



# IT Value Management

## How to Deliver Value to the Business

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IT departments and CIOs are under pressure. Besides the economic recession, internal forces (e.g., cost pressures, margin declines and outsourcing), as well as external forces, new regulations and technological development, all drive the daily operations and the strategic direction of the IT department and the CIO's work. They create a fast-moving environment and severe conditions under which CIOs need to navigate carefully in order to deliver the value required by the business. In this article we want to shed light on the question of how IT departments and CIOs can highlight the value they contribute to a company. Experience shows that successful CIOs effectively communicate and deliver IT value to the business in many ways: regularly aligning IT strategy with business goals/priorities; actively managing their IT project portfolio; making sure the IT landscape is mapped within the business architecture; and running effective and efficient IT projects and IT operations and governance, including a value-oriented reporting system that involves frequent interaction with the business. In order to start the journey of IT value orientation, an IT value assessment provides initial insights into the biggest gaps in potential value opportunities. The first step forward is, in many cases, the implementation of a structured Business Relationship Management process.



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### Introduction

Various internal and external drivers create pressure on IT. Tough economic times and regulatory requirements, especially in the financial sector, have a severe impact. Also, the pace of technological developments is fast, so that technological decisions need to be made not only carefully but quickly. Additionally, internal forces like inappropriate management expectations or the scale of outsourcing and the pressure it puts on costs creates a challenge for CIOs. At the same time, the value generated by IT investments is not adequately recognized by many organizations. Their business representatives still see IT as a cost driver, rather than an equal partner and value creator.

In order to overcome those drawbacks, CIOs must manage their resources (budget, infrastructure, applications, people, and information) and capabilities (organization, governance, processes, knowledge, skills) in the most efficient and effective way to support the business outcomes and deliver value to the organization.

CIOs must understand the needs and priorities of the business first, in order to focus on strategically important

areas in which they can invest money. Knowing the strategically important areas and business needs allows CIOs to understand the proper allocation of IT spending and to understand where to save money without impacting business value. IT value management implies that measures are directly linked to business goals and business needs. One way to visualize the interrelation between IT investments and business outcomes is a value tree, as depicted in the figure below. Major technology or IT investments impose major changes to processes, which drive the business efficiency and efficacy, and have a direct impact on the business outcome. Only if IT activities are linked to the business outcomes are they perceived to create value. So IT needs to organize itself in alignment with business planning and the goals that the business wants to achieve in the future (e.g., cost cutting in division XY, growth in country B, and innovation for product X).

In this article we will shed light on the question how IT departments and CIOs can position themselves as value contributors within a company. KPMG research<sup>1</sup> shows that more and more CIOs realize that this is a key element of their personal success, and they have put IT value management high on their agenda for the coming years.

