

Part B: Controlling Performance – Value-Oriented IT Management

There are a number of possibilities for using IT to increase value, and companies from many sectors are able to give good reports of their positive experiences of using IT as an enabler for their business operations. IT's new role is changing the face of our companies. IT departments are emancipating themselves from the status of being pure technology experts and are starting to feel responsible for business processes. Users and decision-makers in the other business units and at group management level are beginning to appreciate IT managers as valuable sparring partners when it comes to discussing strategic issues.

In some companies, this kind of relationship between IT and operational business units is already a reality, but in most companies IT and business units find themselves on either side of a deep divide. It is not just that the IT department has a reputation for being a cost driver, whose benefit for business operations is highly contentious or at least incalculable, but that IT staff and IT users simply speak a different language. As long as the IT and business sides of the enterprise do not pull together, it is virtually impossible to realize the benefits of IT for the company's operations and equally impossible to realize the considerable potential for reducing business process costs using IT.

Companies wishing to use IT to increase value will have to create a number of conditions for integrating the IT and operations departments. The chapters in Part A clearly showed that IT can only add value if it is planned and implemented in close connection with company strategy. When introducing innovative IT systems, it is also crucial to rethink the company's business processes, corporate structures, and its ways of thinking and behaving: IT can only fully realize its value for the company if it is an integral part of strategic changes, e.g. mergers and divestments, from the beginning. It is also important to firmly anchor the IT department into the management and control structures of the company in order to measure and steer its contribution to the objectives achieved by the company.

Although the number of companies that fulfill the requirements for value-oriented IT management is on the increase, the figure is still surprisingly low. In A.T. Kearney's annual study, only 35 percent of companies accorded the IT department equal status with other strategic projects in terms of corporate planning. 40 percent on the other hand, only involved CIOs in corporate planning if IT projects were involved and 25 percent only involved them when planning how to implement IT projects or even didn't involve them

at all. These findings are surprising as it is only by linking IT closely with strategic objectives that companies can realize the benefits of IT for their operations.

Value-oriented IT management calls for an organizational framework that allows IT to bridge the traditional divide between the IT department and the ‘business side’ of operations, especially between the technology specialists in the IT department and the IT users in the other business units. It is only this kind of structural framework that will allow IT to exert the required influence on the decision-making committees within the company. And to create it, we need *IT governance* – by defining how IT is managed within the company. ‘Managing IT’ involves answering two questions in particular:

- Which tasks should be carried out by the business units and which must be primarily established in the IT department?
- Which IT tasks can be carried out centrally and in which cases would it be better if they were decentralized?

A number of innovative concepts have been developed over the past few years to provide answers to these questions that will lastingly improve the productivity of IT management and provide a reliable basis for implementing value-adding innovation. These concepts provide an integrated framework and also involve structural recommendations alongside procedural solutions.

The committees concerned with IT governance, in particular that of Chief Information Officer (CIO), not only fulfill an important function in implementing and managing IT benefit for company operations, but above all, they are vital for IT planning. For many companies, *IT planning* means assigning IT budgets for the various business units from the top down. The next step is for the business units to assign the funds to services such as PC support and – if there is anything is left over – to then allocate the rest to innovative projects. In this manner, a lot of the potential for adding value through IT is ‘wasted’. Leading companies, on the other hand, use IT planning to identify innovative processes and methods for adding value in IT operations, and also in IT project portfolio management, and to ensure that these are developed by using suitable motivational measures.

From the perspective of a great many boards of directors and specialist business units, IT is still a technology that – provocatively speaking – seldom works and is too expensive to boot. As a result, the ‘success’ of IT is managed almost exclusively in terms of costs. Typical ratios used are costs in relation to sales, costs per user, number of IT employees in relation to the number of users and other similar cost ratios. To get the whole IT picture however, we need to augment the cost side with the performance side. But how can we measure IT’s performance? Is it even measurable? *IT performance management* provides all the answers to these questions and is both an innovative concept and one that has also proven its worth in practice.

