
Creating IT Value: A Better Way to Make IT Investment Decisions

An Alternative to IT Business Cases

August 2012

The True Measure of IT Value: Return on IT Investment

Availability and performance are important measures—if you are failing these, discussions of IT value seem misguided.

But production measures are taken for granted:

- ◆ You are either passing or failing
- ◆ There are no A+ grades passed out on availability

Value is driven by IT investments—how are IT projects performing and contributing to business success. But IT value is hard to define:

- ◆ Business cases are often required for IT investments, but has anyone ever determined the true ROI on a network or ERP upgrade?

IT success is ultimately a function of how good its IT investment decisions are, but...

How can an organization make good decisions if it can't identify the expected value of its IT investments?

This issue is becoming more obvious now that IT appears to be finally living up to its promise of enabling top-line performance:

- ◆ Historically, IT has been focused on back-office automation and productivity improvements
- ◆ But evidence is mounting that technology developments are driving revenue growth and customer engagement in some companies. **These companies have determined how to make smart IT investment decisions**

This is the second in a series on maximizing IT investment value

IT Decision-Making: Business Cases Seem Like a Common Sense Approach

All IT organizations are resource constrained—demand exceeds supply. Organizations need criteria to decide which projects warrant allocation of high-value constrained resources. Business cases seem like a common sense approach:

- ◆ IT will ask for business cases and prioritize based on ROI, NPV, IRR, or another similar financial metric
- ◆ Business cases are submitted, and, surprisingly, they all provide phenomenal returns on investment
- ◆ Upon closer inspection, these returns include soft benefits and other intangibles that the project sponsors are unwilling to bake into their budgets

The problem with business cases:

- ◆ While costs are relatively easy to estimate, benefits are not:
 - IT business case benefits are often “soft”—difficult to quantify financially, but identified to have some business benefit
 - This softness makes them very susceptible to gaming. **It is unusual to find project requests that have been too conservative with soft benefit claims**
 - In the end, decisions are made by **who has the boldest business case rather than the best one**

“This is what I’d like to do...now let’s determine the soft benefits that will get it approved.”

What Am I Getting from My IT investments?

A business case approach to IT investment decision-making leaves executives asking “What am I getting for my IT investment dollars?”

- ◆ Business sponsors are unwilling to include IT project benefits within their operating budgets, so budgets have only one way to go after taking into consideration:
 - Increased project capital and operating expenses
 - Increased depreciation expenses
 - Increased ongoing support costs
- ◆ IT platforms are not delivering on expectations, because their underlying architectures are the sum total of that year’s discrete project requests, rather than a well-defined roadmap
- ◆ Project spend is not aligned with enterprise strategies, because it is driven by departmental needs rather than enterprise-strategic objectives
- ◆ Results are not monitored. **If the benefits are difficult to quantify, they are also difficult to validate**



Instead of Evaluating Projects with Business Cases, Do These Two Things

1. Evaluate projects on their ability to deliver strategic outcomes – **If an enterprise can agree on tangible strategic objectives, then projects can be evaluated on how meaningfully they impact progress towards these strategic objectives**
2. Constrain them – With unlimited resources, anything is possible, but we don't have unlimited resources. **Constraining resource availability provides a forcing function to ensure that only the most impactful projects are selected**

Traditional IT Decision-Making Approaches Lead to Traditional IT Problems

Judging each project discretely creates an IT environment that is simply the sum total of many individual decisions. This results in:

- ◆ A redundant application portfolio
- ◆ A complex architecture
- ◆ Questionable IT value

Create an *IT Blueprint* to Evaluate Project Requests Against

An IT Blueprint provides the direction necessary to evaluate projects and identify those that deliver strategic outcomes. This includes:

- ◆ **A vision of the desired IT environment**, balancing enterprise capabilities and business unit needs that support enterprise-strategic outcomes. **This vision should have tangible objectives associated with it, so progress can be measured**
- ◆ **Investment targets to constrain spending**. Targets can be assigned to the blueprint objectives (portfolios), and spending against these targets can provide a measure of progress against these objectives (e.g., “we agreed simplifying the application portfolio is important; why haven’t we made any simplification investments?”). This is particularly useful for those non-urgent but important objectives

This is a product development approach to decision-making. Product owners have product objectives (market share, revenue, churn, etc.) and budget limitations. They are held accountable for meeting these targets while working within these constraints.