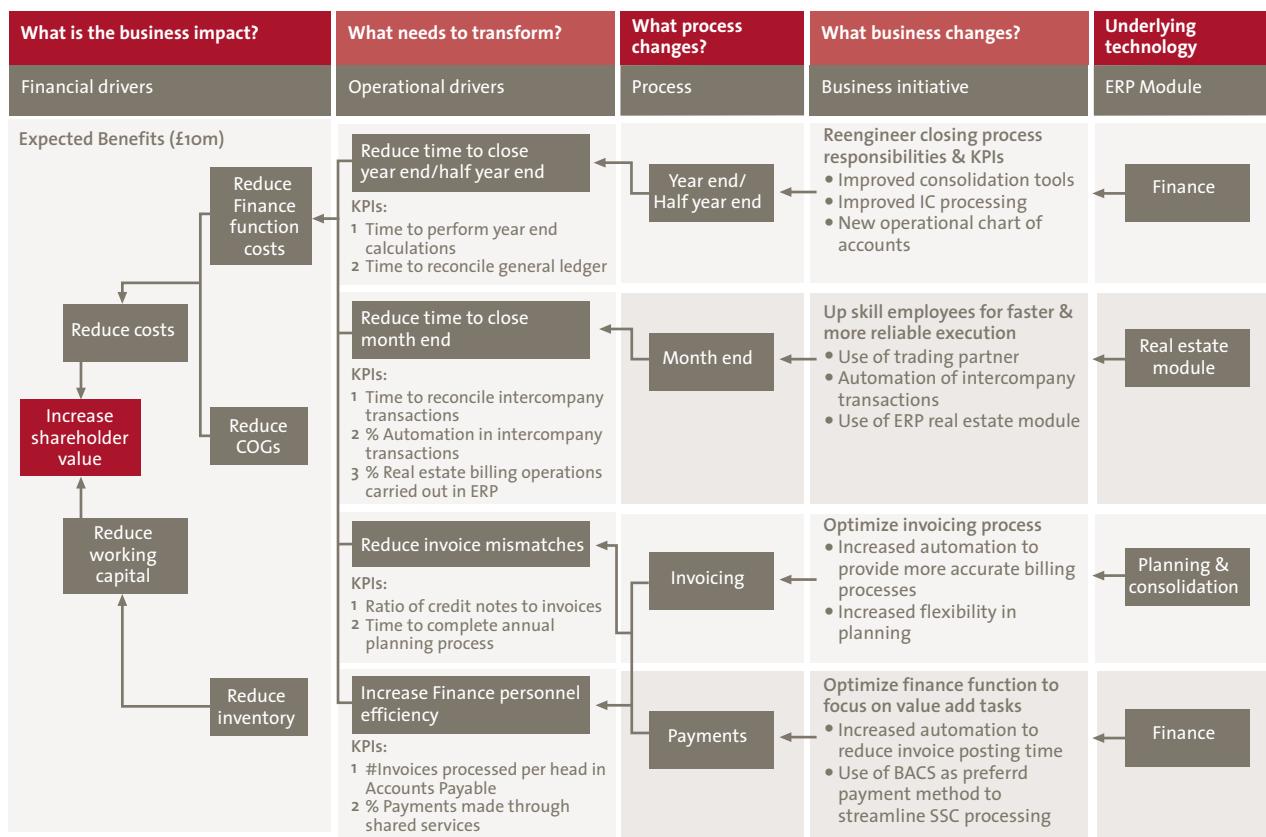


Figure 1.

## Delivering Value Along the IT Life Cycle: Seven Key Areas

A successful IT department will provide the company with the right information to see things clearly, and it will respond to the company's preferences and strategic needs. This requires that an IT department and the CIO have clear vision and understand the business and its activities, so that they are able to provide technological direction and deliver services that meet the strategic direction of the business. Besides, delivering services and strategic input that is critical to the business, continuous "value communication" in the language of the business, supported with a value oriented reporting system / KPIs, are key components in best practices for IT value management. Hence, a key question of today's CIO is, "How can I realize and demonstrate the value of IT to the business?"

In order to answer this question, experience shows that successful CIOs effectively communicate and deliver IT value to the business in the following seven key areas along the IT life cycle:

A CIO must address these seven key areas in order to achieve a value orientation for IT:

1. *Is my IT strategy and planning aligned to the business requirements and objectives?*
2. *Does my project portfolio have a good mix of value creating and mandatory projects?*
3. *How does my IT architecture support current and future business architecture?*
4. *How good is my project delivery and reporting of the project benefits/value?*
5. *Do we have the resources and capabilities to meet strategic objectives and agreed service levels?*
6. *Do we track and report the KPI's for our IT services, and are they meaningful to the business?*
7. *Do we have frequent and effective communication between IT and business to make sure business recognizes the "value" for their IT investments?*

In the following sections we explore every key area and show how a CIO will be able to answer the above questions. All seven key areas together constitute a roadmap to how to become a value-oriented IT organization.



Figure 2. Seven key areas to effectively deliver value to the business.

