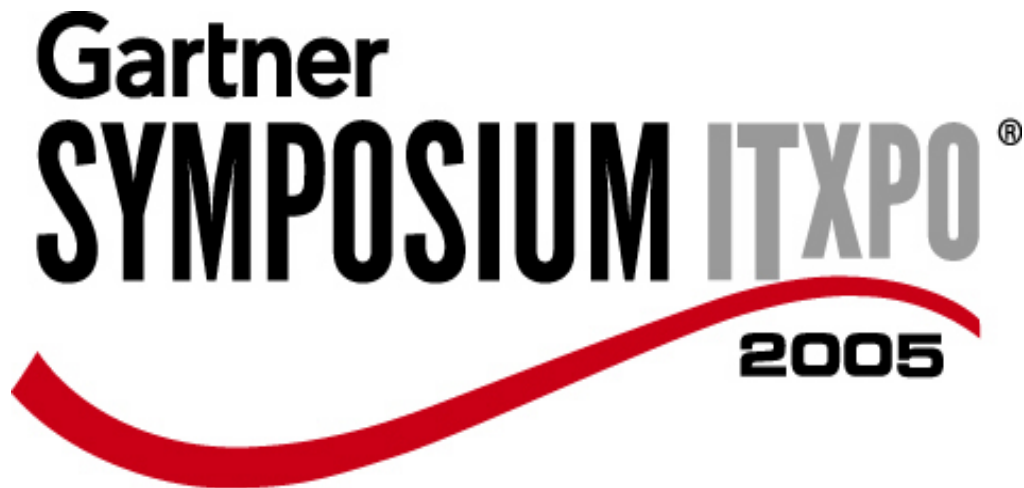

The Business Value of IT: New Answers to an Old Problem



**November 7-11
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European Symposium

Lars Mieritz
Roger Fulton

7-11 November 2005
Palais des Festivals
Cannes, France

IT Investments Continue to Fail to Deliver Business Value

Business Perceptions of Why Projects Failed

✓ No benefits realized	40%
✓ No longer needed	22%
✓ Business goals changed	35%
✓ Business changes failed	35%
✓ Not adopted by users	38%
✓ System too late	37%
✓ System not suitable	46%
✓ Technology did not work	37%

Source: Forbes/Gartner survey, 2004
(n=520 failed projects, multiple answers allowed)

Gartner

In a recent Gartner survey, we asked business executives to consider recent project failures in any function within their organization and to identify the main reason for failure.

The results above show a mix of failure points. Some key observations:

- **Requirements alignment remains illusive.** New approaches are needed to define and refine requirements at the inception of a project and to continually revisit and refine alignment throughout the project.
- **User acceptance of change is still a challenge and change management remains critical.** For IT initiatives, it is critical to understand the organization's capacity to accept change.
- **Projects are time-critical.** If projects take longer than projected, then the alignment of the project with the current business may shift. A great system delivered late is a poor project.
- **Technology risk remains very high in many organizations.** There is a real need to fit the technology to the organization technology adoption style.

Action Item: Expand your thinking about why projects fail in your organization. Ask key users about some issues from the list above and if current approaches may be solving the wrong problem.

Client Issues

1. Which methods, tools and techniques can radically improve management of the business value of IT?
2. What are the major pitfalls in managing the IT value proposition?
3. Which actions must organizations take to ensure ongoing business value of IT success?

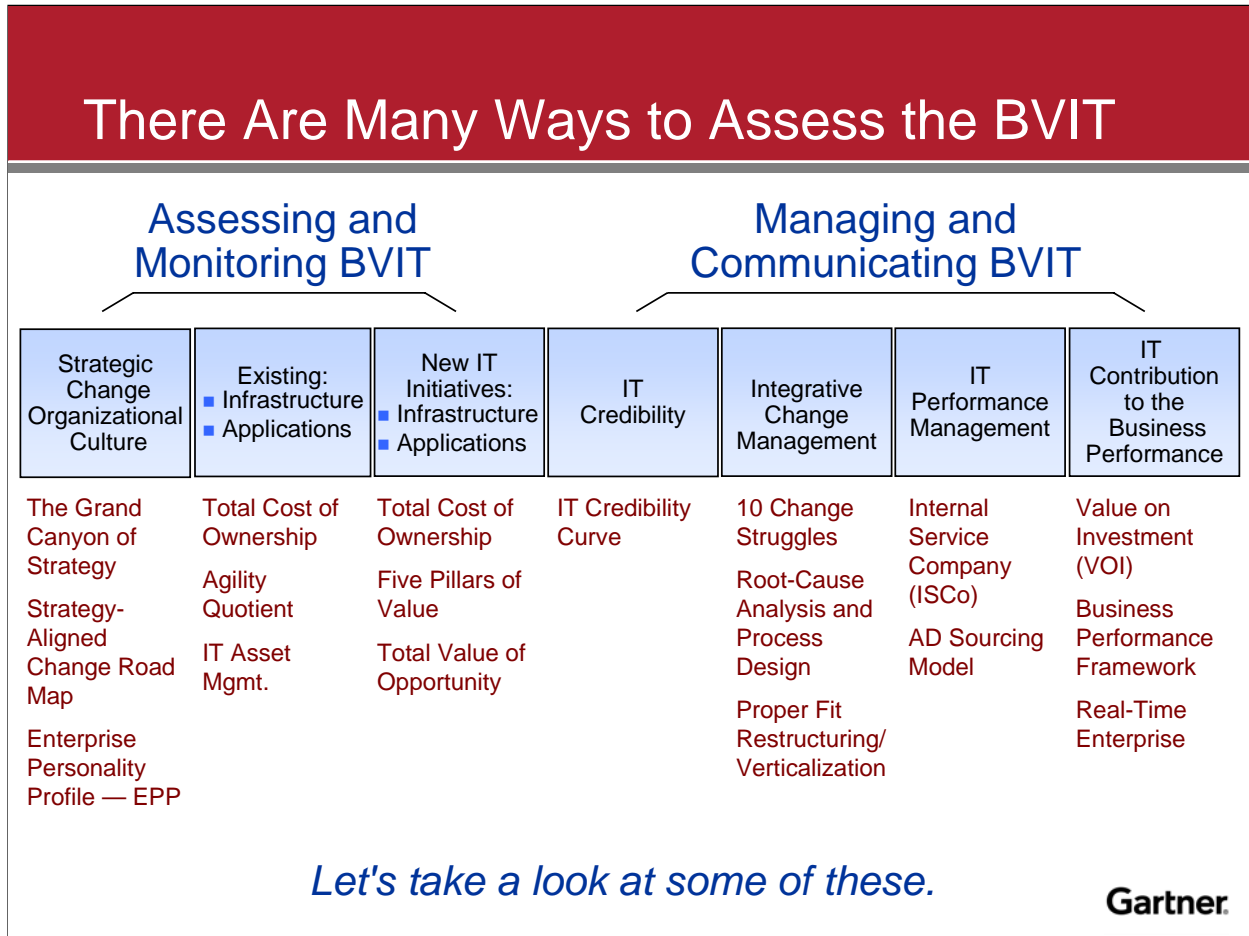
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Organizations know their IT investments' return value. However, few companies have implemented reliable methods for evaluating, tracking or ensuring that they achieve the full business value from IT. Gartner has developed numerous frameworks, methods and tools for managing the processes surrounding business value of IT (BVIT). Here, we present our best frameworks and best practices for applying them.

The Business Value of IT: New Answers to an Old Problem

Client Issue: Which methods, tools and techniques can be used to radically improve management of the business value of IT?

Tactical Guideline: There are many aspects to the issue of BVIT. Your specific choice of tool must be based on the what you are trying to accomplish.



The BVIT is made up of many aspects. We will present some of the methodologies, tools and frameworks that Gartner has developed to assist organizations with accessing, monitoring, managing and communicating in each of these aspects.

