



Safeguarding the Corporate IT Assets



**Foreword by Professor Soumitra Dutta,
Roland Berger Professor of Business and Technology, INSEAD**

In May 2007, Micro Focus commissioned KPMG to find how many UK-quoted companies recorded the value of their information technology (IT) assets in their annual reports and accounts. KPMG discovered that the majority of companies failed to record the value of these assets. This discovery prompted a wider research project with INSEAD to explore possible approaches to measure the financial value of software assets effectively in terms of their contribution to the overall valuation of a business.

At the height of the private equity boom in 2007, many quoted companies had begun to re-assess the value of assets such as property and brands. Yet many of these organisations had neglected to account for the substantial value of their core software assets – despite a consistently high level of IT spend on them each year over many years.

Micro Focus invited INSEAD to collaborate on and assess the results of a survey of 250 Chief Information Officers and Chief Finance Officers from companies in the UK, US, France, Germany and Italy. The survey found that fewer than half of those polled had tried to value their IT assets and 60 per cent did not know the worth of their software.

I highlighted at the time that all the evidence pointed to the fact that the value of IT assets, especially software, was under-recognised compared with other corporate assets.

Technology people tended to focus on the *new* and finding a business case for the *new*. I concluded that very little thought goes into the benefit, and almost none goes into the management of core IT assets that have remained in place for many years. The study found that 56% of all respondents thought that the financial value of software assets was ignored or poorly evaluated compared with other company assets including brand, property and intellectual property values.

I agreed with Micro Focus CEO, Stephen Kelly, at the time, when he highlighted that if organisations do not know the cost, size and value of their IT assets, then they must be severely challenged to make the right IT investment decisions. Never has this been more important than now.

In the current business climate, this recession reality is driving a re-focus on core systems. This latest phase of research from Micro Focus illustrates this, revealing a failure by corporations to devote enough time, budget and commitment to the vital skills required to maintain and exploit their most valuable IT assets.

This Micro Focus research report – *Safeguarding the Corporate IT Assets* – points to the fact that, despite business leaders stating that skills to modernise core IT assets are the most valuable in a recession, global organisations are failing to plan for the essential skills required to manage and maintain these systems.

If last year's research highlighted that IT was the forgotten corporate asset, then these latest findings should be a wake-up call to business that, even in tougher times, they must remain focused on recruiting and developing professionals with the right skills to evolve core IT assets into the future.

Safeguarding the Corporate IT Assets – Research Breakdown

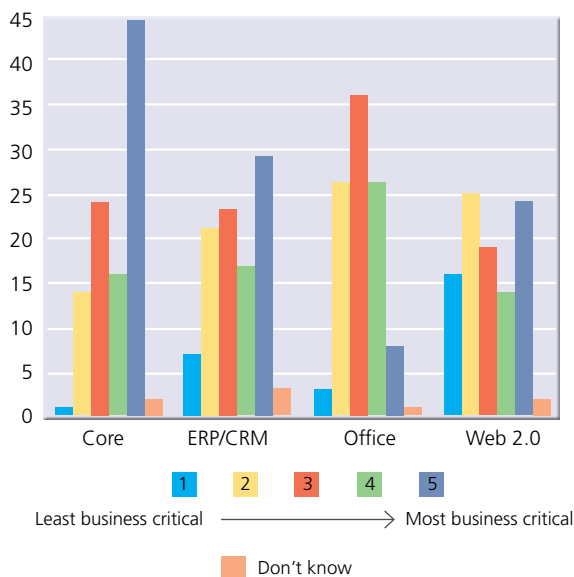
In September 2008, Micro Focus polled 450 respondents across France, Germany, Italy, UK and US – 33% CFOs, 33% CIOs, and 33% HR Directors – to discover what their organisations are doing to maintain and develop their IT systems. All companies had revenues of \$100 million, with 61% reporting a turnover of over \$1 billion.

Ticking timebomb?

The results of the study highlighted that organisations are sitting on a potential ‘ticking timebomb’ because of a failure to guarantee the evolution of the IT systems that are most important to the success of business operations. These are the core systems that have likely been in place for many years, but are considered by those polled to continue to deliver value to the business on a daily basis.

