



THE CIO AGENDA

Complimentary research
December 2020



Freshworks is pleased to offer you this insightful market research from The Hackett Group. The research highlights that IT is accelerating its own transformation, and results show that those that are further along (>2 years) are much more successful at meeting their business objectives, particularly security, agility and resource optimization. Besides virtualizing services, one-third of IT functions will make major operating model changes in 2021 - 68% will align full-spectrum services to business products/platforms for better partnering, customer-centricity and responsiveness. Another 58% will broker more services from third parties for agility.

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The Hackett Group's 2021 Key Issues Study reveals a slate of information technology (IT) priorities that add up to an aggressive and accelerated transformation agenda. The IT function's top 10 key issues (see **page 4**) collectively represent profound changes that affect operating and service delivery models, talent mix, and sourcing options.

The challenges of the current environment, however, also present IT organizations with their best opportunity in memory to step up as a strategic partner to the business. IT has a unique opportunity to guide stakeholders through a year of experimentation and adaptation to whatever will become the next normal business environment. Compared to IT's top 10 priorities at the start of 2020, the 2021 ranking of key issues also shows an increased importance for aligning skills and talent with changing business needs, and accelerating functional transformation.

While every one of the 10 priorities will occupy some portion of IT's 2021 agenda, three will demand more effort than most because they require systemic and cultural change: act as a strategic advisor to the business, align skills and talent with changing business needs, and accelerate IT digital transformation.

The 2020 crisis has shaped the 2021 IT agenda

Unprecedented business disruption forced IT organizations to delay many 2020 plans and operate instead in a reactive mode. Respondents to the 2021 Key Issues Study expect stability to remain elusive: 41% believe conditions will stabilize by the second half of 2021, but 36% predict it will take longer. Only 23% expect stability sooner. Therefore, the crisis and its fallout will continue to shape IT priorities in 2021 and beyond. The dramatic shift in virtual working is a case in point. Before the crisis, 4% of general and administrative (G&A) staff worked primarily from home, and 13% had hybrid arrangements, working between home and the office. Post-crisis, these percentages are projected rise to 25% and 33%, respectively. Four emerging enterprise themes are projected influence the 2021 IT transformation agenda:

People: The shift to virtual work will require significant reskilling and innovation of management techniques. Companies will need to tap into an increasingly global talent pool. Performance management will evolve from measuring activity- and task-based productivity to business outcomes based on teamwork and collaboration. Further, diversity and inclusion has become a top priority.

Risk: Our Key Issues Study highlights a major increase in business risks across the board – from cybersecurity to social/political disruption to the economic implications of prolonged pandemic-related restrictions. All parts of the organization, including IT, will feel the effects of this high-risk business environment and must factor this into their 2021 transformation agenda.

Cost: Under prevailing crisis recovery conditions, cost takes center stage. IT must manage both its own operating cost and support broader enterprise cost management initiatives. The combination of 2020 cost cuts, continuing austerity and increased workloads will strain IT organizations into 2021.

Digital acceleration: Digital maturity was a major factor in companies' ability to respond to the crisis, creating competitive differentiation. Most companies have taken the lessons to heart and plan to accelerate enterprise digital transformation. IT must be a strategic partner and guide in this enterprise digital agenda, but also accelerate its own function's digital transformation into overdrive. In particular, cloud-based computing, collaboration technologies, and the digitization of processes, assets, and service/product delivery will be major areas of focus for IT and fellow G&A functions.

IT key issues in 2021

1

SECURE IT DATA AND SYSTEMS

The risk is greater than ever with a vastly expanded remote workforce. IT must bullet-harden the work-from-home environment and help educate workers to avoid risky behaviors.

2

ACT AS A STRATEGIC ADVISOR TO THE BUSINESS

A much higher priority than in 2020, IT needs to guide the business in the coming year of experimentation, as companies seek stability and adapt to the new normal.

