

## INSIGHT

### Buyer Conversations: Why CIOs in Malaysia Still "Fear" Cloud

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#### IDC OPINION

There are several CIOs in the market who are not yet convinced that to move forward, their IT strategies need to have cloud computing as a key element. This is not only referring to public cloud adoption, but rather across the board — public, private, and virtual private (hosted or on-premises) — and across the different flavors of cloud — platform as a service (PaaS), infrastructure as a service (IaaS), software as a service (SaaS), and business process as a service (BPaaS). This "fear" is largely due to their belief that adoption of cloud will marginalize the value that IT departments bring to the organization as a whole. In addition, they are not convinced on the cost metrics, largely because their businesses (and there are several such firms in Malaysia) have a rather stable business revenue model that does not require the IT department to be as agile in comparison with other industries (such as financial services). These are stable businesses that continue to have a steady inflow of revenues either through large government-financed projects or long-term engagements with buyers of their products or services even in face of prevailing global economic environment. It is also worth noting that the role of IT in such organizations is largely to help facilitate a base level of automation and reporting, as well as to lower costs of operations. Yet, this cost reduction for IT, which is 30% year over year (YoY), is largely based on their ability to aggressively negotiate the cost of infrastructure and services with their suppliers. However, there is just that much juice to be squeezed from the lemon. Key points worth noting are:

- ☒ Such organizations are in a rather strong denial mode and can be largely interpreted to be in their "happy place" instead of looking out in the market and preparing for the future. It is also noted that in several such firms, the CIOs' role continues to be diluted with reporting lines direct to the CFOs' office, and CFOs' functions in these organizations are largely financial controller-oriented.
- ☒ In the discussions, IDC has observed that these CIOs are also cognizant of the fact that their internal perception as a service delivery function to business users is falling rather drastically. Yet, they are fighting with their both hands tied — lesser budgets and unclear vision.
- ☒ Hence, IDC recommends that such businesses need to reassess their IT strategy and take a hard stance on the level of relevance they want to and realistically can build for their businesses. A key factor here is the persona of the CIO and his/her credibility within the organization, as well as his/her ability to lead from the front. However, this is difficult to achieve without a top-down approach starting directly from the board level.

## IN THIS INSIGHT

This IDC Insight is based on the discussions IDC's analysts have had in Asia/Pacific region and analyzes the approach to adoption of cloud computing. Opinions expressed in this study are specific to the Malaysia market with CIO interviews across large conglomerates. Of these CIOs, most have businesses spanning construction, resources, commodities, and real estate sectors. Most of these organizations have a pan-Asian presence with emphasis on Southeast Asia, and headquartered at Kuala Lumpur.

## SITUATION OVERVIEW

The state of adoption of cloud computing in Malaysia has been behind the curve as compared with Singapore, Australia, South Korea, and even markets such as India.

This is because Malaysia businesses are traditionally shy to outsource. Historically, the trend has been to hire directly and build an internal IT supply chain of skills largely because there are available general IT skills in the market. Another reason has been the lack of maturity of most Malaysia-headquartered IT service providers that have been slow to move out of the mainframe realm into the virtualization and services-oriented reality of business.

In many ways, the comfort of working with externally sourced services is a precursor to adoption of cloud. This is largely because if businesses, or IT departments in particular, are not comfortable with having an external party to deliver services to the business, then they are more likely to stone-wall any discussions on cloud. The reason behind this can be essentially found by peeling the layers of IT governance and policies. Organizations with relatively weaker governance, risk, and compliance (GRC) policies from an IT perspective and less than robust vendor management processes are less likely to source services from external parties.

Services that businesses do typically outsource are hardware and software deployment and support services and those in a more reactive delivery model, as their propensity to invest for proactive support (which has stronger elements of outsourcing or managed services) is less.

With this backdrop of buying persona, following are the directly cloud-related objections raised by CIOs:

- ☒ Vendors approaching the CIO's office with their cloud offerings are guilty of positioning the lack of need to have a full-scale IT department if the organization is to adopt their solution. This is counterintuitive to cultural and organizational aspects of the IT departments in the market. CIOs in such organizations do want to retain and grow their IT staff, and as such, any proposition based on this facet of headcount reduction will not find a favorable ear with the CIO.

- ☒ Given the lack of sourcing from external third parties for IT services, there is an inherent fear of lack of control over the IT operations and associated risk with potential delivery failures of services sourced from cloud. Conversations that do not reflect a robust support and delivery model for cloud-based services will be rather short and without any business outcome at the end.
- ☒ Resiliency of the cloud infrastructure is a major area of concern. CIOs still like to "touch and feel" the boxes and be assured of their operations. The thought of moving their infrastructure or software to the cloud is a nightmare for them. These CIOs do not trust the vendors to have the same level of dedication and commitment to their businesses as compared with the internal IT department.
- ☒ Given that the three parameters are more persona-driven as well as influenced by the structure and role of the IT organization, CIOs take refuge behind the barriers of data protection, compliance, and policies to avoid discussions on cloud. Here, cloud service providers are guilty of keeping their conversation focused on bits of encryption instead of offering visibility into their customers' environment in their cloud stack.

