


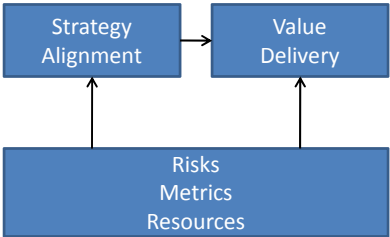
The Business Value of IT

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IT Governance Domains

- Alignment
- Value Delivery
- Risk Management
- Performance Measurement
- Resource Management




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graph TD; A[Strategy Alignment] --> B[Value Delivery]; C[Risks Metrics Resources] --> A; C --> B;
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Value Delivery Domain


- **Tasks**
 - Ensure business ownership and accountability
Of business cases, transformations, org change, bus process ops, & benefit realization for all IT-enabled business investments
 - Manage IT investments as a portfolio thru full lifecycle
 - Define & monitor value metrics
 - Establish accountability
 - Align IT investments, solutions, services with enterprise strategies and architecture
- **Link for complete task and knowledge statements**
http://www.isaca.org/Template.cfm?Section=Job_Practice_Areas&Template=/ContentManagement/ContentDisplay.cfm&ContentID=42652



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Value Delivery


- **Knowledge**
 - Value governance practices
 - IT investment management practices & processes
 - Business case development
 - Portfolio management
 - Investment lifecycle management
 - Cost optimization
 - Enterprise, information, & IT architecture techniques & frameworks



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Roles and Responsibilities


- **IT Governance is a top down process with a feedback loop**
 - Board
 - Be informed about how IT should and does contribute to business value
 - Define risk and value profile for the business
 - Require period updates about IT strategy, IT portfolio, and other approve value metrics
 - Reset objects as needed
 - Executive
 - Design—ensure a IT value management program exists, is measured and monitored; assign responsibilities
 - Policy—set the umbrella Value Management policy
 - Resources—ensure appropriate resources are in place and productively utilized
 - Special Committees
 - Investment Board- solicit, review, & monitor the IT Portfolio; recommend funding allocations and asset classifications



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ITBV is Challenging

- **2008 Forrester Survey of N. American Executives**
 - 80% say IT is critical to key business objectives:
 - lowering ops costs, increasing employee productivity, acquiring and retaining new customers
 - < 1/2 say IT doing well or exceeding in supporting business objectives
 - < 1/3 compare the post-implementation value to what was promised or anticipated
 - < 1/6 track IT spending associated with enabling strategic business objectives




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Example 1

Better Hardware Makes Us Productive

- **Notebooks to Netbooks**
 - CIO promised reduced overhead, simplified administration, lower security risks, and increased productivity.
 - 9mths later, CEO has only seen a PowerPoint slide showing that buying 200 netbooks would be less expensive than buying 200 notebooks.
 - Business-centric Value Statement
 - Where's the analysis of business value?
 - Was it a success that should be expanded?
 - Or a mistake to learn from?




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Example 2

Everyone's Doing It; We Should Too

- **Data warehouse project**
 - Business like ours are giving customers and partners more self-service options
 - Business-centric Value Statements
 - What are customers doing with the warehouse data?
 - Are self-service customers buying more?
 - Do they have higher satisfaction ratings?
 - Are we cutting incoming service calls from partners?




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Example 3

Cool Tools Means More Business


- **Project Web 2.0:**
 - We got a lot of people excited about new ways to engage with customers, and we have lots of cool links and tags on our sites.
 - Business-centric Value Statements
 - Have we increased revenue, lowered sales costs, delighted customers, helped sales find new and better leads?
 - Do we have better information, respond better?
 - Have we simplified business?



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Common Challenges

- **Six Typical Challenges in Creating Value—ITGI**
 - Problems in delivering technical capabilities
 - Limited or no understanding of IT expenditures
 - Business abdication of decision making to the IT function
 - Communication gaps between the IT function and the business
 - Questioning of the value of IT
 - Major investment failure



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Common Themes

- Measure IT value in terms of business objectives (ITBV)
- Demonstrate IT spending delivers business case promises
- Reframe “IT projects” as “business projects with IT enabled functionality”
- Competently perform IT basics to establish credibility and trust

ITBV is not about IT operational efficiency,
but about supporting and enhancing business process



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Myth: The Value of IT is too Intangible