Organizational Culture — how your organization views and uses IT

Existing IT Infrastructure and Applications — your current IT environment: the good, the bad and the ugly

New IT Initiatives — improvements in IT infrastructure and business processes enabled by IT applications

IT Credibility — the level of trust and professionalism maintained by your IT organization

IT Change Management — how well your organization manages change effecting people and processes

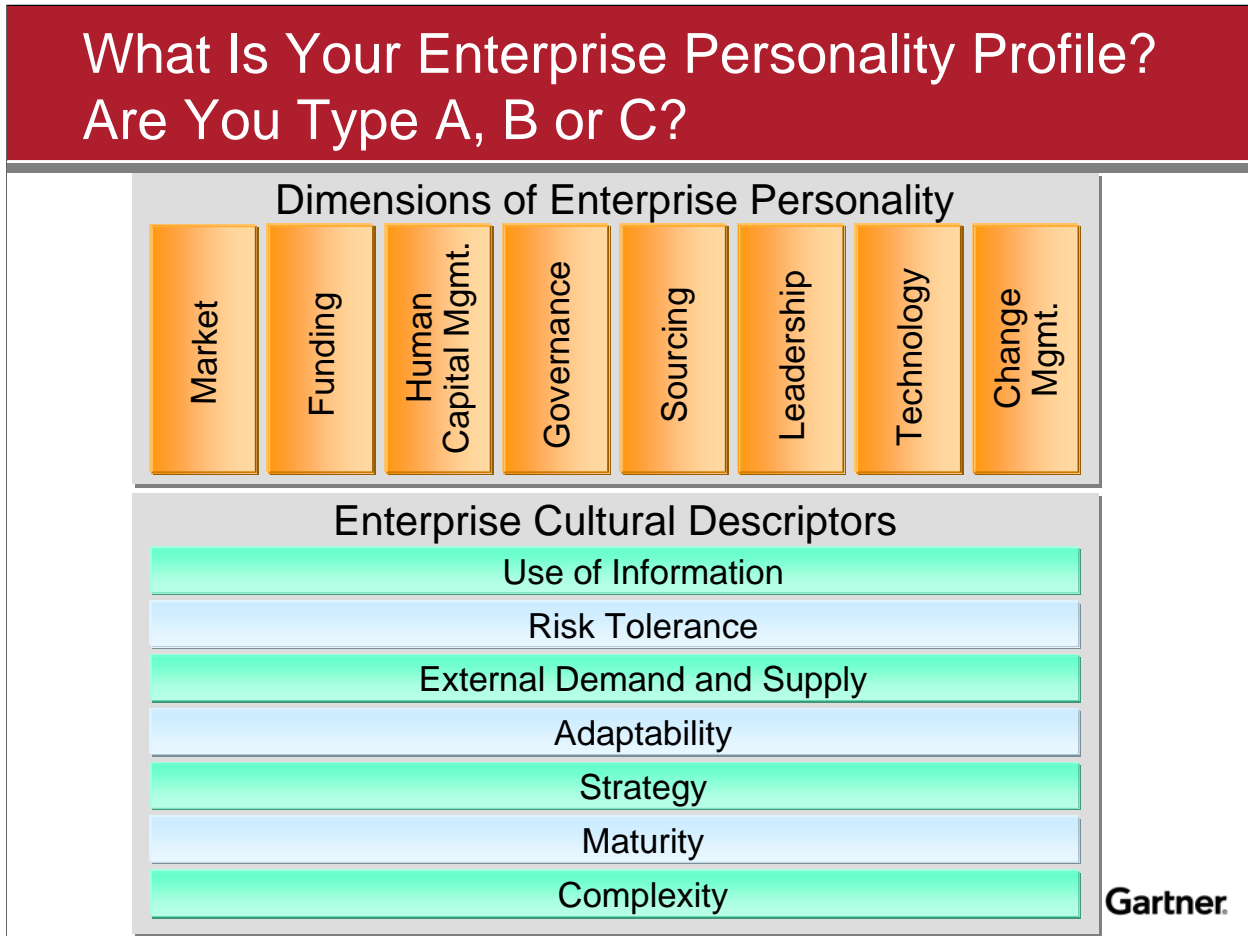
IT Performance — the IT efficiency measures, doing things right

IT Contribution to the Business — IT effectiveness, doing the right things

Gartner has developed methods, tools and techniques for responding to each of these aspects or dimensions of the BVIT. Let's take a look at some of these.

Action Item: Understand the various aspects of BVIT before responding to this important issue. Describe these aspects to your audience to decide on which of these aspects to focus on first. Begin to formulate your response using the methods, tools and techniques that Gartner has developed. Once you have a handle on the first aspect, move on to complete the rest.

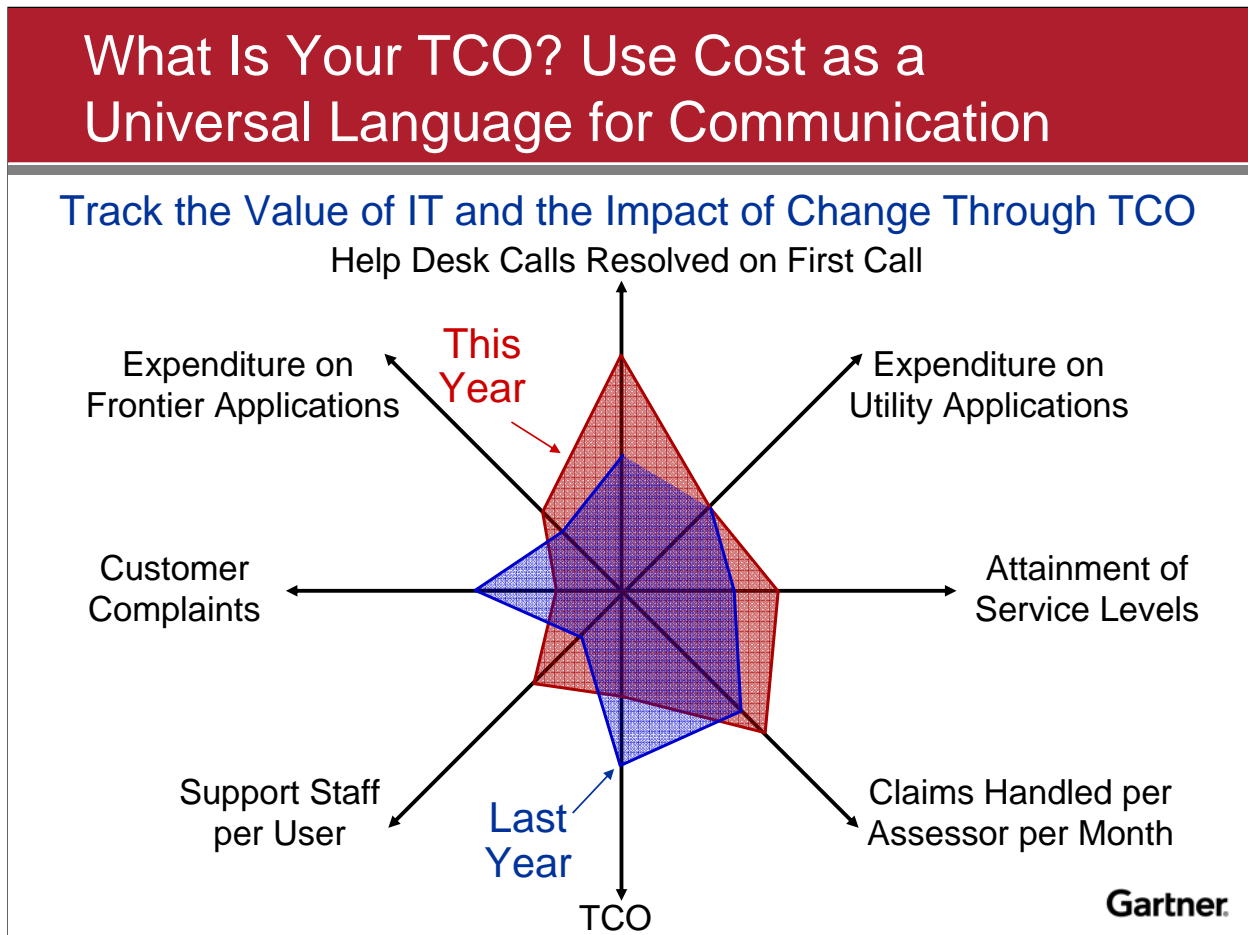
Tactical Guideline: The EPP Methodology is used to map strategic objectives (for example, to be a Wal-Mart supplier) to specific initiatives (for example, implement RFID) to the capability of an organization to succeed in that endeavor.



Client Issue: Which methods, tools and techniques can be used to radically improve management of the business value of IT?

Alignment: Perhaps the most powerful potential result of organizational self-awareness is alignment. For decades, IT organizations have sought alignment with the business. **Orientation Framework:** EPP is also useful in shaping project proposals to fit the current enterprise state. It is clear that a Type A initiative will not fly when an organization is in a Type C (risk-averse) state; however, it is not often clear why that same initiative fails when all behavioral indicators describe the organization as Type A (a rapid adopter of IT). **Benefits Accountability:** Once a project is approved and funded, EPP can be used as an "awareness mechanism" and a diagnostic tool to demonstrate and measure business unit executives' accountability for their investments in new IT-related business initiatives. **Gap Analysis:** As a change management tool, the EPP can be used as a framework for anticipating challenges and opportunities in driving changes across a company with varying levels of resistance or reaction and for modeling the enterprise's capacity for change. **Communication Bridge:** The EPP can be used as a tool to guide a dialogue between a client and an advisor, such as Gartner. **Trend Identification:** Trends, such as a favorable climate for technology spending or an increasing maturity of governance, can be identified, documented and communicated to our clients. This may have potential as a performance management tool or an effective way to demonstrate BVIT. Such information would be invaluable to vendors.

Strategic Imperative: To optimize your investments in IT, you must develop the capability to articulate and assign value to intangibles, such as productivity, connectivity, collaboration and innovation.