3

ALIGN SKILLS AND TALENT WITH CHANGING BUSINESS NEEDS

With the normalization of a remote workforce, many chief information officers (CIOs) have new permission to hire talent from wherever it happens to be. But there are still many skill gaps that are holding back IT's transformation.

4

CULTIVATE A CUSTOMER-CENTRIC, INNOVATIVE IT CULTURE

IT's legacy as an order taker has been tough to shake, but a new stakeholder appreciation for modern enterprise architecture and digital tools has given momentum to IT's makeover as an innovation driver.

5

ACCELERATE IT DIGITAL TRANSFORMATION

The IT service delivery model must become completely virtualized, with smart automation facilitating IT's processes. Operating model changes will facilitate virtual teams and leverage the digital provider ecosystem.

6

IMPROVE IT COST-EFFICIENCY

Last year, anxiety over a possible 2020 recession put cost back on IT's top 10 list. Those fears came true, and now CIOs must further economize even as their workload increases.

7

IMPROVE IT AGILITY

The value of agility has never been more starkly revealed than it was in the pandemic-related shutdown of 2020. This has accelerated IT's deployment of new governance, platforms, sourcing strategies and organizational models.

8

MODERNIZE IT APPLICATION PLATFORMS

Companies that had failed to embrace the cloud suffered more disruption in the pandemic crisis. This lesson is speeding up migration to cloud platforms and applications across the industry spectrum.

9

OPTIMIZE DEPLOYMENT OF IT RESOURCES ACROSS THE ORGANIZATION

Operating model and organizational structure changes will reshuffle IT resources to improve responsiveness, resiliency, cost-effectiveness and customer focus.

10

REDUCE/AVOID TECHNOLOGY COMPLEXITY

Technology complexity drives up G&A operating costs by roughly 60% and undermines responsiveness. IT must embed system retirement into its enterprise digital transformation plan.

Source: 2021 Key Issues Study, The Hackett Group

Act as a strategic advisor to the business

IT began 2020 in its usual role as an administrator, gatekeeper and developer/broker of technology. When the pandemic shutdown hit, IT overnight became the lifeline that kept workers productive and helped operations implement or expand digital service and product delivery. Now C-suites are trying to figure out whether these changes will become the new normal, and how innovation, digital disruption, and enterprise risk will play out in 2021 and beyond. They are looking to IT – so strategically important during the shutdown – for help navigating and adapting to these new conditions and challenges.

As such, 2021 will be a year of experimentation and adaptation guided by IT. Common focal points will include:

- Process automation to eliminate risky manual dependencies and bottlenecks – 73% of IT respondents cite this as a major 2021 initiative.
- Enterprise risk reduction through increased use of a third-party ecosystem and back-up sourcing.
- Touchless, customizable customer contact points for ordering and delivery.
- Remote worker collaboration and creative tools to ensure productivity and enable “innovate-from-home” capability.
- Greater visibility of and access to data from supply chains and operations to make faster decisions and increase enterprise agility – 63% of IT respondents have related initiatives in their 2021 plans.
- Greater awareness of emerging technologies to spur innovation and avoid competitive disruption.
- Elimination of the technology complexity that limits agility and elevates operating costs – 51% of respondents report complexity-reduction initiatives for 2021.

How well IT leaders perform in this strategic partner role will depend to a great extent on culture, preexisting relationships, and skills of function leaders and business liaisons.

