

## CUSTOMER NEEDS AND STRATEGIES

---

### IT Value Management: Alinean's Tools for the Journey

---

Margaret Tanaszi

---

#### IDC OPINION

---

Organizations are experiencing considerable uncertainty about whether and how well IT resources are contributing to business value. How do organizations know, one way or the other, the value IT brings to their business? How prepared are they to undertake the many activities required to realize business value from IT resources? IDC believes that managing IT value in a coordinated and integrated way increases the likelihood that IT can make the greatest contribution to business success. Developing a framework in which to undertake IT value management can help to answer the following questions:

- How (and how wisely and well) do you spend money on IT?
  - How do you manage and track the flow of value from IT?
  - How do you know the kind and extent of value you get from IT spending and associated efforts?
-



## IN THIS STUDY

This IDC study examines the issue of IT value management — how well money is spent on IT for the benefit of the business — with reference to the approach to this issue by one service organization, Alinean. It looks at some difficulties in ensuring value for money, the challenges facing organizations and their key officers, and a framework for maximizing business value from IT resources. The study also outlines Alinean's four-point offering and makes recommendations for organizations to move toward developing an internal IT value management capability.

---

### Executive Summary

Most organizations want to extract the most value from existing and planned IT investments for their business objectives. Here, IDC explores the approach to this issue by one organization that focuses its services on improving IT value capabilities for vendors and user organizations. That organization, Alinean, is a developer of research, methodologies, and software tools to measure and quantify the value and return on investment from information technology.

In a 2005 survey of Global 100 companies, Alinean found that the responding companies' top 2 priorities were value management for IT and IT-business alignment, and that 90% of respondents recognized the importance of business value analysis of IT spending. However, in response to the question, "Do you believe that you have adequate skills and tools in place to address this?" only 10% of respondents answered affirmatively.

Alinean's research from 2001 to 2003 showed the volume of spending on technology does not automatically correlate with value created, but leading companies are achieving significant correlation between business value and IT spending. The top 10% of the companies achieved a 95% correlation between IT spending and business value; their return-on-IT (ROIT) ratio (New York accounting firm Stern Stewart's Economic Value Added [EVA] in relation to IT spend) was 533%!

IDC believes that any efforts to integrate the management of IT value in an organization are practical steps toward ensuring that IT can make the greatest contribution to business success. Alinean suggests a framework of consistent processes and practices — a value management office (VMO) — that can validate the data on which IT decisions are based and IT value is assessed. A VMO does the following:

- ☒ Considers the organization's competitive landscape to determine the best courses of action involving IT capabilities (competitiveness)
- ☒ Maintains oversight of how IT resources are expected to produce and are producing business value (value)
- ☒ Measures and aggregates business results from IT-based initiatives/operations to determine contributions to competitiveness and value (measurable results)

- ☒ Coordinates assignment of accountabilities for various parts of benefits realization (accountability and predictability)

Alinean sees the VMO as a practical fusion of the finance and IT functions as both owners and champions of IT value *for* the organization. Alinean offers several IT performance measurement services, specifically:

- ☒ **Value Expert Advisory.** This service aims to define the organization's context to identify problems and to determine which to solve, in what order. It seeks the best way to define the company's competitive landscape and poses a series of questions to create a reasonable IT-based value objective toward which to strive.
- ☒ **Peer Comparison.** Alinean has synthesized a proprietary algorithm for performance comparison based on EVA calculations and validated with direct research. Based on information on 10,000 publicly reported companies worldwide, Alinean can calculate an ROIT ratio for each organization, correlating statistically derived spending estimates with publicly available data on performance.
- ☒ **ROI Analyst.** Alinean's current ROI Analyst — Enterprise tool uses a library of ROI templates and worksheet objects to help organization leaders and managers quickly develop and analyze the costs, benefits, and risks of planned projects. ROI Analyst refers back to strategic insights from the Peer Comparison solution, connecting those insights with tactical project selection and related actions.
- ☒ **Business Value Measurement Certification.** In partnership with IDC, Alinean now offers a certification course for value measurement skill development for all stakeholders, including the end-user community (value-based governance), vendor sales and marketing professionals (value-based selling), consultants (value-based advisory services), channel partners, and competitive intelligence analysts.

Based on information on 10,000 publicly reported companies worldwide, Alinean can calculate an ROIT ratio for each organization, correlating statistically derived spending estimates with publicly available data on performance.