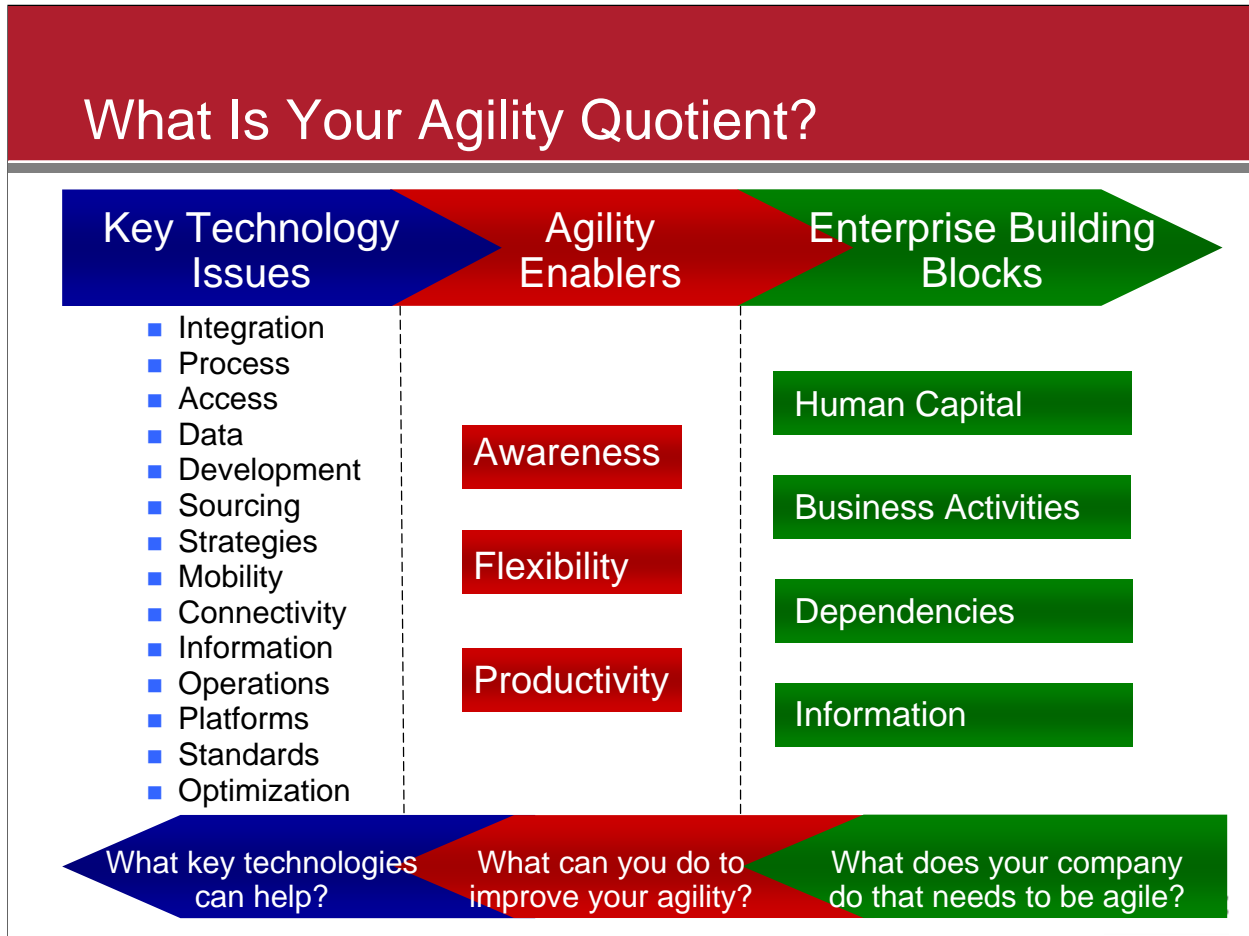


Client Issue: Which methods, tools and techniques can be used to radically improve management of the business value of IT?

Finance is the language of the business. The business of IT can use TCO as an effective communication tool to show not only the efficiency of the infrastructure, but also the effectiveness of the infrastructure in meeting business performance goals. In the chart above, there are eight dimensions of performance graphically illustrated. These dimensions were agreed on by the business-unit process owner (claims processing) and the IT organization as a year-to-year (Y2Y) reporting mechanism.

Here is how this information can be analyzed. Note that closer to the center means "less" and farther from the center means "more." TCO has been reduced Y2Y; however, support staff per user has increased. How can that be so? Remember, TCO is a holistic view of the business cost of IT. These seemingly conflicting metrics are the result of an aggressive campaign to move IT underground support activities from the business unit and into IT. The IT department was able to staff up to manage the new workload and do it much more efficiently than the underground. This resulted in more person power to do the work of claims processing, which results in more claims handled per assessor per month. The new professionalism of the IT support program resulted in less complaints by end users and better attainment of service levels. Communication is usually a weakness in IT organizations. A reporting mechanism like the one above tells a much better story than reams of technical details that are not linked to the business performance.

Strategic Planning Assumption: Through 2007, more than 50 percent of the improvements in an organization's agility will come through systematic adoption of technologies that have a direct impact on the efficient operation of systems (0.8 probability).



Client Issue: Which methods, tools and techniques can be used to radically improve management of the business value of IT?

Awareness, flexibility, adaptability and productivity are key enablers of agility. Awareness is a measure of whether the organization is aware of the necessary information and activities that drive its agility. Flexibility is the ability to react to change that was potentially expected to happen. Adaptability is the ability to react to change that was not expected. Productivity is simply efficiency of operation. Each of these severely affect agility. Technologies that are designed to make an organization perform better, with regard to these enablers, can't help but improve agility, if implemented properly.

Key technologies for agility include information flow, which determines how well the organization is able to tell what is happening. Connectivity and access are key to distributing and accessing the right quantity and scope of information, as well as access to processes and systems. Development enables an organization to implement new options and develop effective solutions. Finally, integration and interoperability are the hallmark of agility technologies, because they provide for flexible interaction between systems, organizations and people.

Action Item: Solve integration problems as a front-line opportunity to improve agility.

Strategic Planning Assumption: Business and financial scrutiny of IT business cases will become increasingly rigorous and thorough through 2008, regardless of the state of the economy (0.8 probability).

Assess New IT Initiatives: ROI — Total Value of Opportunity

Questions	Applied Methodologies
1. What Is the Initiative?	MIT Sloan IT Investment Framework
2. How Do We Measure Business Value?	Gartner Business Performance Framework
3. What Does the Technology Do?	IT Capabilities
4. What Are the Benefits?	Financial Sensitivity
5. How Much Does It Cost?	Total Project Cost
6. Are There Optional Future Benefits?	Real Options
7. Is the Enterprise Ready?	Dynamic Benefits Realization

(See "TVO Methodology: Valuing IT Investments via the Gartner Business Performance Framework," R-19-1910)

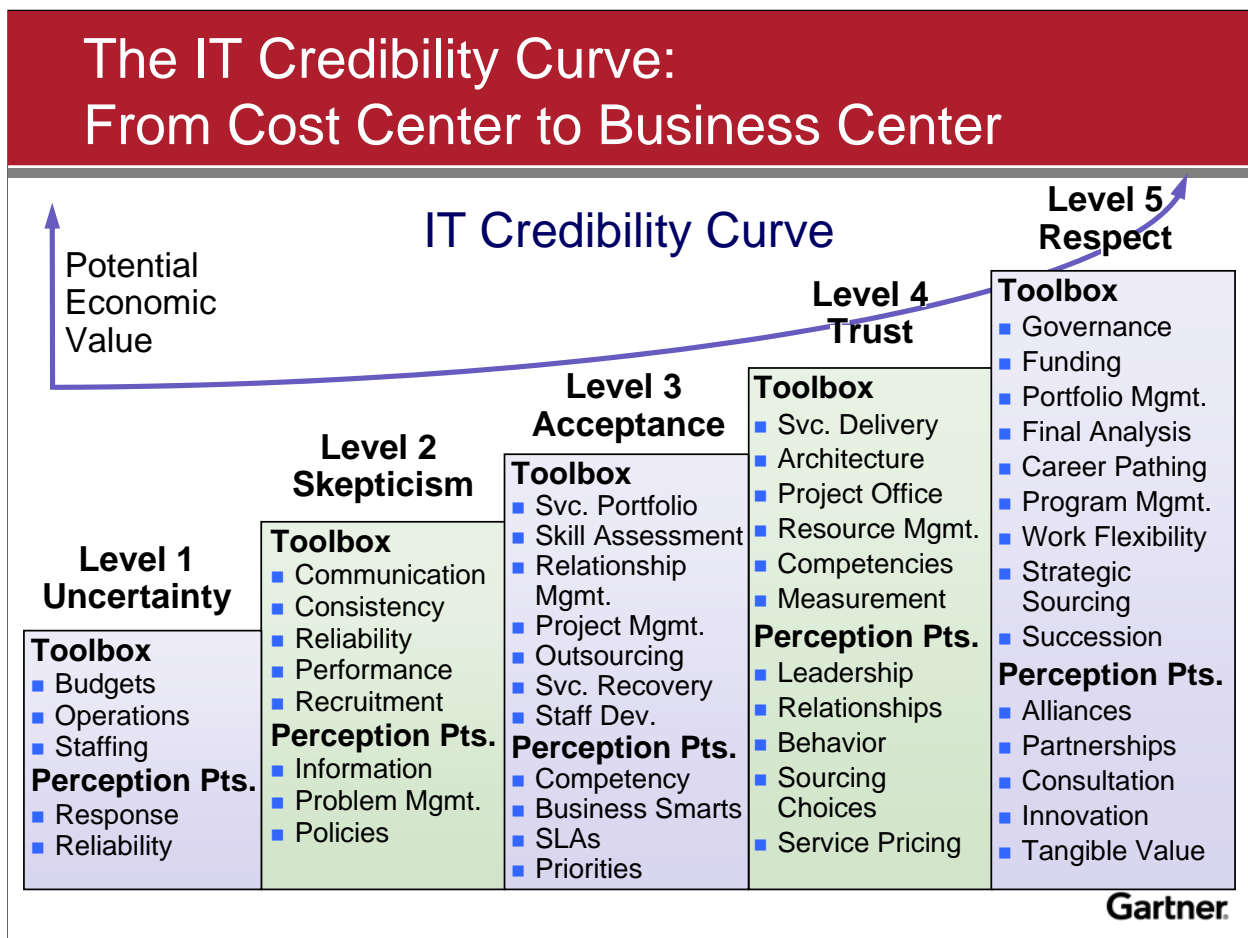
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Client Issue: Which methods, tools and techniques can be used to radically improve management of the business value of IT?

