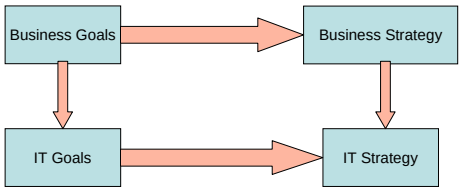
1. Business- IT Relationship

2005

Traditional view: *Business Drives IT*

Business Drives IT



- Business driving IT
- IT as Business' suporting unit

3

Esimene periood (1950-1970) – „IT diktatuur“

- Firma tippjuhid polnud teadlikud IT-probleemidest. IT-gurusid usaldati pimesi kui teadlasi-eksperte.
- IT suhtumine äripoolde – ülemuslik, *direktiivne*.
- Äripoole osalemine IT-põhises arenduses – *olematu*.
- IT-projektide fookus – *eksperimentaalne*.
- IT-põhiseste projektide juhtimine – *IT-gurud* juhivad.

4

Teine periood (70ndate lõpp-80ndate algus) – „äripoole ärkamine“

- IT suhtumine äripoolde – salliv, kuid *direktiivne*.
- Äripoole osalemine IT-põhises arenduses – *dokumenteerimine ja testimine*.
- IT-projektide fookus – *tehnoloogiline*.
- IT-põhiseste projektide juhtimine – *IT-gurud* juhivad.

5

Kolmas periood (80ndad) – „kättemaks = äripoole diktatuur“

- IT suhtumine äripoolde – *antagonistlik*.
- Äripoole osalemine IT-põhises arenduses – tagasihoidlik, kuid *direktiivne*.
- IT-projektide fookus – *ärifookus*.
- IT-põhises projektide juhtimine – *äripool* on juht.

6

Neljas periood (90ndad kuni tänapäev) – „partnerlus“

- IT suhtumine äripoolde – *avatud*.
- Äripoole osalemine IT-põhises arenduses – *oluline, toetav*.
- IT-projektide fookus – *täielikult määratud ärivajadustega*.
- IT-põhises projektide juhtimine – *avatud, äripoole juhtiv roll koostöös IT-ga*.

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But: IT revolution

Historical significance of the *IT revolution*

- The IT revolution, now progressing on a global scale with the **rapid advancement of computer and communications technologies**, is beginning to bring about a historic transformation of society, much like the Industrial Revolution did from the 18th century in the United Kingdom.
- The advancement in information technologies, primarily the Internet, will enhance the quality of information exchanges and revolutionize relationships between individuals, between individuals and organizations, and between individuals and society, by drastically reducing the costs and time for information distribution. It is believed that this will result in the **rapid transformation to a knowledge-emergent society,** where the interaction of knowledge will evolve to create high added value.

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Vision of the information IT society (*Japan*)

- **Education**: All will be able to receive the most advanced level of education they require regardless of geographical, physical, economic and other constraints.
- **Arts and science**: All will be able to enjoy and use works of arts and literature, science and technologies regardless of location, and will be able to create and distribute digital content easily.
- **Work:** Thanks to network connections to offices, all will be able to do the work of their choice, regardless of age and sex, and live in the location of their choice, without having to rely on transportation means.
- **Industry:** All companies, regardless of size, will be able to conduct business transactions with customers throughout the world by making full use of IT. The promotion of competition and the protection of intellectual property rights will be both achieved in balance and in harmony with other nations policies.
- **Living:** Regardless of location and time, all will be able to watch the latest movies, play popular TV games, and freely communicate with friends and family in remote places, not only by voice but also with images, through various information tools.
- **...**

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Näide: Eesti Ühispanga *eesmärk*

Olla kliendikeskne Eesti pank, mis põhineb pikaajalistel suhetel, kompetentsusel ja e-tehnoloogial

P. Leisi rõhuasetus

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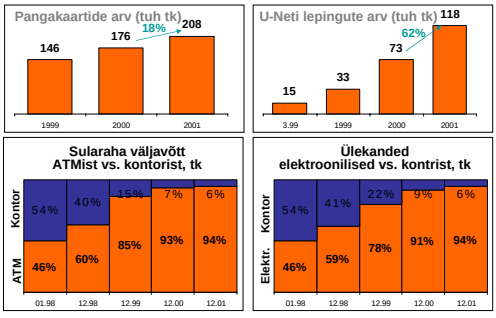
EÜP elektrooniliste kanalite areng



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Eesti Ühispank's

IT mission

- Providing agreed quality level IT support with the lowest possible price, guaranteeing sustainable development
- To be the holder and developer of IT know-how and to be the partner of business units in developing new products and services

To carry out these tasks we must fight with *Speed of change*, *Non-wealthy market* and *Small Size*.