A dedicated IT value oversight function can offer business advantages by promoting IT-business alignment in practice in the following ways:

- ☒ **Identifying a value assurance function:** Offers a way to coordinate value-enhancing activities that promote continuous improvement
- ☒ **Improving business performance:** Provides for the assignment of responsibility and accountability for realizing value from IT by many specialized interests
- ☒ **Encouraging fact-based governance of IT interests:** Emphasizes data collection and analysis to inform decision making and wide participation
- ☒ **Communicating IT value credibly to all stakeholders:** Assesses IT value based on data and a track record, increasing reliability
- ☒ **Developing internal self-sufficiency in recognizing and measuring IT value:** Develops internal visibility into value

IDC believes that dedicated, coordinated management of business value from IT resources is a competitive necessity. It offers organizations the potential for making IT an integral part of their business success, IT suppliers the opportunity for presenting offerings in a customized value context, and IT service providers the chance to help both parties realize mutual gains from a key driver of business health at all levels of the economic environment.

## **SITUATION OVERVIEW**

---

### **Introduction**

Most organizations want to extract the most value from existing and planned IT investments for their business objectives. Here, IDC explores the approach to this issue by one organization that focuses its services on improving IT value capabilities for vendors and users organizations.

That organization, Alinean, is a developer of research, methodologies, and software tools to measure and quantify the value and return on investment from information technology. It was founded in 2001 to develop information technology–focused return on investment, total cost of opportunity and value, analysis, and management tools to help improve ROI selling for IT vendors and to improve IT governance for CIOs.

In a 2005 survey of Global 100 companies, Alinean found that the responding companies' top 2 priorities were value management for IT and IT-business alignment, and that 90% of respondents recognized the importance of business value analysis of IT spending. However, in response to the question, "Do you believe that you have adequate skills and tools in place to address this?" only 10% of respondents answered affirmatively.

The issue of "spending well" on information technology has always been an important one for the organization. During the pre-2001 technology boom, any failures to do so were obscured by the optimism of high technology spending and high promise of technology solutions. Now, the issue has gained new prominence because budgets have tightened, IT projects are subjected to greater scrutiny, and IT leaders are being required to demonstrate IT's ability to produce sustained value for their business.

Until the fallout from the technology bust in 2000–2001, IT organizations or the company as a whole did not need to connect IT spending and resources to business outcomes. IT organizations had little incentive to connect the dots to business results, or to have a strong understanding of the true economic drivers of the business. Similarly, senior company management treated IT as a factor of production and placed little importance on assessing IT's ability to contribute to the business. IT was important for reducing operational friction and could cut costs.

Now, at a time when IT touches most parts of the organization (e.g., manufacturing, sales, marketing, finance, HR, R&D, and operations) and competitive pressures are mounting to invest in innovative technologies for competitive advantage, many organizations are ill prepared for getting the most from what is spent on information technology.

## **The New IT-in-Business Landscape**

A number of factors have coalesced to make smart spending on IT a new priority for organizations. The focus is moving to getting more value from what is spent. Running the business efficiently while investing in innovative technologies for competitive advantage is an additional challenge. The crux of the problem is the need for a new way of looking at the role and leveragability of IT.

### ***The IT Spending Picture***

Technology spending at the present time, according to Alinean's president, William Johnston, has reached its "natural boundary." The pendulum has swung 180 degrees from the spending boom to a point where about 90% of technology spending is for "lights on" activities. Further pressures to cut costs are self-defeating over a longer-horizon view. In Johnston's view, "Anybody can cut costs"; the challenge is to spend well, for the longer-term health of the company.

### ***The Corporate Governance Imperative***

In the aftermath of recent accounting controversies and criminal investigations, the current attention to corporate governance — particularly the legislation recently enacted in various jurisdictions to curb excesses and ensure accounting transparency — cannot escape any leader's attention. These days, CEOs have to demand credibility from their executives, and boards of directors are correspondingly demanding accounting clarity and better business rationales for technology dollars.

Now, says Johnston, boards are reluctant to take the risks of funding technology initiatives they do not understand, or for which there is inadequate business justification. They are acknowledging their need to understand complex projects and are pushing CEOs, CIOs, and CFOs to "prove it" to them. This, in turn, places a joint culpability on the technology and finance leaders to present quantifiable business benefits to board and executive decision makers.

### ***The Missing Value Champion***

In the 1990s, IT became important for "running" the business — for process automation and keeping up with the competition, at any cost. In this climate of spectacular growth, the CIO was less an "information" officer than an "implementation" officer. When the market cooled, executives and shareholders understandably demanded ongoing value, and value-based spending, especially in light of improper business practices that came to light in the early 2000s.

A common crash-correction action was to assign IT to the finance function. CFOs were expected to steer the technology ship through dangerous waters because capital management (e.g., new IT projects) was often a treasury function in the organization. Under finance, IT was in a reporting structure that demanded due diligence, which also increased IT's role in corporate governance and compliance.

These days, CEOs have to demand credibility from their executives, and boards of directors are correspondingly demanding accounting clarity and better business rationales for technology dollars.

When the Internet boom "landed with a thud," according to Johnston, people in all functions, especially IT, became risk averse, reticent to champion technology or technology-based initiatives. The time for trying exciting new things was behind them; they were in a period of damage control, which also became a period of diminished business potential.