A company's ability to measure and manage IT performance depends on the maturity of its IT organization, IT planning (including existing cost and performance accounting systems) and the IT management mechanisms that it uses. There are four levels:

- *Uncoordinated IT management (Level 1)*: On level one, it is the technology specialists in the IT departments who are responsible for developing IT projects. At top management level none of the members of the board are responsible for IT. The business units are only involved in IT planning sporadically or for specific projects, and IT managers and users often talk at cross purposes, one group speaking 'techie' language and the others using business terms. Accordingly, those IT projects that are initiated without bearing any reference to corporate planning are fragmented and uncoordinated. IT is chiefly managed on the basis of the cost categories and cost centers laid down by IT controlling methods – and these are rarely complex enough for the needs of IT departments. Furthermore, larger companies with group-like structures often use standard cost categories and cost centers for all divisions. At this level, a number of aggregated IT ratios can be established, for instance IT costs as a percentage of sales. Yet although they make IT costs more transparent and help to establish global management and cost controlling, they do not provide a great deal of information about the efficiency of the IT support that has been provided. IT performance is then measured by the criterion of whether it stays within the prescribed budget – a large part of which has to be allocated to day-to-day business.
- *Cost-oriented IT management (Level 2)*: At the next level, IT projects are initiated by the IT department as before, but a member of top management is responsible for supervising activities. This usually results in at least some of the IT employees using business language and generally means that at least some of the most important users are involved in planning IT projects. Some business units have already introduced IT cost categories and definitions, however the focus is on reducing costs, not adding value. The costs are still focused on technology and allocated and managed on the basis of hardware platforms (e.g. desktops, servers, mainframes etc.) and passed on to the user. One example of this is 'costs per server'. In this case, the costs can be evaluated and compared for each technology platform, but meaningful benchmarking at a later date is still difficult because there are no detailed performance categories. For example, the maintenance costs for applications servers differ considerably from those for file servers, although they are sometimes operated on similar server platforms. These kinds of differences can only be made rather inadequately at this level. IT is managed using sector-oriented cost benchmarks, which do not provide any meaningful information on IT's individual performance capability.
- *Service-oriented IT management (Level 3)*: At this level, the focus is shifted from technology to the IT services that are provided to the individual business units of the company. A member of top management is involved in IT decision-making, users are

involved as IT coordinators in prioritizing the projects for their unit, and the responsibility for larger IT projects lies either with the IT department or the business units. For managing IT, the costs planned in terms of cost categories and centers are based on services, which are categorized according to the types of services provided, and which then provide a basis for allocating the services used. The most important variables used for measuring are usually the single user and the IT services, service levels and applications that he uses. This makes it possible to allocate the costs in terms of IT usage and to then benchmark this against services that are standard on the IT services market, for example an ERP workstation.

- *Business-oriented IT management (Level 4):* At the highest IT management level, a number of other IT governance committees are integrated alongside top management, which supports the user-side of IT in making decisions. Planned projects are prioritized and implemented in terms of their impact on the business activity of the company. Cross-functional teams from the IT department and the business units share responsibility for developing and implementing projects and materializing the anticipated benefits. Calculating the costs on the basis of transactions makes IT costs and services more transparent, thus creating the connection between IT costs and the main parameters of each business unit. Typical IT ratios at this level are for instance costs per flight booking, costs per credit card transaction and costs per bank transfer. This facilitates 'proper' benchmarking with external IT services and in the case of IT outsourcing, allows variable cost allocation. Developing benchmarking to include benchmarking business process outsourcing services is then possible as a result.

IT governance, IT planning and IT performance management are important components of a value-oriented IT management approach. Whilst they do not single-handedly create value directly, they are essential for recognizing the potential of and implementing IT utility increments (described in Part A of this book) and IT cost reductions (described in Part C).