General principle is **pragmatism**.

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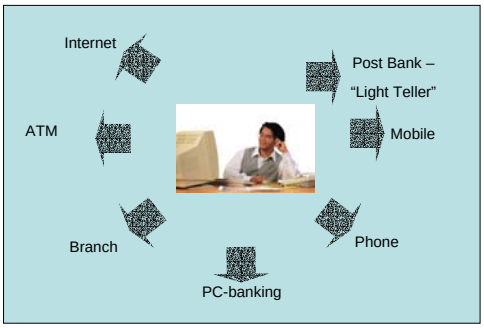
Multi-channel Banking in Ühispank



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Estonia is:

- small
- rapidly changing
- electronic services are used in the same level as in Germany
- GDP per capita is 4x lower than in Germany

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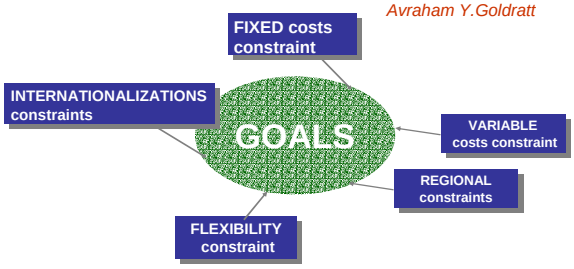
Estonian specific constraints

According to
Avraham Y.Goldratt



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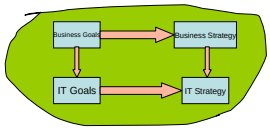
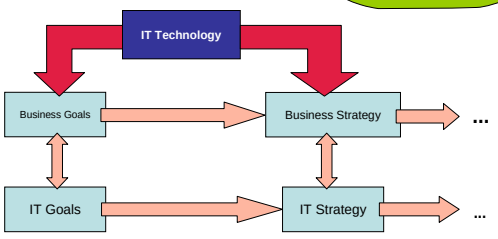
Summary:
IT Drives Business?

Summary: *IT Drives Business*

• IT drivies Business?





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Balancing IT **and** Business

From Now On, Business Transformation Will Be Technology Defined (IT2B)

The business of IT is the business
- Note the emergence of IT-defined enterprises
- IT processes are business processes
- IT is the skeleton of the business

IT cost is a key competitive differentiator
- Transactions and tasks are further automated
- IT cost climbs to more than 20 percent of revenue

High correlation between infrastructure and organization
- Workplace and work are IT defined
- Organization is optimized around IT initiatives

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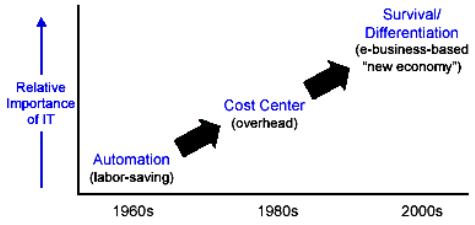
From IT Investment to Business Value

IT Value Has New Meaning



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IT Value Has New Meaning

- The recognition of the increasing value of IT to the enterprise is illustrated by the number of organizations that now have moved up the oversight of IT to the very top level of the management hierarchy.
- IT oversight is often in the hands of a subcommittee of the senior management committee.
- IT has frequently become the concern of the Board of Directors, especially in the context of e-business and e-government.
- Any firm that now considers IT as primarily a “cost center” and merely “overhead” is headed for trouble in the vast majority of businesses.
- Today, and changing even more rapidly all the time, many enterprises are coming to realize that near-term IT investments will be the foundation of their very survival, or at least the means with which to differentiate themselves.

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Impact of IT

- To support the importance of IT in the economy, the capital investments in IT and communications have grown enormously over the last twenty years to the unprecedented level of more than 50 percent of the U.S. total business capital equipment spending.
- This easily beats out production equipment expense or transportation equipment.
- We truly are becoming an information economy.

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IT Investment Opportunities

- The ability to derive value from an IT investment covers many possibilities – new applications.
- Applications require a corresponding investment in infrastructure as a base of capacity to deliver the
  1. availability
  2. response time
  3. customer service that is to be the "right"' level — spelled out in a ***service-level agreement***.