Who would lead the charge (or take the rap) for technology-based business outcomes? Who would provide guidance on new IT resources? Who would champion the technology circulation system of the modern organization? There was some reluctance to fill this role, in view of the prevailing mode of caution and the relatively high number of project failures.

Following several years of such fiscal prudence, executives are now looking for better access to "what the company knows" and better business intelligence throughout their supply chain and customer networks. IT is now being pressed into the service of such business priorities as business enablement, adaptability, collaboration, and innovation, all of which can translate into business growth opportunities. Executives and line-of-business (LOB) managers want to make technology investments that serve those ends but, wisely, are ensuring that processes, people, technology, and methods for calculating returns are all appropriately lined up in readiness for the next major IT investment.

IT is now being pressed into the service of such business priorities as business enablement, adaptability, collaboration, and innovation, all of which can translate into business growth opportunities.

### ***The New Competitive Threat of Leading Value Creators***

Leading companies are taking a serious look at where value is created in their organizations, says Johnston, and allocating a larger portion of IT dollars and mindshare to new ways to create value. Those include initiatives that reach out more effectively to customers, promote agility, and enhance market positioning. Whereas a previous focus on the project management office emphasized frugality and efficiency, the bulk of the attention of leading companies (about 75%) is now on areas driving competitive advantage and capitalizing on core competencies.

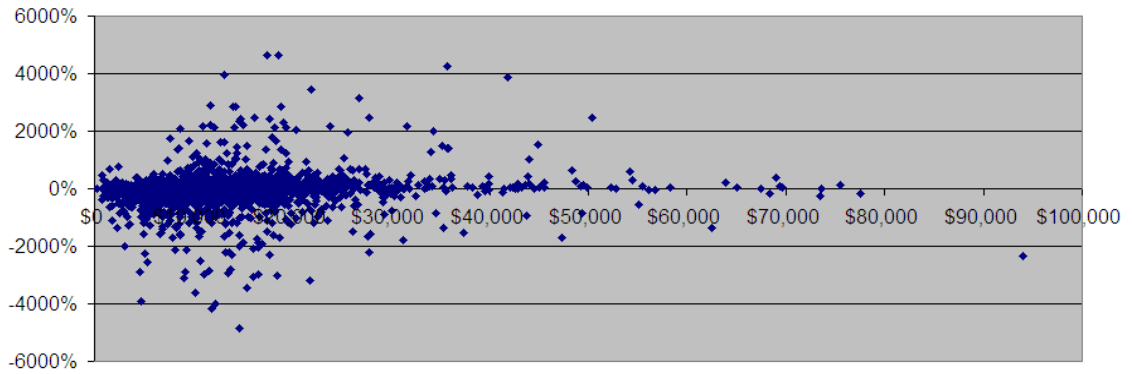
Whereas a previous focus on the project management office emphasized frugality and efficiency, the bulk of the attention of leading companies (about 75%) is now on areas driving competitive advantage and capitalizing on core competencies.

Alinean's research from 2001 to 2003 showed that the volume of spending on technology does not automatically correlate with value created. However, it also showed that leading companies are achieving significant correlation between business value and IT spending. A correlation between IT spending and shareholder value exists within a certain subset of companies, and an even higher degree of correlation exists in leading companies that produce superior shareholder returns. The first finding is illustrated in Figure 1.

Using information on up to 10,000 publicly reported companies worldwide, Alinean has synthesized a proprietary algorithm for performance comparison based on New York accounting firm Stern Stewart's EVA calculations and validated against 400 direct-research "mandates." Alinean infers and estimates companies' IT spending and correlates this derivation to public domain information on performance.

**FIGURE 1**

Return on IT Investment: Economic Value Added/IT Spend



Note: Data is based on the total U.S. database population.

Source: Alinean, 2005

The top 10% of the companies achieved a 95% correlation between IT spending and business value. Their ROIT ratio (calculated as EVA in relation to IT spend) was 533%! Table 1 illustrates these results.

**TABLE 1**

Correlation Between IT Spending and Business Value

ROIT Rating	Selection Criteria	Average ROIT Score (%)*	Correlation Between EVA and IT Spend
Great	Top 10%	533	0.95
Good	Positive ROIT	159	0.70
U.S. database	All companies	-3	0.48
Poor	Negative ROIT	-233	-0.33

\* EVA/IT spend

Source: Alinean, 2005

This research revealed that the top 10% of the companies analyzed maintained IT spending levels but achieved economic results that were more effective than those of the rest of the comparison group. Thus, the competitive threat to organizations with lower ROIT ratios increases. Sources of high business value were identified as follows:

- ☒ **Competitive advantage (65%):** Market position, strategic alignment, agility, scalability, and adaptability
- ☒ **Fiscal prudence (15%):** Fiscal discipline, demand ROI, focus on specific business process improvement, standardization, and consolidation
- ☒ **Higher project success rates (10%):** Smaller projects with more milestones, strategic alignment, planning and benchmark measurement, and strong business unit collaboration
- ☒ **Focus on core competencies (10%):** Strategic outsourcing

In 2004, however, members of this top group increased their spending on IT because they were able to capitalize on what they learned over three years about making IT spending more business effective. That makes the gap between the top performers and the rest even greater, and the threat from them more profound.