An IT Blueprint Should Include These Four Components

The IT Blueprint is a business document—accessible to a non-IT audience. It should include the following four components to provide a comprehensive yet practical strategic filter for project requests:

1. An enterprise architecture
2. A vision of the desired IT infrastructure
3. A vision of the desired application portfolio(s)
4. IT investment spending targets

Provide explicit, actionable objectives for each component to evaluate project requests against. These objectives must also be tangible enough to monitor how projects are progressing against them.

Developing an IT Blueprint is a Business Responsibility

Engage corporate leadership (not just IT leadership) in creating the IT Blueprint. In order for the Blueprint to be used to guide IT investment decision-making, it must be credible. It can't be derived within the four walls of the IT organization. It needs to be facilitated by IT leaders, but direction must be set by business leaders.

IT Blueprint Component #1: Enterprise Architecture

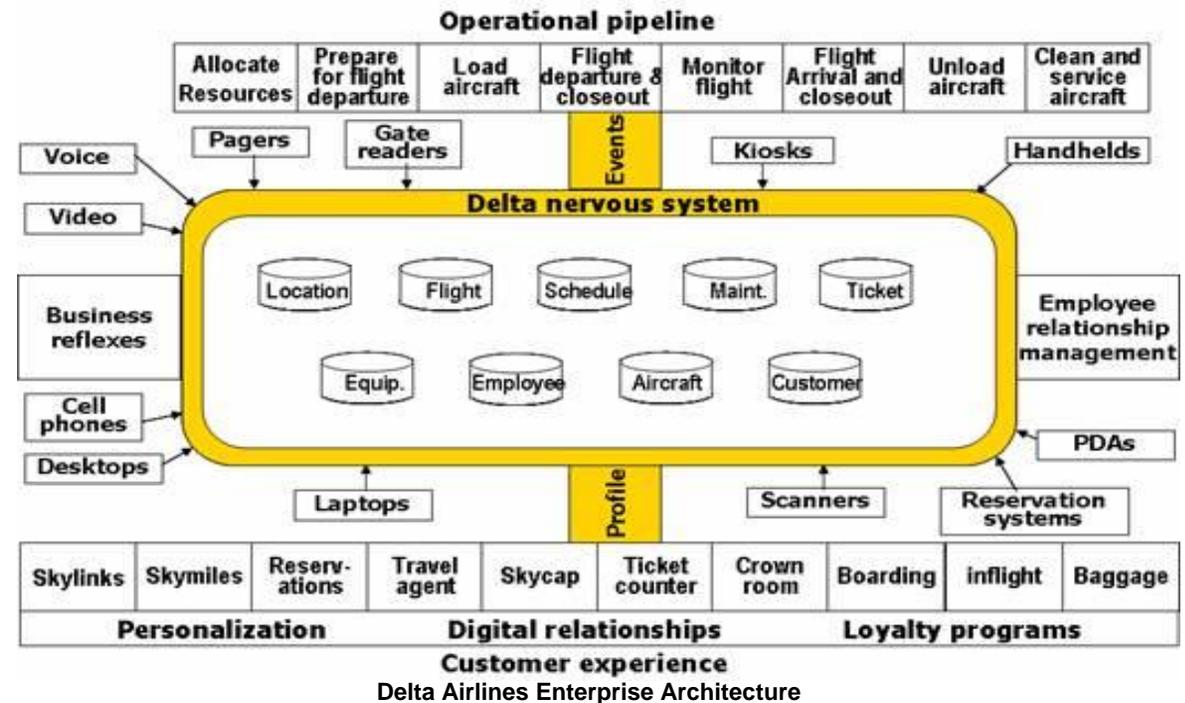
An enterprise architecture provides a vision of your desired technology environment:

- ◆ It includes a graphical representation of desired business processes, data, and integration necessary to support critical business capabilities
- ◆ Ideally, it is a single-page document
- ◆ It is designed for a business audience—it is not a technical document

Projects can be evaluated by the magnitude of their impact on achieving (or deviating from) the desired architecture.

