

GEST483 IT Governance

- IT Value Management -

IT Value Management

What IT value ?

Where are the IT costs ?

How to decide to invest in IT ?

How to charge IT costs to clients ?

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IT Value

- It all started with a question from the Board -



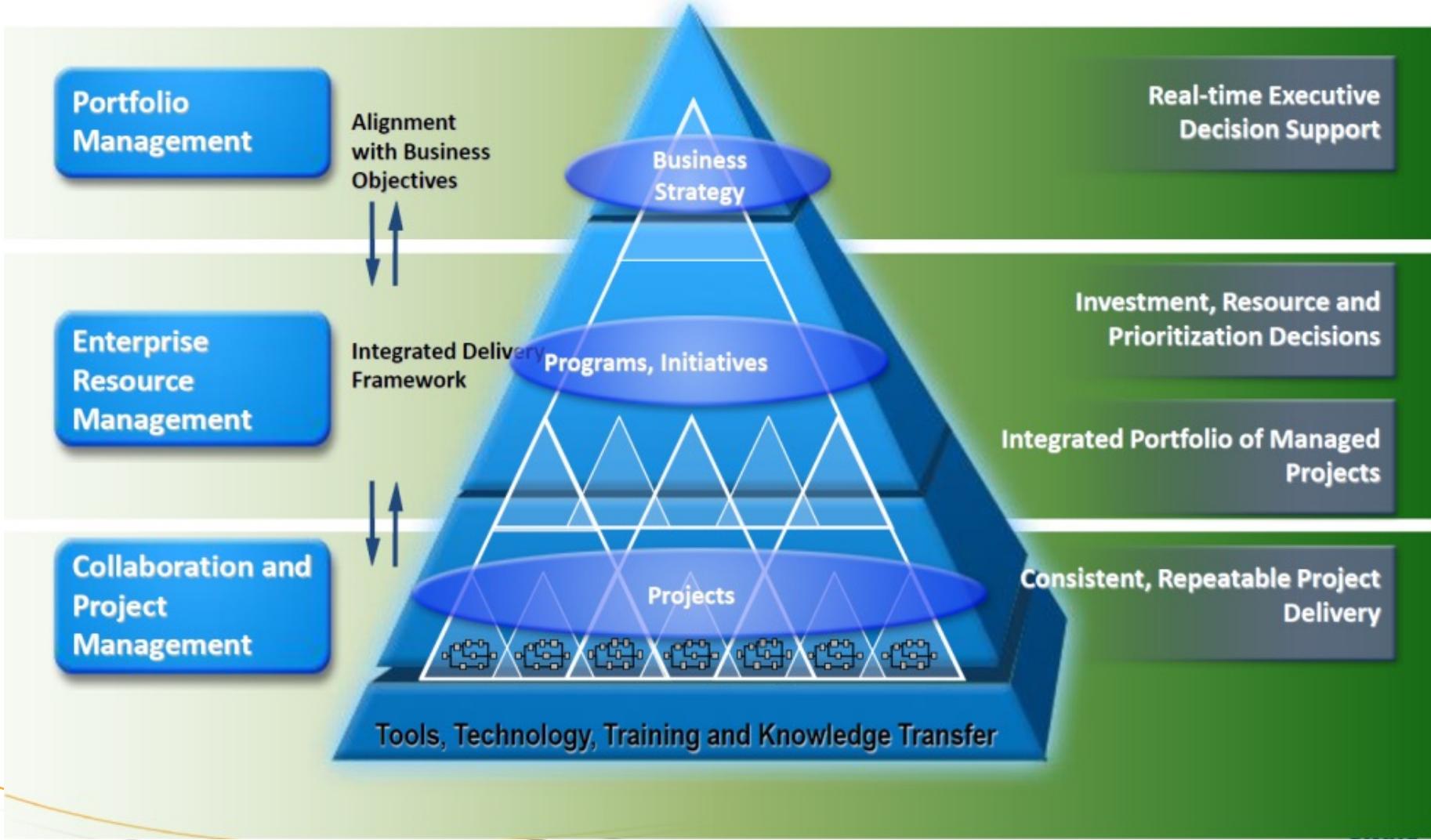
IT Value

- *Value What value ? -*

- “Ultimately, **IT only has value if it has value to the business**. But demonstrating that value to business leaders to have meaningful conversation about what IT actually achieves has historically been a dark art”
- “**Many Business managers don’t understand IT costs**, but explaining them can help forge true partnership between IT and the Business”