---

## Challenges for Organization Leaders

Organizations are experiencing considerable uncertainty about whether and how well IT resources are contributing to business value. The first key question is, How do they know, one way or the other? Although IT-business alignment is a widespread business goal, it is just a phrase if it is not supported by a set of structures, practices, and accountabilities to produce and conserve business value from IT.

The second key question is, How prepared is the organization to ensure that value is realized to the fullest possible extent from IT resources? That preparedness includes the right technologies in addition to human resources and processes working in the right ways to produce business value. It also encompasses various technologies at various stages in combination, as well as the continuing LOB opportunities IT resources promote and the operations they enable, all of which can be improved by technical upgrades, acquisitions, process changes, and feedback from internal and external customers. Table 2 outlines relevant questions at each stage.

Although IT-business alignment is a widespread business goal, it is just a phrase if it is not supported by a set of structures, practices, and accountabilities to produce and conserve business value from IT.

**TABLE 2****Challenges Related to Managing IT's Business Value**

Key Questions	Component Questions
How do you spend money on IT?	<p>How are decisions made on what and how much to spend on IT?</p> <ul style="list-style-type: none"> <li>• Assess competitive landscape</li> <li>• Align spending with business strategy/priorities</li> <li>• Assess potential business value</li> <li>• Determine "right" investment</li> <li>• Develop granular plan for realization</li> </ul> <p>Who decides? Who is involved?</p>
How do you manage and track the flow of value from IT?	<p>How do you manage implementation (e.g., time, resources, technical excellence, proficiency of usage, evolution of benefits)?</p> <p>Do you manage activities associated with IT-based initiatives as part of the plan to realize benefits/business value?</p> <p>Are responsibilities and accountabilities assigned to business participants for business results?</p> <p>Do you actively manage impacts of IT-based initiatives on various parts of the organization/business (to minimize negative and capitalize on positive impacts)?</p>
How do you know the kind and extent of value you get from IT spending and associated efforts?	<p>How do you calculate and integrate business results with the business ledger or performance measurement/accounting?</p> <p>Do you conduct postimplementation value audits?</p> <p>Do you identify lessons learned to benefit subsequent initiatives?</p>

Source: IDC, 2005

**FUTURE OUTLOOK****The Case for IT Value Management**

IDC's predictions for 2005 include a positive IT growth rate worldwide (6.1%) and a continued emphasis by vendors on cutting costs and seeking higher-value solutions and customer segments. Those conditions underscore the need, on the demand side, for user organizations to have a reliable basis for effective spending on IT with the most business leverage (bang for the buck) and realizing the greatest business value from IT resources.

Achieving those objectives is challenging enough, but the challenge is magnified by other persistent factors: greater complexity in business and IT offerings, more regulatory requirements (e.g., SarBox, Basel II), and more options for IT leverage (e.g., IT and business process outsourcing and emergent IT utility computing). These circumstances make it more difficult and more urgent to target IT spending on business-effective initiatives and optimize business value from IT resources. Admittedly, this is a large undertaking, as Table 2 suggests. IT requires coordinated efforts and reliable estimates and measurements. Relevant questions include the following:

- Who does what to estimate, manage, and assess IT's value?
- Have all the bases (e.g., risks, impacts) been covered and affected (or even insightful) stakeholders involved?
- Is the flow of value around IT-related initiatives monitored? How? By whom?
- Who is accountable for what part of the value realization picture?
- How reliable are business case calculations, and how realistic are benefits assumptions? Who determines this? Who believes it?
- How well was the path to benefits realization formulated/thought through?
- Are the criteria for assessing related business results reliable and realistic indicators of the value anticipated?
- Are the business results identified credible to organization executives, the board of directors, and shareholders?

There is no doubt that IT and finance functions have large parts to play in most activities pertaining to managing IT value. Are they working well together, however, or do they operate in the silos of their own specialties? We believe that many business functions should also play important parts in getting the most value from IT. Essentially, everyone in the organization has responsibility for IT because everyone in the business is affected by IT. IDC believes that any efforts to integrate the management of IT value in an organization are practical steps toward ensuring that IT can make the greatest contribution to business success.