1. *From Cost to Value* (2010 Global Survey on the CIO Agenda) and *Positioning the New CIO for Success* (KPMG 2011).

# *An IT project portfolio should include a good proportion of value creating projects compared to mandatory projects*

2. See also Hunter and Westerman, "The Real Business of IT," 2009.

## **# 1 – IT Strategic Alignment with Business**

Business and IT alignment is a prerequisite for delivering expected value.<sup>2</sup> IT strategy and planning should always be aligned to the business requirements and objectives, to provide the value expected by the company. IT management must ensure that IT contributes to business strategic planning and identifies capabilities available to support enterprise goals and other opportunities. The cornerstone is a sound knowledge and understanding of the business by CIOs and IT employees. It is critical that the IT organization has an understanding of the business: its strengths, weaknesses and also the competitive landscape. CIOs and the IT employees need to understand not only the latest technological developments but also the business context. So then the CIO can see the larger picture: the strategic importance, goals and priorities of the different business units; the processes and functions in an organization from the senior management perspective. Then the CIO can align the IT strategy and planning accordingly. For example, an IT strategy should include concrete measures and goals to support an upcoming business transformation, the launch of new products/services, the introduction of new business models/innovations, cost cutting programs, new sourcing strategies, etc. Furthermore, today's CIOs need to proactively suggest technology solutions and new IT trends to help the business achieve its objectives.

Strategic alignment of IT and Business Strategy is ensured when

- IT strategy is derived from the business strategy, and it reflects the company's strategic direction
- IT's strategic planning group includes representatives from senior business management, user management and the IT function
- IT management obtains feedback from business process owners and users regarding the quality and usefulness of its IT plans and strategy
- IT's goals and priorities directly derive from the current strategic business goals
- Strategic priorities are clearly presented (e.g., a roadmap) from senior management to govern particular business units, company functions and business processes
- An agreed process exists which triggers the updating and communication of the strategies
- Business and IT strategic plans are integrated, current and regularly monitored for progress against clear milestones and objectives (and react and adapt accordingly to meet established objectives / revise the plan)

## **# 2 – Structured Portfolio Management**

The objective of portfolio management (PfM) is to maintain the right mix of IT projects to balance IT investment with the ability to meet business objectives. An effective PfM should consistently classify, evaluate and prioritize IT projects (or services) into operating, planned and retired projects/services. Senior management shall regularly be informed and involved in the decision-making process to answer the following questions:

- How are the projects aligned to the IT strategy and the business strategy?
- Which projects/services are the current high-priority IT projects/services for the company?
- Which projects/services belong in the "project pipeline" to support planned innovations?
- Which projects/services need to be retired or cancelled?

The right mix of projects is crucial. An IT project portfolio should include a good proportion of value-creating projects (e.g., supporting quick time-to-market for a new product launch, increasing the level of automation of a core business process and reducing costs of IT operations) compared to mandatory projects (e.g., regulatory and compliance projects).

Furthermore, effective PfM includes the following elements:

- Systematic approach that consistently classifies, evaluates, and prioritizes the projects
- Criteria for prioritizing projects (e.g., demand assessment vs. environmental assessment), which are consistent with the strategic objectives of the business
- Decisions on the project portfolio are made by senior decision makers (e.g., board members or business-unit heads)
- Project portfolio is regularly updated during the year
- There is a defined process for ongoing monitoring and evaluation of investments in the portfolio, to determine whether expected outcomes are being realized, and whether any changes to investments based on this analysis should occur

## **# 3 – IT and Business Architecture Alignment**

To provide true value, designing or changing the IT architecture must always be done with the business objectives

