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Route to:

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Downsizing—Who Pays?... Who Saves?

Note: INPUT's new report, Methodologies for Downsizing, examines the processes and methodologies being utilized by firms undertaking significant downsizing efforts. This research bulletin draws on a portion of the research conducted for this new report that will be published in February of 1993.

Chicken or Egg

Clearly, the motivations for downsizing have come from a variety of sources: user demands for increased control over their information systems, the allure of reduced costs and the promise of increased productivity (all facilitated by technology) have fueled the downsizing revolution.

While end users have clearly been key in forcing the issue, INPUT's research indicates that the primary impetus for downsizing comes from corporate and Information Systems (IS) management; and, IS management is clearly in the driver's seat when it comes to implementing the downsizing strategy.

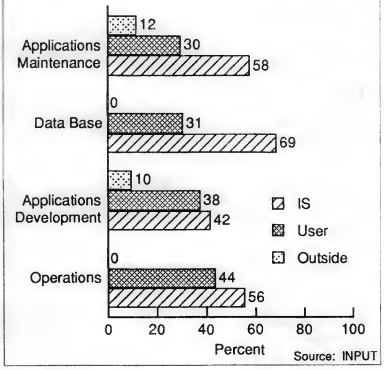
Furthermore, IS management will continue to take a lead role in the information technology management process for post-downsizing, as was indicated by a synopsis of research results.

Before downsizing, most of the IS departments (more than 75% of the survey participants) had primary responsibility for the following:

- Operating existing systems
- Developing new applications
- Updating and maintaining existing software
- Data base management and administration

In the post-downsized environment, a significant shift will occur, but as shown in Exhibit 1, the IS functions of the firms represented in the sample will continue to play a significant role in all areas.

Exhibit 1
Responsibilities After Downsizing



Source: INPUT

- 56% of the downsized systems will still be operated by IS, 44% by user departments.

- 42% of the IS departments will still have responsibility for new development, 38% will be under the management of end users, and an estimated 10% will go to outside vendors.

- 69% of IS departments will retain responsibility for data base management of central and distributed data bases, but user departments will assume primary responsibility in 31% of the cases.

- 58% of applications maintenance will remain with IS, 30% with the user and 12% will go outside.

Funding the Transition

So, regardless of who started the movement, or for that matter, who's managing it, the questions still remain: who's paying for it, and where does management anticipate that the benefits will accrue?

The answers to these questions raise some interesting issues, particularly in light of the distribution of responsibilities cited earlier.

As part of the research undertaken for the Methodologies for Downsizing study, respondents were asked for the sources and destinations of downsizing funds, and where savings were anticipated. Multiple, but weighted, answers were permitted and responses were normalized to arrive at the following statistics.

On the question of funding the downsizing transition, it appears that responses were divided about equally between corporate, IS and user organizations. This indicates that while IS is likely to be the primary focus of the implementation, the funding will typically be shared by each of the major participants in the effort.

The destination of the funds is to those organizations responsible for the actual implementation; and not surprisingly, the majority will go to the IS organization.

- 26% of the funding will go to corporate

- 44% will go to IS

- End-user departments will receive 19%

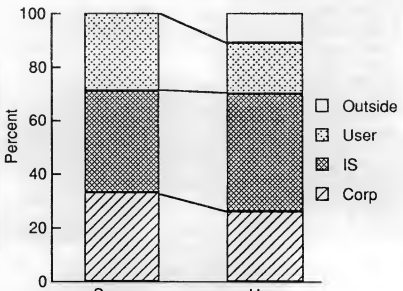
- 11% will go to outside software and services firms for assistance during the transition period (this excludes hardware expenditures).

Exhibit 2 summarizes the actual study results regarding the source and destination of funding for the downsizing transition.

Two points here deserve mention:

- The data on use or destination of the funds supports the research previously cited in the

Exhibit 2



Source: INPUT

bulletin, indicating that the IS typically takes responsibility for the lion's share of the implementation.

- The 11% of the funding that will go to outside software and services companies (exclusive of hardware costs) represents a significant opportunity for vendors.

From Where Will the Savings Come?

This section will start by pointing out that in 28 out of 30 cases analyzed in-depth by INPUT, over the last half of 1992 there were no significant savings which could be readily identified. Nevertheless, hope springs eternal.

Participants in this study felt that savings could be achieved by reducing expenditures in each of the following four areas.

- Hardware and software expenditures
- IS applications development and maintenance
- Data base administration
- Head count (through improved productivity)

Exhibit 3 indicates the percentage of savings in each category, that survey participants felt would come from the IS department.

Contributions from IS's partners (end users and corporate) in the downsizing venture are not anticipated to be quite so generous.

- In the area of hardware and software savings, corporate and end users anticipated reductions of 21% and 11% respectively, with the other 4% being attributed to reduced outside expenditures.

- Contributions due to reduced applications development and maintenance costs are anticipated to be 15% by corporate, end users by 20% and outside services by 4%.

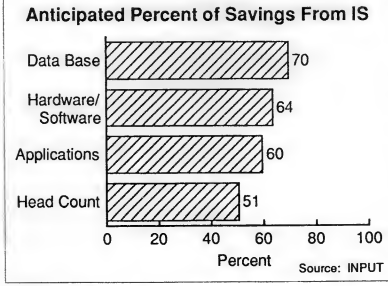
Less than 10% of the sample felt that there would not be any reduction in the end user expenses associated with data base management.

On the question of overall productivity improvement (reduced head count), it was interesting to note that only 25% felt that moving the technology closer to the user would permit significant head count reductions. In fact, only 20% felt that departments other than IS would actually achieve head count reductions.

Clearly, the corporation both "giveth" and "taketh away" from the point of view of the IS executive. Study results confirm that corporate management is directing funds toward the IS department during the downsizing transition period, and then expecting the lion's share of the savings as a result of the downsizing effort to come from that area. This wouldn't be so surprising if corporate management anticipated that IS's role would be significantly reduced in a post-downsized environment.

However, as pointed out earlier, the study results indicate that IS will continue to have significant involvement in most of the major tasks associated with information management (Exhibit 1), even after

Exhibit 3



downsizing. INPUT believes that this position is clearly and logically inconsistent with management's expectations regarding IS's contribution to the savings.

Perhaps this is the logical trap that has resulted in over 93% of firms reporting no measurable savings as a result of downsizing—particularly with regard to a reduction in head count.

- As long as the "glass house" remains and data is centrally administered, staff reductions in this area will be minimal and head count could actually increase.

- Though the transfer of significant aspects of applications management to end users may reduce corporate IS staff requirements, these reductions are likely to be counter-balanced by increased requirements for development staff in user organizations.

Based on these findings, it seems clear that a realistic model of the post-downsized environment is a necessity if the partners in the process (IS, corporate and end users) are to establish realistic and obtainable financial objectives about "Who Pays... and Who Saves?" through downsizing.

This Research Bulletin is issued as part of INPUT's Downsizing Information Systems Program.
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