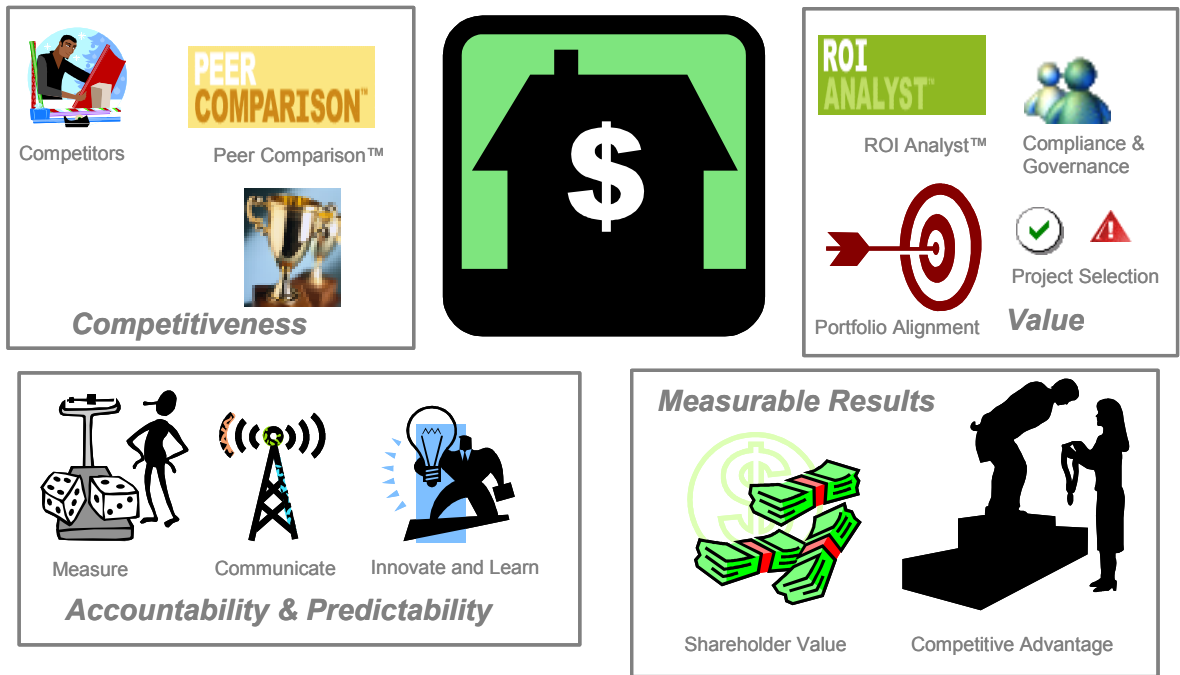
IDC believes that any efforts to integrate the management of IT value in an organization are practical steps toward ensuring that IT can make the greatest contribution to business success.

### ***A Road Map for Integrating IT Value Management***

To address this challenge, Alinean suggests a framework of consistent processes and practices (tools and platforms), which can also validate the information on which IT decisions are based, and IT value assessed. In Alinean's view, the manifestation of such a function is a VMO that drives directly to the economic value of the organization. It is represented in Figure 2.

**FIGURE 2**

IT Value Management Office



Source: Alinean, 2005

As the diagram indicates, a value management office encompasses key aspects of assessing and maximizing value from IT resources, as follows:

- ☒ It considers the organization's competitive landscape to determine the best courses of action involving IT capabilities (competitiveness).
- ☒ It maintains oversight of how IT resources are expected to produce and are producing business value (value).
- ☒ It measures and aggregates business results from IT-based initiatives/operations to determine contributions to competitiveness and value (measurable results).
- ☒ It coordinates assignment of accountabilities for various parts of benefits realization (accountability and predictability).

These activities in combination increase the organization's ability to produce results and to develop a track record to better predict the results of subsequent actions. Those abilities are a result of continual performance evaluation leading to learning and continuous improvement.

Alinean's Johnston sees the VMO as a practical fusion of the finance and IT functions, which can bring a holistic approach to both functions. In both finance and IT, there can be both owners and champions of IT value for the organization. Also, at this level, coordination through the VMO can draw on a range of organization resources, which may include, in addition to company team members:

- ☒ Consultants
- ☒ Subject matter experts
- ☒ External value expert certification
- ☒ Governance platform

In Johnston's view, a strong management team is a collection of "mini CEOs," each outstanding in his or her function and each conducting his or her work with an organizationwide perspective. From the various contributions of this range of expertise, the VMO can serve a unification function for IT value, to coordinate and synthesize the many "pieces" that are required for a true assessment of the value of IT in the organization, and for the best balance of resources to manage that value. According to Johnston, competitors that take the initiative to bridge these gaps to better manage and assess IT value will prevail. "Sooner or later," he says, "Darwin wins." In Alinean's view, three key features of integrated IT value management offer practical ways to put practitioners ahead of the competition: credibility and accountability, continuous results/value tracking, and visibility into IT value.