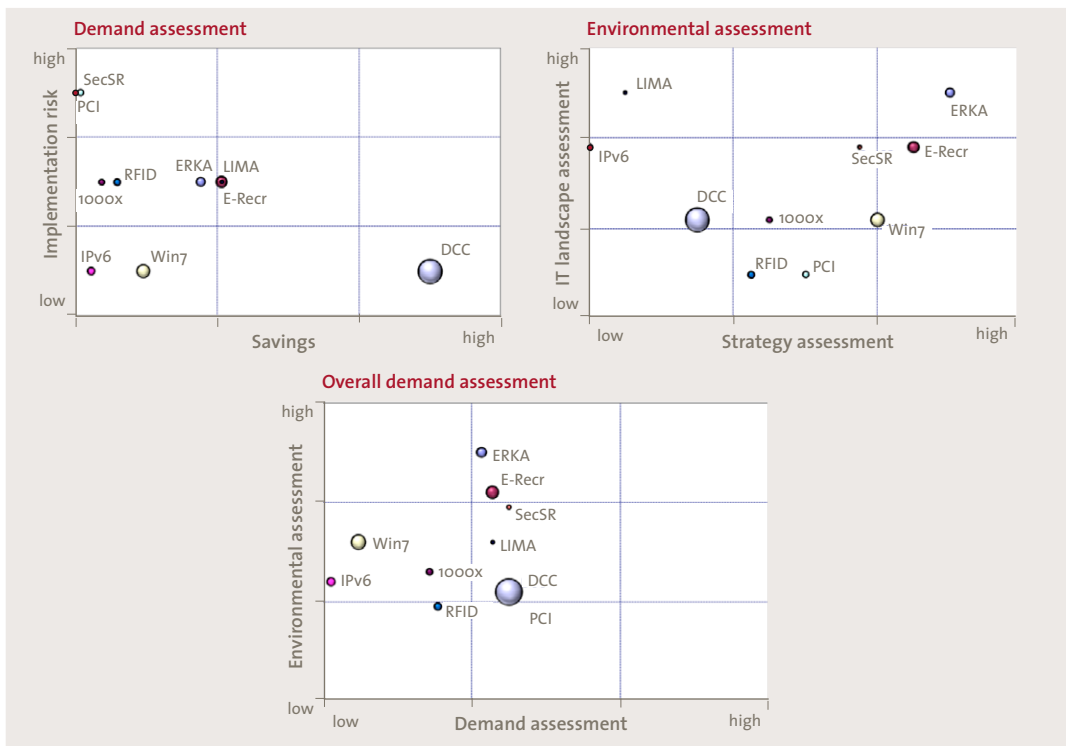


Figure 3.

in mind. The IT architecture (information, applications and infrastructure) needs to be aligned to the current and future business architecture (organizational structure, processes). In order to deliver the value expected by the business, the level of IT and business architecture alignment should be reviewed regularly. This review may be performed with user-satisfaction surveys (e.g., for strategic applications), and should be adjusted as new or re-prioritized IT projects are implemented by senior management.

IT architecture delivering true value to the business follows best practices:

- Fixing what's broken about IT, overcoming the lack of integration and standardization
- Building a digitized platform (i.e., starts by identifying what is constant, and focuses on data that is needed for customer needs/ strategic goals)
- Supporting business strategy (e.g., highly harmonized in terms of IT infrastructure and application landscape, using standard software)
- Exploiting the platform for profitable growth (i.e., in large established organizations, becoming an IT value creator is always a multiyear effort requiring persistent management time and effort)

## # 4 – Effective IT Project Management

Badly managed projects reduce the value of the IT project because the investments are higher than expected and the benefits are lower than planned (e.g., negative business case). Therefore, preparing a well planned business case applying strong project management skills, tools and standard methodologies is key to delivering the anti-

pated project benefits on time, within budget, and up to quality standards.

The project benefits must be aligned to the business strategy regarding the goals and priorities, and must be approved by the key stakeholders before the project starts. The minimum requirement is a project definition and a project conclusion (benefit description). Independent project and quality reviews track the project progress and communicate the value/benefits to relevant stakeholders, to ensure return on IT investments. Projects performing poorly may be subject to cancellation (it is never too late to change course).