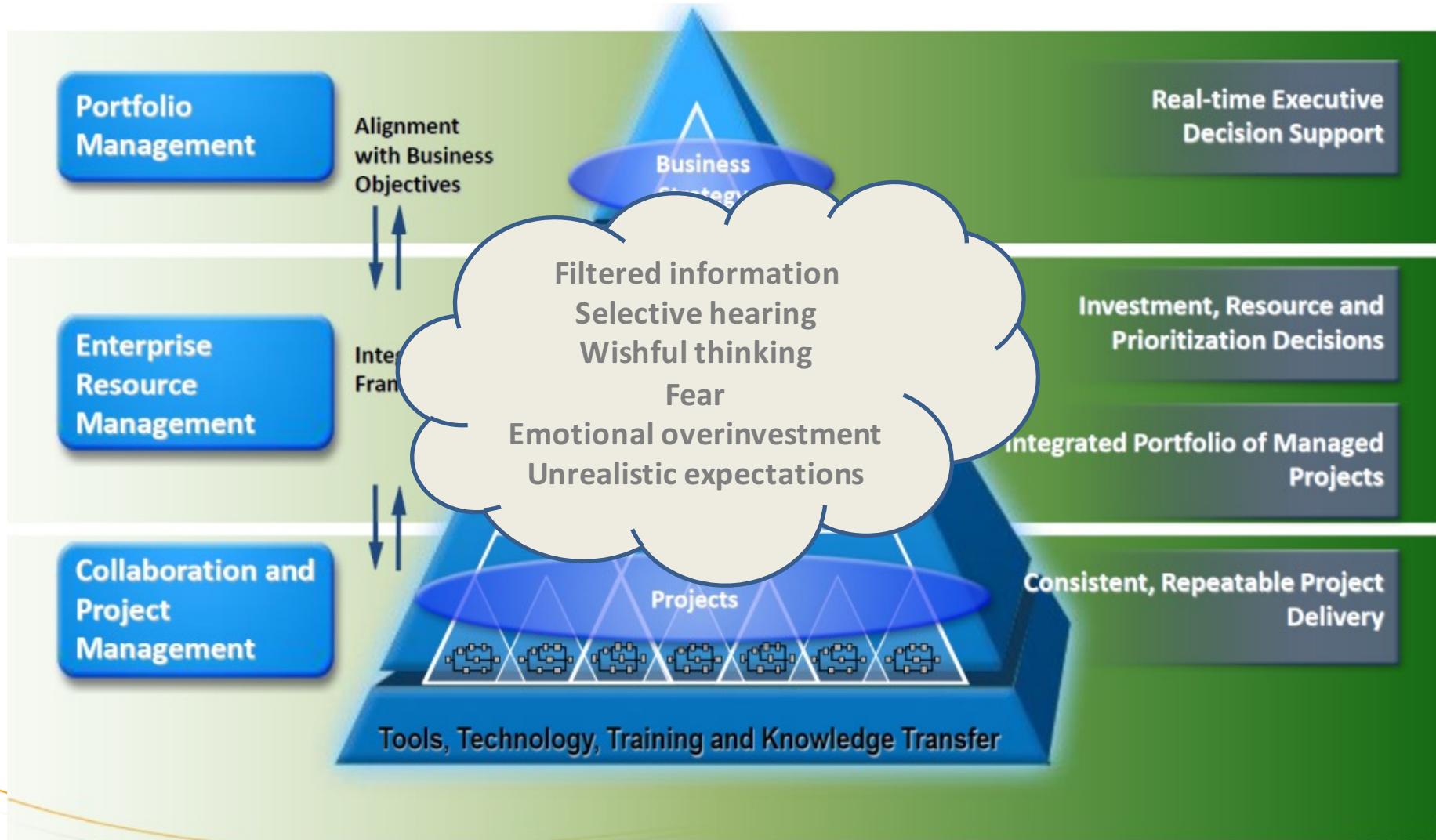
IT Value

- *Connecting to Strategy and linked down to assets -*



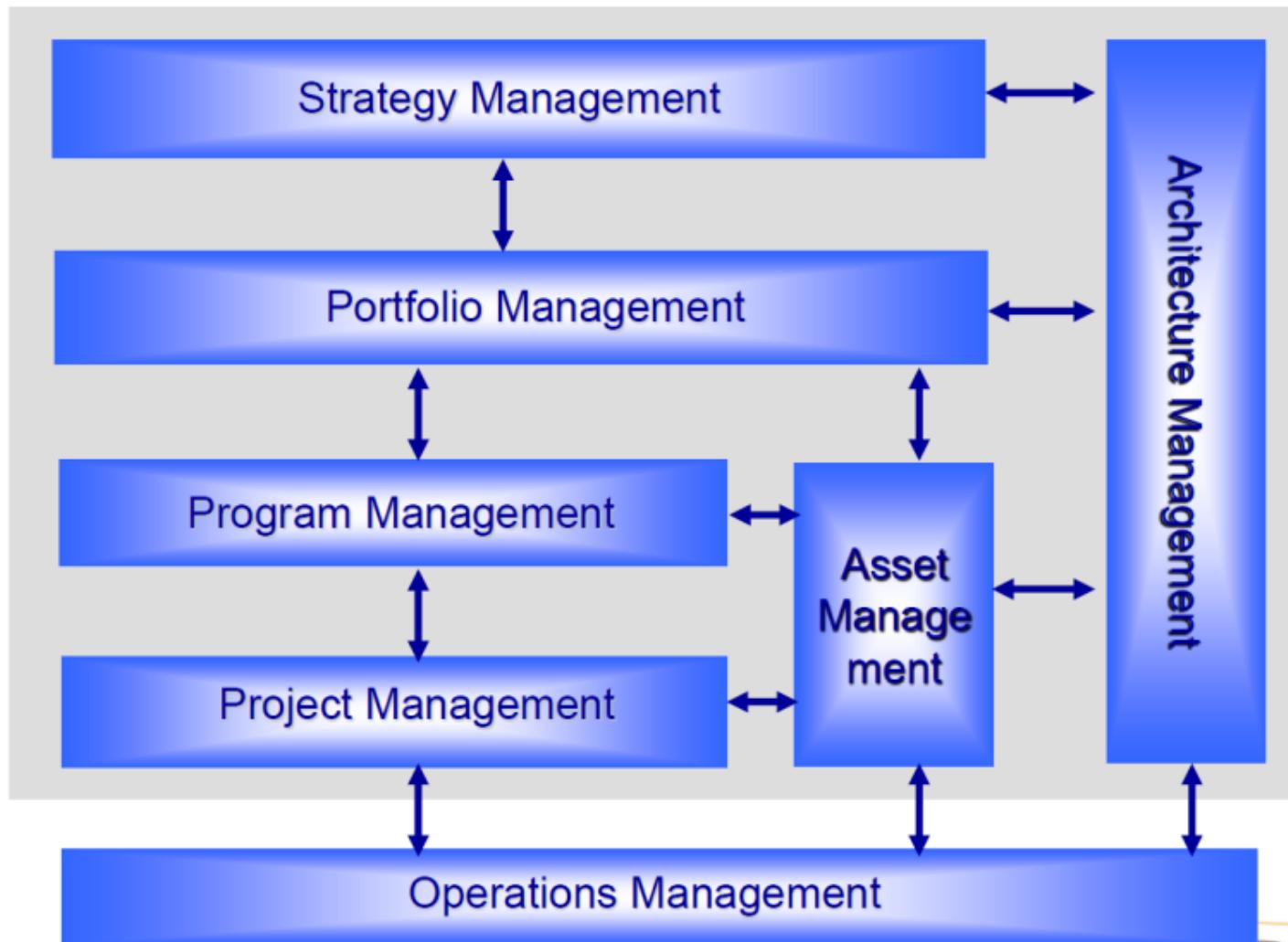
IT Value

- Avoiding the 'disconnect' -