Example – Delta Airlines Enterprise Architectures

- ◆ Each functional unit originally had developed their own IT platforms that did not talk to each other. There was no cross-functional view of customers or assets
- ◆ The Delta management team defined core processes, critical data types, and desired integration—painting a vision of their desired IT environment
- ◆ Tangible objectives were explicit in their enterprise architecture:
 - Standardized processes
 - Authoritative data
 - Tight integration



Source: MIT Center for Information Systems Research (CISR)
<http://cizr.mit.edu/>

IT Blueprint Component #2: IT Infrastructure

Create a vision of the desired IT infrastructure available throughout the enterprise.

This can take many forms, but it needs to be meaningful to a non-IT audience. Technical expertise is required to develop IT infrastructure objectives, but it must be understood by IT investment decision makers throughout the enterprise.

IT infrastructure decisions should be shared decisions:

- ◆ Senior leadership should understand and be engaged in these significant investments
- ◆ They should participate in the cost versus risk considerations, which are often a part of these decisions
 - Risk-tolerance decisions are business decisions
- ◆ Otherwise IT is held solely accountable for what are often unrealistic expectations of cost and performance

Example

- ◆ Categorize platforms based on “criticality”



- ◆ Identify infrastructure objectives for each level of criticality
 - Scalability
 - Security
 - Availability

If decision makers agree with your objectives, they will agree with projects that demonstrate positive progress against these objectives.

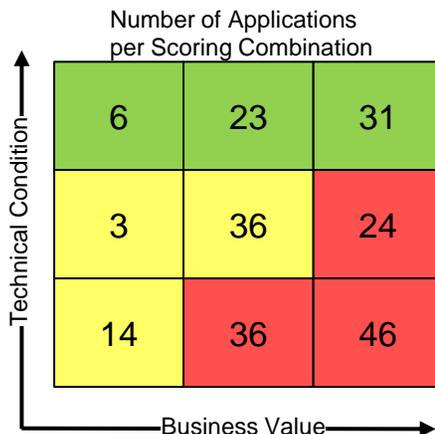
IT Blueprint Component #3: Application Portfolio

Provide a vision of the desired application portfolio(s). This should address:

- ◆ Outstanding portfolio needs
- ◆ Portfolio simplification and improvement objectives

Application portfolios are notoriously complex. Providing views of desired portfolios in easy-to-understand terms can be very powerful. Projects should directly address these application portfolio objectives.

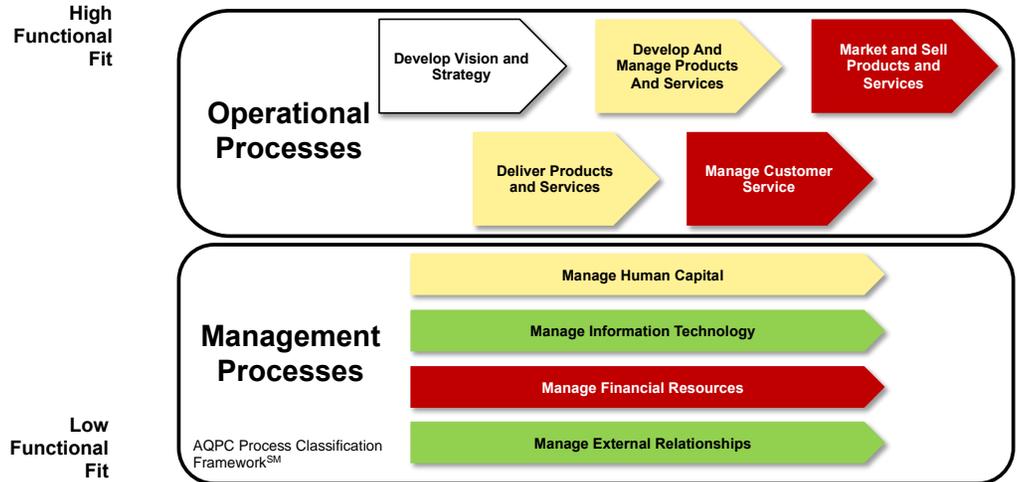
Objective: Improve Quality of Application Portfolio
Focus on high business value applications



