

What are we going to miss most about the recession?

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Revisiting the causes

- Ignoring/disguising risks
- Forgetting whose money is being spent & lack of owners' involvement
- Disparity between investments & ability to repay
- Level of credit too high
- Assets can drop significantly in value
- Inappropriate incentives
- Inadequate regulation
- “Too big to fail”

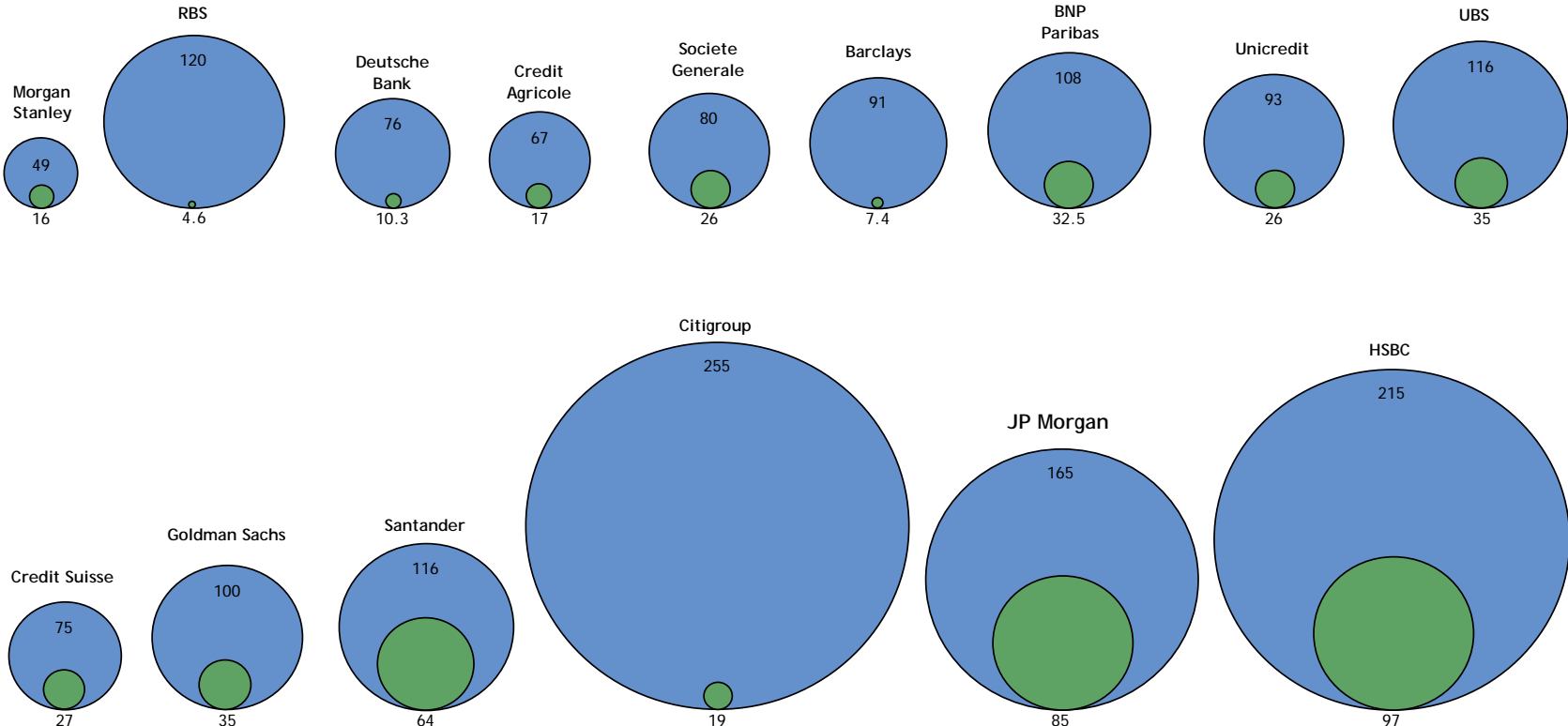


& scandals

Value of banks

Banks: Market Cap

- Market Value as of January 20th 2009, \$Bn
- Market Value as of Q2 2007, \$Bn



“The failed promises of the Information Age add up to the longest-running disappointment in business history. On the other hand, information technology has produced an enormous transition, something that companies should be grappling with and studying every day.”

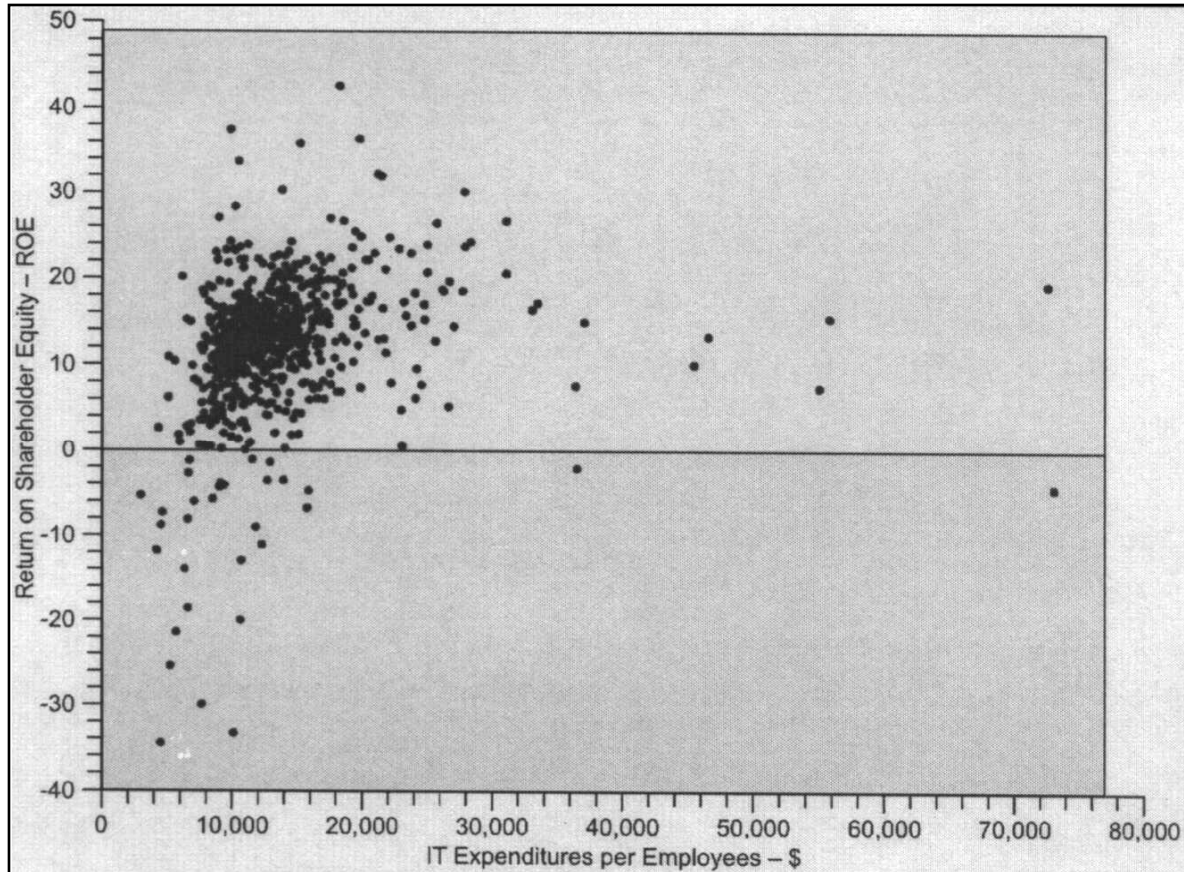
Jack Welch
World Economic Forum, Davos, 1997

The problem

How Much of an Investment in IT Is Wasted?

