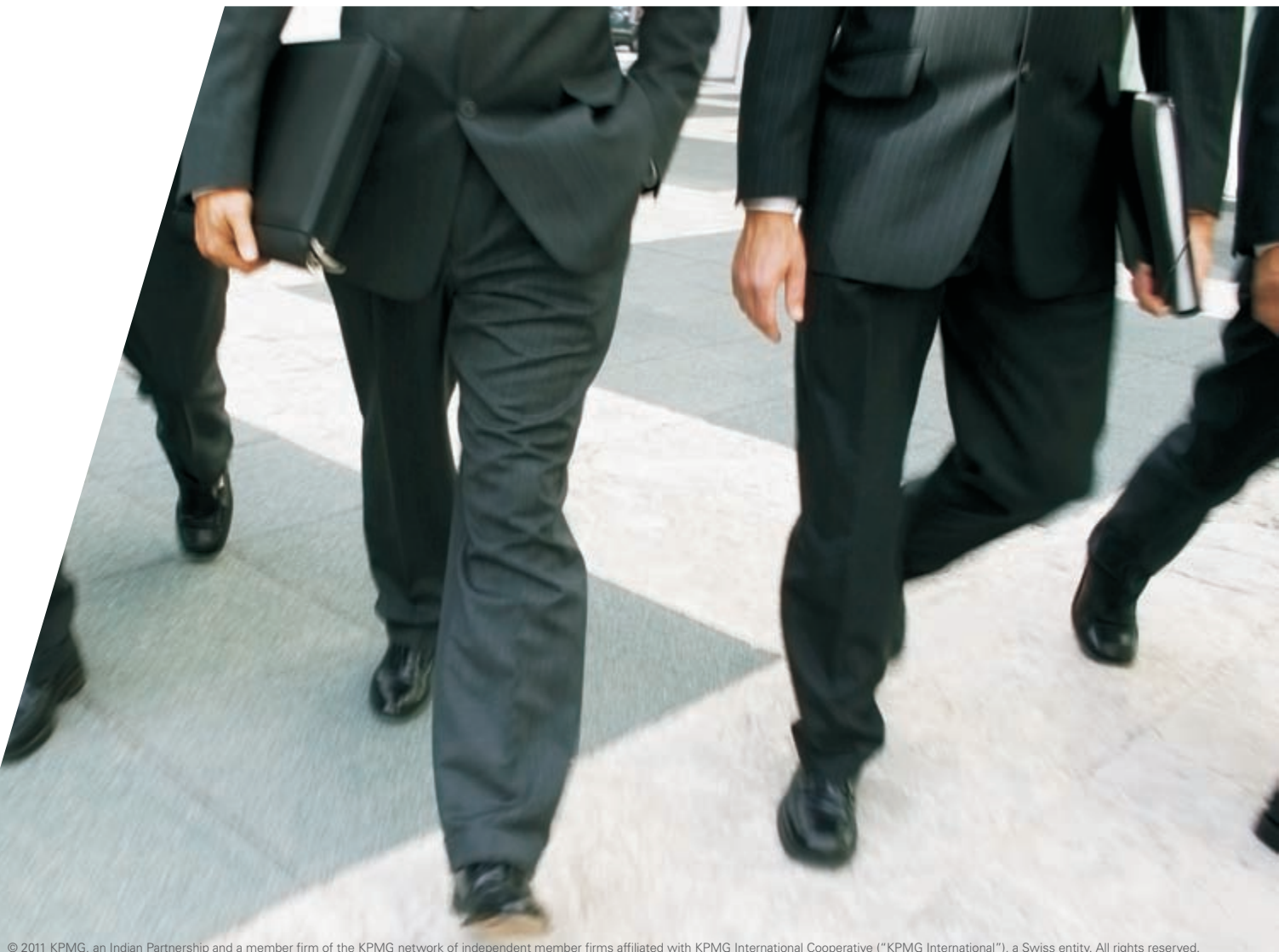
We also found that large organizations typically spend a higher percentage on outsourcing.

ORGANIZATIONS SPENDING MORE THAN 20% OF THE ANNUAL IT SPEND ON OUTSOURCING – BASED ON ANNUAL REVENUE IN INR CRORES



Source: KPMG's IT matters as long as business gets value, 2011

Companies also look to leverage the mature processes and practices of the service providers to complement their own IT setup. They find that it is a prudent choice then to employ service providers to improve their own operational efficiencies.

