The Adaptive Organization:
An Examination of On Demand Computing

A META Group Multiclient Study
Management Summary
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>2</td>
</tr>
<tr>
<td>Definitions</td>
<td>2</td>
</tr>
<tr>
<td>Key Findings</td>
<td>3</td>
</tr>
<tr>
<td>Evolution Versus Revolution</td>
<td>3</td>
</tr>
<tr>
<td>Cost Reduction Still the Target</td>
<td>3</td>
</tr>
<tr>
<td>The Biggest Firms Are the Most Savvy</td>
<td>3</td>
</tr>
<tr>
<td>Varying Views of Strategic Outsourcing</td>
<td>3</td>
</tr>
<tr>
<td>Goals, Expectations, and Business Drivers of Adaptive Organizations</td>
<td>3</td>
</tr>
<tr>
<td>Goals of Becoming an Adaptive Organization</td>
<td>4</td>
</tr>
<tr>
<td>Expected Results of Becoming an Adaptive Organization</td>
<td>6</td>
</tr>
<tr>
<td>Risks and Barriers to Becoming Adaptive</td>
<td>7</td>
</tr>
<tr>
<td>Barriers to Adoption</td>
<td>7</td>
</tr>
<tr>
<td>Risks of Not Becoming Adaptive</td>
<td>8</td>
</tr>
<tr>
<td>Evolving to Adaptive</td>
<td>9</td>
</tr>
<tr>
<td>Choosing an Adaptive Solution</td>
<td>10</td>
</tr>
<tr>
<td>Measuring Success</td>
<td>11</td>
</tr>
<tr>
<td>Implementation and Support</td>
<td>12</td>
</tr>
<tr>
<td>Vendor Engagement Strategy</td>
<td>12</td>
</tr>
</tbody>
</table>
Executive Summary
The economic forces causing enterprises to continually analyze processes and seek out new efficiencies to maximize margins have turned attention to the often fixed-cost nature of many IT solutions, initiatives, and organizations. Along with developing modular business processes, a significant part of the effort to make business faster and cheaper to operate is to link business and IT decisions together and add flexibility to business decisions by enabling faster-moving, more modular IT capabilities. The overall goal of these efforts is to create competitive advantage and differentiation for the company.

META Group launched a multiclient study of the adaptive organization market in October 2003. Data was collected from 308 influencers, implementers, and decision makers of IT solutions for their organizations through a Web-based survey. The survey targeted corporate executives, IT organizations, and line-of-business management, and the study analyzed adaptive organization strategy, tactical adaptive solutions, purchase drivers, perceptions of the vendors serving this market, and the use of strategic outsourcing.

A growing number of organizations envision becoming adaptive organizations. Although many of the concepts are not new, the aggregation of adaptive solutions represents an overall paradigm shift in how transformation to an adaptive organization can be achieved. Since the adaptive organization vision encompasses many different business structures, process changes, technologies, and sourcing options, attaining this goal requires a broad range of knowledge and understanding on the part of those involved in the decision-making process.

Definitions
META Group defines an adaptive organization as one that is flexible and dynamically changeable, in both business processes and technology. An adaptive organization is able to integrate new resources or reallocate existing ones as needed to solve business problems and address arising needs. The adaptive concept goes by many names such as adaptive enterprise, on demand, and utility computing.

In this study, adaptive solutions were defined separately from adaptive organizations. The solutions were defined as the software, hardware, or services purchased that enable the organization to automate a process, increase resource use, virtualize resources, or respond more rapidly to change.
Key Findings

Evolution Versus Revolution
Clearly, organizations want to become adaptive. However, while cost and competitive pressures are forcing organizations to create goals and strategies to become more adaptive, enterprises are generally wary of moving too quickly. Instead of a rapid rollout and quick transition to new solutions, managers are seeking incremental or tactical changes and/or additions to processes and infrastructure in the IT organization and the business in general.