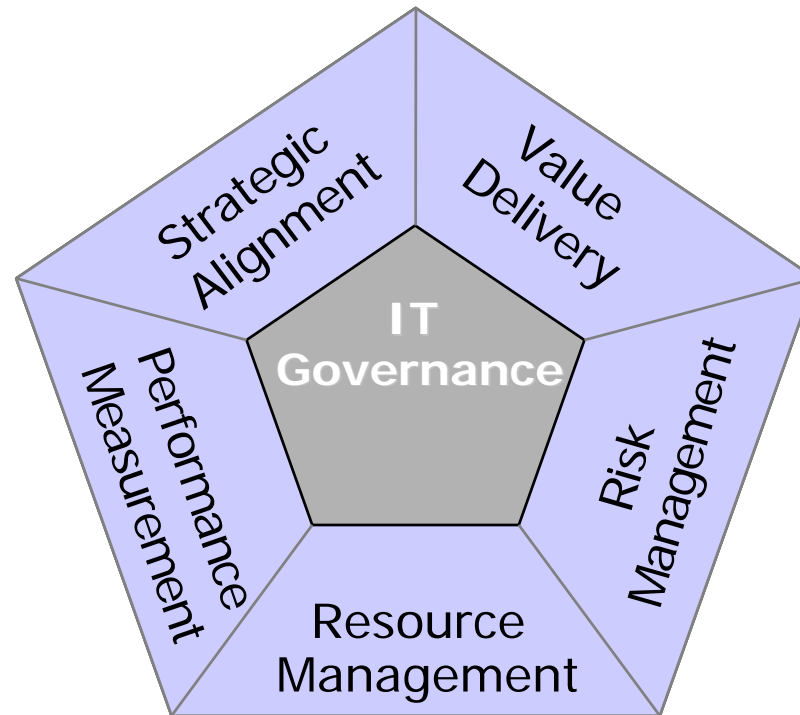
- A 2002 Gartner survey found that 20 percent of all expenditures on IT is wasted—a finding that represents, on a global basis, an annual destruction of value totaling about US \$600 billion.³
- A 2004 IBM survey of *Fortune* 1000 chief information officers (CIOs) found that, on average, CIOs believe 40 percent of all IT spending brought no return to their organisations.⁴
- A 2006 study conducted by The Standish Group found that only 35 percent of all IT projects succeeded, while the remainder (65 percent) either were challenged or failed.⁵

Corporate profits vs IT expenditures



Source: Butler Group 2001

The five focus areas of IT Governance



Source: ITGI

“The responsibility of executives and the board of directors and consists of the leadership, organisational structures and processes that ensure that the enterprise’s IT sustains and extends the organisation’s strategies and objectives.” *Unlocking Value ISACA/ITGI*

Revisiting the causes of IT waste

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Need for a new value mantra

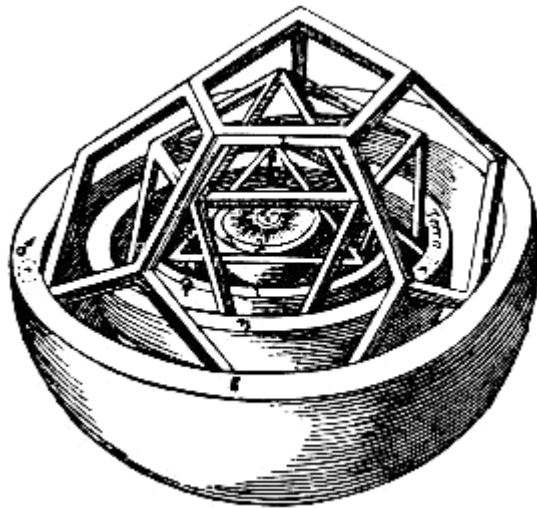
- **Value Delivery** is about executing the (IT) value proposition throughout the delivery cycle, ensuring that IT delivers the promised benefits against the strategy, concentrating on optimising costs and proving the intrinsic value of IT

- Source: ISACA/ITGI

Need for a new value mantra

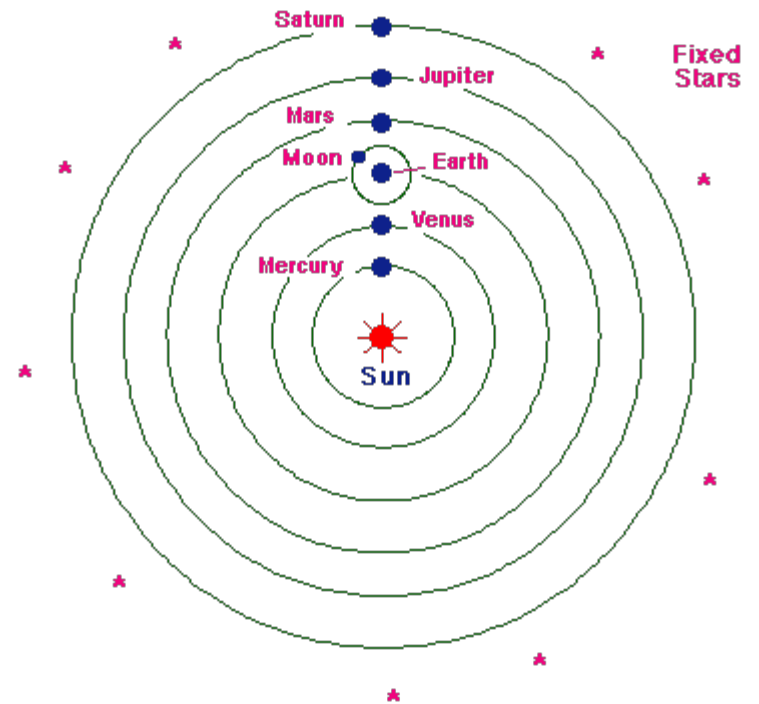
- **Value Delivery** is about **executing the (IT) value proposition** throughout **the delivery cycle**, ensuring that **IT delivers the promised benefits** against the strategy, concentrating on **optimising costs** and proving the **intrinsic value of IT**
- Source: ISACA/ITGI
- **Value Delivery** is about ensuring that all business change (whether or not involving IT) creates optimal value over the full economic life cycle, at acceptable risk, from the investments in business change (& the expenditure on IT)
- Source: Grosvenor CS

