



Helping Companies Improve Their Performance

In Pursuit of The Value of IT

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Why is the *Value of IT* important?

The simple answer is that IT is now consuming over 30% of all capital expenditures and indicators point to that rising to 50% by 2010, even with a slow or flat economy. IT budgets also continue to grow, mostly due to demand, as a percent of revenue while revenues have flattened and in many instances, gone down. Most CEOs and CFOs want to understand the value of continuing to invest in IT at the same or greater levels as in the past.

That is the simple, IT centric answer and by itself should cause most CIOs to be measuring the *value of IT*. At an enterprise level, where the CIO should be operating, there is an even greater importance to understanding and measuring *value*. The organization's *value* is something it has developed over time and needs to protect, particularly during times of market confusion and economic disruption. For IT, *value* has been an intangible that was assumed to exist. That assumption, or intangible today, must be turned into a true *value proposition* that senior management recognizes as being worth continued investment. The risks to IT of not creating their *value proposition* are further reductions in staff, reduced or flattened budgets and the outsourcing of a "commodity service". An organization's *value* is also what the organization builds upon for growth and increased stakeholder return. In order for IT to be an active participant in that growth (viz. sitting at the planning table) IT must measure and communicate IT's contribution to overall growth and stakeholder return, i.e. *IT value*. Organizational business practices, processes and operations are what create the *value* and it is critical to success that organizations maximize these in order to extract the greatest *value* possible. *IT value* is a product of the processes and services it utilizes and provides and the *outcomes* of the business processes it enables and supports. In order for IT to maximize their *value* they must first identify it, then measure it, then communicate and track it on a continuing basis. The price of not doing so is the continued lack of recognition of IT's true and *valuable* contribution.

IT contributes to the enterprise *value* in many ways; however, few IT organizations are currently measuring and/or communicating their contribution. Why is this the case?

Impediments to measuring the *Value of IT*

There are a number of things that impede IT's ability to measure and communicate the *value of IT*. One of these is IT's focus on technology and operations. Business partners and stakeholders cannot perceive *IT value* based on IT operational performance. After all, do you ask the captain of the airplane that you are on, what the availability of the plane's engines is?

IT performance is a measure of customer satisfaction rather than *IT value*. Another major impediment is that those assigned the task of developing the *value* measures do it from an IT perspective and do not engage the stakeholders in the process. Other impediments include:

- Not enough consideration or understanding of what the enterprise or business unit values
- Lack of knowledge regarding the organization or business unit value proposition
- Unfamiliarity with internal and external enterprise and business unit drivers
- Not being aware of enterprise or business unit critical success factors
- Not understanding *outcomes* of business processes
- Viewing technology contribution solely in technological terms
- Lack of an IT measurement structure
- Lack of the right set of data points to measure *IT value*

In order to begin to effectively measure and communicate *IT value* there must be recognition of these and any other impediments. Measuring *IT value* is of great importance and will continue to be so into the future. The price to IT of not measuring *IT value* far exceeds the cost of doing so.

Measuring the *value of IT*

Most organizations' *value* is inextricably entwined with *IT value*. There are virtually no processes or operations that do not utilize IT services regardless of whether they are in the public or private sector. In this brief paper we cannot describe the entire process for building the measure of *IT value* so we will outline a number of the elements necessary to allow you to create a chain of evidence from IT to organizational outcomes. Following the chain will direct you toward measuring the right things in order to begin to build measures of *IT value*.

The Value Disciplines

Three Value Disciplines have been identified which encapsulate the major ways in which enterprises compete and differentiate themselves and how agencies offer their services. These are:

- **Operational Excellence**, with an emphasis on efficiency and reliability
- **Customer Intimacy**, emphasizing customer service, responsiveness, based on deep customer or client knowledge, segmentation and/or very specific targeting
- **Product/Service Leadership**, with a focus on pursuing innovative products and services, being first to market, with rapid R&D to regulatory and commercialization process

Most, if not all enterprises will do all of the above, however, there is usually a concerted effort to excel at one of these in order to develop market position and create *value* that is ascribed to that enterprise. There are examples of IT contribution to each of these Value Disciplines. Supply chain optimization, CRM and data warehousing or electronic collaboration are the most obvious. The key for IT is to recognize and confirm the entity's Value Discipline and then determine what IT is doing to support it.

Enterprise Vision, Mission and Strategic Intent

Someone once said that the difference between a vision and a hallucination is the number of people that see it. IT must see and understand the enterprise vision and the mission. This does not only apply to IT management, but to the entire IT organization. Without this understanding it will be difficult for many to comprehend their contribution beyond the operational view of IT. The IT organization's mission statement must be directly linked to that of the enterprise it supports. The enterprise's Strategic Intent is that which will occur when the vision and mission are fulfilled. This is different than the enterprise Strategic Context, which is *how* the business units will support and execute the Strategic Intent in order to accomplish the goals and objectives for the current year... *IT value* is perceived in terms of how it contributes to the vision, mission and accomplishment of the business units' strategic contest and enterprise strategic intent...

Critical Success Factors (CSFs)

Every organization must have a set of practices, processes and operations that they need to excel at in order to be successful. For each of these there is a set of CSFs that determine their efficiency, effectiveness and quality. While IT is a major contributor or enabler to each of these, it is the business or agency CSFs that must be understood. The IT CSFs become the consequence of these and not the other way around.

Drivers, Outcomes and Enterprise Measures

All enterprises are driven by external factors. Some of these are universal and constant while others are industry specific and transitory. Once again, it is the identification and recognition of these, by all, that leads to an understanding of IT's contribution in terms that are recognizable to the stakeholder and translatable into measures of *IT value*.

The final outcomes of the enterprise practices, processes and operations are the ultimate determination of the level of success of the enterprise. These outcomes are the enterprise's measures of performance, success and stakeholder value. IT must understand and incorporate these measures, in some form, into their own measures of *IT value*.

There are other elements that become links in the *IT value chain of evidence* as these additional links are revealed, the chain becomes longer and more complete making it stronger and bringing it closer to the direct connection between *enterprise value* and *IT value*.

IT Performance Management

The measurement and communication of *IT value* is one part of a comprehensive IT performance management program or process. ITPMG has experienced many instances in which IT attempts to move directly to the measure of *IT value* without having laid the foundation for overall IT performance measurement and continuous improvement. When done this way, the attempt will either fail or not be sustainable over time. This happens because the IT organization has not bought into the *IT value* measures and there is no link between the activities of IT and the measures created. This failure results in wasted resources, but more

importantly, a lack of confidence in the use of measurement as a management and performance improved tool.

The negative consequences of a failed program can be avoided by creating the right performance management structure. ITPMG has developed a structure that avoids the pitfalls of many “home grown” programs. The use of ITPMG methodologies and techniques rapidly establishes the program, creates consensus and ensures that the right things are being measured. The end result is a performance management program that links all levels of the organization and translates across the enterprise to the stakeholder groups being served. In the long run, the ITPMG technique will be better, faster and less expensive than what most organizations attempt to do on their own.

Contact ITPMG today to get a better understanding of how your organization can benefit from implementing or upgrading an IT performance management program:

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