Cost Reduction Still the Target
One of the more pervasive themes presented by the data collected was that of the demand for cost savings. Companies are seeking cost or ROI justification to move forward with adaptive efforts. Although the worldwide economy is improving and we see increased willingness to act, the due diligence focused on cost and return on investment that we have observed during tighter times is still the norm.

The Biggest Firms Are the Most Savvy
Companies with more than $3 billion in annual revenues display greater understanding of adaptive concepts and solutions than do smaller firms. These large companies have put more resources into seeking out adaptive solutions and building an internal case for such solutions. Large companies are also further along than smaller companies in understanding not only the need for reduced costs, but also the need for better resource use and business process improvement.

Varying Views of Strategic Outsourcing
Depending on the position within the organization, outsourcing is either welcomed easily or met with hesitation. Executives and line-of-business managers seeking cost reductions are more likely to seek outsourcing partners than the IT organization is, since the IT organization is hesitant to include a third party in the complexities of IT processes. Yet study results show that IT respondents are resigned to the fact that these pressures from the business managers make outsourcing inevitable (in two or more years).

Goals, Expectations, and Business Drivers of Adaptive Organizations
The concept of the adaptive enterprise has been embraced quickly by enterprises. Only 7% of respondents indicated that their organizations had no plans to become adaptive or engage any adaptive solutions for their IT organization; the other 93% are in various stages of planning or adoption (see Figure 1). Roughly half of respondents are in the early stages of planning or seeking help, and most of these
are smaller companies ($50M-$500M in annual revenues). The large companies surveyed ($3B or more in annual revenues) tended to be further along in their efforts, and 23% of respondent companies had broad-scale initiatives in place to become adaptive organizations. A strict definition of an adaptive organization would likely reveal that the 13% of respondents that view their organizations as already being adaptive are being overly optimistic, but taken with the other findings, it is clear that the desire to reach this level of flexibility and efficiency is growing.

**Figure 1 — Companies’ Plans to Become an Adaptive Organization**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have no plan to become adaptive or engage adaptive solutions</td>
<td>7%</td>
</tr>
<tr>
<td>Want to become an adaptive organization, but are unsure how to proceed</td>
<td>23%</td>
</tr>
<tr>
<td>Intend to engage adaptive solution with no plan to become adaptive</td>
<td>33%</td>
</tr>
<tr>
<td>Have broad-scale initiative to become an adaptive organization</td>
<td>24%</td>
</tr>
<tr>
<td>Already consider ourselves an adaptive organization</td>
<td>13%</td>
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</tbody>
</table>

**Goals of Becoming an Adaptive Organization**

Although the economic cycle may be shifting for the better, the lessons learned during the downturn are likely to be present in the marketplace for a long time. When asked to describe the goal of implementing adaptive solutions in their organizations, the majority of respondents cited cost reduction (see Figure 2). The second tier of responses (which clustered from 41% to 46% of respondents) reinforces the cost-reduction goal by focusing on business improvements (process, productivity, responsiveness, and resource utilization). The focus on business improvements was significantly higher at large companies than at small companies.
The goals of moving toward being an adaptive organization are directly in line with the business motivations of respondents. When asked to select the top five business motivators for the organization to become adaptive, respondents most frequently cited resource utilization improvement, business process improvement(s), cost reductions, improved IT flexibility, and creating consistent business processes across the enterprise. But when asked to narrow the list to the primary motivator to becoming adaptive, cost reductions for business and increased revenues jumped to the top of the list. When asked specifically what results were expected by cutting costs to the business, 64% of those selecting it indicated that they expected an improved bottom line for the organization.

Clearly, adoption of adaptive solutions is being predicated on a strong business case with a core pillar of cost reduction (for both the business and the IT organization specifically). Although IT improvements are critical elements of enabling business responsiveness, they should not be the foundation of the initiative. It is the business
results — in cost reduction, exposure to new revenue opportunities, improved productivity, and competitiveness — that are key for adoption.