With the advent of new Web 2.0 social networking technologies, Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM) systems, there are many different technologies to consider alongside the core software that drives business-critical day-to-day operations. Yet, when asked, both the IT and Finance department confirmed it was their core IT assets – their core systems and databases, which run on the likes of COBOL and CICS – which are the most critical to the successful execution of their business operations. They were rated as 15% more critical than ERP and CRM and 20% more so than newer Web 2.0 social networking technologies.

Please rank the following technologies in terms of how business-critical they are to the successful execution of your business operations



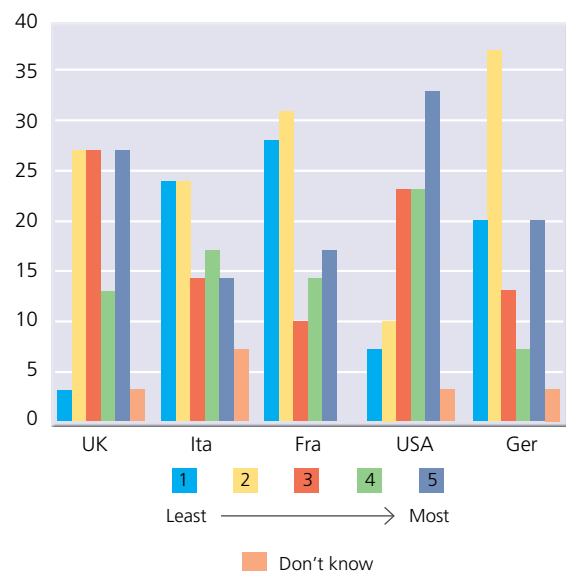
“Core IT systems are the platform for successful business operations. These ‘heartbeat’ systems lie at the very centre of organisational efficiency and competitive advantage, and the flexibility and adaptability with which they work alongside newer technologies and platforms mean they will continue to drive business performance for many years to come.”

– Stephen Kelly, CEO, Micro Focus

Nearly two thirds (60%) of CFOs, CIOs and HR Directors from organisations across the globe stated that core systems and databases are business-critical, compared with only just over a third (38%) who felt the same about systems using new technologies. In Germany, this latter figure was even lower amongst the CFO community, with just over a quarter (27%) rating new technologies as business critical, whereas 57% of German CIOs felt that core IT assets were very or the most important technologies compared with the other systems used.

Italy saw the highest number of CIOs admitting that skills to maintain core software assets are very critical to the execution of business strategy (47%). In the US, CFOs have bought into newer Web 2.0 technologies – 56% see them as business critical, which is 20% higher than any other country polled.

Please rank the following technologies in terms of how business-critical they are to the successful execution of your business operations: Systems using new technologies e.g. Web 2.0, social networking etc, according to CFOs?



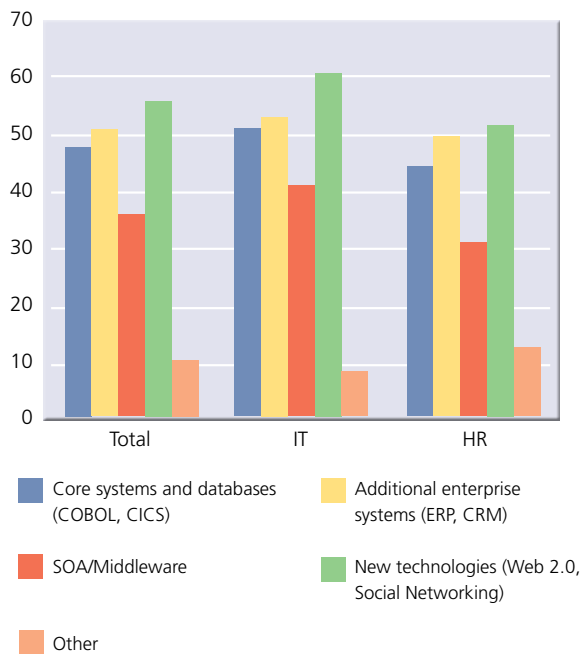
Blinded by shiny new toys

Despite newer Web 2.0 social technologies being the least business-critical, it is in this area that organisations are spending the bulk of their recruitment budgets. Both the IT and HR department confirm that it is skills in these technologies that their organisations are looking for most when recruiting. So they are not recruiting people with skills in the area which they believe delivers the most value.