- CIOs with an ITBV Perspective establish and ingratiate IT business value from top to bottom
 - Make business value an objective for internal practices
 - Transform IT interactions into business interactions with business units and business partners, customers, stakeholders
 - Track metrics that the business cares about
 - Make IT portfolio management a priority—link spending to business success factors; show IT spending as a component of business process projects
 - Embed IT staff in business teams
 - Include vendors in business value delivery




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Moving to ITBV

- What drives IT value perceptions?
 - #1—Getting the basics rights
 - #2—Providing value centric metrics
 - #3—Communicating IT value


The challenge is to understand and demonstrate what business value results from IT spending



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Defining Business Value

- IT Value
 - Comes from understanding how functionality, cost and quality come together to deliver a benefit to those that consume it. (ITIL)
 - To achieve Business Value of IT, companies must provide measures that demonstrate how IT-related changes and investments contribute over time to improved business performance, competitiveness and economic growth. (Gartner)
- Value vs Benefit
 - Business unit wants a reduction in fulfillment errors
 - IT delivers a “new fulfillment” service; errors are down 50% (the benefit)
 - Is this sufficient to demonstrate value?
 - Is the service cost (TCO) < the error reduction benefit?
 - Did the new service cause the error reduction?
 - Does the service work during peak hours, a disaster, when processes are changed?
- Value is about balance and tradeoffs, between cost and quality, function and quality, function and cost, cost and benefit.



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Northwestern Mutual Life Ins.

- **Language matters**
 - Value laden terms
 - Service levels vs Uptime
 - Revenue impact vs Cost to repair
 - \$11K/hr -- Claims processing issues
 - \$25K/hr -- CRM issues
 - Understand and use language of investments
 - IT asset and asset value
 - What is the impact on the business if the IT asset goes awry?
 - 350 systems categorized as assets; \$3B in total value
- **Metrics matter**
 - Moving to ITBV requires an organizational mindset change
 - 80s and 90s—IT was scare resource and any deliverable was great
 - But after 30 years of IT investment—business wants a return
 - Now it's the right IT not just any IT
- **Basics matter**
 - Too focused on system response time
 - Mgt didn't attend to IT maturity or process development
 - Proposals for new platforms and innovations went unfunded because IT couldn't keep the call center running



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IT Maturity is Critical Factor

- **Alignment and Value Delivery attainment is a function of IT maturity**
 - Focus on basics
 - Consistent results and metrics for core IT processes
 - IT must prove its reliability and dependability
 - Develop partnerships with business units
 - Find units that require/desire IT enabled business processes
 - Work with vendors/suppliers to expand capabilities that support key business objectives
 - Leverage business relationship for IT forecasting
 - Drive innovation through understanding the business
 - Look ahead for how IT can impact future competitiveness
 - Evolve current capabilities
 - Revolutionize current capabilities



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Components for ITBV

- Manage IT like a business
- Manage the IT budget
- Manage the IT Capability
- Manage IT for Business Value
 - IT Portfolios
 - Business Case & Metrics
 - Accountabilities
 - Learning



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Manage Like a Business

- Value-aligned organizations operate IT according to business outcomes and objectives
- Availability is expected, and delivering availability alone doesn't speak to the business customer's context.
- Avoiding Islands of technology management, each with its own specialists; Value requires capitalizing on standards, reuse, and consolidation opportunities
- Value driven IT organizations improve the basics so that more funding is available for innovation.



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Manage the Budget

- IT Budget
 - Not transparent to most business leaders
 - Expense categories IT centric; not business value –used to control spending
 - Personnel—salaries and fringe
 - Professional services—staff aug & consulting
 - Software—licensing & depreciation
 - Hardware—purchase, leases, maintenance
 - Other—travel, supplies, training, facilities, administrative, etc
 - Business centric--
 - Basic operations
 - Strategic initiative support
 - Innovation/future proofing
 - Research/proof of concept



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Manage IT Capability

- Basics
 - Technology competence
 - Operational competence
 - Leadership & management
- Value Management
 - Business understanding
 - Proposal development (business case)
 - Value centric metrics
 - Monitoring and executive feedback
 - Proactive problem identification and resolution
- Value Communication
 - Ongoing effort to engage business units and leaders
 - Speak in business terms and results
 - Share risks for share returns