TVO is a structured methodology developed by Gartner to value IT-enabled business initiatives. It is based on seven fundamental business-oriented questions. By answering these seven questions with the business stakeholders involved in the solution, you will establish better lines of communication, a better understanding and a higher level of confidence than by justifying IT initiatives on a case-by-case basis. The TVO methodology incorporates a set of specific methodologies to answer each question. "What is the initiative?" is answered by a methodology developed by MIT that involves IT portfolio management thinking. "How do we measure business value?" is answered by the Business Performance Framework. "What does the technology do?" is answered by a list of generic IT capabilities that our research shows can be applied to any and all forms of IT, whether it is an application or a piece of infrastructure. "What are the benefits?" is answered by looking at your current level of performance and projecting the targeted improvements on the prime measures selected. The financial sensitivity calculations then translate these improvements into financial projections.

Action Item: Select or build a standard methodology by which all IT-enabled business initiatives can be judged. The methodology must provide an ability to monitor the initiative throughout its life cycle.

Strategic Imperative: Diagnose the current level of IT credibility, and implement plans to increase that credibility through IT service management.

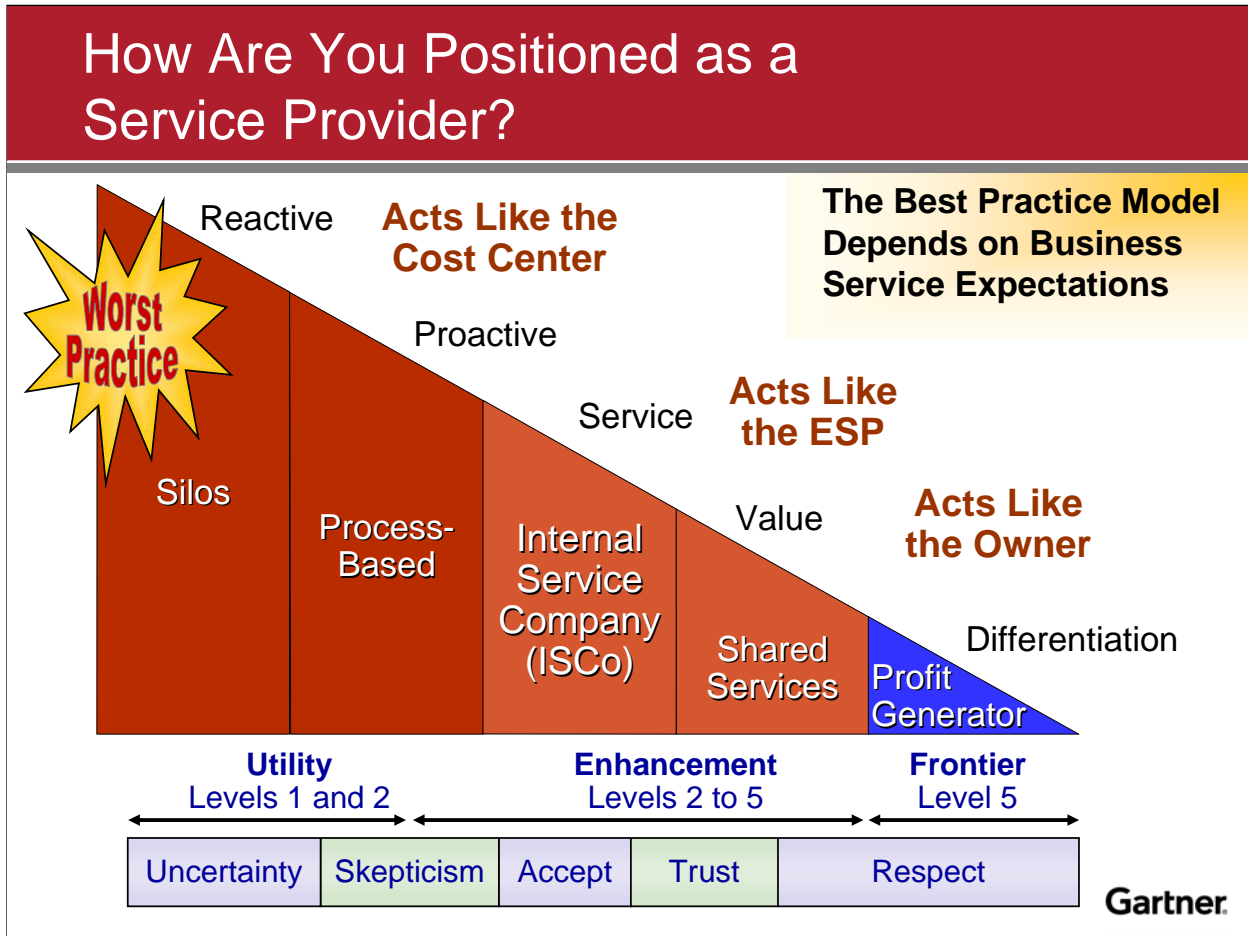


Client Issue: Which methods, tools and techniques can be used to radically improve management of the business value of IT?

In the Gartner IT Credibility Scale, IT credibility accrues in stages, with each stage depending on the programs and practices that are learned at previous stages, and each stage potentially increasing an organization's overall BVIT. At Level 1, IT delivers little business value. It does not meet commitments, it makes meaningless promises and it seems impenetrable by its constituency. At Level 2, IT provides baseline performance and adds consistency to its procedures. At this stage, IT is contributing limited business value, and the business remains skeptical. Level 3 introduces professionalism, as IT establishes processes for responding to business needs and increases business awareness of its capabilities. At this point, IT contributes moderate business value. At Level 4, business engages in joint planning and measurement. IT defines effective processes for planning, architecture, project management, funding, sourcing, benefit realization and competency development and deliver a high level of business value through portfolio analysis. Finally, at Level 5, business leaders actively seek advice, counsel and innovation from IT, which has finally gained the respect of their customers. At Level 5, IT organizations are delivering the highest level of business value.

Action Item: Use the Gartner IT Credibility Scale as a tool for assessing how the company perceives the IT organization and what service-level expectations it has.

Strategic Imperative: Align the choice of business model with enterprise service delivery expectations: utility, enhancement or frontier.



Client Issue: Which methods, tools and techniques can be used to radically improve management of the business value of IT?