Align skills and talent with changing business needs

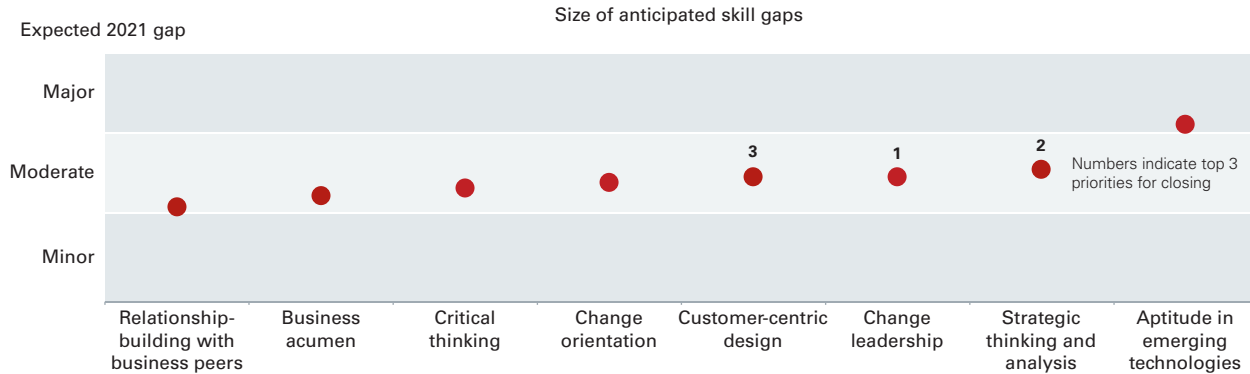
The coming year will bring nothing short of an upheaval in the IT workforce model. Changes include a greater percentage of staff working from home permanently – 59% of IT employees will either work from home or in a hybrid home/office rotation after the crisis is over, compared to just 16% on average prior to the pandemic. This is coupled with plans to hire remote talent: 55% of IT leaders expect moderate or heavy hiring of remote workers – higher than the percentage who plan to hire staff to work in the corporate office (51%).

Closing critical skill gaps is an even bigger challenge. Although respondents cite aptitude in emerging technologies as the biggest skill gap, it is not the gap they most urgently want to close in 2021 (**Fig. 1** on page 7).

Change leadership, strategic thinking and analysis, and customer-centric design are all fundamental enablers of IT's goal to act as a strategic partner to the business. Nothing is more important in a year of upheaval and experimentation than change leadership. Strategic thinking, combined with customer-centricity, is vital to leading the business toward full adoption of a digital customer value chain. Our analysis shows that IT organizations, with minor or no gaps in these skills, are 35% more successful in meeting their transformational objectives overall.

There has never been a more urgent time to invest in the training and selective hiring to expand IT's strategic skill base. Doing so will not only position IT to act more strategically, it will accelerate overall functional transformation.

FIG. 1 IT skill gaps



Source: 2021 Key Issues Study, The Hackett Group

BRIDGING THE PRODUCTIVITY AND EFFICIENCY GAP

Our study projects that the demands on IT organizations will continue to rise – on average, IT will see a 6.8% workload increase in 2021. On the other hand, executives anticipate only a .5% increase in IT’s operating budget compared to 2020. After a year in which full-time equivalents (FTEs) actually decreased slightly, IT’s allotment of FTEs is expected to grow by only 1.6%. The technology investment applied to the IT function, itself, will also grow at an anemic 2%, although this is double the percentage increase of 2020. Given these modest changes in resources and a continued focus on austerity in pandemic-disrupted industries, management expectations in the coming year may outstrip IT’s practical ability to deliver.

Accelerate IT digital transformation

Could 2021 be the year the cobbler's children finally get new shoes? For so long, IT has focused on enabling enterprise transformation, modernizing systems, automating and optimizing processes, and manipulating data to drive more value. But it has neglected digitization of its own processes, with the exception of help desk services. Our study shows that only 20% of IT organizations have been working to transform for more than two years. Just over one-third have been at it less than a year or are just starting (Fig. 2).