“Everybody knows that Web 2.0 solutions have huge potential to transform all types and sizes of organisations, but their development shouldn’t be at the expense of protecting and developing the IT assets at the heart of the business.”

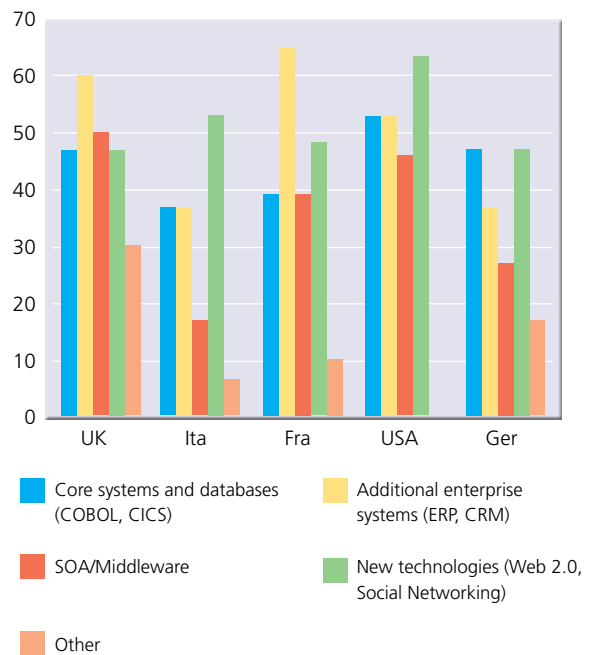
– Stephen Kelly, CEO, Micro Focus

Which IT skills is your business recruiting for the most today?



This is particularly reflected in US organisations’ recruitment strategy with nearly two thirds (63%) of HR Directors confirming newer, web-based technologies are the skills being recruited for the most today.

Which IT skills is your business recruiting for the most today, according to HR Directors?



There were 50% fewer graduates in computer and IT sciences in the UK in 2008 than in 2001, which shows that the pool of talent is dwindling. Engineers who currently maintain and develop global organisations’ core IT assets are rapidly approaching retirement age. If organisations continue to ignore the recruitment of engineers skilled in the management and maintenance of core IT assets for the sake of newer technologies, they could be faced with a disastrous situation – where they have no-one to evolve the most important systems to their business.

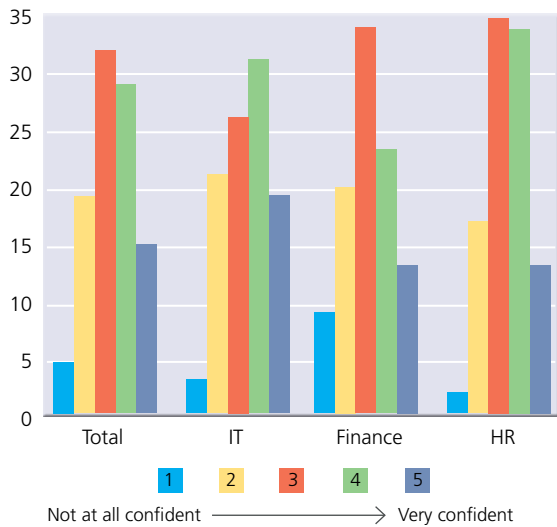
“Even though organisations have admitted that it is the core systems that are most critical to business operations, it seems that these companies are losing sight of the value of the core IT that keeps their business running on a day to day basis.”

– Professor Soumitra Dutta, INSEAD

The core paradox

So it seems strange that many organisations are focusing on IT skills for newer Web 2.0 social networking technologies at the expense of the crucial skill-sets required to future-proof the core systems that are most business-critical to the successful execution of operations. This would not be such an issue if respondents felt that the knowledge and skills to maintain core IT assets for the future currently existed within their respective organisations. However, when asked, only 15% of respondents (across IT, Finance and HR) were very confident that this was the case.

