

Maximising the Value of IT Investments

The Maze Principle

I don't know about you, but as a small boy I learned the basic trick of solving a maze. The trick, of course, was always to start at the end and work backwards. It kind of spoils the game, since it usually makes it much easier, but there you go.

So whenever people ask me how to maximise the value of their investments in IT, I suggest they apply the Maze Principle: start with value and work backwards. It hardly sounds like an earth-shattering insight, but in practice it often means a real shift in people's mindsets and their organisation's IT management processes.

It seems that most people are still looking to solve the "Value from IT" puzzle the hard way. Maybe they didn't do mazes when they were children, or maybe they never cheated and did them backwards.

Business Leaders Want Value

From a Chief Executive's viewpoint, it seems reasonable to expect their IT people to know how to deliver business value from IT investments. It is, after all, the underlying theme of IT suppliers' advertising and the promise of every business case. If the IT team don't know how to do this, who does?

Yet it's hard to find many organisations with a Chief Executive who is thoroughly delighted with the value that they are getting for their IT investments. Which makes it particularly odd that organisations continue to increase IT spending year-on-year. Perhaps this is driven by a sense that they have no choice, or by sheer optimism that the next round of investments will finally deliver the much-promised but ever-elusive Value.

The combination of Y2k and the subsequent e-everything frenzy seems to have cemented the idea in many business directors' minds that they won't get fooled again. These two factors, building on many years of must-have IT trends, high costs and poor delivery, have turned the spotlight on value as what (not surprisingly) business leaders really want.

At least one major IT supplier has spotted this trend and is now advertising on the basis of bottom-line business benefits. Expect others to follow. However, IT suppliers adopting this bold promise face an uphill challenge, unless they are planning to overhaul their Customers' IT investment mindsets and processes as part of their service. That might give them some interesting (i.e. long) lead times, is unlikely to be their core competency and may present some difficult conflicts of interest.

No Value = No Money?

It's a sobering thought that the bottom-line costs of an organisation's IT can easily exceed net profits (is this you?) and for some organisations IT costs account for well over 20% of their annual revenue. Without real evidence of the business value that these costs generate, we shouldn't be shocked that - with talk of recession in the air - the IT budgets are among the first to come under the guillotine. Even in the USA, regarded by many as probably the only place on Earth where IT investments are generating measurable productivity gains across the economy as a whole, IT spending is already being cut in anticipation of tough times ahead.

So now is definitely a good time to focus on maximising the value of IT investments, and for sharing some secrets about how to ensure that this is what you get for your money. This is where the Maze Principle helps. Here's a short introduction to how it works.

The Maze Principle: Start With Value and Work Backwards

What does your organisation call value? To apply the Maze Principle, the first thing to sort out is what your organisation really regards as value - and not just from its IT investments. There's no reason to separate these from everything else. If you find that you are aiming for different types of value from your IT investments compared to all the other things your business is doing, then this is the first sign that you need to have a rethink. You also need to recognise that your organisation's view of value evolves over time, sometimes very quickly.

Operational and Strategic Value

Whatever your organisation calls value, you can divide it into two categories – operational and strategic. We use simple definitions for these: operational value contributes to this year's business results; strategic value contributes to future years.

Depending upon where you are in your financial year, the likelihood of delivering net operational value from new investments can be fairly slim. Many IT investments will therefore be contributing to strategic value, i.e. next year and beyond. This is one major reason why you need to align your IT Investment Strategy with your other key business strategies, since they are the source of future value.

Direct and Indirect Value

There is also a very important difference between the direct value and indirect value of investments. For example, the direct value of a particular investment stream may be a 20% increase in Customer satisfaction. That is what your investment is directly aiming to achieve. The indirect value of the same investment is likely to be a financial measure such as Net Present Value (NPV), Internal Rate of Return (IRR), payback period or something similar, depending on your financial policies.

The indirect measures provide a basis for comparing initiatives that have different types of direct value. However, if you use indirect measures too literally as the basis for prioritising initiatives, beware. You may end up doing all the wrong projects, but that's another story.

You can expect there to be logical links, via various 'hypotheses', between direct measures of value such as Customer satisfaction and indirect measures such as NPV. These hypotheses are likely to be unique to your organisation. In practice, experience may well highlight flaws in the logic: you may succeed in delivering direct value, but may fail to deliver the corresponding indirect value – or succeed beyond your wildest dreams. In terms of planning further investment, this is essential knowledge that can represent value in itself.

Value Milestones & Initiatives to Achieve Them

The next stage is to establish value milestones, and you must do this before any other milestones are set. Using the example of increasing Customer satisfaction by 20%, unless you are planning to achieve this all in one go, you need to say what the intervening increases will be and when. These are your value milestones, and achieving them becomes the foundation of your project and programme management, design decisions and so on.

Having set the value milestones, you can then determine the individual initiatives that will deliver them. Some of them will need IT investment, providing you with the building blocks of your IT Investment Plan. But be prepared for value milestones to change, in the light of market conditions, tactical changes and experience along the way.

The Value of IT Architecture

One very noticeable impact of driving the IT Investment Plan from value backwards is that it changes the role of IT Architecture. In our experience, the change is for the better. Instead of driving the investment plan, IT Architecture adds value by helping to shape individual investments to deliver a 'big picture' that is more than the sum of its parts.

In a value-driven IT strategy, IT Architects add value in two ways. Firstly, they can inform the planning process of opportunities to structure investments better – given the shape of the existing IT Architecture, the ideal blueprint for the future and trends in the IT Market. Secondly, IT Architects are the only people who are well placed to co-ordinate all the individual investments to ensure that they achieve Brand alignment, deliver cohesive information flows and ensure maximum leverage of existing IT assets.

In Conclusion: Value as the IT Core Competency

In today's IT market, organisations can choose outsourcing, partnerships and the supply chain to source their IT needs. The one in-house core competency that will always be needed is the ability to maximise the value to your business of your IT investments. This is not something that you can realistically hand over and entrust to a third party.

Maximising value must therefore be the primary focus of your organisation's IT Investment Strategy, the core of your 'IT mindset' and the driving force for your IT management processes. The Maze Principle is a reminder that one of the secrets of achieving this elusive goal is to start with value and work backwards. You may well end up with a very different-looking IT strategy and investment plan, but they are much more likely to succeed.

Chris Potts
Dominic Barrow
May 2001

This article was published in Computer Weekly, with some editorial adjustments, in May 2001.

ComputerWeekly

Contact Details

Dominic Barrow
Golden Cross House
8 Duncannon Street
London
WC2N 4JF
United Kingdom

Telephone: +44 (0)20 7484 5004
Email: enquiries@dominicbarrow.com
Web site: www.dominicbarrow.com