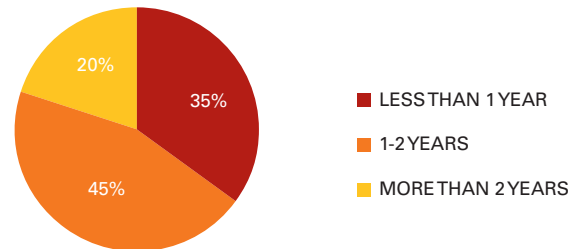
Starting late puts IT organizations at a serious disadvantage. Organizations more than two years into transformation are 54%

more successful in achieving their enterprise objectives than those with less than a year of effort. They are also 36% more effective in meeting functional goals.

Digitally advanced IT organizations got that way in part by adopting new technologies, testing their use and proving their value within the function

before deploying them elsewhere in the enterprise. For example, chatbots were often first seen in IT help sessions. Now, companies are using smart automation tools and other new technology to speed up IT processes such as new user provisioning enabling greater self-service. For example, 68% expect to increase self-service enablement in 2021.

FIG. 2 Stage of IT digital transformation in 2021



Source: 2021 Key Issues Study, The Hackett Group

Understanding the hurdles to IT transformation

Our study found that only 30% of IT organizations consistently meet expectations for their own improvement objectives – ranging from a high of 49% that meet cost-efficiency objectives to just 18% that meet complexity-reduction goals.

Most of the obstacles to IT’s transformation success reflect a shortage of resources. The more IT is pulled in different directions, the less likely it will achieve a

diverse transformation agenda. Responses also expose the critical need to invest in IT to fuel transformation. IT must have the skills and time to use technology to support its own transformation efforts – otherwise, progress is impossible. Additionally, accelerating transformation requires some housework: consolidating, decommissioning, or upgrading system architecture and harmonizing processes so they can be automated effectively.

Ranking of top hurdles to IT transformation

1	Overcommitment	5	IT staff deficiency in critical skills
2	Inadequate funding and resource allocation	6	Technology/process complexity
3	Organizational resistance to change	7	Lack of commitment from enterprise executives
4	Skill shortages and/or capacity constraints of the IT organization	8	Data-related issues

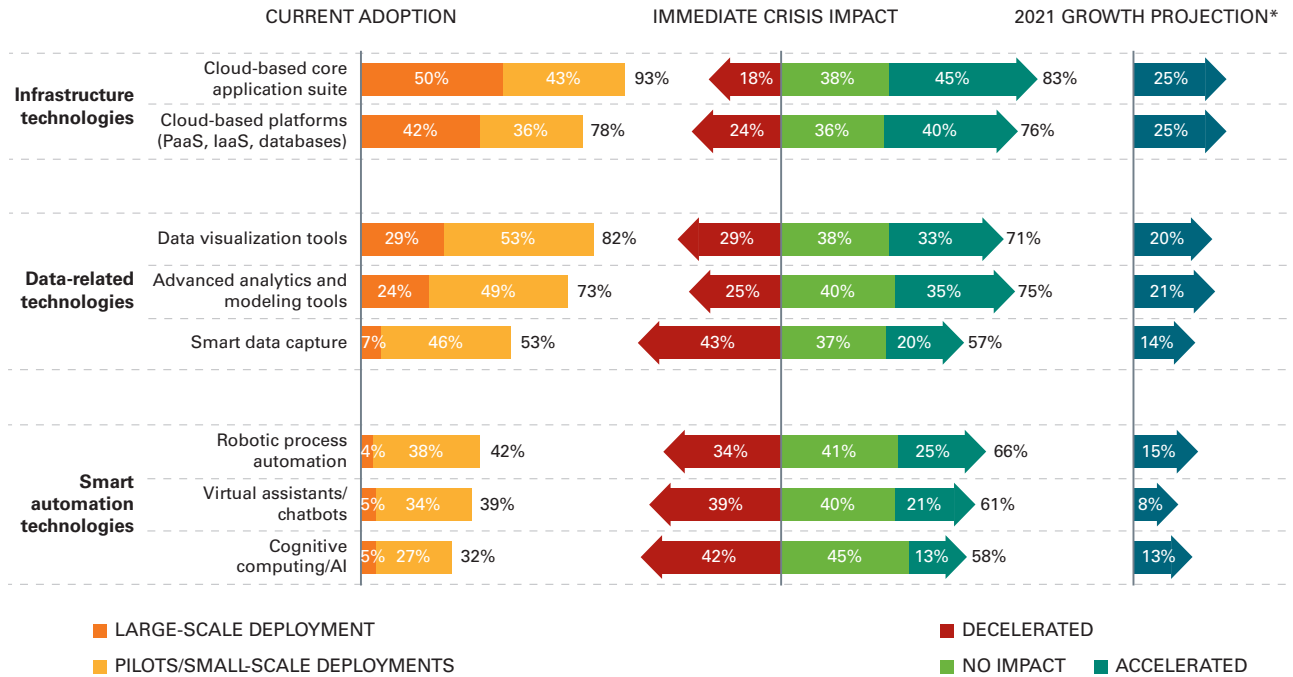
Source: 2021 Key Issues Study, The Hackett Group