Geocentric to heliocentric thinking

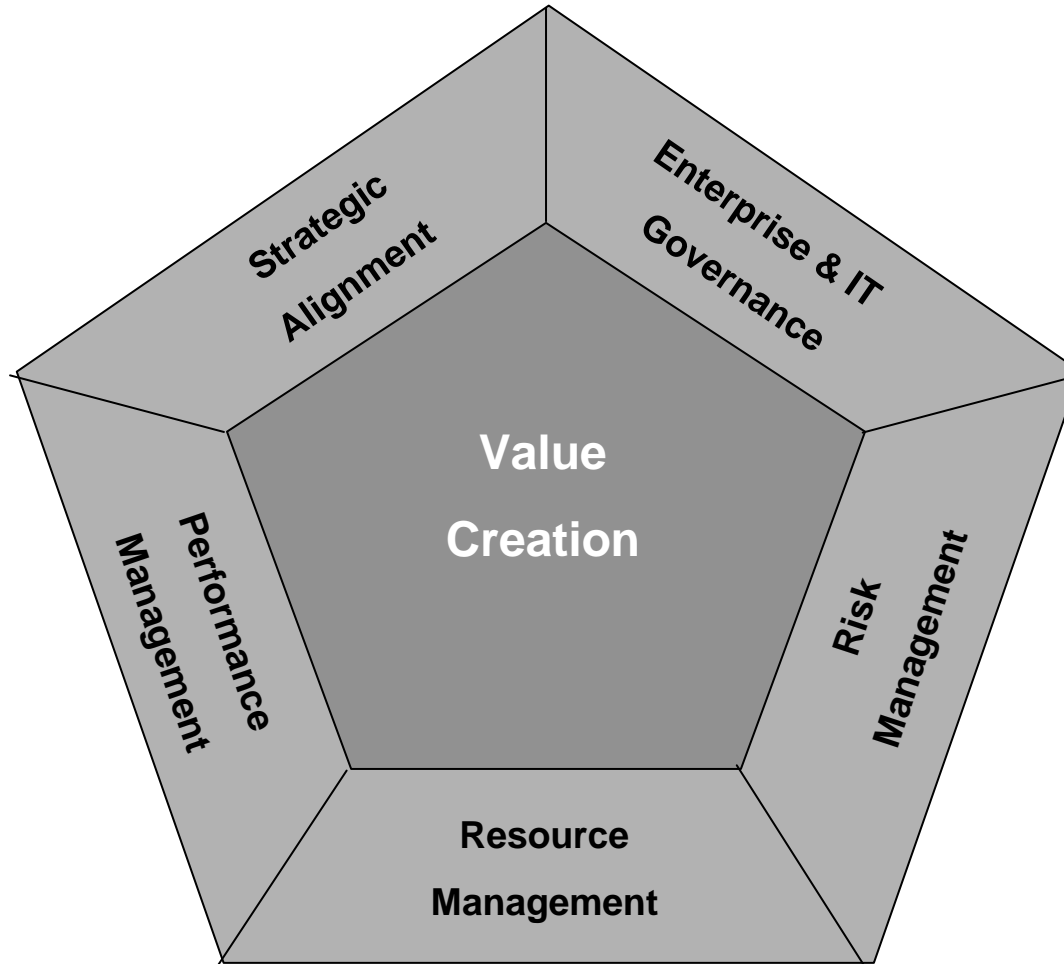


Platonic model

Copernican model



Value creation is the purpose



Purpose of enterprises

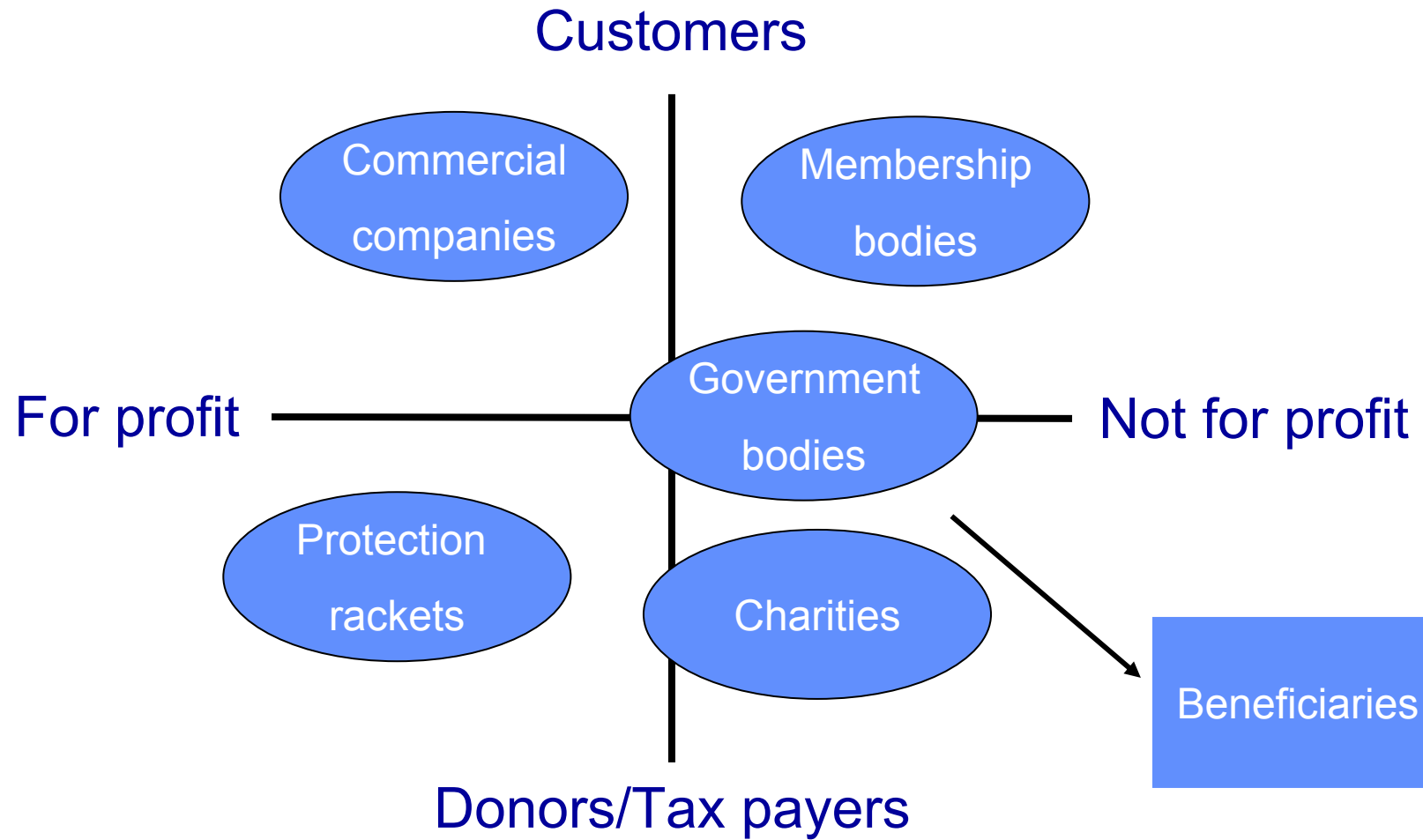
Enterprises exist to serve a community.

“Value” is what they seek to provide to that community.

But

Who is that community & what do its members want?