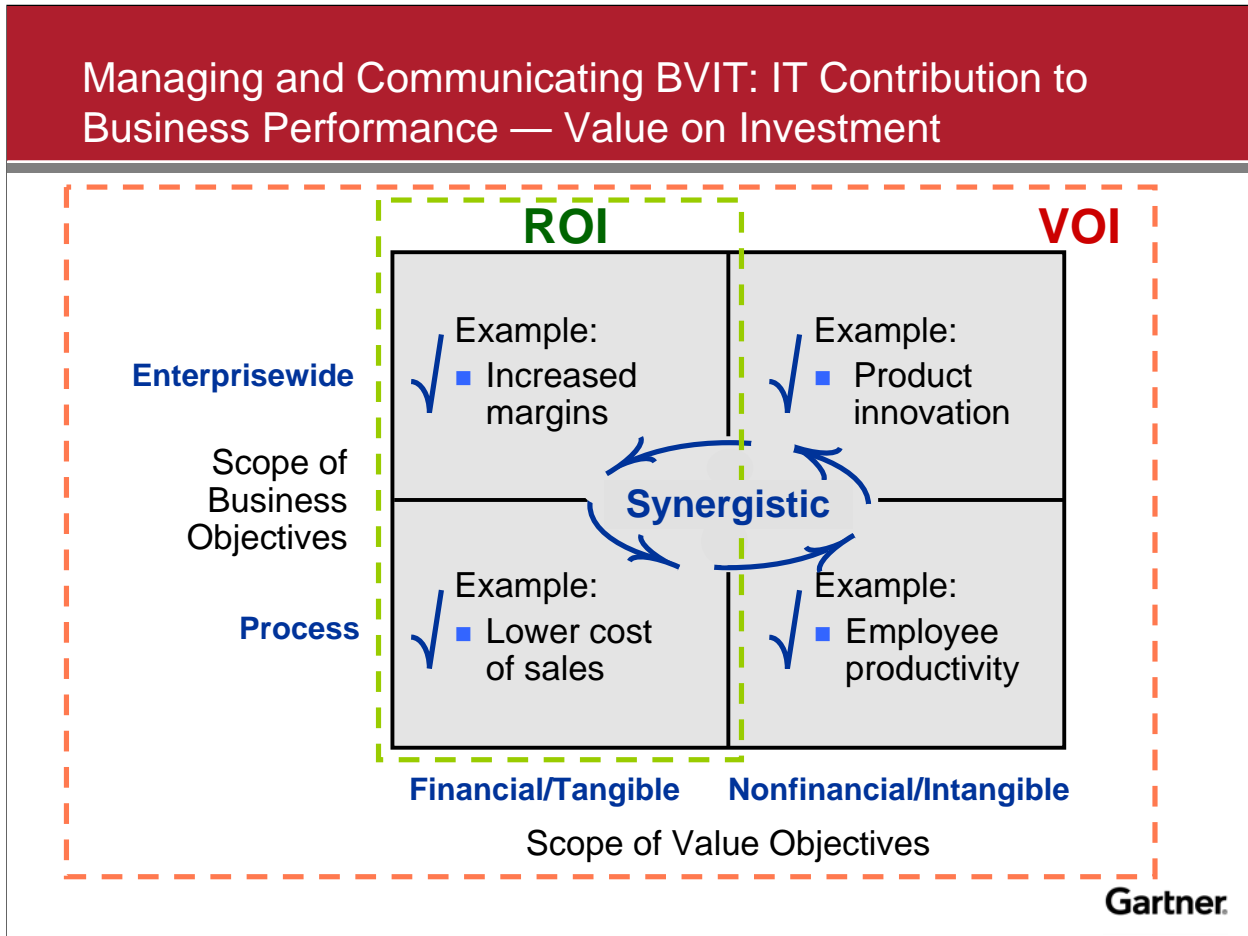
The choice of IT business models dovetails neatly with three dominant business expectation levels for service delivery, as well as with the IT credibility curve. It is important for business and IT leadership to ensure that the business model adopted is the one designed to drive the types of benefits the business expects and values. For companies committed to the utility view, silos and process-based organizations offer the lowest-cost solution. For companies attached to the enhancement view, the ISCo and shared service models best balance service responsiveness and fiscal accountability. For companies with frontier-level expectations — those that seek to directly or indirectly leverage IT in the market — the profit-based business models are most appropriate. Each model has distinct pros and cons — the cons, in particular, become unpalatable if the pros aren't valued. Major mismatches occur when the company verbally espouses one belief, but its behavior exhibits another, or when the IT organization attempts to develop capabilities through business models that are not viewed as adding value to the business — such as when the IT organization seeks to become a profit generator, and the company sees value only in using IT as a source of cost containment. It is also important to recognize the implied maturation scale these models represent.

Action Item: Ensure that the business model selected is the right one for you, given your culture, industry and ingrained views regarding service-level expectations and BVIT. Only try to change the views over time.

The Business Value of IT: New Answers to an Old Problem

Decision Framework: The production capacity created with a successful IT initiative increases with its scope and with the range of its beneficiaries.

Strategic Imperative: To optimize your investments in IT, develop the capability to articulate and assign value to intangibles, such as productivity, connectivity, collaboration and innovation.



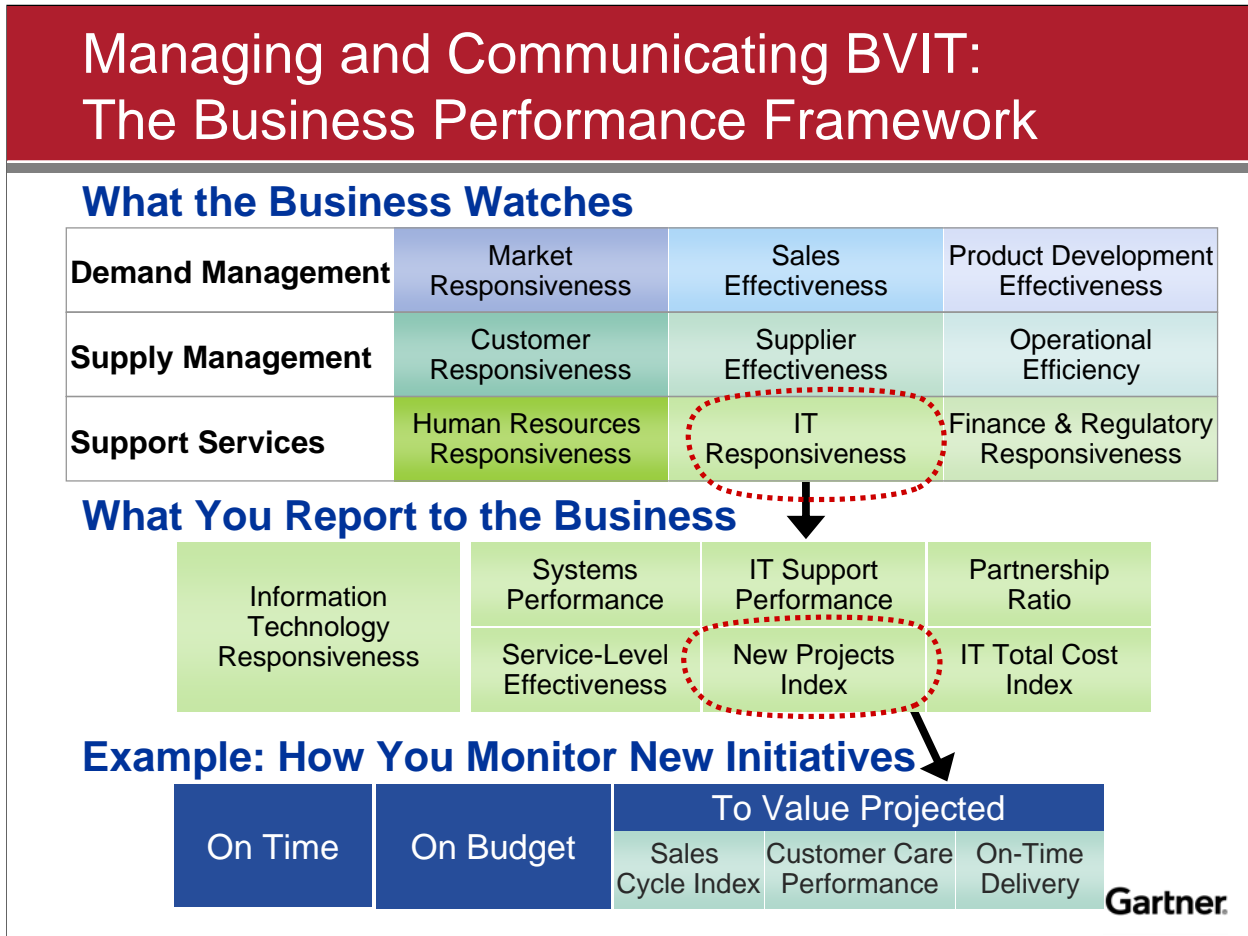
Client Issue: Which methods, tools and techniques can be used to radically improve management of the business value of IT?

IT investments are complex and often require complicated analysis to articulate and evaluate benefits. They require analysis of financial, nonfinancial and even synergistic returns (synergistic initiatives generate returns in conjunction with other projects — for example, expanding a network may provide little initial return, but during its life, will generate value through projects that leverage the network).

For many IT organizations, the benefit analysis has usually focused on efficiency and direct cost reduction. This approach excludes or fails to emphasize nonfinancial or other important forms of value. IT investments have always produced a broad spectrum of benefits, but with the advent of highly networked processes, new architectures and Internet-based business models, the return on IT may be greatly improved by new value dimensions. These are often highly strategic and more important than financial returns. This expanded view of BVIT provides companies with new options for improving and clarifying the justification for IT investments by exploiting the full range of intangible, tangible, financial and nonfinancial value.

Action Item: Expand your justification approaches to consider traditional and emerging value categories that blend tangible and intangible forms of value, and expand your analytical skills in identifying and valuing the full range of benefits created with IT investments.

Strategic Imperative: A standard business performance framework is required to close the measurement gaps in expected and actual business performance.