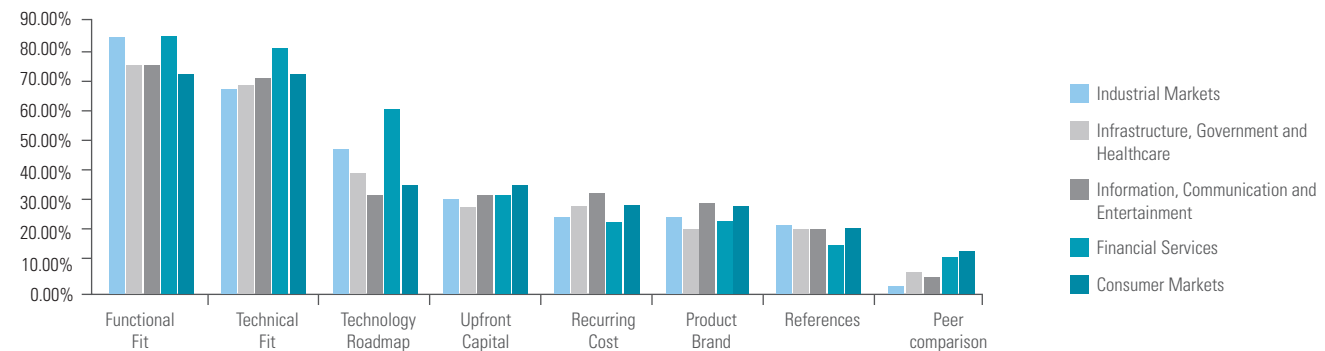


Value first, cost second



Last year, our global CIO thought leadership was titled “Cost to Value” considering the shift of focus of global organizations from cost optimization to the ability to create value to the business. A clear trend of IT playing a central role in organization leadership was seen in the global survey. In this survey also, we could find a similar trend in India, with a majority of the CIOs basing their IT investment decisions on factors contributing to the overall value rather than costs.

NEW APPLICATION / VENDOR SELECTION CRITERIA CONSIDERATIONS



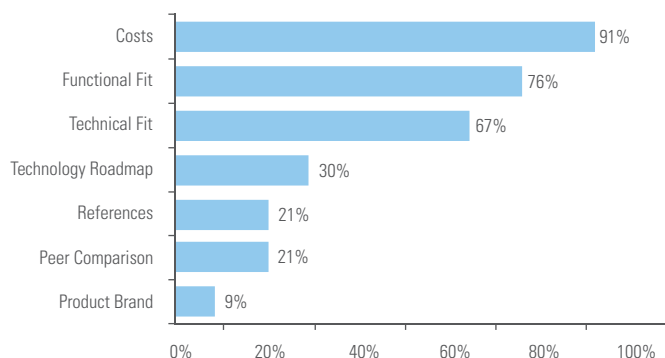
Source: KPMG's IT matters as long as business gets value, 2011

This focus represents a welcome shift towards balancing the cost and value aspirations of an organization. To cater to the growing percentage of employees requiring support from technology, CIOs need to consider a longer time frame for ROI calculation and overall business vision for decision making.

However, this trend is largely limited to larger organizations. For smaller organizations (annual revenue less than 250 crores), cost, either upfront capital cost or recurring cost, was the primary consideration. We can see costs as a priority reducing as the organization is growing bigger.

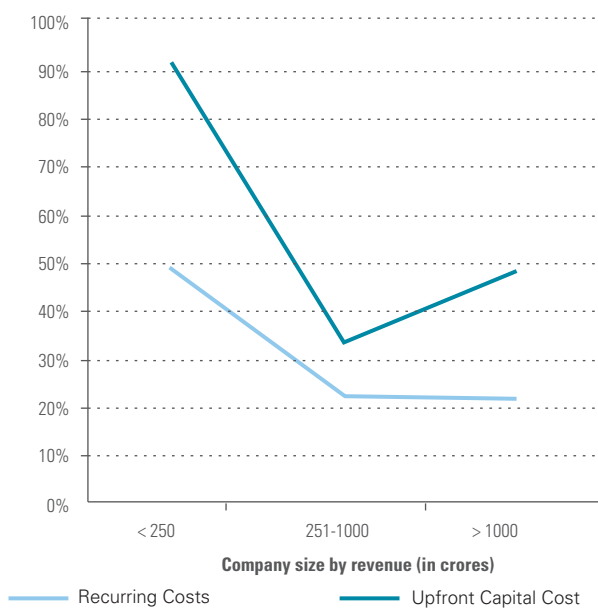
NEW APPLICATION / VENDOR SELECTION CONSIDERATIONS FOR SMALL ORGANIZATIONS

(ANNUAL REVENUE LESS THAN 250 CRORES)