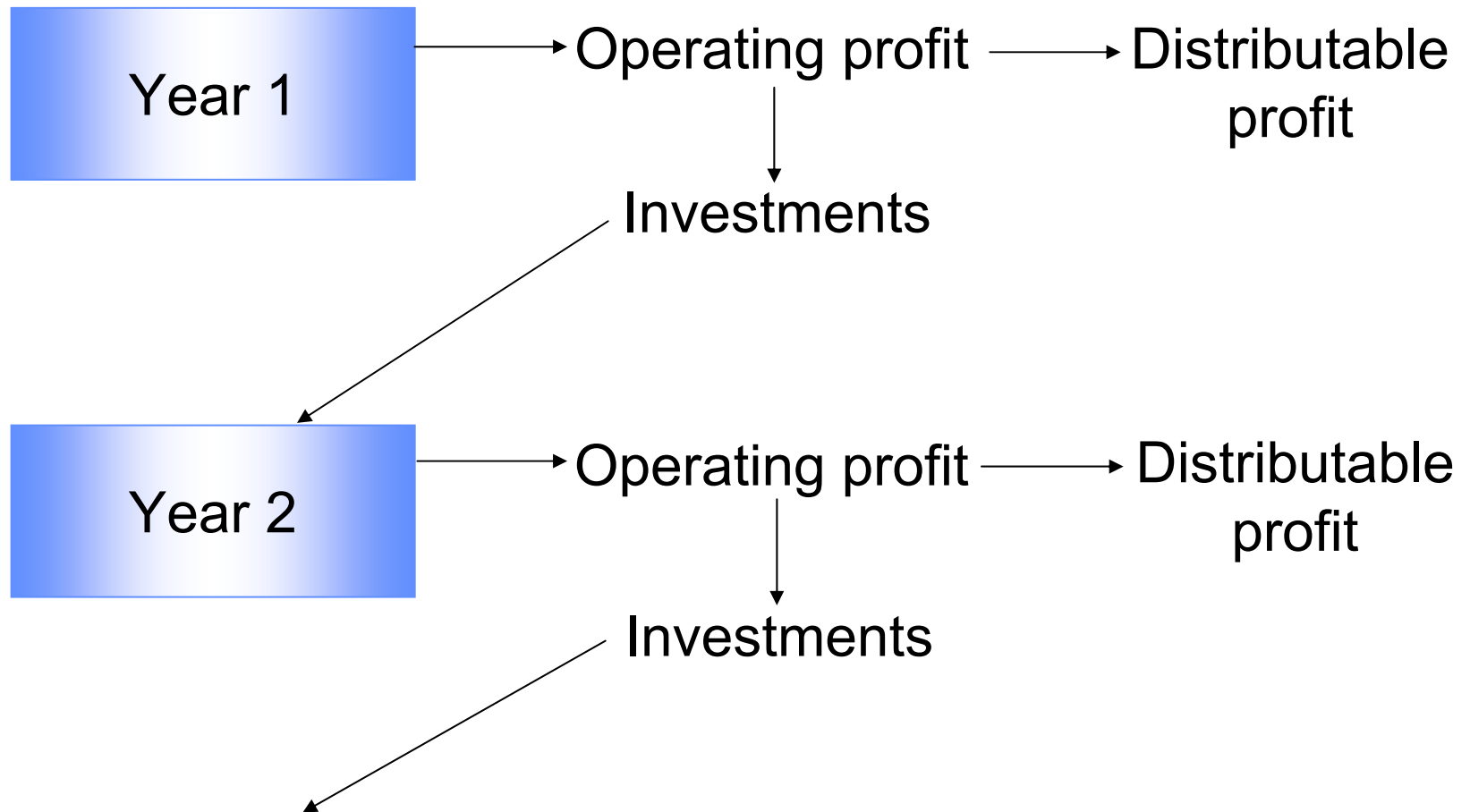
Types of enterprises



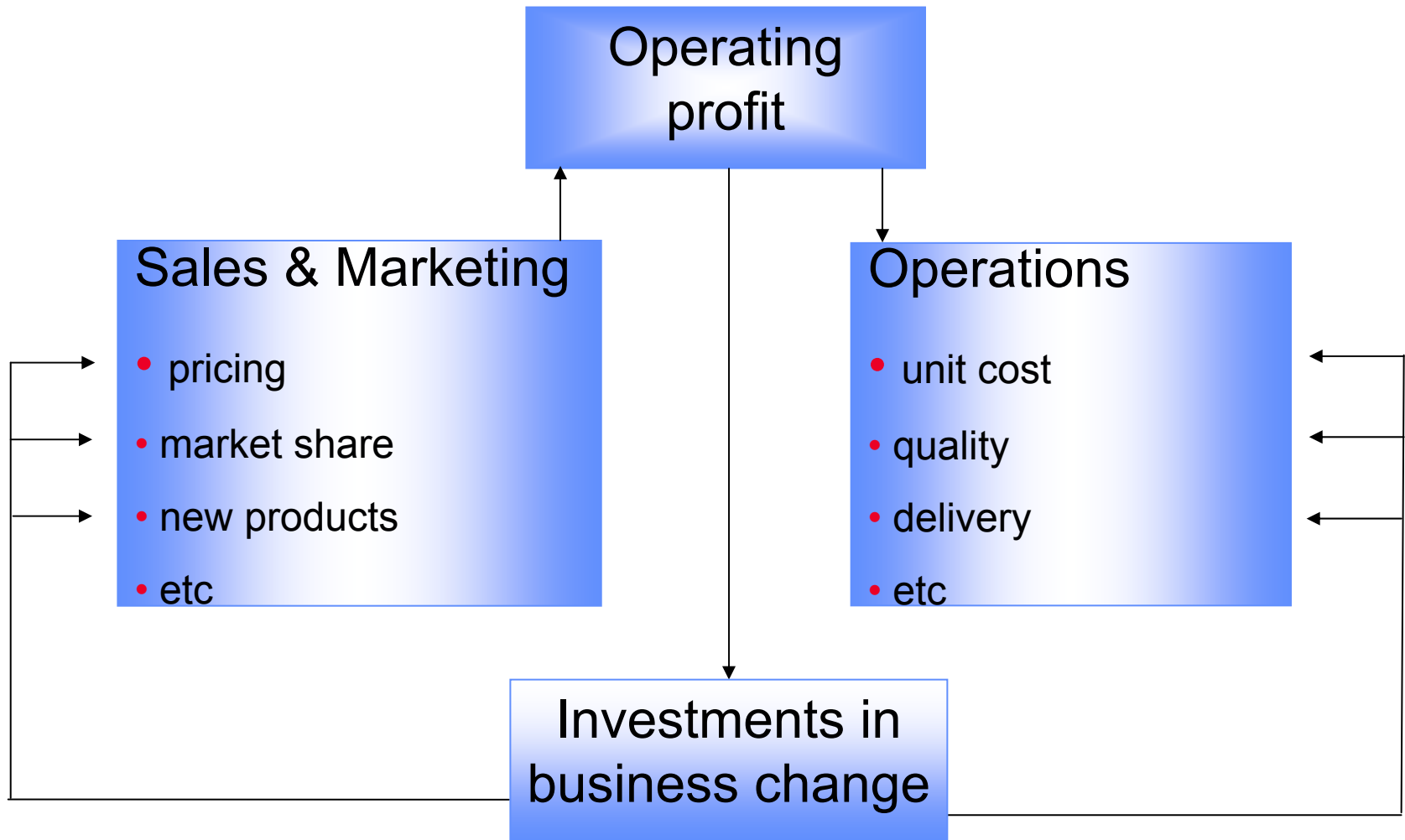
The importance of “Value”