Companies with a high maturity level in project management have key characteristics<sup>3</sup>:

- Program and Project Management are mainstream disciplines
- Delivery is highly reliable or projects are stopped early
- Projects are regularly reviewed and adjusted where necessary
- Initiation of each major project phase is approved by an appropriate level of management (e.g., business cases are well planned and supported)
- Common Project Management tools, methodologies and standards are used by all projects and are periodically reviewed and updated as required
- Mature Project Management Office (PMO) helps in the structured execution of projects and programs
- A formal measurement tool tracks metrics (e.g., project costs as a percentage of savings realized and costs attributed to cancelled/delayed projects)
- A process exists to control and supervise changes according to their impact and category

3. See also, "Project and program management survey 2012 – Are you getting the most out of it?," KPMG 2012.



- Comparison against best practices and methods adopted by other leading companies is performed and results are used for improvement initiatives within Project Management
- Well executed risk management, which is performed by both internal and external parties

## Case study

We have defined the program structure for a financial services organization.

We have been heavily involved in an integration/separation program as a result of a merger between two financial services organizations. The program had international coverage (more than 15 countries) and came with a significant investment. To secure the benefits of the merger, a multi-year program was defined. One of the concerns of the board was to control the program in such a matter that the responsibilities were placed at the right level and there was a good balance between trust and control.

As we were not involved from the start, the first step we took was gathering full insight into the key projects/programs and identifying the stakeholders. To get a good overview of the projects, we introduced a project administration tool to capture all relevant information (such as projects, planning, dependencies, costs/ investments, risks, issues, etc.). At the same time, we interviewed the relevant stakeholders to get an understanding of their anticipated involvement and information needs. Based on the insights gained, we drafted a layered governance model in which the stakeholders are positioned. For each layer we defined the key roles, responsibilities, meeting structures and standards/principles related to project management. By emphasizing the points of contact between the layers, we ensured that there was strength within each layer and control between the layers. This resulted in a stable situation.

Additionally, we positioned the QA role as part of the organization but independent of it. The independence of the QA role is important, and it should preferably report to the steering committee or the board of directors. Another lesson learned is that the QA role should operate in proximity to the project or program to ensure that advice from the QA role can be fed directly into the organization so as to optimize the insights gained.

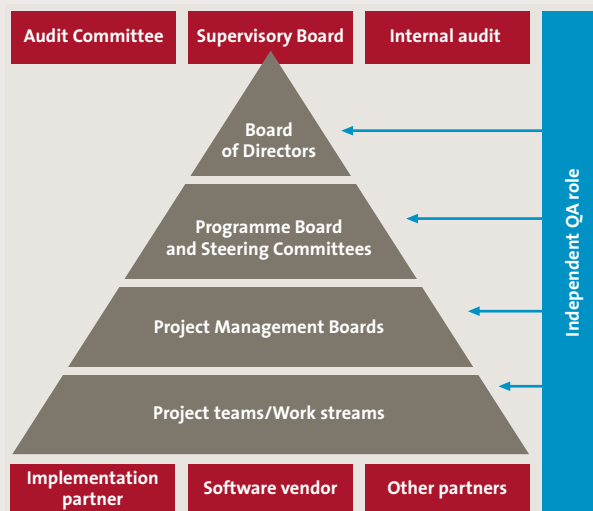


Figure 4. Project Governance Model.

## # 5 – Efficient IT Operations & Governance

Over the last 10 years many things have been said and written about IT operations and governance. The search for the ultimate governance model has produced little business value. This goes back to the fact that “with the right people you can make almost any governance work, the wrong ones will reduce even the best-paper-governance design to a shambles” (interpretation from Michael Goold & Andrew Campbell, *Designing Effective Organizations*). In our opinion, the governance discussion should be on the agenda, but not as a solution for all the problems and challenges. The discussion should be around collaboration, skills/competences and connection with the business.