Source: KPMG's IT matters as long as business gets value, 2011

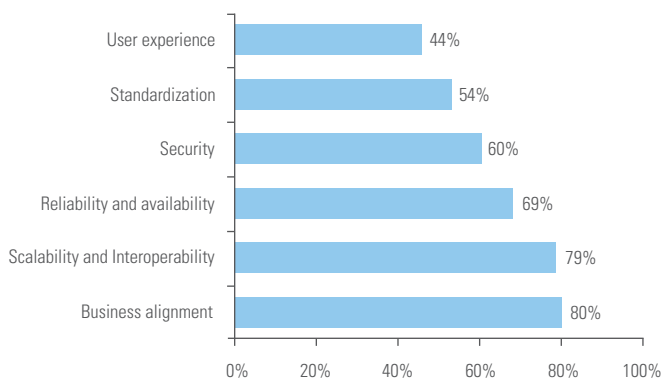
COSTS AS A PRIORITY FACTOR IN SELECTION OF NEW APPLICATION / VENDORS



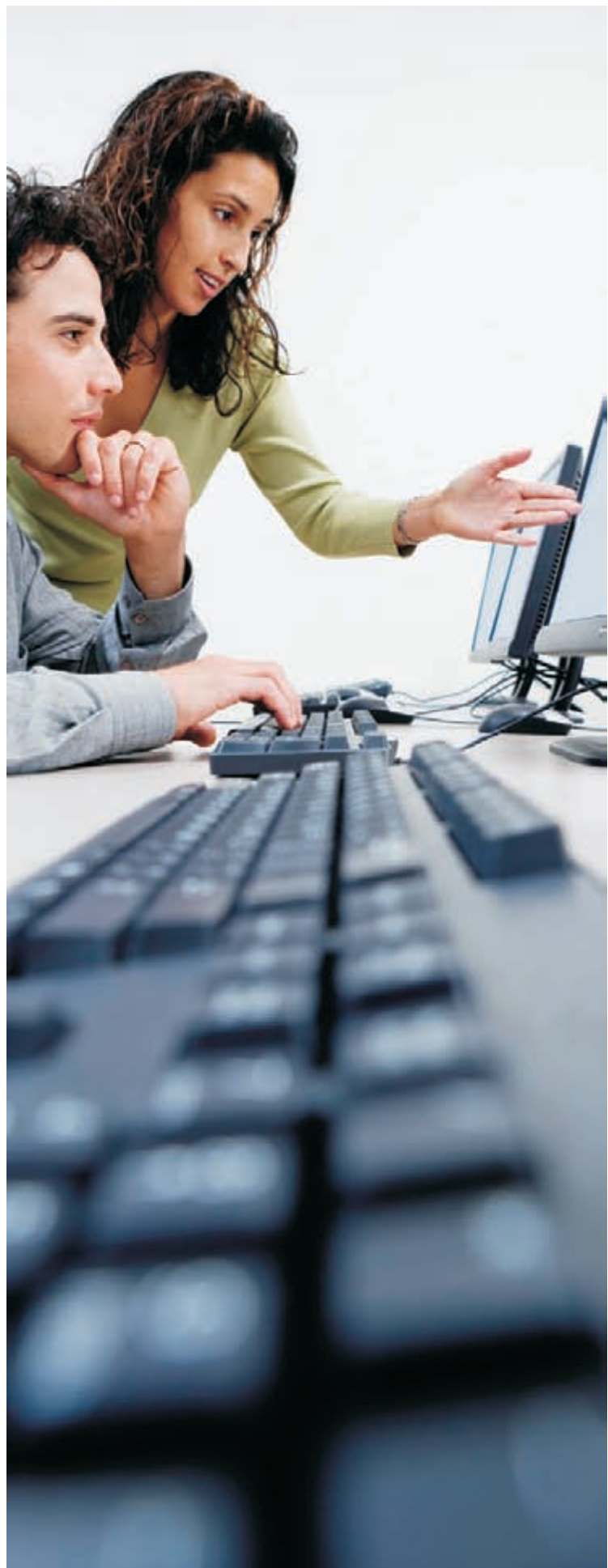
Source: KPMG's IT matters as long as business gets value, 2011