Functional Fit: Measure of how well application portfolio supports business process requirements

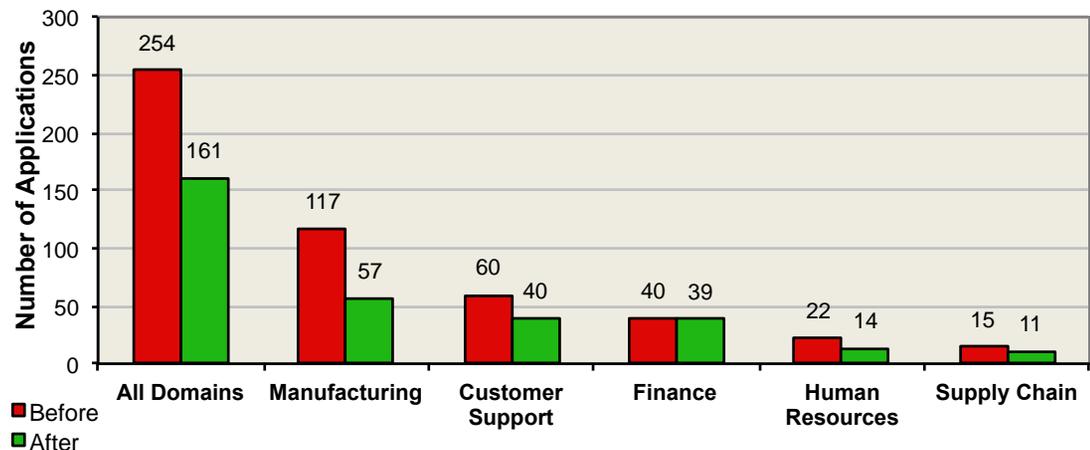
High Functional Fit

Objective: Improve Support of Business Processes
Focus on mission critical processes