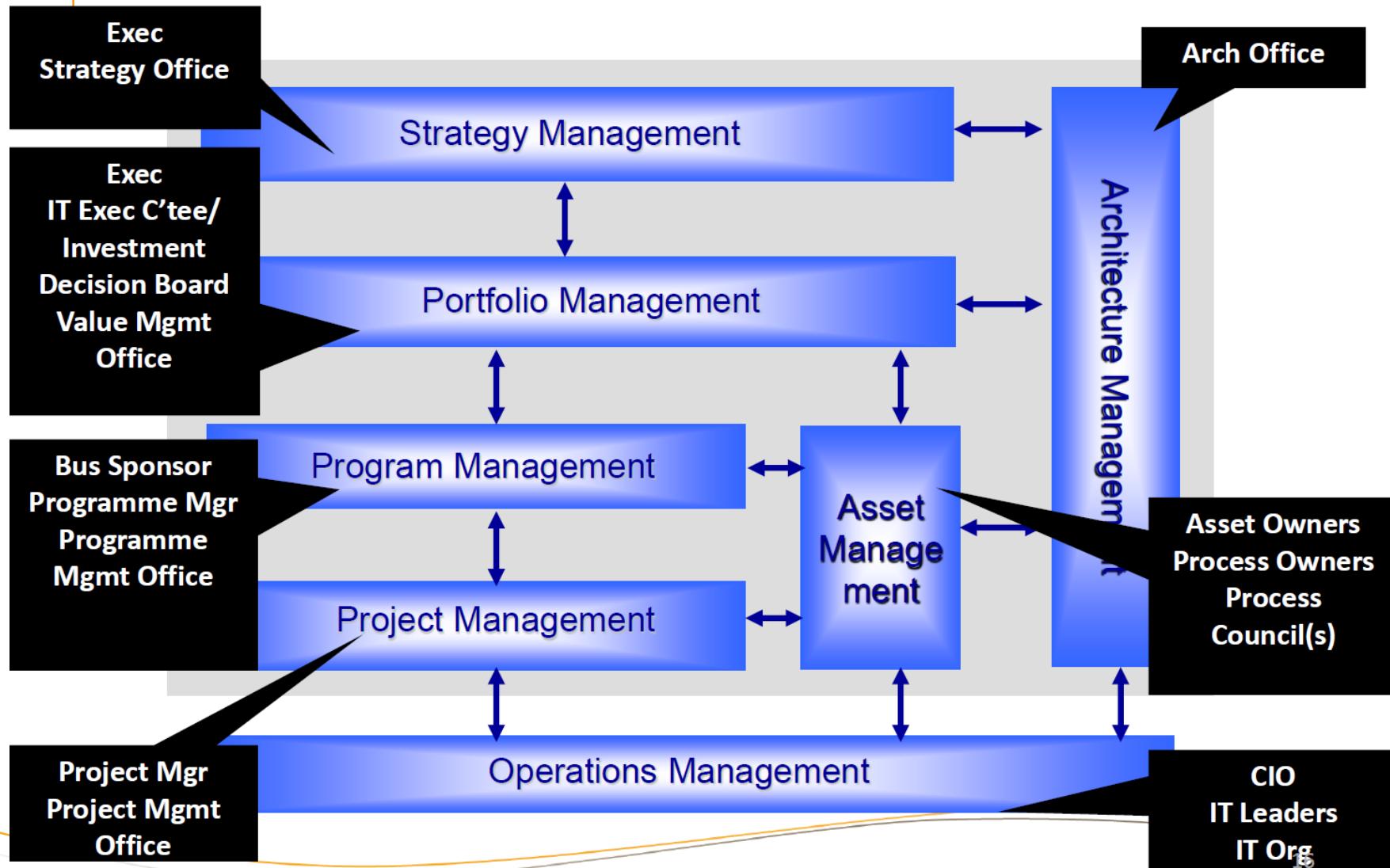
IT Value

- *Setting up the right framework -*



IT Value

- And deploying the right governance -

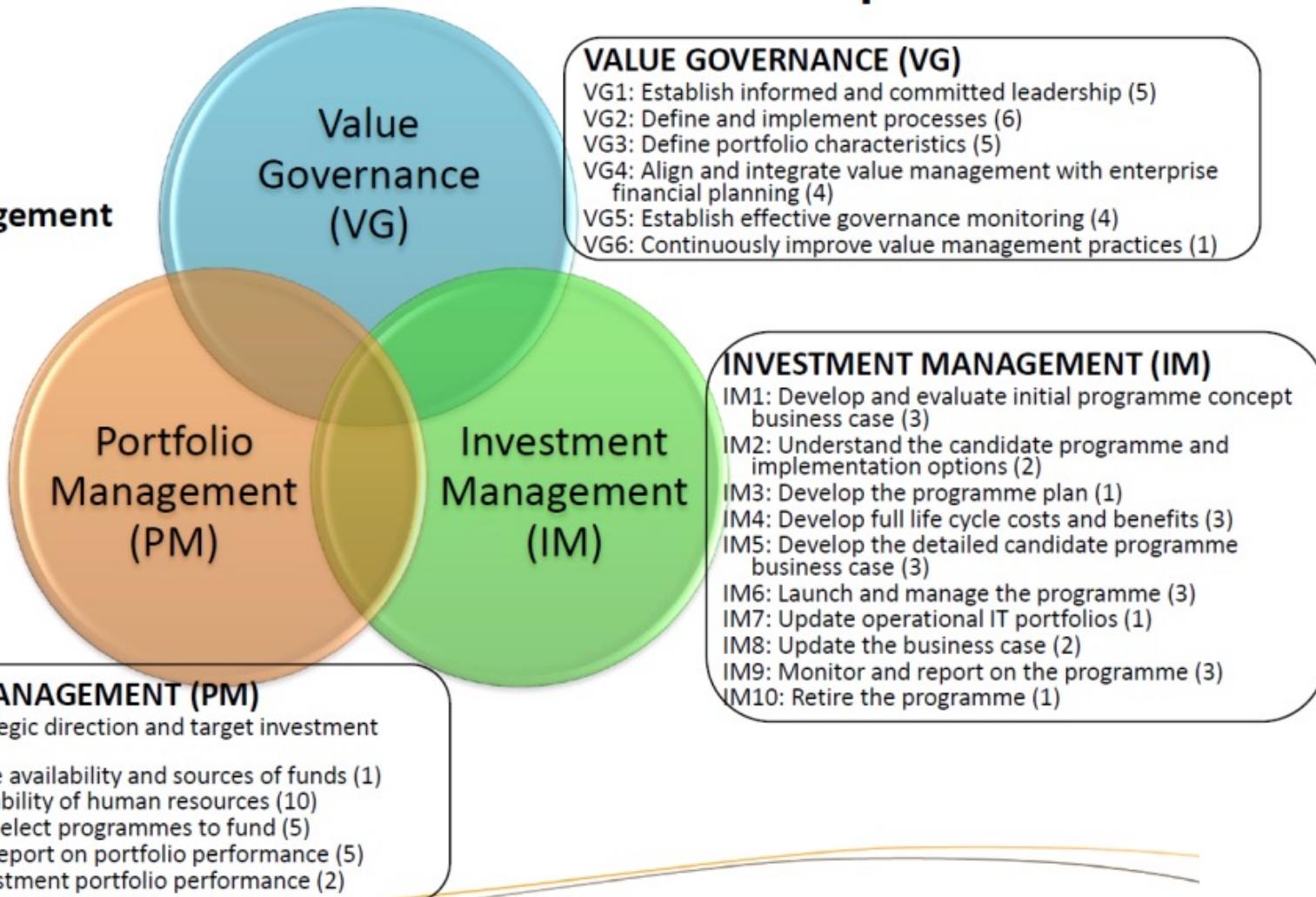


IT Value

- *Val IT as a useful framework* -