With organizations at different stages of IT maturity, the technology landscape is often complex with IT department required to support the existing infrastructure and in many cases, distributed and customized applications. In such a scenario, factors like technical and functional fit of new applications may provide crucial cost savings in the long term.

True to our theme of IT moving closer to the business, we found that business alignment was the top most criteria for CIOs to make any technology investment decisions, along with scalability and interoperability considerations.



Source: KPMG's IT matters as long as business gets value, 2011



Key KPI of an Indian CIO

Project delivery metrics

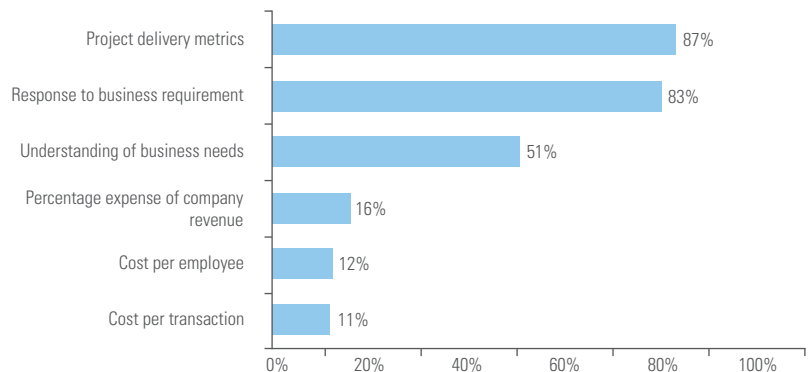


Maintaining operational continuity and delivering projects have been the top objectives for CIOs for a long time. It is also very tempting for leaders to focus on such operational roles and maintain status quo. For this to change, the KPIs should reflect and incentivize strategic objectives. However, in our survey we found that project delivery metrics is one of the key measures of a CIO's performance.

This represents a peculiar situation where on one hand, CIOs are moving towards a strategic role and on the other hand, they are still being measured on the operational aspects. This disconnect is found in all the sectors, as shown in the below graph. However, it is heartening to note that response to business requirements is a close follower.

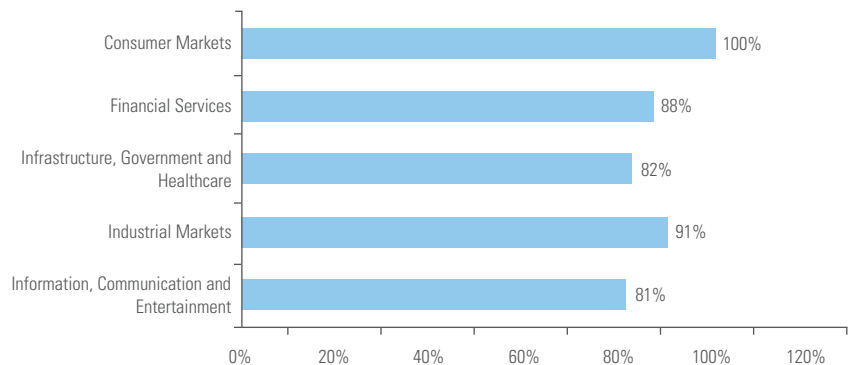
Globally, organizations are realizing that IT can make a huge difference to both the cost and revenue side of the business. The older notion that as long as CIOs meet their SLAs and keep operations within the budget, their performance is on par with other executives has been replaced by a holistic view on how much value they add on to the business. However, response to business requirement is a close follower.