**Expected Results of Becoming an Adaptive Organization**

By their very nature, adaptive efforts should result in significant overall changes in both business and IT processes. The majority of respondents expected at least minor changes to business and IT processes and organizational structures as a result of the implementation of adaptive solutions. One-third or more of respondents expected to see major changes to business and IT processes and the IT organizational structure as a result. Executives and IT professionals were significantly more likely than line-of-business managers to expect major changes when implementing adaptive solutions.

In terms of headcount and processes, expectations varied as to whether or not the implementation of adaptive solutions would mean a decrease or increase for the business overall and in the IT department (see Figure 3). Executives were significantly more likely than IT professionals and line-of-business managers to expect a dramatic increase in the IT budget when implementing adaptive solutions.

![Figure 3 — Expected Changes Due to Implementing Adaptive Solutions](image-url)
Management Summary
The Adaptive Organization: An Examination of On Demand Computing

There are inherent contradictions in the goals and expectations of respondents in adopting adaptive solutions. Respondents are considering adaptive solutions to provide cost savings but expect them to drive increases in the IT budget; they want minor changes to IT processes but expect significant benefits to result. These contradictions are indicative of the early stage of this market (and are also the most commonly perceived barriers to creating adaptive strategies).

Enterprises have high hopes for adaptive solutions but are unsure as to how they are going achieve the goal of becoming an adaptive organization. IT and business leaders are likely to be cautious in their investments and planning to become adaptive, if only to ensure that the efforts remain under control. Therefore, the journey to become adaptive will be evolutionary and not revolutionary for most organizations. META Group expects this to be a seven- to ten-year effort that will result in significant cultural changes accompanying technology and process changes.

Risks and Barriers to Becoming Adaptive
Despite the momentum that is building regarding adaptive concepts, enterprises are taking a cautious and tactical approach to adaptive solutions or IT initiatives.

Barriers to Adoption
The most commonly perceived barriers to creating adaptive strategies center on concerns about increased costs and process changes in both the business and IT organizations. The complexity of the adaptive vision and the number of offerings in the market are not major barriers for organizations creating adaptive strategies. The adaptive concepts are being embraced, with concerns typically focused on tactical issues.

The most frequently identified barrier to adopting adaptive strategies is lack of staff support (see Figure 4). We believe this concern is tightly coupled with the perception that becoming adaptive will require wholesale organizational change. Champions of the move to becoming an adaptive organization will need to use a strategy that emphasizes a road map of incremental or process-by-process improvements. The vision must be clearly expressed, yet if it is presented as being attainable “overnight,” the proposal risks being written off as overly complex and unrealistic.

Unsurprisingly, IT professionals were significantly more likely than executives to be concerned with IT process changes. However, IT professionals were also significantly more concerned with cost, ROI, and business process changes than were line-of-business managers.
Risks of Not Becoming Adaptive

Becoming an adaptive organization is considered an important aspect of remaining competitive in a rapidly changing business environment that is increasingly dependent on IT for performance and productivity. When asked what risks their organizations may face by not becoming an adaptive organization, respondents most often mentioned that they could potentially fall behind the competition or fall behind on IT strategy (see Figure 5).

These concerns regarding competitive and IT strategy were significantly higher among executives and IT professionals responding to the survey than for line-of-business managers, who were significantly more likely to see no risk in not becoming an adaptive organization. These varying viewpoints on perceived risk may be explained by differences in understanding of both the adaptive concepts and the scope of responsibilities. Executives and IT personnel typically have visibility into issues that have implications across the enterprise. Since line-of-business managers typically focus on the issues of their individual “business silo,” they are likely to be less sensitive to the broader connection of the technology with the business impact — unless it specifically impacts their business area.
Evolving to Adaptive