IT operations is mostly perceived by the business as having little value: IT is just the cost of doing business. This is partly true of IT operations. The cost pressure in IT operations is high, but the functional/technical requirements are high as well. The means that IT operations is confronted with the challenge of operating at lower costs to meet growing technical demands and specifications. In that sense it is important to pay sufficient attention to the IT operations, especially given the fact that it is seen as a default. So, if the operations are not running smoothly, there is ample room for conversations around IT adding value solutions.

Efficient IT operations are organized according to best practice frameworks and standards (e.g., ITIL, ISO 20000 IT Service Management), and start with these minimum delivery requirements:

- presenting their services in a current IT service catalogue;
- setting “targets” for service quality (e.g. availability, capacity, security, IT service continuity);
- comparing actual service levels with the targets, and providing regular reports to the business as part of an implemented service level management process;
- reducing the duration and frequency of service outages through effective service desk and incident management processes;
- reducing unplanned costs caused by service outages through effective problem management and IT service continuity management processes.

Furthermore, in the IT department the formalization of IT governance elements is critical. Elements in an effective IT governance framework typically include descriptions of the key components:

- Structure (How is the IT organization organized, e.g., governing bodies, IT strategy group, project review panel, team meetings, etc.)
- Accountability (Who makes decisions and how are they enforced)
- Processes (How are decisions made)
- Principles (What are the core beliefs and assumptions behind IT decisions and IT organization)
- IT Reporting structure (What are the reports to steer and gear the IT performance and value contribution)
- IT Communication (What are the communication channels to report value-enabling IT achievements)

In value-oriented IT operations, the CIO is a member of senior management. Typically the board of directors includes an IT committee that deals with IT issues and approves the IT budget. This ensures that an effective IT governance model with clear responsibilities and decision making processes is in place.

## # 6 – Value-Oriented Reporting System

A key element of IT value management is an implemented reporting system with what are to the business *meaningful* Key Performance Indicators (KPIs). The KPIs can be of a qualitative nature (e.g., user satisfaction statement of an IT service) or of a quantitative nature (e.g., the number of incidents escalated to problem management).

The pivotal point in setting up a value-oriented reporting system is the identification of business-critical success factors (i.e., something that must happen if the business is to succeed) and creation of the relevant KPIs. It is recommended to start with only a small number of KPIs (concentrate on what is really important and provide “true value” to the business). Make sure the KPIs are “fit for use” before implementation (e.g., the KPI owner has been identified, the frequency of and processes for reporting to business stakeholders are agreed, and measurement techniques and tools are in place). Once established, KPIs for the core IT services should be summarized in Service Level Agreements (SLAs) and regularly tracked, reviewed and discussed within the business.

*In value oriented IT operations, the CIO is a member of the top management*

### Case study: Development of value-oriented KPI dashboard for a major European insurance company

Insurance companies no longer benefit from extraordinary investment returns, which forces them to focus on achieving operational excellence. Information Technology (IT) is a crucial enabler for the insurance business and is the backbone of its activities. Thus, the IT needs to be strategically aligned with the business to help achieve the business objectives and reach operational excellence. We were asked to perform an analysis to identify the relative position of IT within the larger organization and identify a set of KPI which would help to align the IT department with the business goals in order to meet the new market opportunities. The IT department’s challenge was to track and monitor their value orientation towards the business with relevant KPIs.

In order to introduce a value-oriented dashboard, the first step was to analyze the current KPIs. Secondly, interviews with business representatives (for each business line) and IT management were carried out to understand the direction of business, the major strategic initiatives and the importance of IT support.