TOP KPI'S A CIO'S PERFORMANCE IS MEASURED ON



Source: KPMG's IT matters as long as business gets value, 2011

PERCENTAGE OF ORGANIZATIONS WHERE CIO'S ARE MEASURED PRIMARILY ON PROJECT DELIVERY METRICS ACROSS VARIOUS SECTORS



Source: KPMG's IT matters as long as business gets value, 2011

IT projects conceptualization

Primary importance to customer and technology

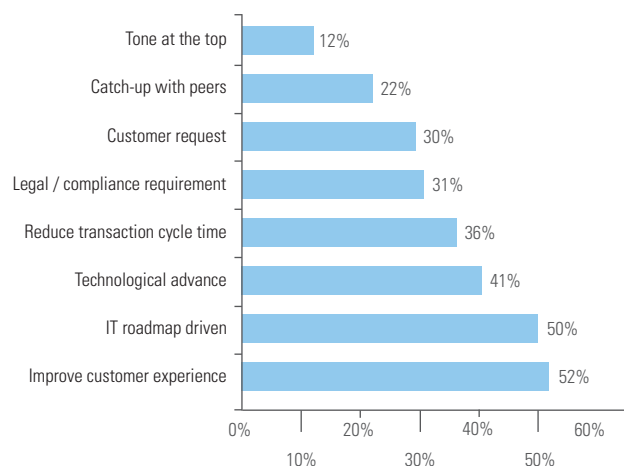


Traditionally IT projects were conceptualized by business functions and the requirements were cascaded to the CIO to take further action. IT functions in India focused more on project delivery and facilitation, helping the business to keep pace with the market growth. However this survey indicates the growing involvement and influence of the CIO in initiating business projects compared to the earlier role. This increased involvement of the CIO and the IT function ensures a higher level of ownership and greater collaboration with the business over the project lifecycle. This has also led to an interesting basis for conceptualizing an IT project – both the customer / user experience and technology factors are given the top priority.

Indian organizations have, in recent times, started showing maturity in the way their IT functions are being utilized. IT is no longer perceived as only a cost center, but is an integral component of their business landscape. Most of the CIOs view themselves as important enablers to the larger business vision, working closely and cost-effectively with the rest of the business to organize IT resources to support

business objectives. Focusing on key customer outcomes that the technology can produce would pave the way for technology emerging as the launching pad for organizational growth.

FACTORS INFLUENCING PROJECT CONCEPTUALIZATION



Source: KPMG's IT matters as long as business gets value, 2011



Appendix

About the Survey

We covered 140 organizations across 23 sectors in India on their Technology Agenda as well as Project Management Practices. All the interviews were administered face-to-face by KPMG IT advisory teams across India, using a pre-planned questionnaire. This report on IT priorities is a sub-set of the observations during this survey.

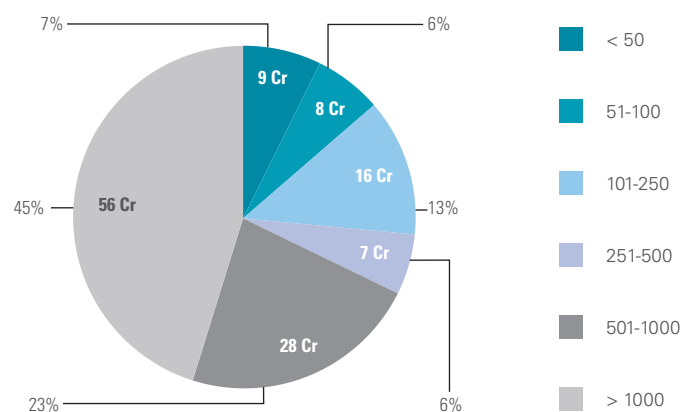
The survey participants included a wide range of industries: large, medium and small, government and private, conglomerates, captives and Internet only businesses.

SURVEY PARTICIPANTS BY SECTOR



Source: KPMG's IT matters as long as business gets value, 2011

SURVEY PARTICIPANTS BY ANNUAL REVENUE IN RUPEES CRORES



Source: KPMG's IT matters as long as business gets value, 2011

About KPMG in India

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 146 countries and have 140,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

KPMG in India, the audit, tax and advisory firm, is the Indian member firm of KPMG International Cooperative (KPMG International) was established in September 1993. The firms in India have access to more than 3500 Indian and expatriate professionals, many of whom are internationally trained. As members of a cohesive business unit they respond to a client service environment by leveraging the resources of a global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. KPMG has offices in India in Mumbai, Delhi, Bangalore, Chennai, Chandigarh, Hyderabad, Kolkata, Pune and Kochi. We strive to provide rapid, performance-based, industry focused and technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.





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