CIO Advisory Board Responses: Business Benefits from IT Investments

THREE CIO ADVISORY BOARD RESPONSES TO “MANAGING THE REALIZATION OF BUSINESS BENEFITS FROM IT INVESTMENTS”

Executive Summary

Ted DellaVecchia, one of three members of the newly formed CIO Advisory Board, to comment on the Peppard et al. article, believes the authors are on the right track in emphasizing business value and the demand side of IT investments, to successfully realize the benefits. Furthermore, he surmises that a framework like the Benefits Dependency Network (BDN) might also be useful in high-level corporate governance—perhaps to assess the strategic alignment of the IT portfolio with the business.

Stuart Scantlebury believes that the key message of this article is that benefits need to be managed to be realized. Unfortunately, he notes, they rarely are. Business cases typically describe deliverables and benefits but often do not link the two. He also suggests that project teams expand on the article by offering top management options for projects, based on a benefits management analysis. Then management can choose the option closest to its cost, risk, benefit, and timeframe preferences.

John Stevenson disagrees with the authors when they say “IT has no inherent value”—and he explains why. He believes it would be more instructive to split IT spending into two categories—required spending and project spending—and evaluate the two separately. Required spending does have inherent value. Project spending, on the other hand, does need its value tracked and captured.

THE AUTHORS’ FOCUS ON BUSINESS VALUE IS CORRECT

Ted DellaVecchia
President and CEO
Strategic Alignment Partners
(Formerly CIO of companies in the healthcare, retail, and IT industries)

This article hits on key aspects of what is arguably a modern-day business paradox. The significant focus and desire to achieve optimum business value from IT investments is quite prevalent in most businesses today, regardless of industry. However, only a limited number of companies consistently translate IT expenditures into highly valuable or breakthrough results.

Why? What magic formula do these businesses use to reap competitive advantage, improve efficiencies, lower general and administrative expenses, or garner other desired monetary benefits? Some have tried to increase IT spending. Yet, analysis provides no evidence of a correlation between total IT spend and corporate performance. Others have tried, as this article correctly points out, cutting IT operating expense to balance payback and ROI. It is well documented that this misguided method does not provide long-term utility either.
But Demand-Driven Investing Can Encounter Resistance

The model presented in the paper is an excellent example of an approach that makes sense, and which, in other forms, has been successfully practiced by many organizations. This model correctly points out that if business value is the intended outcome, then business value should be the focus. As a former CIO in a myriad of companies, I can attest that this “epiphany” is often initially met with resistance. It may be that the alternative (focusing on IT implementation) is simpler and a potential safe harbor if things do not turn out as originally promoted.

Focusing on business value may also grate against a traditional political premise that IT is subservient to the “business;” therefore, it should be held accountable when dramatic business results are not realized. I was once CIO for a company that, at times, expected our IT team to design and deliver IT “solutions.” But we received limited guidance on the necessary functional business specifications. Inevitably, the outcome was friction between the “business” and our IT project team regarding post-implementation value. This firm clearly had difficulty optimizing ROI from IT spending—until it adopted a business-demand (BDN-type) investment model.

Whatever the reason, many companies struggle with the need to focus on business value. But numerous cases demonstrate that achieving commensurate business value is more probable when the organization takes a demand-side, supply-side, value-based approach to leveraging IT.

The Approach Might Improve Governance As Well

My sense is that the BDN Model is not only applicable as presented but is also extendible to high-level corporate governance. Could it be used, perhaps, as the primary filter for portfolio-based approaches to strategic alignment of enterprise IT investments? This question would be interesting to explore.

THE KEY TO GAINING BENEFITS IS, INDEED, TO MANAGE THEM

Stuart Scantlebury
Former Vice President and Director (retired)
The Boston Consulting Group

I think the term “benefits realization plan” is an interesting new term. It points out that even if you do a good job describing expected benefits and the link between the various IT and non-IT changes to be implemented, you can’t just wait until the post-implementation review to see if you achieved those benefits. Benefits realization needs active management. This may be the most important idea in the article.

Unfortunately, benefits realization is not often practiced today. In my consulting experience over almost 33 years, I have rarely seen a project business case that clearly linked how the systems to be built and the business changes to be made would lead to the promised benefits. Most business cases list the deliverables and the benefits, but fail to make the logical link between them.

More Reasons to Manage Benefits

One key reason for doing “benefits management” is that situations change during a project, which can affect the potential benefits. For example, some technical aspects of the project might turn out to be much tougher than the technical team thought. Or the changes the business has to make might turn out to be more or less extensive, requiring a recalculation. Or the original logic that mapped the new system to the benefits might not be quite right, and needs recalculation. When teams encounter such changes, they should re-analyze the cost/benefit situation.