"Sooner or later, Darwin wins."

### **Credibility and Accountability**

According to Johnston, the biggest challenge for organizations striving to manage and assess IT value is credibility — credibility of methods, assumptions, criteria, and numbers. With a VMO approach to IT value, the organization is more likely to build a track record of estimates of value that can be validated, and thus better align expectations with outcomes, for a more accurate picture of IT value. That picture, in turn, can provide a solid basis for better decisions about optimizing IT value. Thus, the work of the VMO can establish a "single version of truth" to set a pattern of fact-based assessments and engagements, which becomes progressively more reliable to organization stakeholder groups.

According to Johnston, the biggest challenge for organizations striving to manage and assess IT value is credibility — credibility of methods, assumptions, criteria, and numbers.

Related to credibility is the issue of accountability for various pieces of the IT value picture. Some may ask, Who is responsible/accountable for delivering IT value — the CIO or CFO? That depends, says Johnston, on what each can or cannot control. If marketing, for example, will not take an active part in determining how IT capabilities can be applied to areas of high customer value, or is unwilling to make full use of a new or existing IT system, then a big chunk of potential IT value goes unrealized.

A framework such as the VMO can provide an objective way to determine where IT value resides, and where IT dollars are best spent. The organization can then take the actions in each function that are likely to have the best IT-based business outcomes.

## Continuous Results/Value Tracking

Alinean recommends tracking IT value continuously, including:

- ☒ **Analyzing the buildup of value during implementation of a new IT solution.** Analysis should be time phased in short periods and with off-ramps to capture benefits evolving over time through milestones and checkpoints.
- ☒ **Collecting business intelligence about the business performance of IT projects/capabilities.** Business intelligence practices and tools allow organizations to rapidly gain access to metrics and touch points that can inform their decisions and provide a useful basis for business strategies.
- ☒ **Monitoring value delivery from IT resources on an ongoing basis.** Regular internal health checks and at least annual benchmarking (against past performance and against competitors' performance as applicable) provide organizations with an ongoing barometer of IT value readings, which enable better management of the flows of that value across organization resources and functions.

## Visibility into IT Value

Many organizations take advantage of the expertise and objectivity of third-party experts such as consultants to help them steer an IT value course. They may also benefit from some assistance from vendors in this regard.

However, the most reliable way to assess IT value is for the organization to understand it internally, and then manage it accordingly. With the development of an internal ability to gauge IT business effectiveness and value, the organization gains visibility into the value it can and does achieve from its IT resources. It achieves some measure of self-sufficiency.

The organization can minimize the negative impacts of IT-related activities and capitalize on the positive ones. Its visibility into the sources and interdependencies that make up value from IT resources can lead to a more robust and constructive partnership with consultants and vendors — all working to optimize the value of the relationship and thus the value of IT resources for the client organization.

With the development of an internal ability to gauge IT business effectiveness and value, the organization gains visibility into the value it can and does achieve from its IT resources.

---

## Alinean's Four-Point Toolkit

Alinean is able to draw on its collective experience in developing ROI and TCO methods and tools to offer several services that are meant to help businesses and their stakeholders understand how to measure IT investment performance. These services can assist them in taking the first step toward developing the capabilities to manage, continuously improve, and convert the value from their IT investments into shareholder value and competitive advantage. A brief description of these services follows.

### ***Value Expert Advisory***

This service is a starting point for further actions to maximize IT value. The initial discussion aims to define the organization's context, identify problems, and determine which to solve, in what order. It seeks the best way to define the company's competitive landscape by taking into account industry comparisons, best-practice companies in that industry, and best practices at large. Then the discussion addresses a series of questions, as follows:

- ☒ **Where do we sit today?** To answer this question, the organization looks at where it has come from, and if it continues on that trajectory, where it will be without changes.
- ☒ **What did we do to get there?** The analysis here examines the relative performance being achieved in each function of the business.
- ☒ **Where do we want to be?** Determining this answer involves identifying the pieces of value, including IT capabilities that could in combination propel the organization toward its goal. If the strategic business goal is to grow market share, the CIO could align the conversation with it by presenting a number of potential IT-related ideas or initiatives to evaluate and pursue.
- ☒ **How do we decide?** In some cases, an organization needs help with a single proposal (e.g., How do I evaluate this \$20 million proposal?). In general, Expert Advisory can help identify pros and cons, and evaluate potential outcomes.
- ☒ **How well did we realize value from IT?** The answer to this question involves undertaking postimplementation assessments of IT-related initiatives. It is a look at business results in retrospect based on the anticipated benefits cited in the business case. Alinean calls this process an IT "value audit." It's particularly applicable to distinct projects, but auditing value as an exercise is something Alinean advocates as an ongoing organizational capability. It helps the organization find "low-hanging fruit" and keep itself lean by focusing on *resources out and business value in*.
- ☒ **Who is responsible for what?** Because the roles of IT, finance, and LOBs are interdependent when it comes to IT value, the organization could make great gains in value if it were to dissect these responsibilities in relation to IT value. As a result, everyone would be able to function in terms of clear lines of responsibility to realize business value collectively from IT resources.