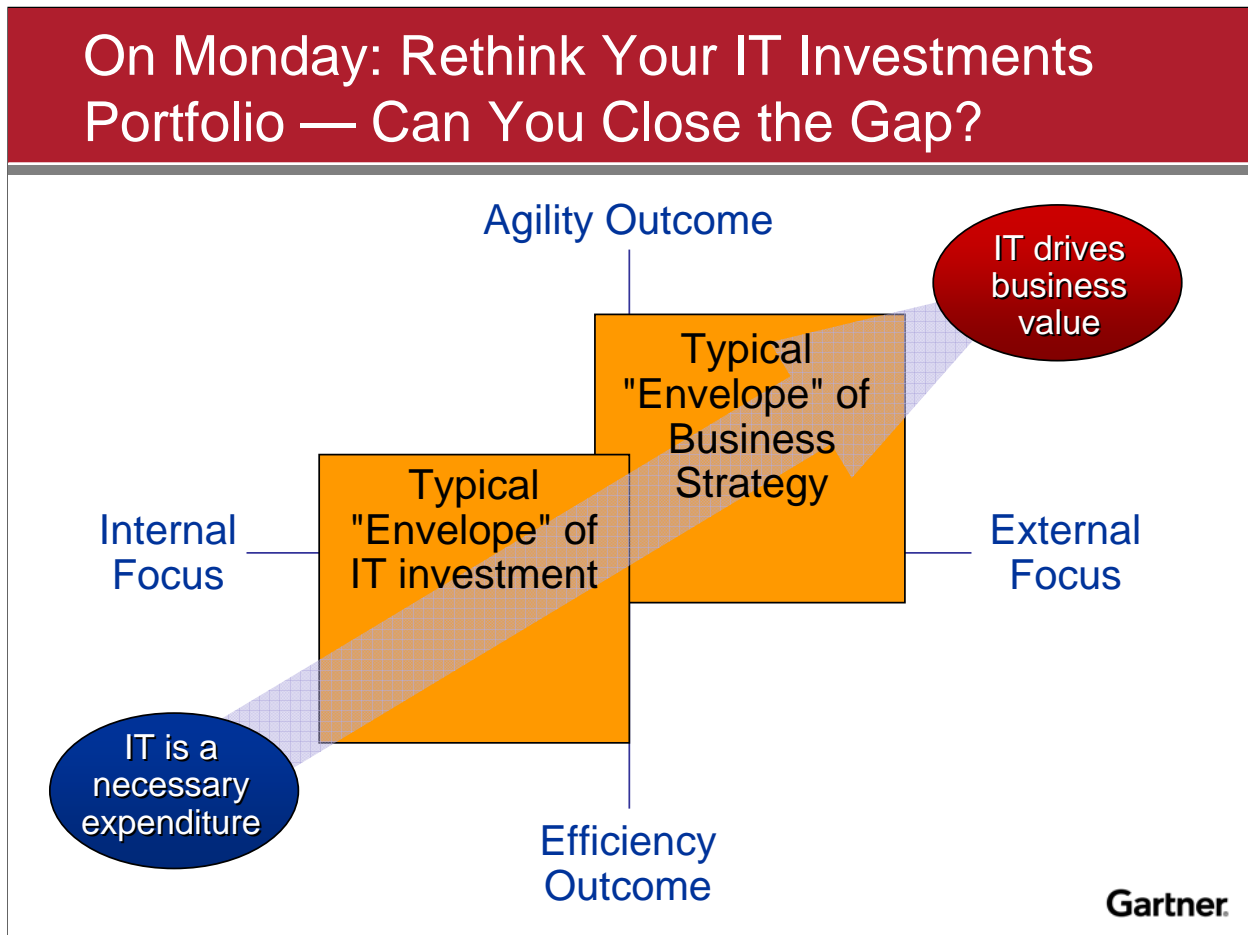


Client Issue: Which methods, tools and techniques can be used to radically improve management of the business value of IT?

Most organizations have a fragmented approach to assessing and tracking the performance of IT initiatives. Their performance management processes have been designed for individual tasks — assessing benefits, monitoring progress or measuring results — with little or no integration across them. Similarly, a variety of tools and frameworks have been built to analyze or measure the inputs and outputs of each process. These tools and frameworks also lack integration on many levels, including their terminology and technologies. The end result is that IT performance monitoring is not usually credible or practicable. Performance management is becoming a high priority for organizations, and business performance management has been defined as a complete and holistic view of the performance and effectiveness of an organization's business operations, its innovation activities and the specific initiatives in progress.

IT organizations should begin integrating their performance management into CPM and the overall business performance framework. The Gartner Business Performance Framework includes the key performance measures and metrics for IT, including monitoring of value achievement for new projects.

Action Item: Develop competencies in business metrics determination, measurement and monitoring; start simply, develop a discipline and, over time, apply the framework to all initiatives.



Client Issue: Which methods, tools and techniques can be used to radically improve management of the business value of IT?

While businesses focus on enterprise differentiation, IT organizations typically focus on enterprise necessities — the perfect breeding ground for a credibility gap. The typical "envelope" of IT expenditure and effort focuses on such enterprise necessities as financial control, production management and internal communications — an internal focus that yields efficiency, but not differentiation. Meanwhile, the typical envelope of business expenditure and effort focuses on enterprise differentiation, combining an external focus with the pursuit of market agility. Differentiation might come, for example, through virtual collaborative communities that link suppliers and customers; rapid response capabilities for bringing new products into emerging market opportunities; and mergers, acquisitions and divestitures. As enterprise strategies move IT investment toward differentiation, IT organizations must move there too. The change is substantial. Although internal efficiency will remain important, the drivers and levers that IT organizations must deploy to deliver enterprise differentiation through IT are crucial to the value proposition.

Action Item: CIOs and IT managers should use the shift in strategic focus toward agility to refocus on alignment, service portfolios, pricing, organizational competencies and influence over business behaviors.

Pitfalls of Implementing BVIT — How to Overcome Them	
Pitfalls	Countermeasures
We don't have broad buy-in to change our processes.	Communicate, communicate, communicate.
BVIT is a project-by-project effort.	Cultivate enduring sponsorship for broad BVIT processes.
It's difficult to gauge our current maturity.	Use our capability model and involve your business users.
We don't have vision.	Articulate how the future will be different if changes are made.
We have exceptions.	Counter any and every attempt to work outside the processes and governance.
How can we show our BVIT process is viable?	Find early success stories through a pilot.

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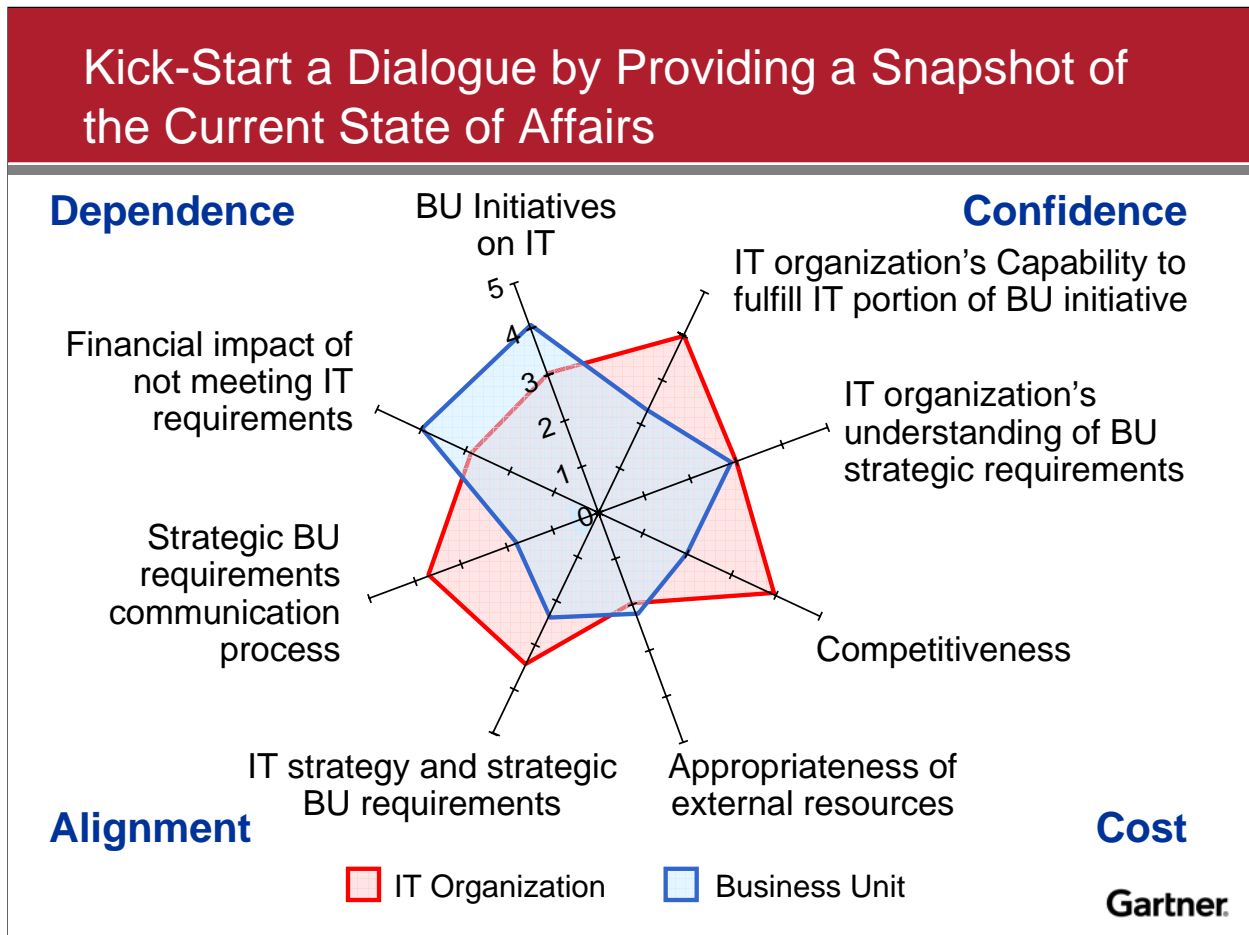
Gartner asserts that at least in part, the demonstrably poor returns from IT investments can be linked with a form of management thinking that is from an earlier time and is no longer suitable for present-day requirements. In effect, it is industrial-age thinking for information-age problems. However, a second major assertion is that the BVIT has to be proactively managed and measured from the outset of an IT initiative and the benefits analysis process.