In this early stage of the adaptive solution market, companies are evaluating the merit and relative costs of adaptive initiatives. The majority of respondents whose companies had not ruled out adaptive solutions indicated that they had investigated targeted solutions and spoken with vendors, but had not gone so far as to request proposals, build an internal case, or implement an adaptive solution (see Figure 6). Unsurprisingly, large companies were significantly more likely than smaller companies to have already built the internal case for an adaptive organization.
Choosing an Adaptive Solution

A successful adaptive organization will have a well-modeled set of business processes operating on a well-modeled IT function; however, business process modeling/management solutions often are not marketed as adaptive solutions. Therefore, it was surprising that of the various adaptive solutions offered as examples, business process modeling/management was the most frequently associated with becoming adaptive (see Figure 7). A statistical analysis shows that large companies are significantly more likely than smaller companies to include business process modeling/management as an adaptive solution. Recognition that modeling solutions are a critical part of the adaptive road map reinforces the notion that business processes and goals are at the forefront of adaptive efforts. This also suggests that enterprise users are more advanced than expected in understanding what it takes to become adaptive.
Management Summary
The Adaptive Organization: An Examination of On Demand Computing

Less surprising was the high frequency of selection of Web services/service-oriented architecture and network infrastructure, where current hype is clearly visible. Infrastructure- and architecture-related solutions are most obviously associated with utilization and response issues, and users believe that the intelligence layers for adaptive solutions will be contained in the network. In addition, it is important to note that changes to network infrastructure are also associated with the need for significant investments. Once again, becoming adaptive (attaining cost savings) is perceived as an effort that carries high infrastructure cost.

**Measuring Success**
The focus on cost savings is further emphasized by respondents’ answers to how success with adaptive solutions will be measured. Despite the centrality that many vendors’ marketing messages place on the role of technology, survey respondents indicated that success as an adaptive organization will be measured in business
terms, not technologic terms, and particularly in cost savings. Interestingly, respondents from the executive and IT ranks are significantly more interested in the impact that adaptive solutions will have on the ability to respond quickly to business changes than are line-of-business managers.

**Implementation and Support**

In terms of supporting the adaptive organization, there was a considerable split between insourcing and outsourcing strategies among companies. Only 2% of respondents plan to outsource both the implementation and support of adaptive solutions, selecting instead to totally insource implementation and support (37%), outsource implementation but support tools internally (26%), or find some combination of both internal and external support (35%). Statistical analysis showed that the option of finding a mix of third-party services and self-support was significantly less likely among small companies than among medium-size or large companies.

Respondents equate outsourcing with cost reductions. Among respondents who indicated some degree of interest in outsourcing to third-party vendors, the majority (51%) believe such a strategy would reduce company costs. This perception is significantly more prevalent among large companies as opposed to smaller companies, since large companies tend to be more mature in their understanding of outsourcing and are more likely to find value in the speed in which solutions can be implemented.

**Vendor Engagement Strategy**

Respondents were asked about their company’s vendor engagement strategy in purchasing adaptive solutions. Although only 12% of all companies stated a preference for a single vendor strategy, this proportion increased to 62% when single vendors that partner with multiple vendors were considered. Overall companies do not believe a single vendor can meet their needs, but they do see value in working with a lead vendor and an ecosystem of partners. Companies are not enamored with the idea of cobbling together a set of vendors on their own.

Among the various entities that could potentially offer adaptive solution plans, the majority of respondents will consider engaging enterprise application software, management software, and network hardware vendors. Network hardware vendors are significantly more preferred by executives and IT professionals than by line-of-business managers (see Figure 8).
When asked to narrow this selection to a primary vendor, respondents most often selected a vendor spanning hardware, software, and services, along with management software and network hardware vendors. This is a strong indication of customers understanding the importance of management technology in becoming adaptive. The need to be more efficient in management is a core competency being sought by enterprise leaders. Vendors that are competent in management will be highly valued candidates to lead adaptive efforts.

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