G00273911

10 Absolute Truths for Measuring the Business Value of IT

Published: 13 January 2015

Analyst(s): Michael Smith

The foundation for measuring IT performance must be established before the CIO can determine its value. This research explains the 10 absolute truths for establishing the foundation necessary to measure both IT performance and the business value contributed by the IT department.

Key Findings

- Measuring the value of IT is a perennial issue for most of our clients.
- Questions involving the business value of IT originate from funding needs.
- Value is always determined by the consumer, not the producer.
- The fundamental concepts required for measuring the business value of IT will not change as technology and business processes change.

Recommendations

- Understand the fundamental concepts that must be in place to measure the business value of IT.
- Explain these fundamental concepts to your executive team.
- Use these fundamental concepts to establish your IT value management program.

Analysis

The objective of this research is to provide actionable advice so that CIOs can make meaningful progress in measuring the value created by their IT departments. Many Gartner clients have CEOs and CFOs that are demanding to know what the value of the IT budget is before they approve it. These CEOs and CFOs are not going to listen to the CIO muse on and on about the vagaries of measuring the business value of IT. This report clearly and succinctly explains what CIOs need to do in response to demanding CEOs and CFOs to be successful in getting the funding they need (see Table 1).

Table 1. 10 Absolute Truths for Measuring the Business Value of IT

	Truth	Impact	Consequences of Ignoring This Truth	Gartner Research
1	A desire to optimize IT funding levels drives the need to measure the business value of IT.	Questions of IT value can always be traced back to funding requirements. Recognizing this helps simplify and focus the process of measuring the business value of IT.	Without a specific objective for measuring the business value of IT, IT management creates dashboards and scorecards that are confusing and ignored by the executive management team.	"Measure the Value of the IT Organization From Your Stakeholder's Perspective"
2	In measuring the business value of IT, IT refers to the organization within the enterprise, not the technology.	Technology is important, but it represents less than 20% of the total cost of ownership (TCO). Measuring the business value of IT requires a TCO approach.	Focusing on the technology as the source of value creation results in underfunding postimplementation support.	"Volvo IT: Running IT as a Business"
3	Value is always determined by the consumer, not the producer.	This is why IT management can never solve or answer the question, "What is the business value of IT?" Realizing this helps IT management put in place the foundation needed to address this perennial issue.	IT claims value creation independent of the rest of the business. IT value management scorecards are viewed as presumptuous and rejected by executive management, further reinforcing the image of IT as business illiterate.	Not available
4	The approving authority for enterprise funding is the consumer that will ultimately determine the business value of IT.	The approving authority is informed by others, but IT management must focus its attention on the approving authority as the consumer that will determine the business value of IT and funding levels.	Without a focus on the approving authority as the ultimate judge of the business value created by IT, IT value management dashboards and scorecards are diluted and noncompelling. Yet providing reports to other audiences (for example, an IT annual report) is still necessary. Communicating to all enterprise stakeholders is needed and must be done using concepts that are familiar and important to each group, but the primary audience for the business value created by IT is the approving authority.	"Determining the Right Level of IT Operational Spending"
5	Money is the unit of measure for value.	We all love to hate money as a measure of anything, but it is the universal common denominator for measuring business value. It is useful to consider all the factors affecting money (revenue and cost). These factors include both short- and long-term	Once again, IT management will create dashboards and scorecards that are not compelling to executive management. It is perfectly okay (even desirable) to include nonaccounting metrics on the IT scorecard, but the relationship between each of these metrics and a financial result must be made clear.	Not available

	Truth	Impact	Consequences of Ignoring This Truth	Gartner Research
		objectives (such as corporate social responsibility).		
6	You cannot measure the business value of IT without a transaction.	Something must be delivered and consumed in order to measure the business value created. Anything less will be discounted by the approving authority.	Some people think defining a transaction puts a wall between IT and the rest of the business. Our research (for example, the Volvo IT case study) shows that when no transaction exists and there is cost pressure throughout the enterprise, the relationship between IT and the rest of the business deteriorates. Putting a transaction between IT and the rest of the business actually improves this relationship.	"Determining the Right Level of IT Operational Spending"
7	You cannot measure the business value of IT until you have explicitly defined what the IT organization is delivering in a way that the consumer will understand.	To have a transaction, an explicit definition of what is being delivered must be mutually agreed upon by both the producer (IT) and the consumer (the approving authority).	IT management is judged by perception that can have little relationship to reality. IT is always judged on perception, but defining what IT delivers provides an objective way to manage that perception.	"Determining the Right Level of IT Operational Spending"
8	All IT funding requirements can be grouped into two categories: operate and change. You measure the business value of these two categories differently.	The value of the operate portion of IT funding is measured by comparing the cost of delivering what has been explicitly defined at a specific service level to the next best alternative. The difference is the value created. The value of the change (project) portion of IT funding is determined by the ROI for the entire IT project portfolio.	IT management will focus on only the change (project) side of IT funding requirements because it is easier to do. This creates dysfunctional behavior — postimplementation costs are not considered, putting unrealistic pressure on the operating budget. The value of most of the IT funding requirements is never addressed (on average, 66% of total IT spending is in the operating portion of the budget).	"Determining the Right Level of IT Operational Spending" "Fundamentals of Value: Price to Performance and Return on Investment"
9	Regarding the change (project) portion of IT funding requirements, all benefits are quantifiable.	The benefits from every project proposal (including compliance, infrastructure and renewal projects) can and should be quantified. This quantification does require a new, extended approach to business case and ROI calculations.	IT management will use categories like "nondiscretionary" or "must do," which is where most good CFOs will attack first. Remember, there is always a choice, no matter how absurd. By describing these choices and using extended business case and ROI methodologies (see "Monetizing Business Outcomes"), IT management will avoid the arguments around "must do" and	"Implement Business Outcome Monetization as a Process for Increasing Project Success" "Strategic Benefits Realization: IT as an Engine for Coherent

	Truth	Impact	Consequences of Ignoring This Truth	Gartner Research
			earn credibility with the approving authority.	Execution of Strategy"
10	Each of the above nine absolute truths are enduring and are not influenced by changes in technology or processes.	Questions on the business value of IT will never go away. Recognizing these 10 absolute truths will help you do what is necessary to address this perennial issue in a long-term and sustainable way.	IT management will stay in the perpetual cycle of trying to explain the business value of IT using methods that are not understood by the approving authority. This is what has made the question, "What is the business value of IT," a perennial issue. It is time to address the issue and move on.	Not available

Source: Gartner (January 2015)

Gartner Recommended Reading

"Determining the Right Level of IT Operational Spending"

"Volvo IT: Running IT as a Business"

"IT Resources Planning: Using Business Concepts to Manage IT Resources and Costs"

"IT Resources Planning: Actual Costing vs. Standard Costing"

"Implement Business Outcome Monetization as a Process for Increasing Project Success"

"The Gartner Business Value Model: A Framework for Measuring Business Performance"

GARTNER HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
USA
+1 203 964 0096

Regional Headquarters
AUSTRALIA
BRAZIL
JAPAN
UNITED KINGDOM

For a complete list of worldwide locations,
visit http://www.gartner.com/technology/about.jsp