Digital adoption in 2021

The reality of 2021 is that all digital transformation is accelerating. C-suites have seen first-hand how digital operating capabilities contribute to resiliency and agility – and how the lack thereof undermines those traits. The biggest and most immediate ramp up is in deployment of cloud applications and platforms, which can increase business resiliency by reducing dependency on on-premise systems and personnel. This also enables one of the enterprise’s top overall priorities – a larger remote workforce. Many companies are accelerating cloud-based application migration (45%) and cloud platform adoption (40%) at higher rates than any other technology in our survey. Likewise, cloud initiatives were the least likely to be put on hold because of the crisis (**Fig. 3** on page 11).

For the second year in a row, we asked respondents whether their technology adoptions have met business expectations over the previous two years. While there was significant disappointment expressed in last year’s results – particularly with artificial intelligence (AI) and analytics-related tools – this year’s survey reflected marked improvement. Overall, the technologies listed on the following page met or exceeded expectations for two-thirds of responding organizations, compared to 54% last year. We attribute the improvement to increased experience with the technologies, their growing maturity, and more realistic expectations on the part of the business.

FIG. 3 Technology adoption – current, planned and crisis impact

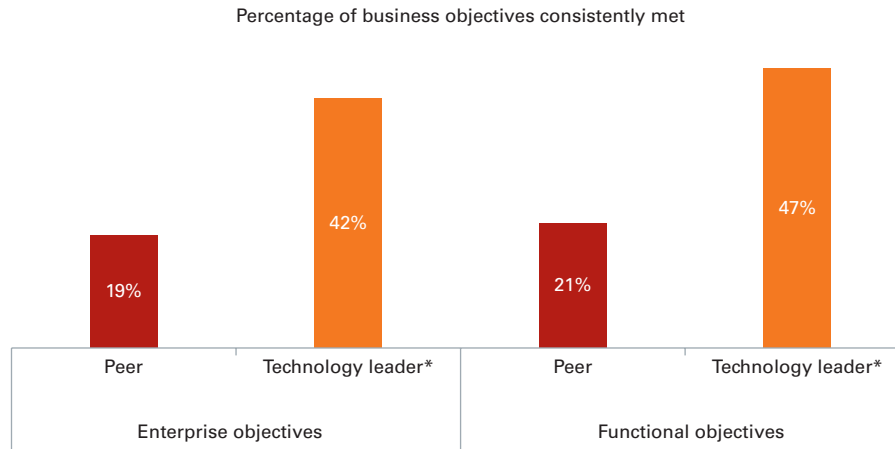


* Year-on-year percentage change in applicable adoption metric for each technology.

Source: 2021 Key Issues Study, The Hackett Group

Improving the efficacy of these technologies is important – not only for accelerating digital transformation (not to mention investment payback), but also for achieving other IT business objectives. Analysis shows that effective technology deployment correlates with a greater ability to achieve business objectives. Technology leaders consistently meet their priority objectives more than twice as often as those whose technology deployments have disappointed (Fig. 4).