- Common focus for all
- It is what the enterprise as a whole exists to achieve
- Yardstick for assessing what is worth doing
- It is less personal & political than business goals
- It must be:
 - defined by the executive
 - communicated to all
 - used as the basis of key decision making
 - used as a key measure of achievement
- Understand IT's role in creating value

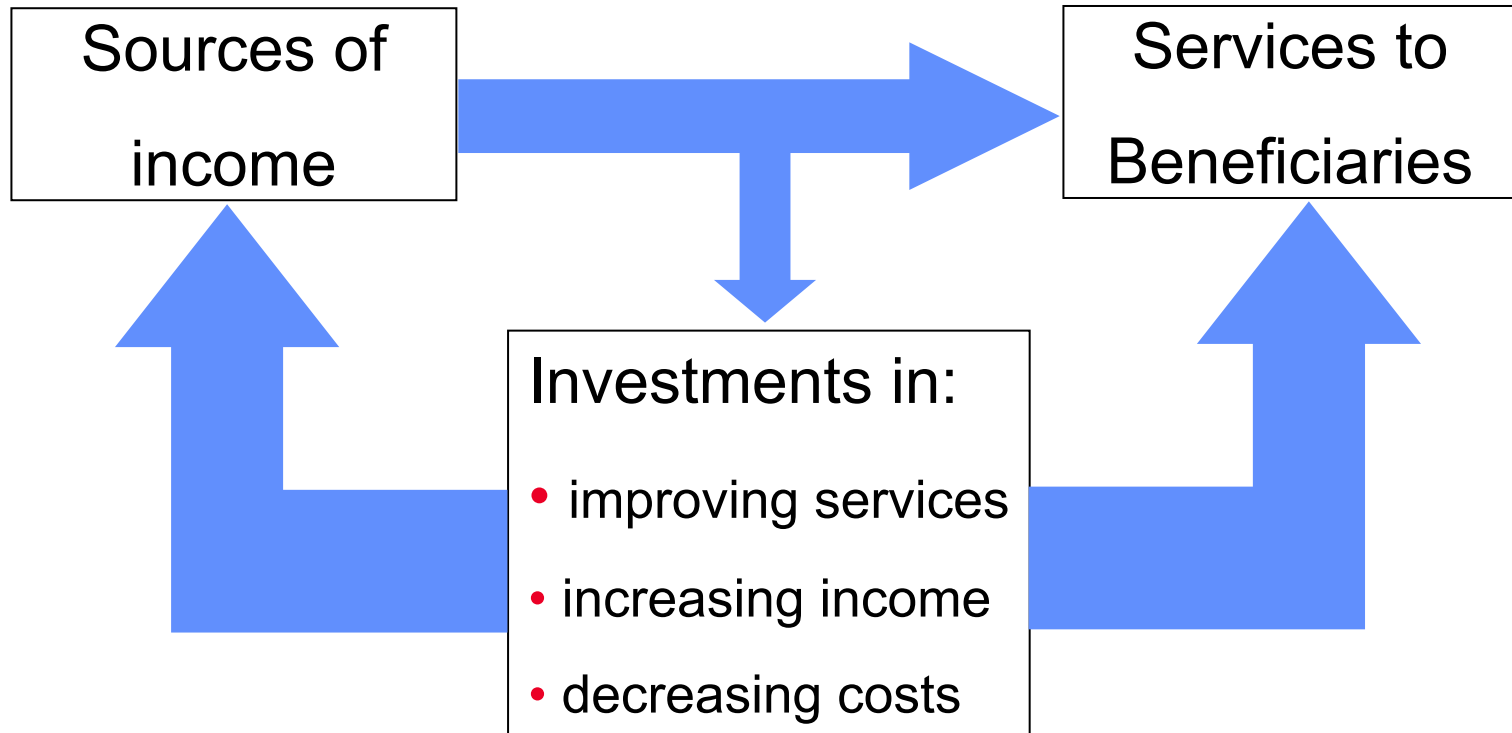
What is the value of a company?