Based on the analysis, we were able to identify a set of business-oriented KPIs. In a joint effort between business and IT, following several workshops, we eventually identified the most crucial KPIs with high relevance to the business. Four KPI categories represented the most value to business: cross-company KPIs, which can be benchmarked with other companies; company-specific KPIs; cross-divisional KPIs, and finally division-specific KPIs. In the next step, we described the KPIs, measured the current state and implemented the KPI reporting process within the IT department. The result was a value-oriented and prioritized KPI dashboard, aligned with business. The four different levels of KPIs, and the mix of standard KPIs that could be benchmarked with company-specific non benchmarkable KPIs represented the best value to the business to enhance the transparency and allow better control.

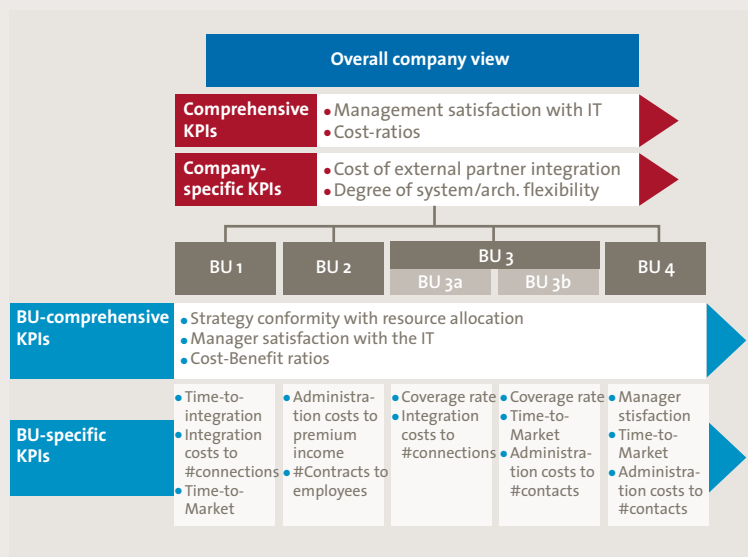


Figure 5. Sample KPI dashboard.

## # 7 – Continuous Business Relationship Management

Experience shows that successful IT value management is particularly good in IT organizations with a strong Business Relationship Management (BRM), since it provides the “link” between IT and business at a strategic and local level.

BRM involves regular meetings between a designated IT Business Relationship Manager (often the CIO himself) and the business. The first step towards a business relationship management is understanding the business. The IT employees need to develop a business understanding and know the success levers and potential drawbacks. This skill development allows the IT representatives to join the discussion on the same level, and it enhances the alignment of IT within the business.

Frequent and effective communication by a proactive IT Business Relationship Manager is key to understanding the business needs, while making sure that IT meets those needs and business recognizes the “value” for their IT investments. This requires the right people in an organization to minimize the distance between business and IT.

### Case study: Continuous Business Relationship Management and Successful CIOs

Successful CIOs indicate that their success is based on continuous business relationship management. So, successful CIOs look beyond the IT department and they develop, as do their employees, a sound knowledge of the overall business in order to be validated as an equal partner. So they know the business and the ways to add value to decisions and business development discussions. They are involved in business decisions on a senior management level. The competence scale of a CIO has to be broad. Technological understanding, financial and management skills are all crucial, but so is the ability to develop a continuous relationship with the business. Without having at least informal connections with business and its managers, a CIO and the IT department will not be successful in terms of acceptance, project suggestions and new ideas. They use their business relationship to understand the business needs and future directions, and they show that they understand the business by anticipating business needs and presenting IT matters in business language. As a result they are better positioned within the company and they are often members of the board, or they are responsible outside the realm of IT for some or even all business processes (e.g., CIO within Accounts; CIO within Costs).

## First towards value orientation: IT Value Assessment

The prerequisite for IT value management is transparency regarding the value delivery from a management perspective. Obtaining a clear view on the present “IT value orientation profile” of an organization is therefore essential.

Gaining clarity whether an organization is an IT value leader or an IT value follower can be achieved by performing an IT value assessment.

IT value assessments should combine two perspectives:

- qualitative approach as a result of business stakeholder interviews;
- quantitative approach with an IT spending analysis on costs of operations and IT project costs.

