

Spring 2010 CGEIT Exam Prep

Value Management

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Recap

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Introduction to Value

- **What is Value?**
 - Relative worth or importance of an investment for an organization or its key stakeholders
- **Ensure value obtained from IT investments**
 - Essential component of IT governance
 - Select & manage investments throughout lifecycle
 - Difficult to determine value from IT investments & contribution to corporate success / stakeholder value
- **Maximize returns on IT investments**
 - Investments: full knowledge of expected cost & anticipated returns
 - Business cases, hurdle rates, portfolio management, metrics – IRR, NPV, payback period

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Value Delivery

- **Value Delivery Definition**
 - Ensures IT delivers against strategy, concentrating on optimizing costs & proving intrinsic value of IT.
- **Business Value Critical Factors**
 - Strategic alignment
 - Resource management
- **Strategies to achieve business value of IT**
 - Manage for IT business value to maximize benefits
 - Manage IT budget to enable cost reduction & flexibility. Shift funds from low to high-yield investments
 - Manage IT capability to enable sustainable competitive advantage to be delivered from IT.
 - Manage IT like business

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IT Investment Categories

- **Meta Group**
 - Run the business
 - Grow the business
 - Transform the business
- **Peter Weill / Jeannie Ross**
 - Transactional Investment
 - Informational Investment
 - Strategic Investment
 - Infrastructure Investment
 - Legislative / Regulatory / Mandatory

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Q&A Break

Next: IT Investments

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The Business Case

MOST IMPORTANT

- **Traditional View**
 - Sole Purpose: obtain funding
 - Cost, time, resource estimates: Best guess
- **Benefits Realization View – Value Case**
 - Holistic View
 - **Linkage:** Make explicit linkages between projects needed to bring about a particular business outcome
 - **Reach:** Encourage stakeholders to think reach of impact
 - **People:** Look at changes needed on people/culture
 - **Time:** Benefits realization over time
 - Updated & summarize work done to date
 - Provide answers to Four “Ares” question
 - Allows investments to be killed if no longer relevant

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Business Case Template

- Subject
- Purpose
- Executive Summary
- Situation Analysis
- Assumptions
- Metrics
- Strategic / Financial Analysis
- Risk Analysis
- Conclusions and Recommendations

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IMPORTANT FACT

IMPORTANT

- No investment must be undertaken w/o business case or business justification.
- Are there exceptions?
 - What about IT Infrastructure Upgrades?
 - Even IT infrastructure upgrades must be for supporting business applications which require business approvals.

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IT Investment Approval Process

- Business case needed
- Approval board with IT & business representation
- Key financial metrics: NPV, IRR, payback period
- Proper accountability
- Hurdle rate definition
- Project management process followed
- All parts of business involved, resources committed
- Understanding potential impact on value return from this investment from previous solution delivery experience

IMPORTANT

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Hurdle Rate

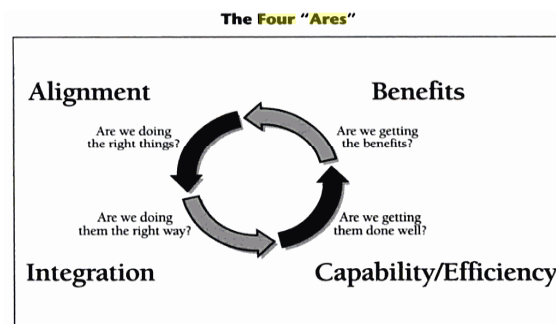
- **Minimum acceptable rate of return (MARR)** on a project a company is willing to accept before starting a project, given its risk and the opportunity cost of forgoing other projects.
- Put money in bank = 2.5% annual return after tax
– => project return > 2.5%
- Different hurdle rates for medium, high and max risk projects.
- Strong eco growth – High hurdle rates
- Weaker growth – Lower rates

IMPORTANT

Q&A Break

Benefits Realization Techniques

Four “Ares” Value Assessment Technique



- **Provides a rich framework for assessing value**
- **Incorporate them into measurement instruments for comparison**
 - How well programs contribute to current business objectives
 - Achieve future strategic vision
 - Supporting goals of parent organization