Origins of profit







Value & not-for-profit organisations

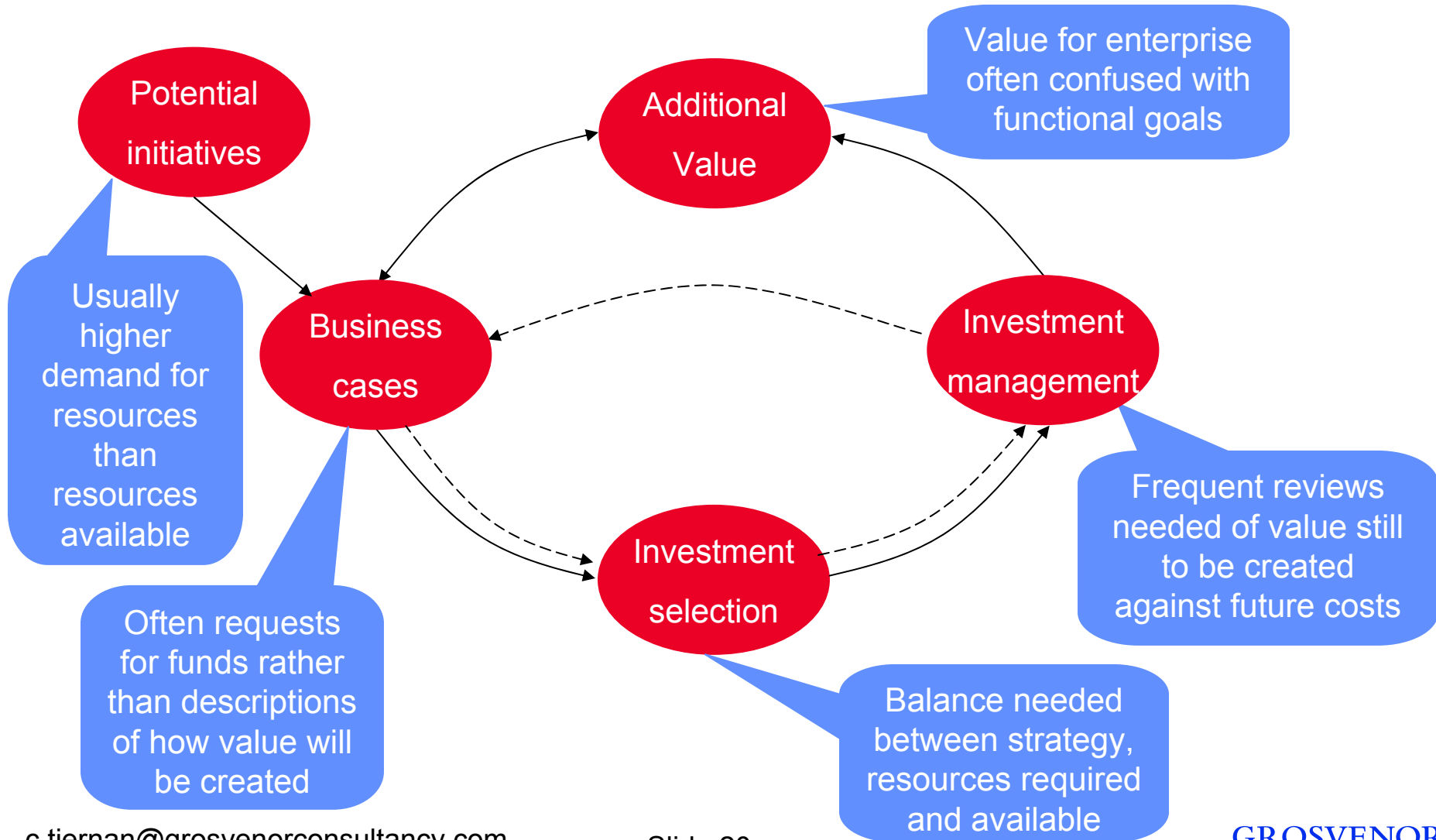


The investments must create more for the beneficiaries

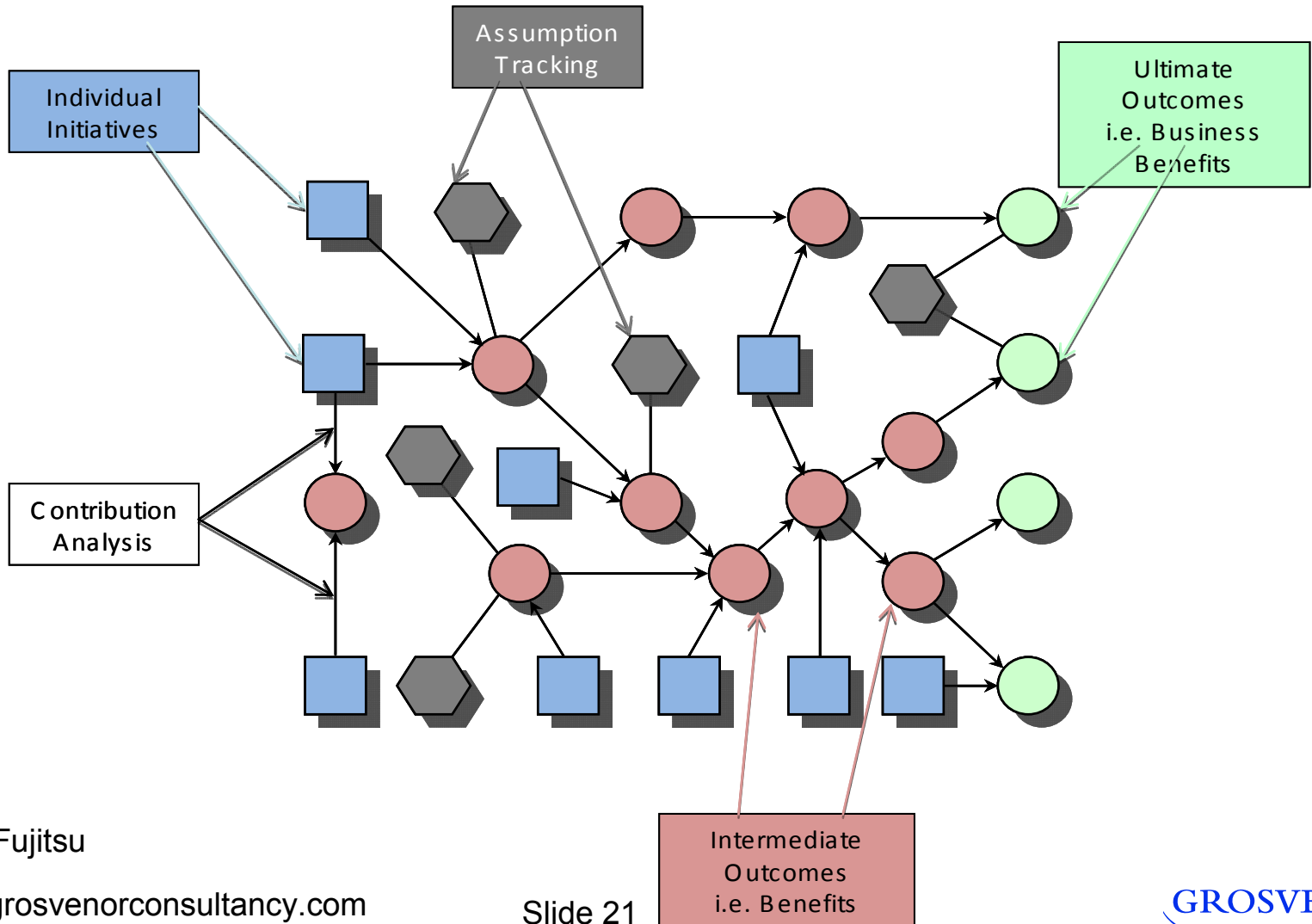
What is the target?

- On time, within budget, to specification  What about benefits?
- Benefits realisation  What about value creation?
- Business benefits create (sustained?) value  Worth doing?
- Maximising rate of return within resource constraints is the real target 

Investment life-cycle



Investment logic diagrams



Source: Fujitsu

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Slide 21

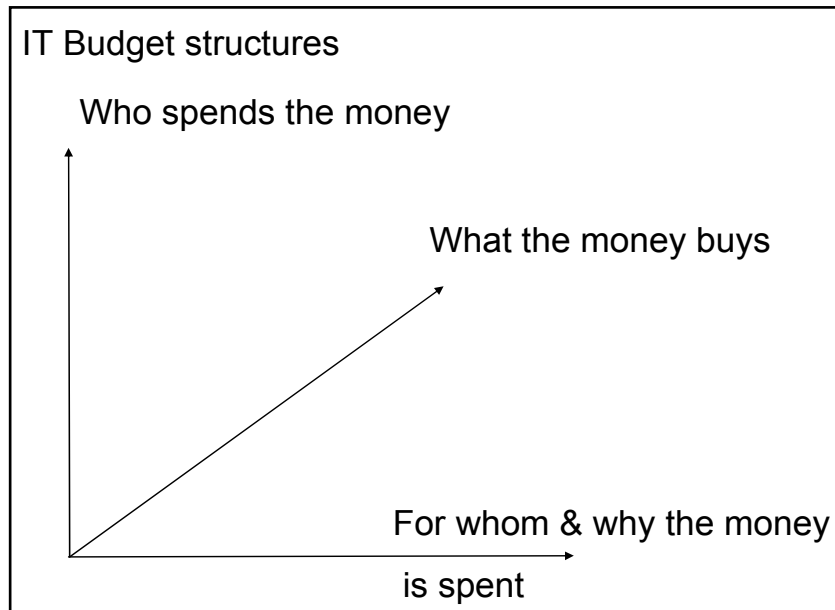
Suggestions for the future

- Ensure IT expenditures are viewed by the executive as:
 - business costs where they are providing services now; and
 - business change investments where they are to improve what is to be achieved in the future.
- Business cases are more than a request for funds – they should fully describe the journey from investments to the creation of value.
- Value should be considered from the perspective of shareholders/beneficiaries, not just individual business functions and goals.
- All business benefits must have owners up to realisation.
- Objective selection criteria are needed to choose the best investments.
- Manage investments up to value creation.