Carrying out interviews with senior management going through an “IT value assessment questionnaire” will provide senior management perception / satisfaction on individual IT performance and value creation along the seven key areas of IT value management.

Along with the interviews, an appraisal of IT spending (change and running costs) for the relevant business units, processes or domains will give complementary quantitative insights on the degree of strategic value creation. For example, the higher the IT cost percentage allocated for strategically important initiatives, the better the alignment between business priorities and IT resources.

The outcome of an IT value assessment is a completed questionnaire with IT value orientation profiles, a quantitative analysis on current IT spending and a list of potential IT value creation opportunities.

In the next step, the potential opportunities will be prioritized and evaluated together by relevant business and IT stakeholders.

In order for value-creation opportunities to be implemented, decision making is typically based on individual business cases considering financial impact, risk mitigation, sponsorship, high-level approach and timing per value-creation opportunity.

Once the priorities are clear, designing, implementing and monitoring the value-creating opportunities is the last step in reaching your target of maximizing IT value management.

See below an example of the outcome of the interviews with the business: value chain activities are evaluated

based on their strategic importance. Then, based on that analysis, strategic activities are derived for each business unit and value-chain activity.

Conclusion

IT value management is critical for the CIO, even though putting it into practice and making it tangible to the business is no small task. An IT value assessment is a good starting point to identify the biggest problems. The key is to focus on value creation opportunities having the biggest impact and early success, like the establishment of a formalized, continuous business-relationship management. In many cases it is the implementation of a structured Business Relationship Management process that marks the starting point of introducing “IT value” to the business.

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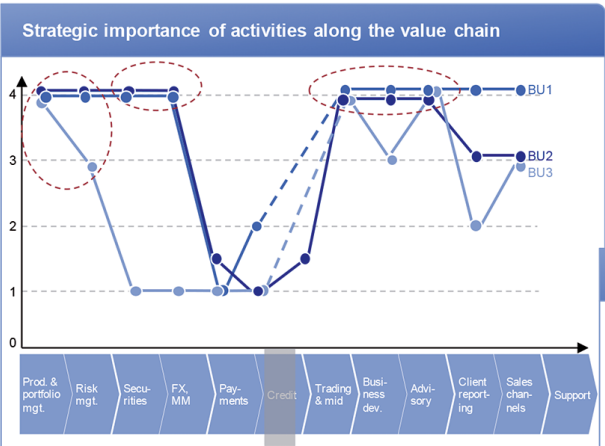


Figure 7.

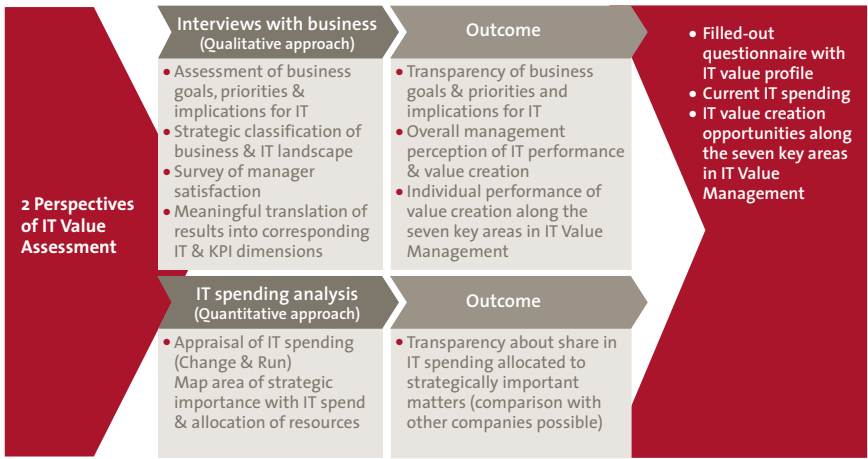


Figure 6. IT Value Assessment Approach.

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