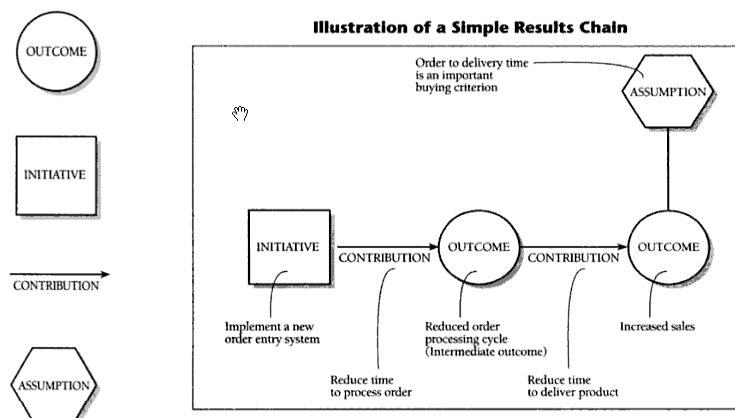
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Translating Four “Ares” into Measurements

- **Alignment**
 - Contributions to current objectives & priorities of org
 - Measures derived from org’s Balanced Scorecard
 - Contributions to objectives of parent company/larger context
 - Contributions to achievement of future state/vision
- **Financial Worth**
 - Gauge costs lengthy program cycles: concept to cash
 - Upfront costs + “all-in” costs of reaping benefits stream
- **Risk**
 - Measures based on whether program may not deliver all of the potential value
 - Assessed by questionnaires, surveys, Delphi technique

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Results Chain Modeling



- Comprehensive & accurate model of org’s benefits realization process
- Prepare “road maps” that support understanding and proactive management of 4 dimensions of complexity (linkage, reach, people, time)

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Q&A Break

Benefits Realization 3 Fundamentals

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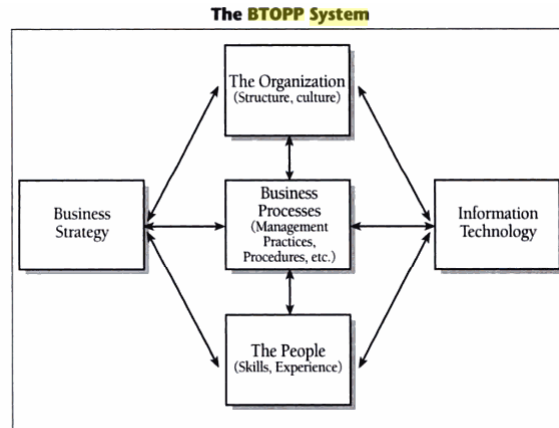
Benefits Realization Fundamentals

- **Program Management**
 - Manage group of related projects to achieve business benefit
 - Exploit economies of scale, reduce coordination costs & risks
- **Portfolio Management**
 - Structured groupings of investment programs
 - To achieve defined business results
 - Meet clear risk/reward standards
- **Full Cycle Governance**
 - Implements benefits realization approach
 - Operationalizes Program & Portfolio Management
 - Concept to cash
 - Progressive commitment of resources
 - Decision making at stage gates

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Program Management

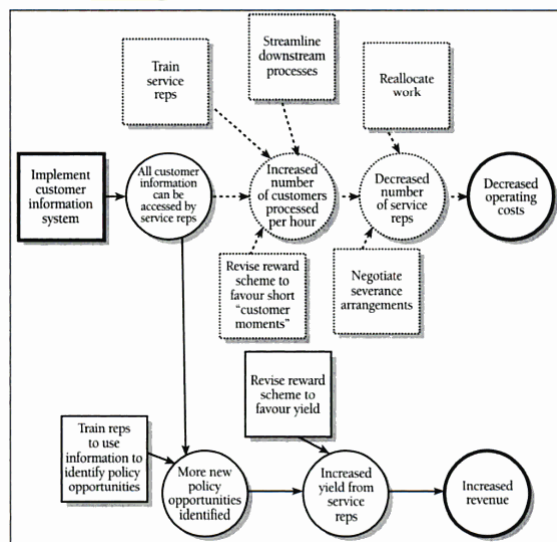
Scope Rule: Do not focus only on Technology!