Low Functional Fit

Objective: Reduce Size of Application Portfolio

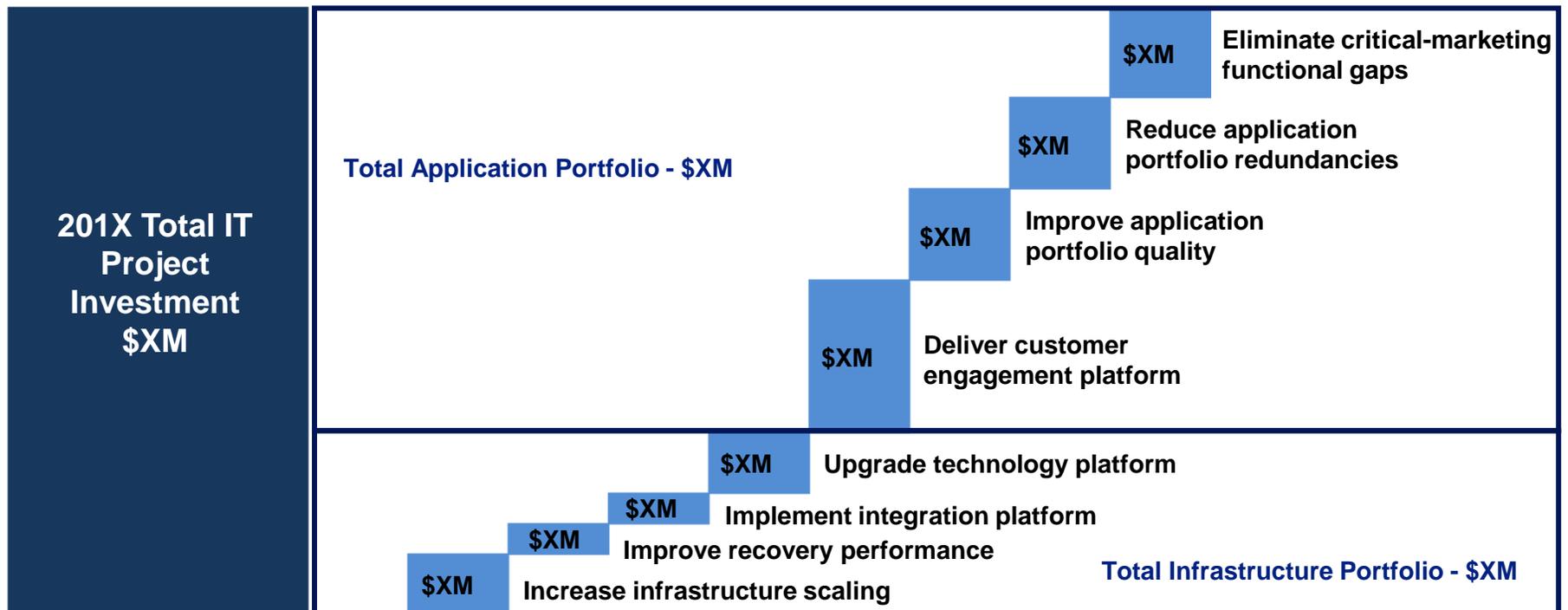


IT Blueprint Component #4: IT Investment Spending Targets

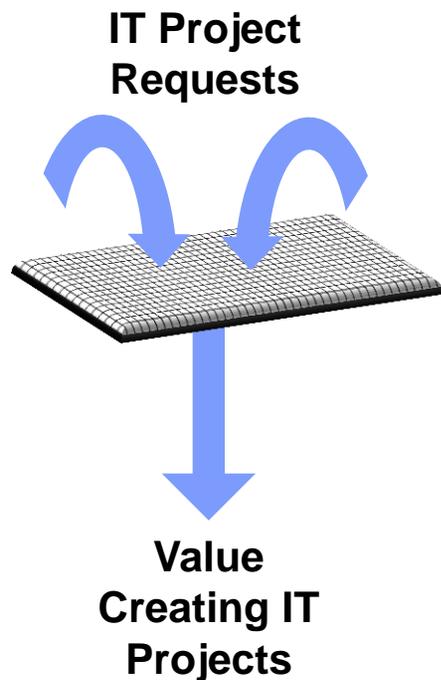
Specify IT investment targets by portfolio. Portfolios can align with strategic objectives, lines of business, or other logical groupings of IT investments.

Holding project sponsors accountable to Blueprint objectives, subject to spending constraints, forces thoughtful IT project prioritization and selection.

IT investment portfolios allow for relative comparisons and validation of IT investment portfolios. These targets should be subject to enterprise scrutiny.



Use the IT Blueprint as a Strategic Filter to Select Only Those Projects That Deliver Strategic Outcomes



It is unreasonable in many companies to expect executive teams to make all the IT investment decisions. Because the IT Blueprint provides enterprise-strategic direction given by the executive team, actual IT decision-making can be delegated, often to teams responsible for IT portfolios:

- ◆ The portfolio team evaluates project requests against their impact to IT Blueprint strategic objectives. Those with the greatest impact are prioritized the highest
- ◆ Project spending is constrained against portfolio limits—only projects funded within these limits are approved
- ◆ Exceptions to IT Blueprint direction are escalated for executive approval
- ◆ Portfolio owners are held accountable to progress against IT Blueprint objectives
 - Successful organizations place as much importance on the monitoring of results as they do on the initial project decision

There Is a Better Way to Deliver Value from IT Investments

Successful IT organizations use IT Blueprints coupled with effective IT governance to deliver strategic outcomes from their IT investments. Use an IT Blueprint to:

1. Engage business stakeholders in IT direction-setting
2. Provide a strategic filter to select those IT project proposals that deliver the most significant impact to strategic-blueprint objectives
3. Monitor project results and ensure accountability

Companies spend significant resources developing baseless IT business cases that fail to improve IT decision-making.

Evaluating projects on their ability to deliver strategic outcomes is the only way to actually deliver strategic outcomes. This is how to create value from IT investments.

Contact Us

Learn More about How to Maximize the Value Created from Your IT Investments

Jon D. Kerner
Partner

SCOTTMADDEN
Management Consultants

ScottMadden, Inc.
3495 Piedmont Road
Building 10, Suite 805
Atlanta, GA 30305

Phone 404-814-0020

jkerner@scottmadden.com

scottmadden.com