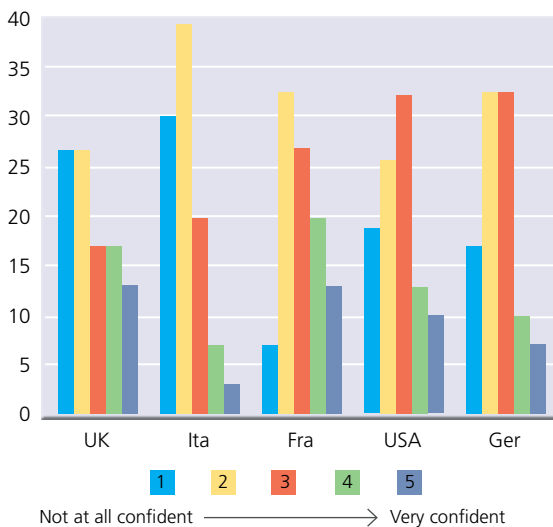
How confident are you in the knowledge and skills that exist within your organisation to maintain your core assets for the future?



Less than one in seven (13%) CFOs are very confident that the knowledge and skills exist within their organisations to maintain core IT assets into the future. However, in France, 60% of CIOs say the availability of skills to maintain core systems is not a concern, even though they rate these assets so highly!

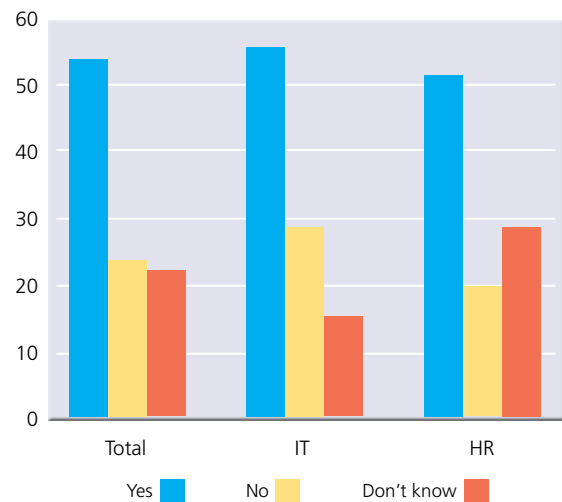
In Germany, there is very little confidence among CFOs that resource is being allocated to recruitment for maintaining and developing core IT assets – only 17% are confident or very confident.

How confident are you that your organisation is allocating enough resources to the recruitment and retention of the IT skills required to maintain and develop your core IT assets in the future?



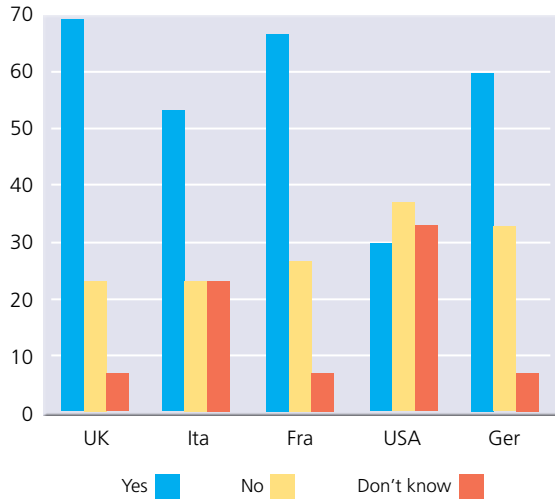
In such a situation, one would expect these multi-million dollar organisations to have the appropriate recruitment strategies in place to avoid this strategic issue which leaves the business vulnerable. Unfortunately, this is not the case. When asked if such strategies have been implemented to preserve the correct knowledge and skills required to maintain core IT assets, only just over half (54%) confirmed that this had happened. This means that nearly one in two companies in the world is facing this major business risk.

Do you believe your organisation has the appropriate recruitment and staff development strategies in place to preserve the correct knowledge and skills required to maintain your core IT assets?



Only 30% of US CIOs believe their organisation has the appropriate recruitment and staff development strategies in place to preserve the correct knowledge and skills required to maintain their core IT assets in place – 70% disagree or do not even know!

Do you believe your organisation has the appropriate recruitment and staff development strategies in place to preserve the correct knowledge and skills required to maintain your core IT assets?