Source: Adapted from Michael Scott Morton, 1988

Program Management

Selecting the Best Path to Benefits Realization



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Portfolio Management

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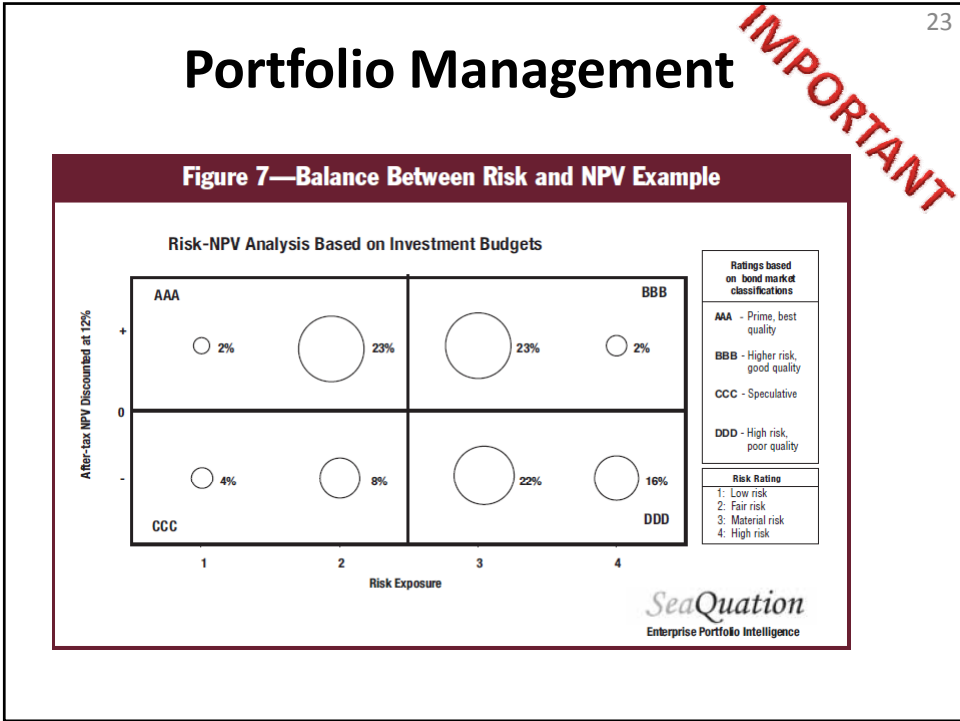
- **5 steps to manage portfolio of blended investments:**
 - 1) Categorize programs
 - 2) Prepare business cases
 - 3) Manage risk to increase value
 - Manage Risk vs. Potential Returns
 - Ability of Portfolio Mgr to diversify risk across variety of investments
 - Portfolios should max benefits for given risk level
 - Program team – control / improve program’s risk profile
 - High inherent risk – monitor / adjust program
 - Progressive resource commitment: Risk management tool.
 - Breaks program into stages, releasing funds necessary to reach next stage

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Portfolio Management

IMPORTANT

- 4) Manage & leverage program interdependencies
 - Sequential, Overlapping, Competition for scarce resources, change bottlenecks
- 5) Adjust portfolio composition to reflect changing conditions in the business environment:
 - **CASE 1 - OVER/UNDER EXPENDITURE WITHIN CATEGORIES?**
 - Mandatory/sustaining over budget? Xfer resources from discretionary projects like business opportunities
 - **CASE 2 - PROGRAMS THAT DIMINISH IN VALUE?**
 - Negative NPV? Kill. Sunk cost. Stop throwing good money after bad.
 - Killing projects – signs of strong management / good governance
 - Eg. Benefits in regulated env have diminished value when industry becomes deregulated.
 - **CASE 3 - WHEN NEW OPPORTUNITIES ARISE?**
 - Portfolio needs flexibility for new opportunities like new safety legislation.