Suggestions for the future

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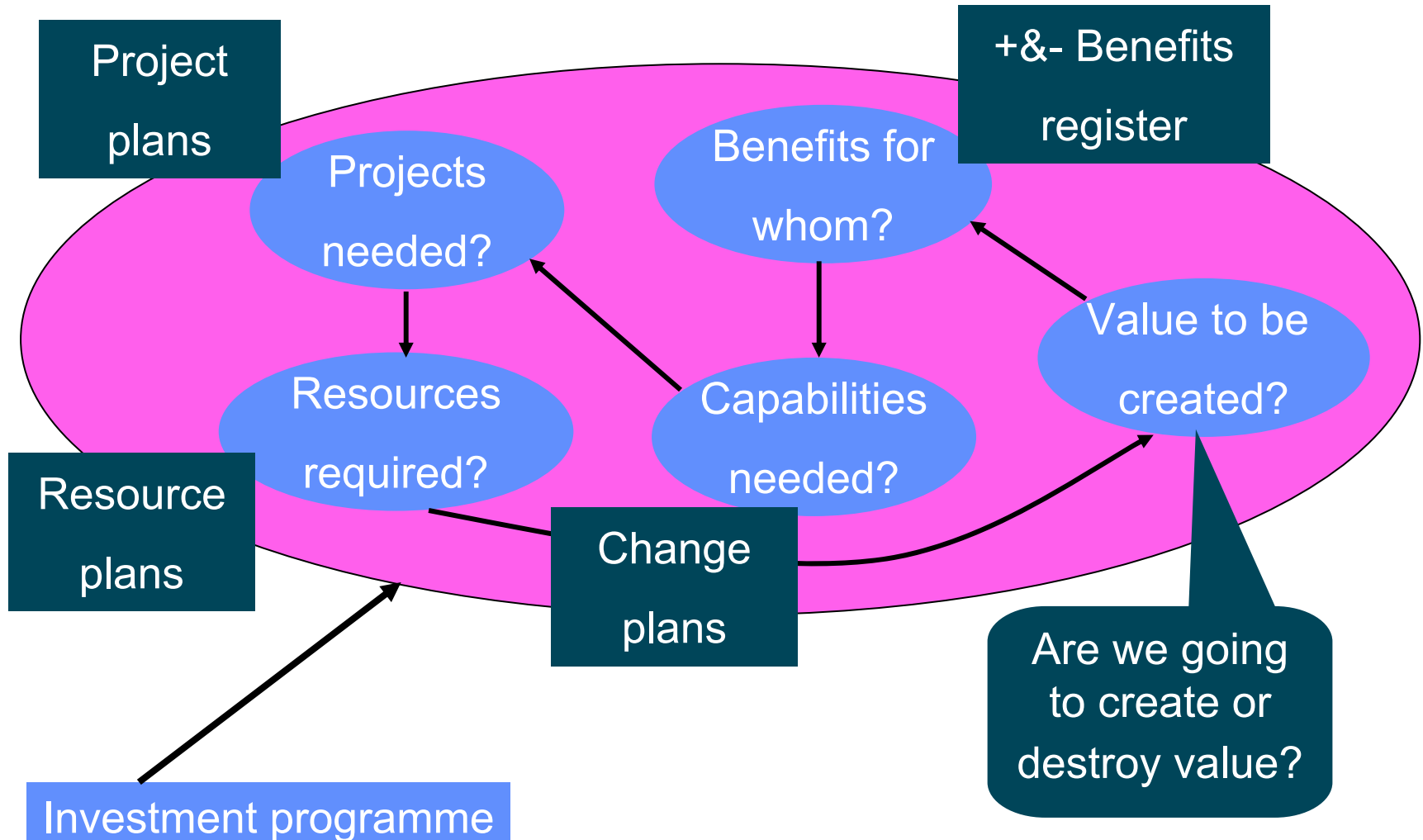


Unscrambling the mix

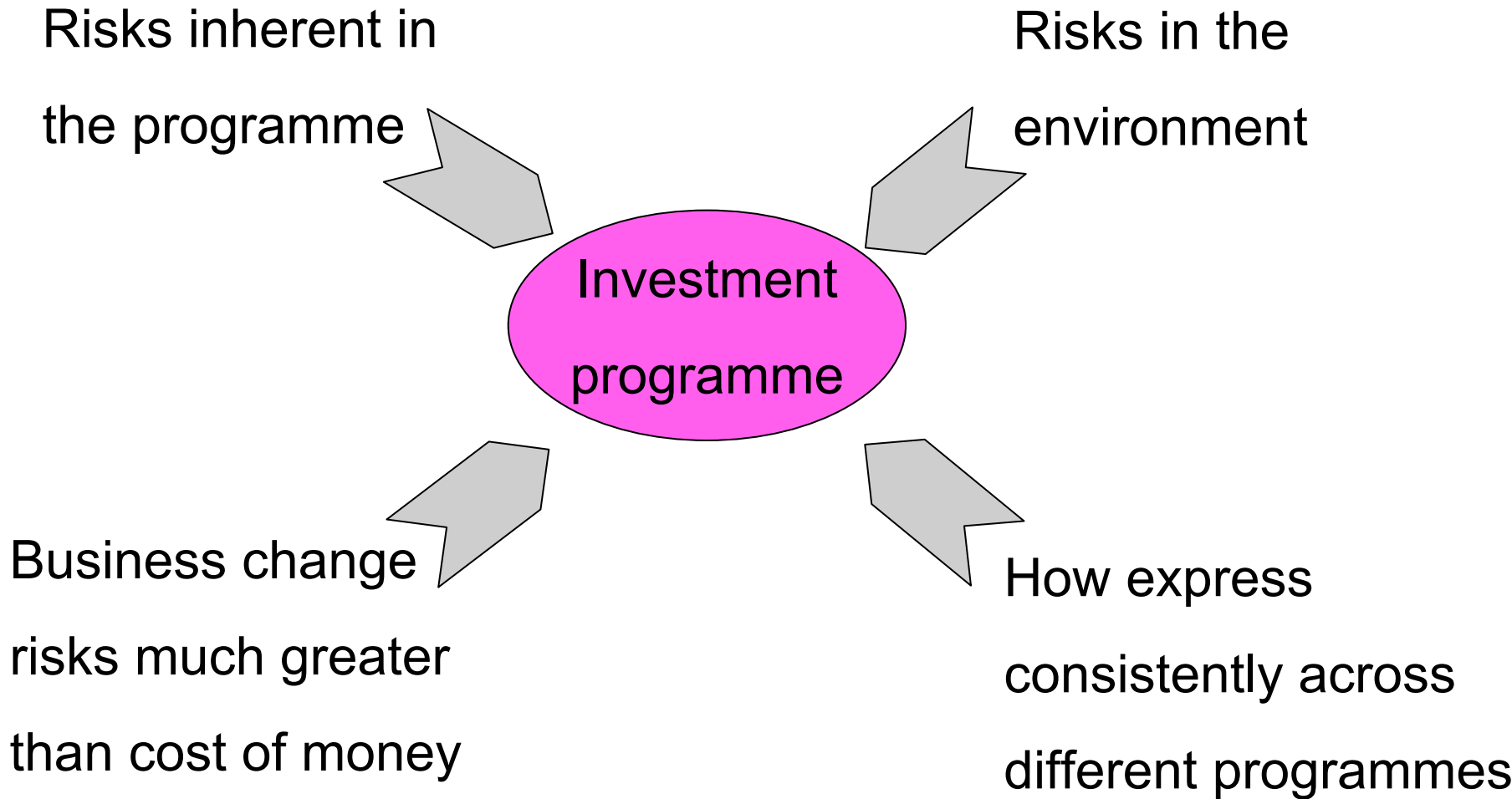
	Capex	Opex
Costs	Hardware, COTS, software licences, infrastructure refresh	Maintenance, software support, telecoms, bought-in services, electricity, consumables
Investments	Development facilities, pilot systems, one-off application package charges, consultancy	Development effort & support, e.g. for development environment, DBA, unit & integration testing

Consider people time based on what is cost & what investments

Business cases are more than a request for funds – they should fully describe how investments will create value.