These assertions and assumptions will be intuitive to many of your IT stakeholders and managers. However, there will be an equal number of people who doubt the assertions or are unwilling and unable to change "the way we do things." Thus, pitfalls are plenty. And, although these pitfalls and their countermeasures can be simply stated as in the graphic above, the execution of the countermeasures is usually difficult.

Overcoming the pitfalls requires persistence, focus, diplomacy, tough decisions, thick skin and determination — all this, in addition to articulating an elegant vision and accomplishing a well-designed and well-managed BVIT initiative.

Action Item: Invest time to develop a clear vision before you begin the quest for buy-in. Select a capable team to help you communicate the vision.

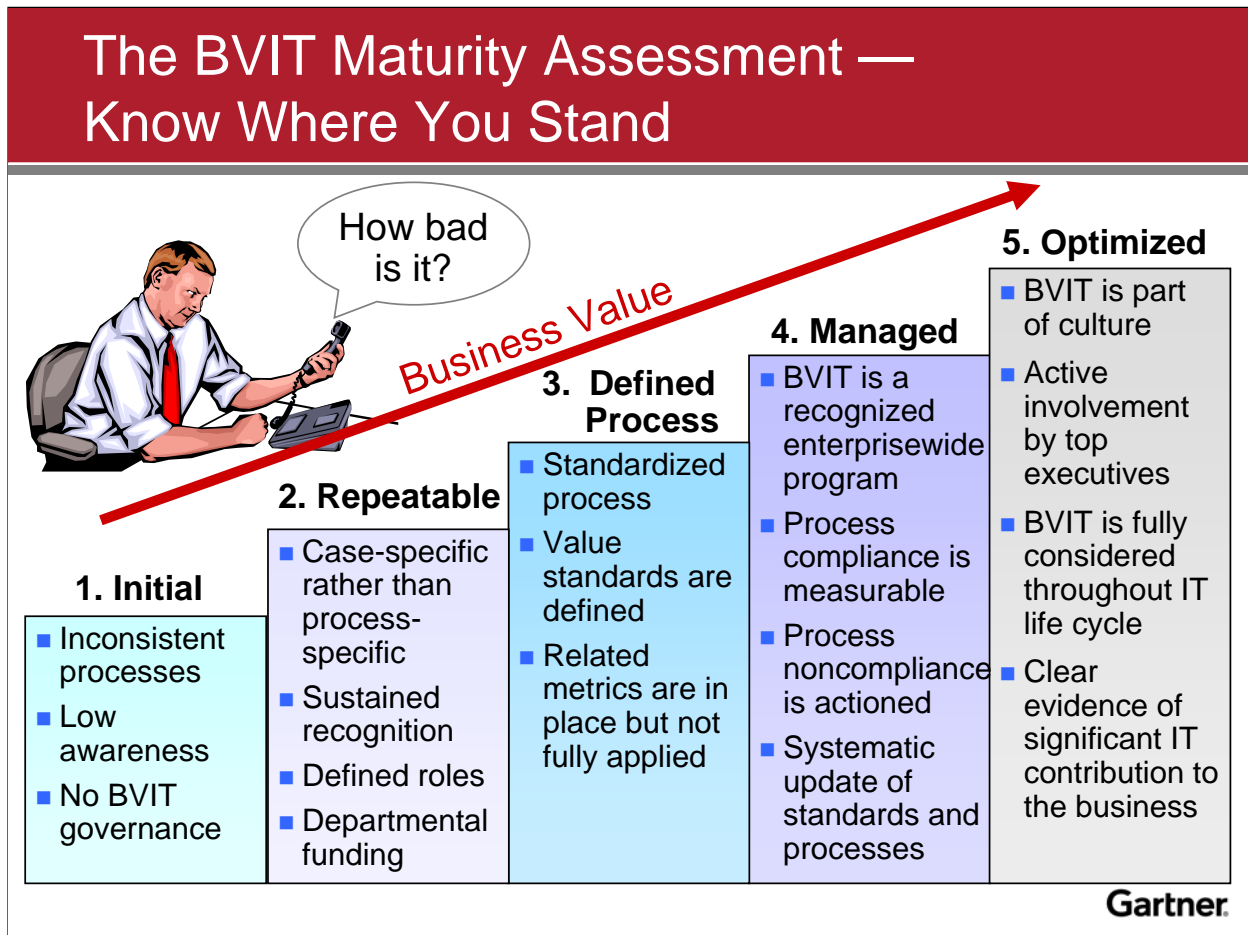
Client Issue: Which actions must organizations take to ensure ongoing business value of IT success?



In a complex enterprise, "perfect" alignment cannot be measured, achieved or sustained. However, it is important to ensure that the systems, infrastructure, projects and organization are moving in the right direction. To keep IT and business alignment moving, consider adopting some of the best practices for aligning IT and business operations. Those practices include:

- Coordinating IT alignment with the strategic/long-range planning process.
- Linking IT goals to business-level metrics.
- Using scorecards and customer satisfaction surveys.
- Focusing on projects that are business-driven, not IT-driven.
- Expecting difficulty in prioritizing IT projects across multiple business groups.

Also note that the greatest point-of-alignment failure is in establishing and managing the relationship between the IT organization and the business organization. Therefore, a good communications strategy is essential.



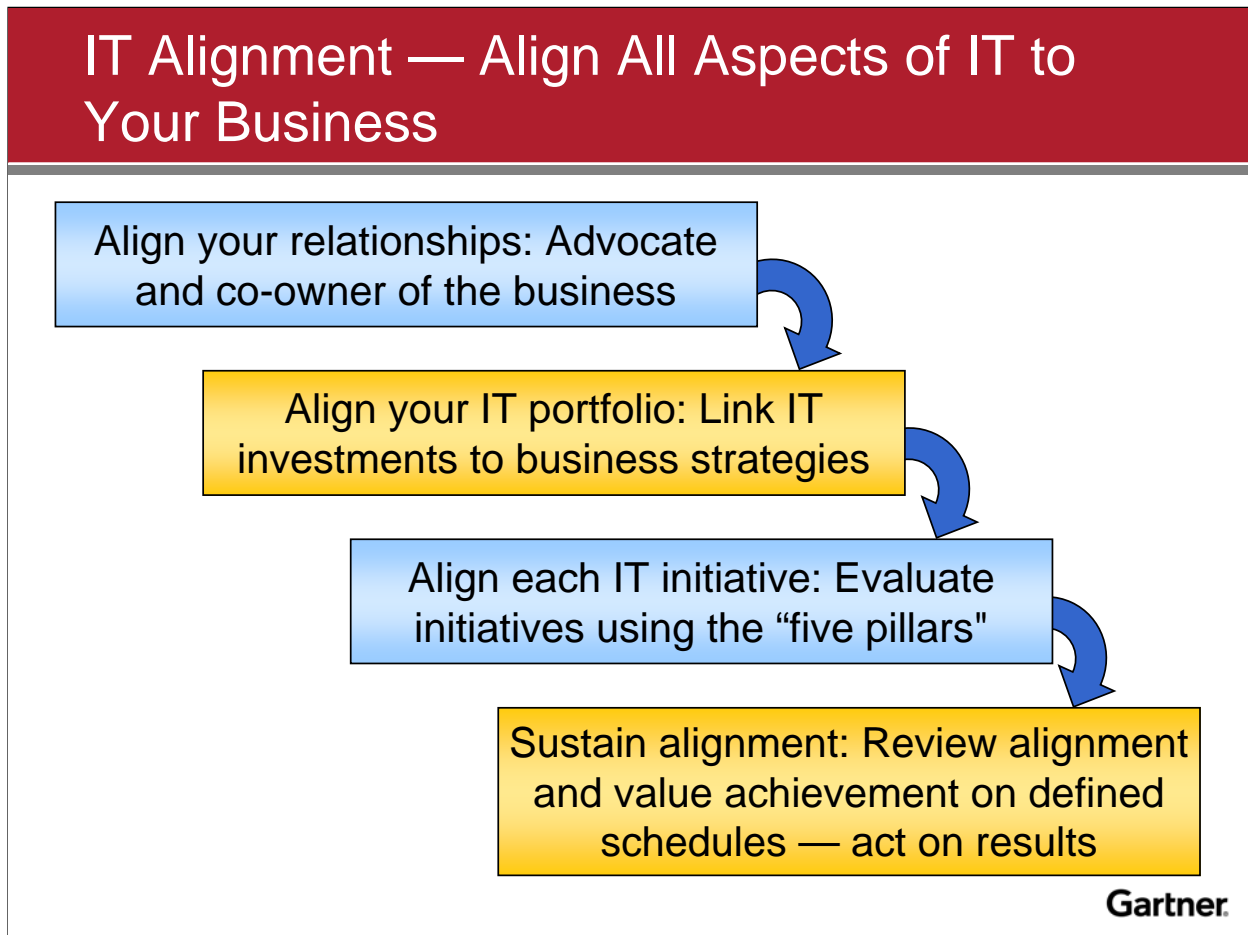
Client Issue: Which actions must organizations take to ensure ongoing business value of IT success?