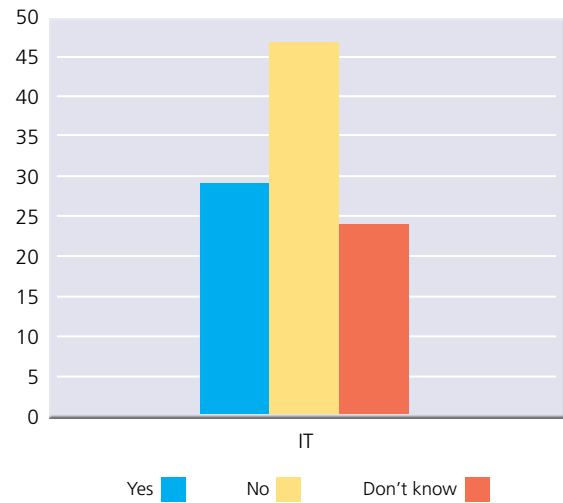
“The fact that almost half of all companies do not have knowledge preservation strategies in place is astonishing, as without their core IT, they would not be able to operate on a daily basis.”

– Jim Norton, former Senior Policy Adviser, e-Business & e-Government, Institute of Directors, UK IoD

Core IT skills needed

Drilling down further into an organisation’s core IT, the majority of business transactions still take place through systems that have been in place for many years, most typically run on COBOL or CICS. In today’s economy, the high cost and risk involved with replacing such systems with more modern languages is not an attractive proposition, so business should be looking to safeguard these assets by attracting personnel with these core skills. However, when the IT department was asked if their company was recruiting enough specialists in these technologies, which typically form the bulk of core IT assets (e.g. COBOL, CICS), less than a third (29%) think that they are.

Do you believe you are recruiting enough specialists in technologies which typically form the bulk of core IT assets e.g. COBOL, CICS?

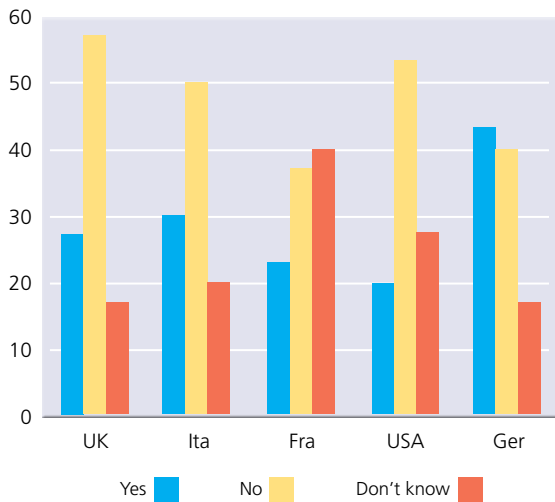


Less than a third of CIOs (29%) polled believed their organisation was recruiting enough of these professionals, even though they state they recognise the value that these assets bring to their businesses – this figure shrinks to less than a quarter in France.

“This study demonstrates how there is more of a need than ever to ensure organisations are equipped with the skills to maximise the value of core systems. Businesses need to work with academia to ensure they are safeguarding these assets in years to come and providing students with real world business insight and experience.”

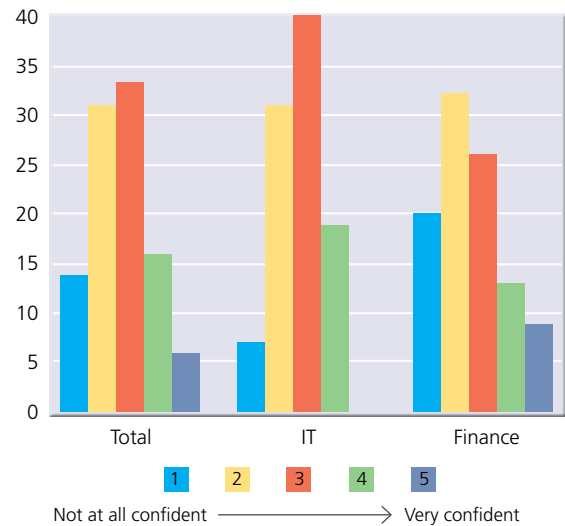
– Bob Clift, e-skills UK

Do you believe you are recruiting enough specialists in technologies which typically form the bulk of core IT assets e.g. COBOL, CICS?



Added to this statistic, both IT and Finance department heads were asked how confident they were that their company's recruitment process was identifying the candidates with the right skills to manage and maintain their core IT assets. Worryingly, 94% are not very confident that their company's recruitment process is identifying the right skills to maintain core IT assets. This is despite core systems being identified as the most business-critical.

How confident are you that your company's recruitment process is identifying the candidates with the right skills to manage and maintain your core IT assets?



