The Shadow IT Phenomenon

CIOs respond with internal service provider transformation

A research paper from Logicalis based on a global study of CIO pressures and priorities
In summary

This report details key findings from the third annual Logicalis Global CIO Survey, which seeks to assess the changing role of CIOs and IT departments as businesses worldwide increasingly view technology as a business enabler, rather than an essential cost center.

Over the last two years, the study has answered a series of questions, including:

- How is the role of the CIO changing?
- Are CIOs’ priorities yet aligned with a reality in which IT decisions must reflect and directly support business imperatives?
- Are CIOs spending as much time on strategic priorities as they would like to?

This year, we draw on a survey of more than 420 CIOs worldwide to revisit these questions. We assess:

- What progress has been made as CIOs seek to redefine their roles in the face of pressure from line of business colleagues and Shadow IT (the tendency for line of business executives to by-pass CIOs and IT departments in procuring their own IT resources)?
- To what extent have CIOs been able to transform IT departments—by moving away from the traditional cost center model to establish themselves as “internal service providers”—by engaging with line of business and scoping and provisioning new IT services?

Interestingly, we find that IT leaders worldwide are making progress, with the balance between technology and services continuing to shift. CIOs are more focused than ever on strategy and are spending more time on activities that are characteristic of a CIO at the head of an internal service provider.

Finally, we look at the CIOs’ perceptions, and the rate of adoption, of a series of technologies that can play a vital role in enabling IT departments to operate as service providers – social, mobile, analytics and cloud (SMAC), business intelligence (BI) and software-defined technologies (SDx).

Read on to find out what CIOs from Europe, North America, Latin America and Asia-Pacific have to say.
Key findings: IT balance of power and the CIO

How have CIO pressures evolved over the last 12 months, and how are CIOs responding?
Shadow IT is now a fact of life for CIOs…

Shadow IT, when line of business executives by-pass the IT department and CIO in making IT investments, remains a growing challenge.

The likelihood that CIOs will be left out of the IT purchasing loop has grown every year since 2013, according to Logicalis Global CIO surveys.

For instance, in 2014, 72% of CIOs worldwide held the balance of power over IT decision making (controlling more than 50% of decisions), but this year, that figure has fallen by 6%.

Today, only two thirds (66%) of CIOs hold the balance of power over spending (Fig. 1). This is in line with CIOs’ expectations – in 2014, 62% expected line-of-business colleagues to gain more power in the future.

At the extreme end of the scale, almost one third (31%) of CIOs globally find themselves by-passed “often,” “very often” or “most of the time” – a figure that rises to 51% in Latin America markets, but falls to 19% in Europe (Fig. 2).

Overall, Shadow IT is now a fact of life for the majority of CIOs – 90% of those questioned reported that they are now by-passed by line-of-business colleagues at least occasionally.
...and the internal service provider is taking shape

Last year’s Global CIO Survey (2014) found that CIOs and IT Directors were starting to respond to the challenges posed by Shadow IT.

The survey identified a desire to reshape IT functions to more closely reflect the business needs that are driving line-of-business procurement – by providing a broad portfolio of internal and externally sourced IT and business services.

This built on a clear desire to take on a more strategic role, as first identified in the 2013 survey. Two years ago, nearly three quarters of CIOs (73%) expressed a desire to take on a more strategic role.

Two years later (2015), some progress has been made, but the transformation remains understandably slow given the scale of the task. Today, just 38% of CIOs spend at least 50% of their time on strategic activities (Fig. 3).

In a more telling sign of progress, CIOs are spending almost half of their time (42%) on activities consistent with developing and delivering the internal service provider model – “engaging with line of business” and ‘scoping and provisioning new IT services’ (Fig. 4).
Shift to services gathers pace

In line with this changing role for the CIO, the focus of IT departments is also shifting – suggesting that a move toward an “internal service provider” model is taking shape.

This year’s survey sought to establish IT departments’ progress along this transformation journey. Accordingly, the survey looked at the balance between technology management and service portfolio delivery, as well as their reliance on external service providers.

Responses overall suggest an approximate 50:50 balance between technology management and the delivery of a portfolio of services (Fig. 5). Around half of CIOs (47%) report that at least 30% of their IT is provided by external service providers, including cloud (Fig. 6).

Overall, these findings tend to indicate that we are approaching a tipping point in the transformation of IT departments worldwide.

To what extent does your organization spend its time managing technology versus delivering a service portfolio?

Fig. 5: Chart shows global responses.

Approximately what percentage of your IT is provided or managed by external service providers, including cloud?

Fig. 6: Chart shows global responses.
Key findings: The service-enabling technologies

Views and adoption of technologies that can underpin service focus – SMAC, BI and SDx.
Social, mobile, analytics and cloud technologies, collectively known as SMAC, have garnered a great deal of media attention over the last 12 months. But is this hype reflected in CIO views?

To assess the real-world, relative importance of SMAC technologies, this year’s survey asked CIOs to rate the role of each in driving business innovation.

Globally (Fig. 7), mobile and analytics were clear winners – with 62% and 63%, respectively citing them as “very important” or ‘critical’ to business innovation – reflecting an ongoing trend toward real-time business in which anywhere, anytime access to applications and insight is increasingly important.

Social, meanwhile, lags well behind, with only one third (37%) viewing technologies and services like collaboration software, social Internet and community hubs as having high importance. As a new generation of “digital natives” enters the workforce, it will be interesting to see how this view changes.

Social, mobile, analytics and cloud technologies, collectively known as SMAC, have garnered a great deal of media attention over the last 12 months. But is this hype reflected in CIO views?