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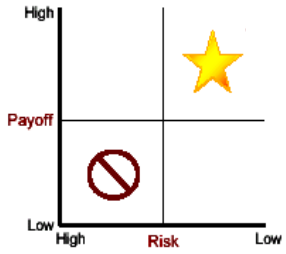
Prioritization: *The Process of Ranking*



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Criterion One: *Financial Modeling Moves Beyond NPV*

- The traditional essential criterion for investment selection has been financial — go for the biggest ROI (*Return of Investment*, the biggest value).
- This is no longer the case in IT, yet it remains an essential measurement to determine.
- The options approach is designed to *buying the opportunity to make another decision later based on more information.*

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Criterion Two: *Business Impact The Most-Critical Factor Today*

"The degree to which this investment contributes to achieving a key business objective"

A business judgement call:

Example:

- Delighting the customers
- Lowering operating cost
- Speeding up: nimbleness
- Quality

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Criterion Two: *Business Impact The Most-Critical Factor Today*

- The intent is to put a high weight on the contribution to achieving the vital business objectives.
- The assumption is that if a critical business objective is delivered, the rewards are very high.
- This does depend on the condition that the business in fact does have clear and specific objectives.
- Business objectives are *"to be*
  - market-driven,
  - customer-oriented
  - the low -cost supplier."

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Criterion Two: *Business Impact The Most-Critical Factor Today*

- That broad set of goals can be described as *operational excellence* — generally not a very successful strategy,
- It is usually more effective to avoid scattering efforts by selecting a few objectives and seeing that real progress is made in accomplishing them.
  - IT can usually help play a role in this effort.
- The task then is to be able to size up the impact of an IT investment toward a business objective.
- *The lack of basing IT decisions on business objectives is still the largest single shortfall among IS organizations.*

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Criterion Three: *Risk Always a Caution to Evaluate*

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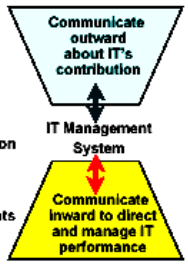
The IT Management Challenge

The IS organization must master the art of managing measures that matter to the business:

- **Business process measures**
- **Product/service innovation**
- **Value for money**

By addressing these issues, the IS organization can increase IT's value proposition:

- **Elevate the strategic importance of IT**
- **Improve ability to serve customer segments**
- **Proactively manage the IT agenda**
- **Enhance key stakeholder relationships**
- **Align individual performance objectives with IT strategy**
- **"Raise the bar" on IT performance**



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The IT Management Challenge

- Traditional IT measurements have focused on specific IT component functions such as
  - data center management,
  - network management
  - application development productivity
- These are *production-side measures aimed at functional management*.
- These measurement methods have a number of weaknesses, including:
  - Lack of an outward customer focus
  - Inability to communicate value of service
  - Inability to communicate a strategic direction

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The IT Management Challenge

- The challenge for IT management is to encourage, recognize and reward the appropriate behavior in individuals to set the pace and tone for the IS organization.
- IT management must demonstrate to business managers *that the IS organization as a whole understands and supports the business goals.*
- To accomplish these dual goals requires that IT management adopt/adapt new management tools such as the ***IT balanced scorecard***.

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Key Pitfalls to Avoid

Process

- Middle management task force
- Not driven by senior executive team
- Only one or a few individuals involved
- Lengthy development process - allowing the "best" to be the enemy of the "good"
- Delay introduction because of missing measurements
- Static not dynamic process

Philosophy

- Measurement to control, not to communicate
- Management dictating actions vs. employee improvisation to achieve desired outcomes
- For management only; not shared with all employees

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Key Pitfalls to Avoid

- Do not assume only one definition of value. Accept that there are many views that depend upon the interest of the stakeholder.
- Do not assume that everything in IT has recognizable value.
  - Many things done in the IS organization may not appear to have value to the observer — accept this also.
  - Do not get into debates about the value of "utility" applications — just as it is not worthwhile to argue about the "value" of the telephone or having electricity.
  - It is a fact of life — do it efficiently
- Get 80 percent of the benefit of connecting IT investments to business value with 20 percent of the possible effort.

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Conclusions

- Attaining business value from IT has shifted from efficiency and cost-cutting to strategic capabilities, quick service response to market events and evolving technologies.
- Use of a systematic process to ensure IT services provided actually support the business requirements is paramount.
- Multiple business proposals must be collaboratively evaluated, scored and ranked to ensure the enterprise realizes maximum value from the chosen investments.
- To succeed, enterprises and IT organizations must think in business-system life cycles.

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Conclusions

- IT has transformed from a cost-cutting tool to a business-enabling asset.
- More capital is invested in IT annually than other business assets.
- Moreover, information has become the currency of the new economy.
- Complicating this issue further is the fact that ensuring that IT investments provide business value is the province and responsibility of the enterprise's executives and business-unit managers.
- IT must be collaboratively coordinated within the context of business strategic and tactical imperatives to deliver value.
- Doing otherwise introduces undue risk and expense.

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