"The rising demand for business growth and business change will be poorly met by the traditional supply of IT professionals. People who are prepared, willing, and able to lead and understand business challenges and business change will be in short supply."

– Andy Kyte, Gartner

"Businesses clearly value their core IT assets, yet over 70 per cent are not making the effort to safeguard these assets. If these, and all global companies, do not address this issue now, they are leaving themselves open to operational failure."

– Jim Norton, former Senior Policy Adviser, e-Business & e-Government, Institute of Directors, UK IoD

How can Global Organisations defuse this ‘ticking timebomb’? By Stephen Kelly, CEO, Micro Focus

These results highlight that global organisations are not devoting enough time, budget and commitment to safeguard the vital skills required to maintain and exploit their IT - a crucial business asset. Without this asset they would fail to function, yet they run the risk of insufficient resource to maintain and evolve core IT systems, potentially causing irreparable damage to the business. So what can be done to buck this growing trend and defuse the timebomb?

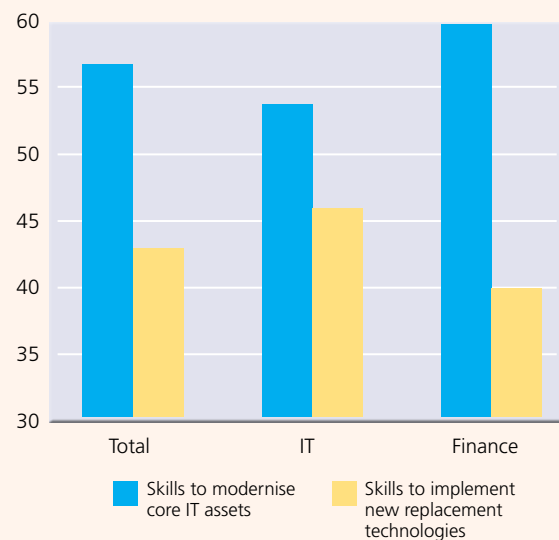
Modernisation and Education

The option to replace or rewrite core IT applications is often risky and expensive – undesirable at any time, but brought into sharp focus during a recession. There is another option – the modernisation of existing IT systems. With effective assessment and modernisation, businesses can identify where value lies in their core IT infrastructures and evolve them to avoid a costly and high risk IT overhaul. One positive survey result was the majority view that recession brings focus back to so-called ‘core’ IT systems. 60% of CFOs in Europe and the US say skills to modernise core IT assets are “the most valuable in a recession.”

However, IT modernisation strategy counts for nothing if an organisation does not have the staff with the skills to execute such projects. Government, business and education must work together to deliver graduates with the skills to maintain and develop the core IT systems that drive organisations. Businesses need to tell educational institutions what skills they need, as opposed to the latter telling the former what sort of skills they can provide. First steps have been taken to remedy this. The Micro Focus ACademic ConnecTION (ACTION) programme, for example, has seen more than 75 universities around the world provided with free access to the latest technology and teaching tools, and is estimated to contribute

to 5,000 new COBOL-literate graduates each year, equipped to preserve these heartbeat IT systems.

In your view, which are the most valuable IT skills in a recession?



Governments also have to follow through on their promises and ensure technology is kept front-of-mind. They must not lose sight of the core IT assets that sit behind economic growth. They need to work closely with academia to increase interest in core IT-related education, reversing the year-on-year decline in IT graduates and meet the demands of global companies’ IT systems.

Failure to develop the vital skills required to manage and maintain core IT systems could lead to the failure of major businesses long-term. However, with academia, government and business working together to re-focus on core IT skills, the ticking of the skills timebomb could be significantly slowed. And with bold, pro-active policies, this bomb can be defused completely.

About Micro Focus

Micro Focus provides innovative software that allows companies to dramatically improve the business value of their enterprise applications. Micro Focus Enterprise Application Modernization and Management software enables customers’ business applications to respond rapidly to market changes and embrace modern architectures with reduced cost and risk. For additional information please visit www.microfocus.com.

About the study

The Safeguarding the Corporate IT Assets study was conducted in September 2008, in conjunction with Vanson Bourne, polling 450 respondents across France, Germany, Italy, UK and US – 33% CFOs, 33% CIOs, and 33% HR Directors. All companies had revenues of \$100 million, with 61% reporting a turnover of over \$1 billion.