Coping with uncertainty



Risks

$$\text{ROI} = \frac{\text{Benefits} - \text{Costs}}{\text{Costs}} = \frac{112 - 100}{100} = 12\%$$

But suppose: 25% overspend, only 80% of benefits & 1 year late, what do benefits (B) then have to be to get 12%?

$$\text{ROI} = \frac{B \times 0.8 / 1.12 - 125}{125} = 12\%$$

Solving for B gives

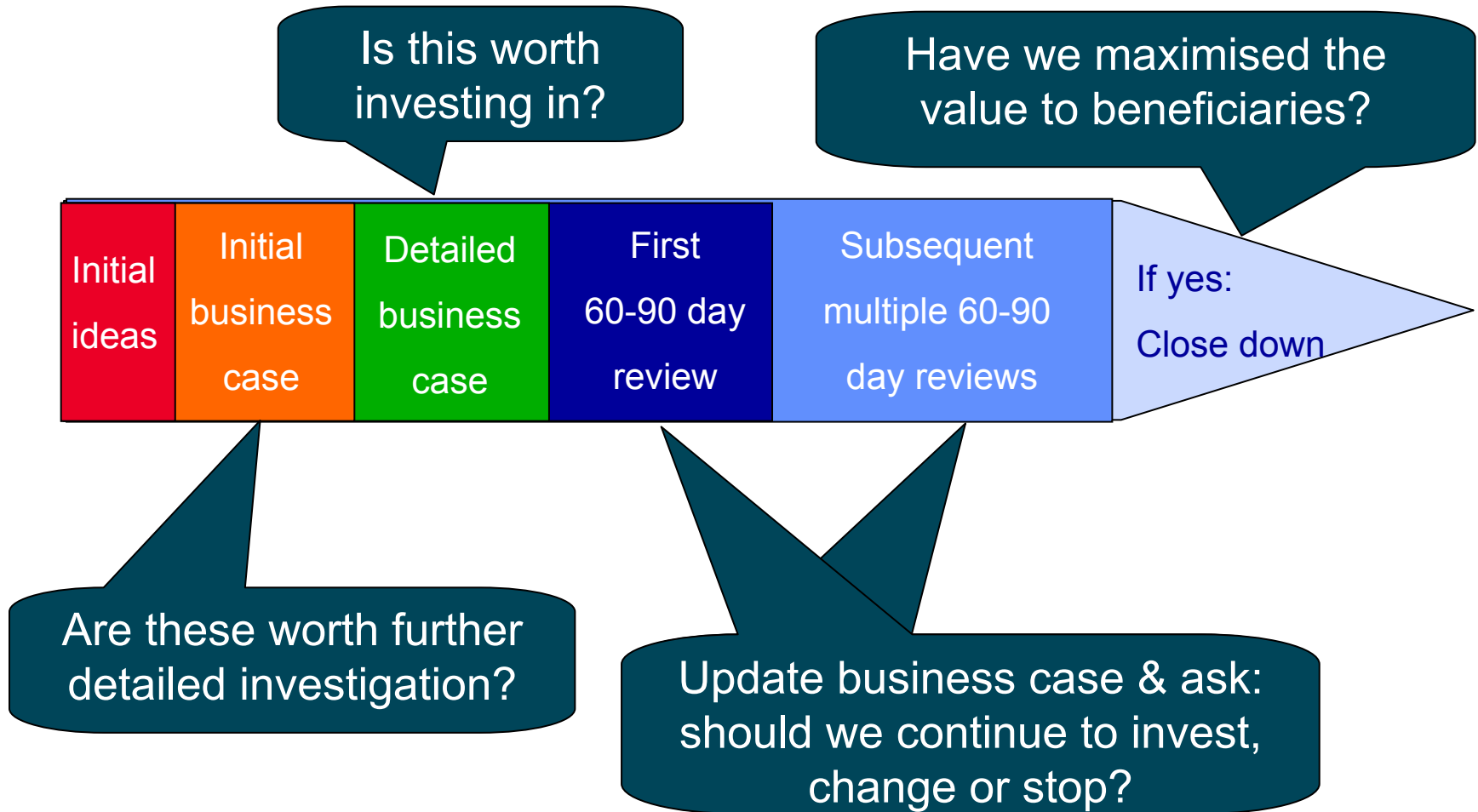
$$B = 196 \text{ !!!!!!!!!!!!!!!!!!!!!!!}$$

Risks are much more significant than discount rates

Portfolio analysis (example)

TRENDS (1)	INNOVATE (2)
<p>WHAT: Initiatives undertaken purely for strategic reasons to meet market requirements, competitive pressures, sustain an advantage, counter external forces, business reasons etc.</p> <p>CASE: Perhaps no cost/benefit case can be prepared, rationale might be purely intuitive.</p>	<p>WHAT: New business ideas or technological opportunities. Each championed by an individual. Explorative to test ideas or approaches which might be winners or come to nothing. Speculative.</p> <p>CASE: Largely research where costs have to be tightly controlled and compared with emerging benefits as learning progresses.</p>
<p>WHAT: Initiatives directed at improving the output from current activities (speed, accuracy, completeness, legal or regulatory compliance), reducing inconsistencies & overlaps, overcoming disadvantage.</p> <p>CASE: Business case prepared from benefits of improving outcomes, e.g. increased or sustained income.</p>	<p>WHAT: Initiatives aimed at reducing resource usage (money, time, effort, space etc) to improve productivity of specific, perhaps localised, business activities but usually not their outputs.</p> <p>CASE: Business case prepared from reducing expenditures, tied up resources & costs of funds</p>
INCOME (3)	EXPENDITURES (4)

Manage investments up to value creation



Value Management on a page

Adoption of proven value management practices will enable enterprises to enhance both their selection and management of investments in business change so as to improve value for their beneficiaries.

This is achieved by:

- a) tightly linking envisaged returns to necessary investments;
- b) appropriately assigning responsibilities;
- c) ensuring on-going competition for resources; and
- d) taking into account changing circumstances.



Periodically across
all investments

Bad practices Value Management addresses

- The linkage between IT and value is not understood
- Belief that delivery of value is IT's responsibility
- Incomplete business cases used to secure funding
- Business change investment largely ignored
- Inadequate business change resources provided
- Lack of commitment to realise business benefits
- Investment selection political, rules not transparent
- Business cases not kept up to date
- Lack of investment reviews means no lessons learnt

Where to start?

Four key questions:

- How tightly are we linking envisaged value to necessary investments?
- How are we assigning responsibilities?
- How are we ensuring on-going competition for resources?
- How are we taking into account changing circumstances?

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Jack Welch
Las Vegas, 2008

What are we going to miss most about the recession?

A golden opportunity to adopt proven management practices to increase the return from investing in business change involving
IT

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after registration

Thank you for listening

Questions?