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Q&A Break

3 Necessary Conditions for Benefits Realization

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3 Necessary Conditions

- Activist Accountability
 - **Investment Decision Board (IDB):** Accountable to Sr. Mgmt
 - Review / approve business cases
 - Assign business sponsor
 - Review program status, approve funding, conflict arbiter
 - **PMO/VMO:** Accountable to IDB
 - Track various programs / facilitate issues
 - Support programs in developing business cases
 - **Business Sponsor: Most critical role.** Acc. to IDB chair
 - Accountable for delivering benefits of programs
 - Provides clear vision of benefits
 - Communicate big picture and expected benefits
- Relevant Measurements
- Proactive Management of Change

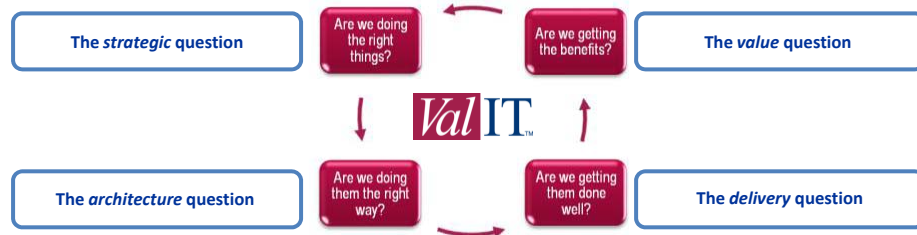
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Val IT

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Introduction

- Many enterprises practice elements of Val IT™ already
- Val IT™ provides a consistent, repeatable and comprehensive approach
- IT and business become equal shareholders because Val IT™ helps management to answer these key questions:*



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Why Val IT™?

An organisation needs stronger governance over IT investments if:

- IT investments are not supporting the business strategy or providing expected value
- There are too many projects, resulting in inefficient use of resources
- Projects often are delayed, run over budget, and/or do not provide the needed benefits
- There is an inability to cancel projects when necessary
- It needs to ensure compliance to industry or governmental regulations

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The Seven Principles of Val IT™

IT-enabled investments will:

1. Be managed as a **portfolio** of investments
2. Include the **full scope** of activities required to achieve business value
3. Be managed through their **full economic life cycle**

Value delivery practices will:

4. Recognise **different categories** of investments to be evaluated and managed differently
5. **Define and monitor key metrics** and respond quickly to any changes or deviations
6. Engage all stakeholders and assign **appropriate accountability** for delivery of capabilities and realisation of business benefits
7. Be **continually monitored, evaluated and improved**

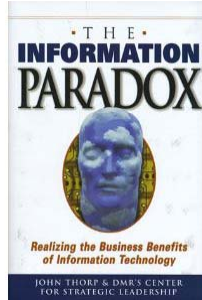
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VERY IMPORTANT

How Val IT™ Works

Value Governance (VG)	Establish informed and committed leadership.	Define and implement processes.	Define portfolio characteristics.
	Align and integrate value management with enterprise financial planning.	Establish effective governance monitoring.	Continuously improve value management practices.
Portfolio Management (PM)	Establish strategic direction and target investment mix.	Determine the availability and sources of funds.	Manage the availability of human resources.
	Evaluate and select programmes to fund.	Monitor and report on investment portfolio performance.	Optimise investment portfolio performance.
Investment Management (IM)	Develop and evaluate the initial programme concept business case.	Understand the candidate programme and implementation options.	Develop the programme plan.
	Develop the detailed candidate programme business case.	Launch and manage the programme.	Develop full life cycle costs and benefits.
	Update the business case.	Monitor and report on the programme.	Update operational IT portfolios.
		Retire the programme.	

References



Cio.com articles on:

- Governance
- Value Delivery
- PPM
- Portfolio Management



[John Thorpe's Val IT recording in ISACA website](#)

[ISACA's Val IT documentation](#)

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Q&A

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