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IT-CMF

Capability Maturity Framework

Maturity Level	Major Strategies			
	Managing IT like a Business	Managing the IT Budget	Managing the IT Capability	Managing IT for Business Value
5. Optimizing	Value Centre	Sustainable Economic Model	Corporate Core Competence	Optimizing Value
4. Managed	Customer / Service Focus	Expanded Funding Options	Strategic Business Partner	Options & Portfolio Management
3. Defined	Customer / Service Orientation	Systemic Cost Reduction	Technology Expert	ROI & Business Case
2. Repeatable	Cost Centre	Predictable Performance	Technology Supplier	TCO
1. Initial	Ad hoc	Ad hoc	Ad hoc	Ad hoc




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- ## Manage for Business Value
- **Develop a common definition of Value**
 - How should IT contribute to business value
 - What is a reasonable level of effort (funding, resources)
 - What metrics are necessary
 - **Share Value accountability**
 - IT alone cannot deliver ITBV
 - Most successful IT value projects are embedded in larger scale business initiatives
 - Continuous monitoring for internal and external changes that impact project risks and returns
 - **Complete visibility into IT spending**
 - Inventory of IT projects and expenses whether managed by IT or others
 - Explicit business rationale for each major expenditure
 - Classify investments in meaningful ways
 - Avoid the sunk cost mentality
 - **Clarify the Value of each individual investment**
 - Have a standard process for defining value and for evaluating whether the value was delivered
 - Implement business case discipline
 - Establish investment requirements
 - **Conduct formal IT investment review**
 - Identify investments that are under performing
 - Establish turnaround objectives and timeframes; Eliminate if not met
 - Realign funding allocations to asset classes or investment types
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IT Portfolios


- Purpose
 - Disciplined approach to prioritization
 - Match IT investments to strategic objectives
 - To avoid wasted resources
 - Apply a business lens to IT decisions
- Effective Prioritization
 - Clarity of purpose
 - Transparent decision processes
 - Good business cases
 - Diverse decision making board
 - Monitoring process with accountability and learning



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IT Portfolio

- All investments must be included
 - Centralized IT budget items
 - Charge back items
 - External service providers/outsourcers
 - Shared services
- Sustaining vs New Investments
 - Sustaining --\$\$ to keep current systems running including maintenance and updates
 - New—all new projects including new infrastructure




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IT Investment Categories

IT Asset Classes—Peter Weill


- **Transactional (30%)**
 - Cut costs; increase throughput
 - Automating repetitive business transactions
 - Billing systems, claims management, inventory, manufacturing
- **Informational (10%)**
 - Provide better information to any business purpose
- **Strategic (10%)**
 - Competitive advantage or market positioning
 - Innovative use of technology or services
- **Infrastructure (50%)**
 - IT basics
 - Foundations of shared services
 - Servers, networks, workstations, databases, security solutions



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Managing IT Portfolios

- **IT Investment Board**
 - Solicits IT investment proposals
 - Proposals and requested funding separated into one of the 4 asset categories
 - Presented as a single portfolio for approval
- **Senior Management**
 - Analyzes the portfolio for fit with strategy and risks
 - Identifies opportunities for sharing and reuse across the complete portfolio



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Advantages of IT Portfolio Management

- Clarifies how funding is allocated across the asset categories
- Highlights the need for return on sustaining investments to fuel informational and strategic assets
 - IT silos became apparent
 - Unknown or forgotten items become visible
 - Product proliferation , redundant development, common workflow can be identified
- Weed Pulling practice
 - TCO calculated for all major applications/projects
 - Compared with other projects with similar characteristics
 - Risks based on access, accuracy, agility are assessed
 - Decision made how to proceed



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Value Must be Communicated

- Do not assume business will recognize IT value delivered
 - Capitalize on value-centric metrics when reporting to executives
 - Work with executives to educate and communicate to board and stakeholders
 - Utilize marketing principles for promoting business value principles, accomplishments
 - Lead by example
 - Make business value an IT culture



Value Delivery Supports Alignment

- **Value management identifies good and bad alignment**
 - Value is a function of delivering capabilities that support strategic objectives
 - Misalignment means supporting the wrong things
- **Value monitoring is an opportunity to realign**
 - Investment performance is impacted by changes to environment, competition, technology, work force, etc
 - If value performance is lagging, may be an indication that strategy is not working
- **IT Governance is not about what decisions are made, but about who makes them and what criteria are used.**
 - IT investment decisions made in broader corporate context
 - Value management, value communication increases probability of success