Value Management

If IT has a dirty little secret, it's this: IT accounts for 50 percent of U.S. capital spending.4 And even though elaborate systems are in place to show how the capital is spent, few systems are in place to demonstrate that the capital is well spent. In other words, although companies are managing IT spending, they are not managing IT returns. In terms of personal financial management, it's akin to using Quicken to track actuals versus budget but never bothering to run the reports that tally investment returns. Furthermore, if you don't know your actual returns, you can't hold the investment broker accountable for the performance of the portfolio.

Although it seems ludicrous to imagine a meeting with an investment broker that doesn't include a discussion of realized returns, this happens every day in IT prioritization meetings. The typical meeting sequence goes something like this:

• "Exhibit A shows our IT capital budget and allocations to date."

• "Exhibit B forecasts our capital availability."

• "Exhibit C lists project requests in priority order based on strategic fit, value, urgency, and risk. Please note that we recommend investing in the top-rated projects in line with affordability."

There is rarely an exhibit D that summarizes returns and key insights from prior years' investments, expected marginal returns on projects in flight given changes to scope, and recommendations for future funding based on demonstrated impact and business leader commitment to deliver value.

Andrew McAfee observes, "Across the hundreds of quantitative IT business cases I've seen, I'd estimate that the average ROI figure was about 100%." Then he concludes, with a heavy dose of sarcasm, "If this ROI figure is at all accurate, why are companies spending money on anything else except IT?"5

Only 5 to 10 percent of companies hold their business leaders accountable for realizing value.6 That's true even though almost 60 percent of IT and business leaders believe that their ROI from IT is at least acceptable if not good.7 This is like touting the returns from your financial investments with little proof to back them up.

On the surface, this "managing without measures" approach seems crazy given that businesses are savvy when it comes to managing non-IT capital spending. But this behavior is logical when you consider that most IT-enabled business investments don't directly impact the financials. IT-enabled investments impact financials *indirectly* by affecting the performance of people and the processes they manage. Attempts to analyze the return of a customer relationship management (CRM) system, for example, by analyzing the impact on revenue is an exercise in futility given that there are a jillion things that impact the top line.

Fortunately, the financial impact of IT-enabled investments can be determined by analyzing the relationship between business processes and financial results. For example, a sales support

system can lift revenue by supporting process changes that enable cross-channel coordination and improved service levels. Therefore, the returns can be evaluated based on increases in cross-channel sales and reduction of the volume of calls to the customer care center; both measurements have top-line implications that can be calculated directly (in the case of cross-channel sales) or imputed (the impact of improved service on customer retention).

Of course, this approach requires measurement discipline. If your company uses the Balanced Scorecard, you can apply these measures to justify your proposals. Lacking formal measurement systems, you can identify the operational process measures of your business by examining major P&L and balance sheet line items and asking the question, "What drives the performance of this item?"

For example, in the restaurant business, it's possible to increase sales by opening more stores in better locations, increasing store throughput, selling higher-priced items, improving service, improving food quality and appeal, and the like. Once the process measures have been identified, you can use them to justify your proposal and, during development and after implementation, to keep the project on track and validate that value has been realized.

Now, How Do I Get Funding?

To get funding, you need to prepare a business case for review by the IT investment council. Many leaders treat IT business cases as a bureaucratic hurdle (because most companies don't verify that the projected returns were realized), but IT-smart leaders put the business case to good use by using it to shore up support and set up their projects for success.

To build support, align the initiative to the enterprise's strategic business objectives and the selfish interests of the key stakeholders who will be impacted, who will allocate resources, and who hold approval and veto power over the funding. It always surprises me how little leaders know about what motivates the people they hope to influence. To find out what gets them up in the morning, ask stakeholders two simple questions: "What are your objectives for the year?" "What challenges or barriers are standing in the way?" With this information in hand, shape your justification so that they can see themselves in the proposed business case.

To help ensure the success of your initiative, use the business case to drive the focus and approach and to serve as the go-to point of record to manage scope and prove that your investment generated the targeted return. Even though most companies don't measure the returns of their IT-enabled investments, the governance boards are always impressed by leaders who do.

You're Killing Me

I know what you're thinking. There you are, working the front lines of the business, making product, schmoozing customers, and booking sales. In the midst of another busy day, some bureaucrat throws an e-mail over the wall, letting you know that your IT-enabled initiative needs to be better justified.

Within every company, there are IT leaders struggling to make business leaders love them while pushing the bitter pills of enterprise interests. An IT leader doesn't want to make your job harder. He understands that pushing you through governance processes, such as demand management, means pushing you away. But he doesn't have any other choice. He doesn't think you will trade off your individual interests and voluntarily comply with policies and processes that protect the interests of the enterprise.

Sounds silly, doesn't it? Yet, every day, business leaders advocate IT investments to support their business units without knowing, or asking, whether the investments make sense when viewed at an enterprise level. More than 45 percent of business leaders admit that they want it all—right now—regardless of ROI.8 Few business leaders feel that IT is one of their core accountabilities, and "CEOs acknowledge that the governance of IT emphasizes checks and balances more than the strategic use of IT to create value."9 To shift the focus from paperwork to possibilities, business leaders need to embrace accountability for protecting enterprise interests from within so that governance from above can shift from heavyweight to lightweight.

For now, you are stuck with the demand management process. It's a necessary evil, but you can make your hard job a little easier if you know the rules and know how to play the game. When you propose investments, make sure that they:

• *Align* with enterprise strategies and the hot buttons of the key decision makers;

• *Enhance* cross-enterprise collaboration and integrate critical processes, information, and technology;

• *Deliver* value early and often to justify one-time and ongoing costs and resources;

• *Assign* the best and brightest employees; and

• *Leverage* existing technology, improve systems performance, reduce KTLO costs, and mitigate risks.

In everything you do, keep in mind that you want to build a reputation for leading responsibly with IT so that, going forward, you are fast-tracked through approval processes.