The objective of the BVIT Maturity Assessment is to evaluate an organization's current level of advancement in terms of achieving business value from IT. This will be from the standpoint of alignment with business, business/IT value standards and the maturity of your BVIT processes. The evaluation should result in an exact listing of strengths and weaknesses, highlighting areas for improved performance. The company should classify its level of maturity using the model above plus these key questions:

- How can we identify those projects with the highest potential business returns?
- What are our business, technical, governance and organization issues in managing the BVIT?
- Does our BVIT process enable the organization to comply with its guidelines as the business and technology change?
- How can senior executives, the investor community and other stakeholders be convinced that our organization has a practical approach to achieving BVIT?
- Are there any techniques that help put harder numbers on intangible benefits?
- What happens to the original justification when a project gets overtaken by changes in the business or technology environments?

Action Item: Use the BVIT Maturity Assessment to evaluate the status and gaps in your BVIT processes.

Strategic Planning Assumption: By 2007, IT organizations that fail to align their IT strategy to the expectations of their chief stakeholders will cede influence to other IT providers (0.7 probability).



Client Issue: Which actions must organizations take to ensure ongoing business value of IT success?

IT alignment is an ill-defined term. It is not one specific instance of alignment; in fact, alignment must occur on multiple levels. Each level has an associated process, and each also has a clear objective.

Relationship alignment: The relationship between the IT organization and its business partners is often strained by the perception that the IT organization lacks understanding of the business and its strategy. To align the relationship, the IT organization must act as an advocate for the business and be perceived as a co-owner in accomplishing its mission.

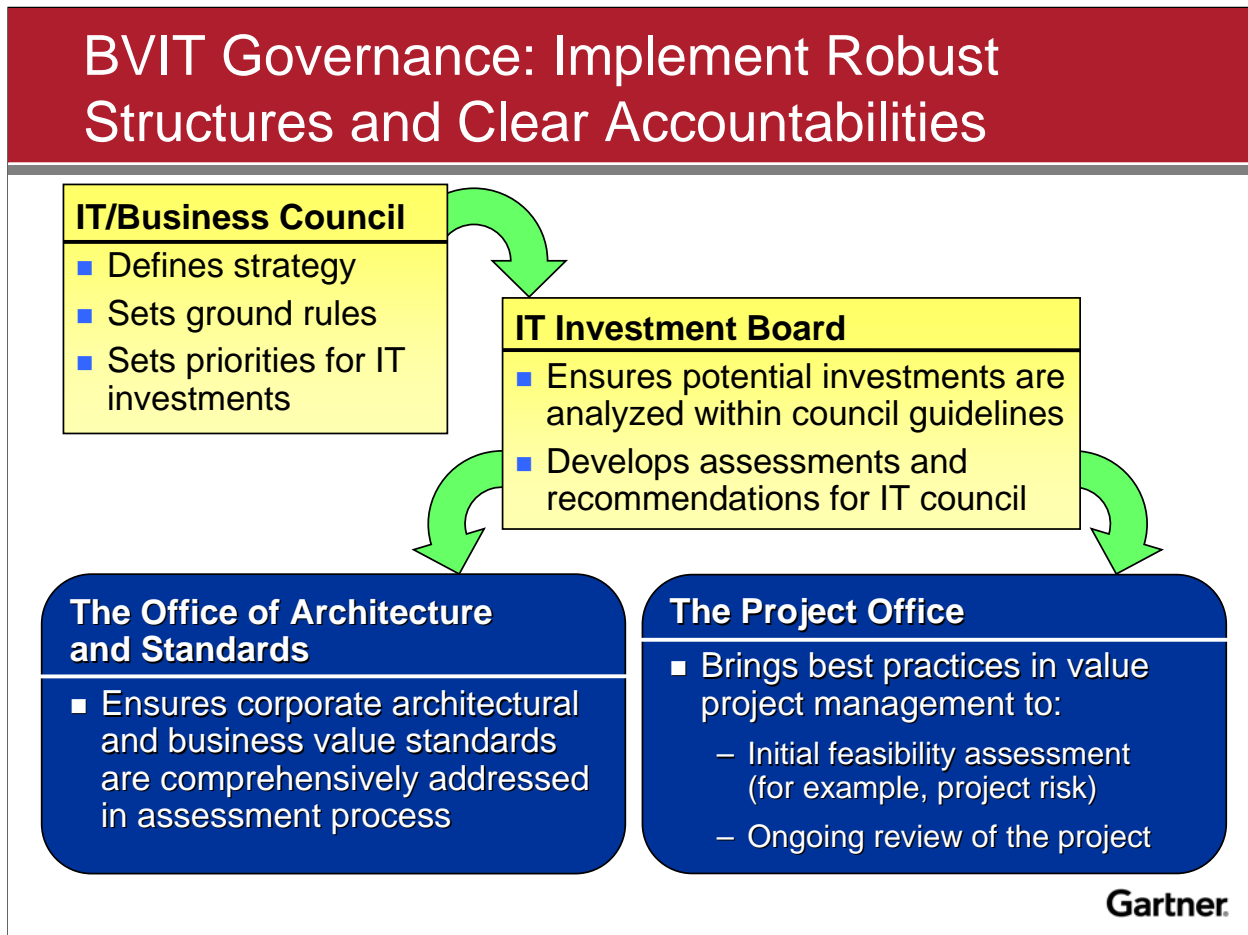
Portfolio alignment: The IT investment portfolio is often weighted toward internal IT and is less attentive to the needs of the business. Aligning the IT investment portfolio is assuring a high degree of fit when the IT plan is mapped to the organization's strategic objectives.

IT initiative alignment: For individual IT initiatives, there is a high degree of fit to the five pillars of business value, signaling that an initiative contributes to resolving the company's major concerns.

Sustained alignment: The final alignment objective is that the IT organization have an ongoing process to re-evaluate alignment at regular schedules. It acts on the results of the evaluation, resolves relationship issues, refines the IT portfolio, and validates, kills or accelerates IT initiatives to maintain alignment.

Action Item: Ensure that all four components of IT alignment are in place and effective.

Strategic Imperative: Productive, effective governance tools must be implemented now to demonstrate and improve the credibility of IT project decisions — and, hence, to maximize the BVIT.



Client Issue: Which actions must organizations take to ensure ongoing business value of IT success?

The way people act and interact are central to achieving the BVIT. They need not only the best tools and techniques, but also a set of principles that determine the way decisions get made and conflicts get resolved at all levels, from senior management to technicians, within traditional hierarchies and across business boundaries. Gartner refers to such a set of principles as governance. Without effective governance, people will take shortcuts, the loudest voice will win the day, ad hoc decisions will be made, accountabilities will be lost, and lessons from successes and failures will not become part of corporate wisdom. Governance in BVIT institutionalizes business and IT best practices and supports measurement, accountability and organizational learning. It is embodied in four roles: 1) The IT council sets ground rules and priorities for IT investment. 2) The IT investment board ensures that potential IT investment proposals and opportunities are thoroughly analyzed within guidelines and develops concise assessments and recommendations for the IT council. 3) The office of architecture and standards ensures that corporate architectural and business value standards are comprehensively addressed as part of the assessment process. 4) The project office brings best practices in value project management to initial feasibility assessments and to ongoing project reviews.

Action Item: Review governance structures and ensure that the roles are clearly defined for BVIT processes.

Recommendations — Get a Grip on BVIT

- ✓ Invest in your process for managing the BVIT. Begin with the processes provided here and adapt them to your organization.
- ✓ "Operationalize" your process model with proven frameworks, tools and practices. Rely on Gartner, other experts and your own proven methods.
- ✓ Expand your vision by introducing new concepts of value, VOI, performance management, alignment and intangible value creation.
- ✓ Refine and develop your skills in identifying, articulating, measuring and managing IT value creation.

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This is the end of this presentation. Click any where to continue.