FIG. 4 Technology effectiveness improves realization of objectives



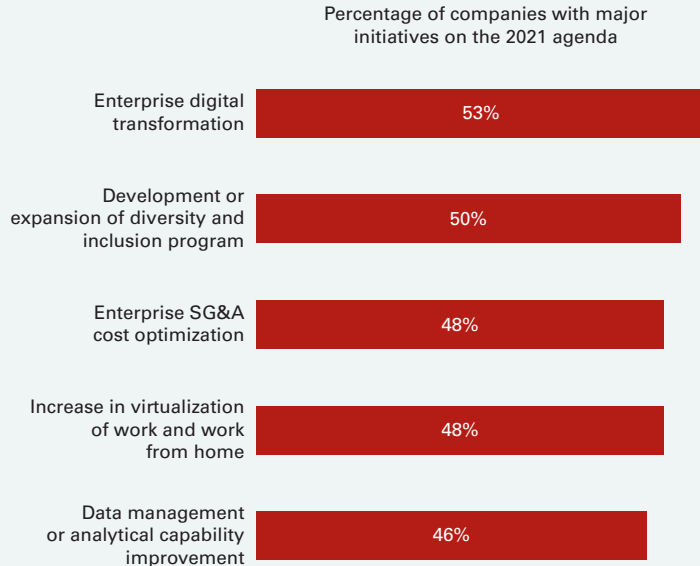
* Technology leaders are the top quartile of respondents based on a composite score factoring in adoption of process automation, data and analytics and emerging technologies, and the extent to which these technologies met business objectives.

Source: 2021 Key Issues Study, The Hackett Group

IT alignment with enterprise priorities

The year ahead will bring the most dramatic shift in enterprise priorities since the inception of our annual Key Issues Study. Enterprise digital transformation rose five spots to become the top overall enterprise initiative. After going through an accelerated digital learning curve during the crisis, companies plan to capitalize on the lessons learned. Diversity and inclusion rose seven spots on the enterprise agenda. Cost optimization is always among the primary initiatives, but this year it dropped from the top of the list to just third. The crisis triggered virtualization of work, elevating it into the top five initiatives for 2021. This will be an enduring characteristic into the next normal. Finally, data management and analytics continue to be an important focus both on the enterprise and IT agendas.

Top five ranking of major initiatives on the enterprise calendar



Source: 2021 Key Issues Study, The Hackett Group

The call to digital action

Regardless of IT's plans and priorities for the coming year, CIOs will ultimately be judged on what they accomplished. When we look back a year from now, what must IT have accomplished for the year to be considered a success? Here is our perspective on the 10 most critical actions and accomplishments.

1. **Stability:** Prioritize the return to stable IT operations.
2. **Resiliency:** Improve disaster-response planning and prioritize investments that facilitate virtual work and service delivery, paperless processes, and eliminate dependency on manual tasks.
3. **Cloud migration:** Accelerate migration to cloud-hosted applications and platforms.
4. **Transformation:** Develop/revise and execute a holistic, accelerated digital business transformation plan.
5. **Innovation:** Spearhead or partner on an aggressive innovation program mapped to the future business vision.
6. **Data value enablement:** Develop/implement an enterprise data model for seamless data access.
7. **Relationships:** Elevate role and upgrade skills of IT's business partners/business relationship managers.
8. **Skills update:** Close skill gaps in emerging technologies, change leadership, strategic thinking and planning, and customer-centric design and relationship-building.
9. **Operating model:** Reinvent the IT operating model to align capability creators with customer-facing business teams or products, concentrate scarce skills in centers of excellence, and outsource nondifferentiating services.
10. **Agility:** Improve IT agility through remote staffing, third-party sourcing, process automation and governance streamlining.

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