Will organizations provide familiar tools for an increasingly social-enabled workforce, or will they expect new recruits to adapt?

Cloud technologies also lag behind (47%), but this is more likely to reflect the overall maturity of the cloud model, which is increasingly seen as “business as usual” technology.

Away from the global picture, a number of regional variations emerge:

- Analytics are most important in the US and LATAM.
- Mobile leads the way in Europe and LATAM.
- APAC and LATAM value social more than other regions.
- Cloud remains a significant priority for two thirds (67%) of CIOs in LATAM.

Fig. 7
Business intelligence

Overall, the CIOs responding to the 2015 Logicalis Global CIO Survey do not believe that their organizations are making the most of investments in business intelligence technologies and believe they have invested in technologies that do not fully support business needs (Fig. 8). Globally:

- Nearly half (48%) get real-time information from BI.
- The same proportion (48%) get information on well-defined business metrics.
- Only 29% derive actionable business insight from BI.
- Fewer than one third (28%) can make insight available to decision makers anywhere.
- 28% of solutions can be quickly adapted to changing need.
- 42% get insight in a visual format.
- Almost a third (30%) are able to deliver predictive analysis.

These limitations ultimately prevent BI solutions from delivering the tangible business benefits and measurable ROI that are vital in an internal service provider model. Only a quarter of organizations (27%) realize increased sales as a result of insight from BI, and less than half (47%) benefit from operational efficiencies.
However, responses regarding why CIOs have been unable to remedy these issues are telling (Fig. 9). Lack of budget (47%), lack of time (40%), complexity (37%), lack of expertise (35%) and lack of clarity regarding business requirements (34%) all feature prominently.

However, C-level buy-in is strong, with 84% of CIOs pointing to C-level support for BI. In a business environment where the consumerization of IT has driven expectations of rapid deployment, this buy-in is crucial.

Thinking about your own organization, please indicate the most significant barriers to implementing highly effective business analytics/business intelligence solutions.
Software-defined technologies (SDx)

Attitudes to SDx have hardened and polarized over the last 12 months.

The 2014 Logicalis Global CIO Survey found that 83% of CIOs planned to implement SDx in one form or another, sooner or later.

A year later, the number of CIOs with no plans to adopt has doubled – more than one third (32%) now say they have no plans to adopt SDx (Fig. 10a).

That polarization does not, however, tell the whole story.

That is, while more CIOs have turned their backs on SDx, the pace of adoption among the rest has picked up (Fig. 10b):

- The number of organizations that have already adopted SDx doubled in one year – from 9% in 2014 to 18% today.
- 82% of those who plan to adopt SDx have either already adopted or will do so within three years.
- Less than one fifth of all respondents (18%) have longer-term adoption plans.

This suggests that a significant majority of CIOs see SDx as a key service-enabling technology.

However, the pace of planned adoption may create its own challenges, with demand for SDx skills significantly outstripping supply.
Delivering business value?

When asked to rate the performance of IT in delivering business outcomes, CIOs were generally bullish – awarding themselves and their teams an average score of 8 out of 10.

In fact, 66% rated their performance at 8 out of 10 or more. However, only 10% of CIOs globally scored the performance of IT at 5 out of 10 or less.

At a basic level, this is unsurprising, given business reliance on technologies such as email and infrastructure such as networking and storage.

It remains open to question, however, whether line-of-business colleagues would take the same view, given that these technologies are largely taken for granted instead of seen as delivering business outcomes.

The continued rise of Shadow IT suggests that line-of-business colleagues have a different view of business value from technology.

8/10

Fig. 11: Chart shows CIOs’ responses in marking the performance of IT out of 10.
Conclusions

This report once again paints a vivid picture of a world in which line of business is assuming more and more control of IT spending and direction; this is a trend that CIOs are clearly responding to. The transformation of the IT department we identified 12 months ago continues apace, with CIOs increasingly focused on delivering service portfolios that directly respond to the needs of line-of-business executives.

We call this emerging, services-defined IT department the “internal service provider.” Its role is to offer the choice of services their organization needs — whether those services are built and operated internally, come from managed service partners or are consumed from the cloud.

At Logicalis, our response to these trends is simple. Our role is to be the strategic partner to our customers, because we are a relevant and compelling partner to the CIO and to the line-of-business executive.

Mark Rogers, CEO, Logicalis
About the research

All figures drawn from a survey of 424 CIOs and IT Directors from mid-market organizations in 24 countries spanning Europe, North America, Latin America and Asia-Pacific.

About Logicalis

Logicalis is an international IT solutions and managed services provider with a breadth of knowledge and expertise in communications and collaboration; data center and cloud services; and managed services.

Logicalis employs more than 4,000 people worldwide, including highly trained service specialists who design, deploy and manage complex IT infrastructures to meet the needs of over 6,500 corporate and public sector customers. To achieve this, Logicalis maintains strong partnerships with technology leaders such as Cisco, HP, IBM, CA Technologies, NetApp, Microsoft, Oracle, VMware and ServiceNow on an international basis. It has specialized solutions for enterprise and medium-sized companies in vertical markets covering financial services, TMT (telecommunications, media and technology), education, healthcare, retail, government, manufacturing and professional services, helping customers benefit from cutting-edge technologies in a cost-effective way.

The Logicalis Group has annualized revenues of over $1.5 billion, from operations in Europe, North America, Latin America and Asia-Pacific, and is one of the leading IT and communications solution integrators, specializing in the areas of advanced technologies and services.

The Logicalis Group is a division of Datatec Limited, listed on the AIM market of the LSE and the Johannesburg Stock Exchange, with revenues of over $6 billion.

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