To expand on the authors’ thinking, I suggest that project teams look at different options, different “combinations of enabling changes and business changes,” to avoid going down just one path through group-think. It is even possible to offer optional packages of performance improvement targets and potential benefits, each linked to specific “combinations of IT enablers and business changes.” With such options on the table, senior management could choose between, say, one option that is high-cost, high-benefit, high-risk, and longer-timeframe versus another option that is lower-cost, lower-benefit, lower-risk, and shorter-timeframe.
Distinctions in the Article May Be More Theoretical Than Reality

As you can see from the above, I find this article very useful. But the authors left me unconvinced in two distinctions they draw.

First, I am not convinced that innovation-based investments are so distinct from problem-based investments. As I look at the examples for the two, I do not see fundamental differences. For example, if innovation means “new,” then certainly new technologies and new business processes are used in problem-based situations. What is the threshold for classifying something as “an innovation”? I believe that project teams working on a “problem” often “identify, create, and successfully implement advantageous new ways of conducting business”—which is the authors’ definition of “innovation.”

As an aside, some ask whether an IT organization can actually innovate. Over the past two years, we have done some research on IT-enabled business innovation. We asked executives whether their IT organization needed either a problem or a defined business strategy as a starting point for innovation. Some respondents said, “Yes.” To help develop a business innovation, IT needed a strategy or at least a problem to solve. Others said, “No.” A strategy or problem in advance was not necessary. IT could devise innovations based either on blue-sky thinking or on surmising how a new technology (such as RFID) might be useful.

Second, I do not see differences between “enabling changes” and “business changes,” as noted in Figure 1 of the article. For example, why is “introduce a new account management process” not a business change? I can see theoretical differences, but the examples do not prove the point to me.

All in all, the article addresses an important subject and provides a thoughtful way to approach getting value out of IT investments.

IT HAS MORE VALUE THAN THE AUTHORS STATE

John G. Stevenson
President
JG Stevenson Associates LLC

(Former CIO of Sharp Electronics, Bristol-Myers Squibb Pharmaceuticals, Lennox International, and Dr Pepper/Seven-Up)

Many of today’s corporate information technology area leaders continue to suffer from a lack of “traction” with their executive peers when it comes to defining the ROI of various types of IT projects. Therefore, any formula that can facilitate an effective process for determining and tracking ROI of a project is a welcome piece of literature.

I strongly applaud the authors’ well-organized “Benefits Dependency Network” approach. It bears inspection by my peers and potential adoption as a guideline for tracking and capturing the value of projects.

IT Does Have Inherent Value

However, the principles presented as the base case in the article misalign the overall status of IT costs and alignment. Principle #1, which states that IT “has no inherent value,” as a base premise and a “call to action” is too inflammatory. IT systems are now a required component of almost all businesses with revenues over 3 million dollars or Euros. In addition, on-going IT costs rank with the costs of logistics, raw materials, finance, and sales.

Stating that IT has no “inherent value” is just plain wrong. The sophistication of today’s businesses in many sectors depends directly on the efficiencies and the speed derived from their IT solutions. Many financial models for the global economy put strong emphasis on the success that advanced western countries have had in gaining efficiency leverage for their more expensive staff costs through IT.

Correct management of on-going daily costs of IT systems and services should not always require a “value” or ROI component. Rather, the focus should be on efficiency and effectiveness. For example, if one firm’s cost of an IT operating component is higher than its industry peers as a percent of sales, and if it is not delivering an equally high capability or service to the business, then it should be evaluated on a cost-versus-capability payback equation. This same type of
analysis can be applied to other standing components of a business. This analysis differs from a pure value or ROI view—and is a key and significant part of IT’s costs.

**Split IT Spending into Two Categories**

Therefore, I suggest that the authors can make their case without the concluding view in Principle 1 that “all IT spend” is a valueless wasteland. It would be more instructive to split their thesis into the two elements: required spending and projects spending.

*Required Spending.* Core or “required” IT spending components or services should have a different focus than IT “projects” or new technology developments. While the business managers are the “graders” for the success of IT core deliverables, they cannot always be the only thinkers driving the changes or economics of core services. IT leadership must always be at the executive table, determining, developing, and communicating what techniques and approaches are best for delivering the core IT services to their business. IT leaders can and should articulate the “problem” project issue, which often derives from inadequate or misplaced IT investment, business participation, or IT staff direction. I consider “problem” types of IT actions to be one-time events for a new CIO. If they become systemic, the CIO should be changed.

*Projects spending.* Some value-added new information technologies or solutions come under the innovation mantle, or they are less intrusive and positioned as an incremental improvement. These IT investments should go through the full rigor of the “business value or ROI” formula, to put them in the right priority for corporate spending. I agree with the authors that business-led initiatives will often have the highest success rate. However, as the influence of IT capabilities on the overall success of the business grows, so too does the expectation that the CIO is a unique business innovator.

In summary, IT has significant “inherent value” in many, if not most, businesses. This value is derived form its “core solution requirements.” Where IT can fall short is in the determination of value for its “new” solutions projects. One caveat: many IT value payback conclusions fall short simply because a corporation “overall” does not have the will or the mandate to register the final “agreed to” business/IT changes for an investment. This is cultural. It is not specific to IT.