A value management framework could create a context in which people can work out a reasonable IT-based value objective toward which to strive. For example, if there is a natural revenue growth of 5% from marketing activities and it is estimated that with a particular IT solution it could grow by 10%, but the marketing people will not agree to that new target, how do attitudes align? Through an overall value management perspective, those with divergent views could reconcile them at a reduced target of 6% or 7%, which would be less onerous but better than 5%.

We are witnessing just the beginning of self-sufficiency in IT value evaluation and management, however. As Johnston points out, "It's a journey. The right decisions get made because the right questions are being asked."

"It's a journey. The right decisions get made because the right questions are being asked."

### ***Peer Comparison***

Alinean has developed what it calls a consultant in a box for on-demand benchmarking of the performance of organizations against their peers. The company has synthesized a proprietary algorithm for performance comparison based on EVA calculations developed and trademarked by Stern Stewart and validated with direct research. Based on information on 10,000 publicly reported companies worldwide, Alinean can calculate an ROIT ratio for each organization, correlating statistically derived spending estimates with publicly available data on performance. The algorithm can be "tuned" to  $\pm 10\%$ .

Based on information on 10,000 publicly reported companies worldwide, Alinean can calculate an ROIT ratio for each organization, correlating statistically derived spending estimates with publicly available data on performance.

### ***ROI Analyst***

IT now spans so much of today's organizations that it has great power to transform the way they do business and boost performance. For this reason, it also carries a great risk of producing negative results. Alinean recognizes the need for IT value assessment tools at the tactical level, the results of which can be aggregated to higher strategic levels where directions and decisions are developed.

The Alinean team originally developed pioneering, interactive ROI and TCO software in 1994. It created more than 100 ROI sales tools for vendors such as Microsoft, IBM, HP, Dell, and Novell and software for CIO TCO benchmarking. Alinean's current ROI Analyst — Enterprise tool uses a library of ROI templates and worksheet objects to help organization leaders and managers quickly develop and analyze the costs, benefits, and risks of planned projects. The tool also helps to answer the following questions:

- Which proposed projects have the best returns, highest strategic impact, and lowest risk?
- How can all stakeholders better collaborate, communicate, and rationalize decisions more effectively?
- What impact will the portfolio of proposed projects have on budget and corporate financials?
- How can IT prepare compelling presentations and prove IT value?

ROI Analyst provides organizations with an IT value management governance tool that refers back to strategic insights from the Peer Comparison solution, connecting those insights with tactical project selection and related actions.

### ***Business Value Measurement Certification***

Alinean has recognized that in addition to a framework for managing IT value and the right content (validated information), integrated IT value management requires both technical and financial knowledge and skills to properly measure IT's value. In

partnership with IDC, Alinean now offers a certification course for value measurement skill development for all stakeholders, including the end-user community (value-based governance), vendor sales and marketing professionals (value-based selling), consultants (value-based advisory services), channel partners, and competitive intelligence analysts.

It is estimated that greater than 80% of buyers require business case analysis for technology purchases. Given that less than 10% have the requisite competency in-house, IT vendors have the opportunity to provide business value assessment for their customers. Improved vendor skills in value analysis can improve sales performance and, in the longer term, strengthen client relationships.

Improved vendor skills in value analysis can improve sales performance and, in the longer term, strengthen client relationships.

The key course benefit is development of skills that improve credibility — both for reliably analyzing value and for successfully communicating that value. Course outlines are available at the following sites:

- ☒ [www.alinean.com/ValueExpertBusinessValueSellingTrainingOutline.asp](http://www.alinean.com/ValueExpertBusinessValueSellingTrainingOutline.asp)  
(business value selling)
- ☒ [www.alinean.com/ValueExpertforCIO.asp](http://www.alinean.com/ValueExpertforCIO.asp) (IT value-chain management [ITVM] certification)

---

## The Value of Managing IT Value

IDC's IT Value Metrics and Measurement service has addressed a number of topics in recent years that are related directly or indirectly to the issue of IT value management explored in this study. Those studies stressed the importance of capturing value from IT resources at various stages of analysis/planning, procurement, implementation, measurement, and relationship development and involving various stakeholder groups. Topics included:

- ☒ Assessing the potential business value of proposed IT investments
- ☒ Tracking and evaluating business performance (value) of IT-related initiatives
- ☒ Developing cooperative relationships between IT and finance/business interests
- ☒ Coordinating processes for governing IT plans, projects, costs, and contributions
- ☒ Improving business outcomes with partners and customers

All of these studies looked at different aspects of managing and maximizing value from IT: portfolio management and chargeback practices, performance measurement, the complementary functions of finance and IT, and responsibility and accountability across functions for IT value. All of them, ultimately, led to the notion of a dedicated and coordinated function for stewardship of IT value in the business.