Having pointed out the aforementioned issues, it must be highlighted that there is a set of forward-looking enterprises that are pursuing their IT modernization road map and, as part of that, are investing in cloud services and across different delivery models of private, virtual private, and hosted virtual private and even sourcing services of the public cloud. Yet, such organizations are few and far apart and are mainly large companies that focus on a single industry, although they may have regional or global presence.

A key difference is the role of CIOs between these two sets of organizations. The forward-looking organizations have taken the stance of having IT as a strategic asset and the CIOs in particular are an intrinsic part of the transformation agenda. As such, their reporting line is split between the CFOs' office (from a cost-control perspective) and the CEOs' office (from a transformation perspective).

## **FUTURE OUTLOOK**

The future, however, is not as bleak as the existing situation will change, but the overarching question is how. Following are the key elements influencing the change over the next 12–18 months.

First, CIOs who continue to run large internal IT departments that are not appropriately sized to the business requirements (i.e., they may not require a big development team or an infrastructure support team) will struggle to meet the YoY cost reduction targets of 30%. Second, they will struggle to upgrade systems due to lack of internal buy-in on investments, and any such modernization project will be undertaken only when the system is near breakdown. This in turn will lead to senior management (across lines of business and internal functions) to refresh their approach to IT and investments thereof. As such, these organizations will go through the cycle of denial to realization then to action, evidently in not so favorable manner.

Given the increased maturity in delivery of cloud services in Malaysia and as local IT SPs and hosters build a more relevant business case for cloud adoption, more businesses will begin to realize the "business case" (beyond only cost) for adoption of cloud solutions. Here, the market will witness a transition from an overbearing focus on IaaS to microvertical solutions on SaaS and broader vertical-based propositions on PaaS.

## ESSENTIAL GUIDANCE

Unfortunately for the Asia/Pacific (excluding Japan) or APEJ region, adoption of cloud services and outsourced services has not been uniform; and as such, CIOs have been ill-prepared for a shift from product acquisition to service consumption. If we peel the layers — from fear to denial — and analyze the *raison d'être*, it really is about how to choose a service to ensure cost-effective service management and protect investment in existing infrastructure.

Questions that CIOs need to explore include:

- ☒ What are the infrastructure components and their criticality to operations of the business? Who are the vendors to outsource from and how will they maintain a high level of service delivery from them? This is relevant across server, storage network, and applications.
- ☒ What is the internal service delivery model to business users and how is the internal IT department placed to address the changing service requirements from business users? Evidently, maintaining a high level of service delivery to internal business users is always positive for IT.
- ☒ Are the service-level agreement (SLA) requirements realistic? Can the same be delivered only internally? Or, can sourcing service from the cloud improve the same while substantially bringing down the cost of delivery?

As such, IDC offers these three recommendations for CIOs of organizations that have a "fear" of cloud:

- ☒ **View cloud as a delivery channel and not a replacement for the IT department.** Clearly, cloud is not a replacement for IT, rather a key instrument in the IT tool box that needs to be leveraged to address the changing business requirements. Yes, adoption of cloud will free up resources, and this is positive because the same resources can then be reskilled and leveraged for crucial business projects instead of being focused on daily IT tasks.
- ☒ **When initiating discussions with vendors and cloud service providers, build a long-term view of cloud adoption.** While initial proofs of concept (PoCs) are encouraged from an evaluation perspective, the decision to move to cloud needs to be with a long-term view in mind and, essentially, a strategic initiative.

- ☒ **As a result, during vendor selection, CIOs need to pay significant attention to what goes on "under the covers."** This would include the vendors' delivery process, failover, and business continuity, capability, security parameters, certifications, and integration capabilities. Also, from a contract perspective, CIOs must be extra careful in understanding termination terms, especially in cases where data (production or operational) has to be hosted with a cloud provider. This is more so because IDC expects logical consolidation to take place in the industry and it would be favorable to be at the winning end of a long-term engagement.
- ☒ **Always evaluate and test supplier references and more specifically their ability to deliver SLAs and support in case of failure or business escalation.** This is to ensure that the cloud service provider can deliver on their claims and there is lesser risk in partnering with them.

While fears may still exist, IDC believes these CIOs will come around to evaluating cloud as a strategic sourcing option. This will be driven by both a push and a pull effect.

The push factor from vendors with more qualified and mature offerings will take away the fears of CIOs and there are global players that have a robust delivery mechanism and service proposition. In addition, the emergence of cloud brokers in the market will provide CIOs with increased level of certainty on service delivery and integration, as well as the support for processes or services sourced from the cloud. On the pull front, CIOs will be influenced by their industry peers as they leverage to cloud to drive organization transformation as well as lower their operational expenses.

However, IDC believes not all models of cloud delivery are relevant for each and every business. The business case for cloud needs to be clearly articulated and evaluated at the planning stage and where the returns are attractive has to be identified; thus, decisions need to be made with surety.

## LEARN MORE

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### Related Research

- ☒ *Cloud 2.0: Imperatives for CIOs of India Businesses* (IDC #AP2577407U, January 2012)

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