The notion of integrated management of IT value is a natural evolution of these interests, and it encompasses all of them. A dedicated IT value oversight function can have a number of business advantages by doing the following:

- ☒ **Providing a basis for unification:** Promotes IT-business alignment in practice
- ☒ **Identifying a value assurance function:** Offers a way to coordinate value-enhancing activities that promote continuous improvement
- ☒ **Improving business performance:** Provides for the assignment of responsibility and accountability for realizing value from IT by many specialized interests
- ☒ **Encouraging fact-based governance of IT interests:** Emphasizes data collection and analysis to inform decision making and wide participation
- ☒ **Communicating IT value credibly to all stakeholders:** Assesses IT value based on data and a track record, increasing reliability
- ☒ **Developing internal self-sufficiency in recognizing and measuring IT value:** Develops internal visibility into value

IDC believes that dedicated, coordinated management of business value from IT resources is a competitive necessity. It offers organizations the potential for making IT an integral part of their business success, IT suppliers the opportunity for presenting offerings in a customized value context, and IT service providers the chance to help both parties to realize mutual gains from a key driver of business health at all levels of the economic environment.

## ESSENTIAL GUIDANCE

---

### Actions to Consider

In the following section, IDC provides recommendations for moving toward developing an internal IT value management capability. These recommendations are aligned with the three questions posed in the IDC Opinion.

To determine how wisely and well the organization spends money on IT, IDC recommends the following:

- ☒ Regularly assess the business performance of various parts of the organization.
- ☒ Provide a forum for a range of organization stakeholders to discuss potential IT-related actions that align with business strategies and that could advance them.
- ☒ Identify sources of business value that involve IT capabilities, existing or potential, and develop objectives to pursue.

To effectively manage and track the flow of value from IT, IDC recommends the following:

- ☒ Explore the possibility of coordinating processes and practices that affect how well IT value is estimated, managed, and assessed in the organization.
- ☒ Encourage the close working relationship between IT and finance functions, and between those key functions and business units.
- ☒ Identify responsibilities of pertinent stakeholder groups in achieving identified objectives, and assign accountabilities for specific actions and outcomes.

To determine the kind and extent of business value organizations are realizing from IT spending, IDC recommends the following:

- ☒ Undertake postimplementation value audits of key IT-related projects to assess the extent of business value realized.
- ☒ Develop IT value measurement and assessment skills within the organization to develop self-sufficiency in calculating IT value.
- ☒ Continue to monitor the business value of IT capabilities on an ongoing basis, and manage the flows of value in relation to other IT and non-IT resources.
- ☒ Benefit from the expertise of some consultants and vendors specializing in assessment of IT value.

## LEARN MORE

---

### Related Research

- ☒ *Leverage This! Five Practical Ways to Blend IT and Business for Greater Value* (IDC #33222, April 2005)
- ☒ *Getting to Win-Win: Success Factors in the HP/TD Bank Outsourcing Arrangement* (IDC #32680, December 2004)
- ☒ *"Selling" IT in the Enterprise: Communicating and Confirming IT's Business Value* (IDC #32588, December 2004)
- ☒ *The Performance Stakes: Who's Accountable for IT's Business Value?* (IDC #32370, November 2004)
- ☒ *Double Impact: The CIO, the CFO, and IT Value* (IDC #32138, October 2004)
- ☒ *Accounting for IT Value: The Double Helix of Cost and Business Performance* (IDC #30960, March 2004)
- ☒ *Holding the Line on IT Value: Effective IT Leader and IT Vendor Relationships with IT Customers* (IDC #30501, December 2003)

- ☒ *Closing the Loop: Capturing Value at the Level of IT Projects, IT Portfolio, and Vendor Relations* (IDC #30375, November 2003)
- ☒ *Stand and Deliver: Determining Business Effectiveness Enabled by IT* (IDC #29584, June 2003)

---

### **Copyright Notice**

This IDC research document was published as part of an IDC continuous intelligence service, providing written research, analyst interactions, telebriefings, and conferences. Visit [www.idc.com](http://www.idc.com) to learn more about IDC subscription and consulting services. To view a list of IDC offices worldwide, visit [www.idc.com/offices](http://www.idc.com/offices). Please contact the IDC Hotline at 800.343.4952, ext. 7988 (or +1.508.988.7988) or [sales@idc.com](mailto:sales@idc.com) for information on applying the price of this document toward the purchase of an IDC service or for information on additional copies or Web rights.

Copyright 2005 IDC. Reproduction is forbidden unless authorized. All rights reserved.

---

**Published Under Services:** IT Value Metrics and Measurement