Val IT 2.0 framework – domains and processes

3 Domains
22 Processes
69 Key Management Practices



IT Value

- *To increase IT value contribution to the company-*

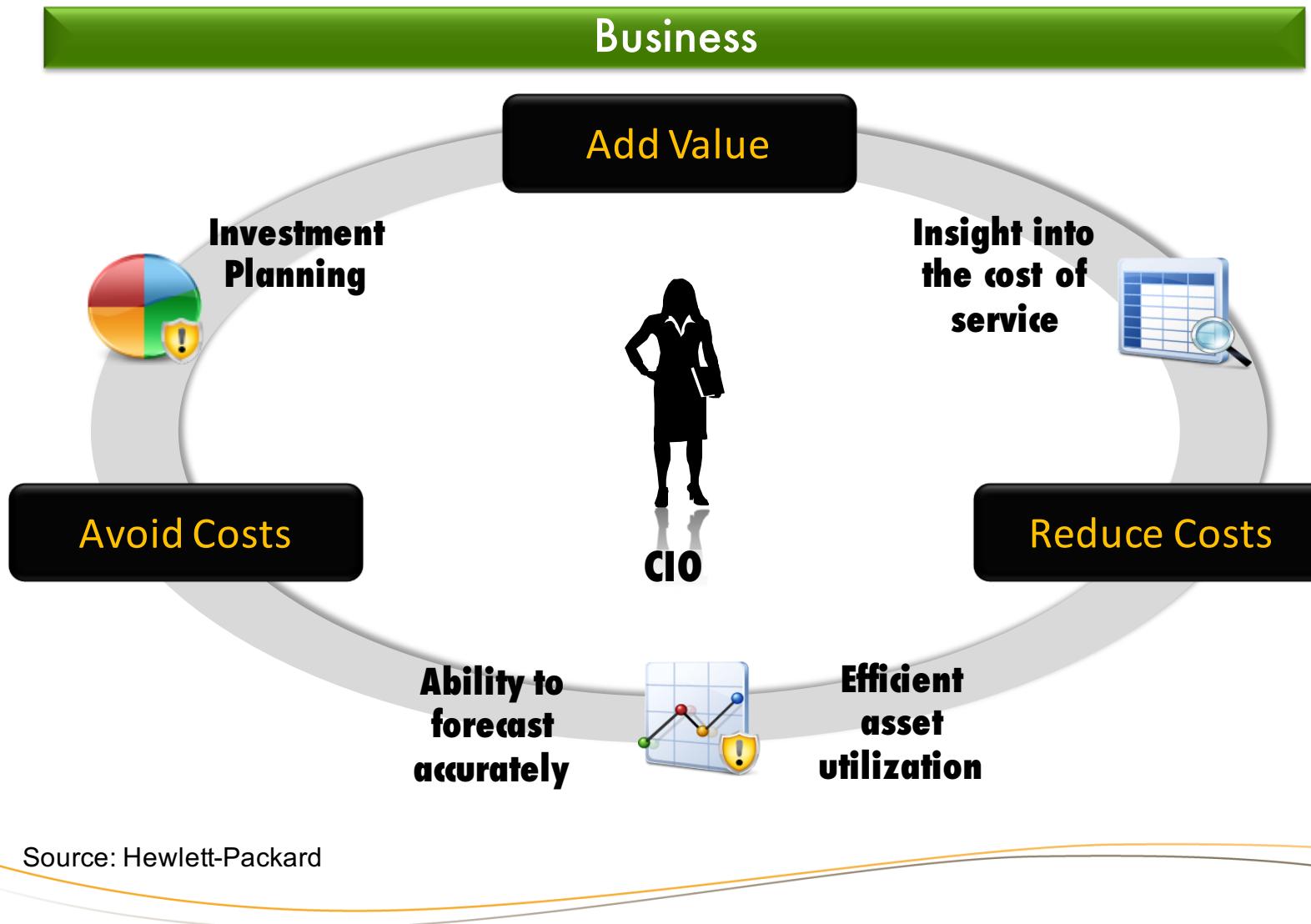
Maturity Level	IT Value Contribution
High	<p>5 Optimising</p> <p>IT enables and drives business value creation and business opportunities IT is fully aligned with business strategy and anticipates business needs</p>
	<p>4 Advanced</p> <p>IT focuses on business value creation Value oriented IT management using various industry best practices</p>
	<p>3 Intermediate</p> <p>IT directly contributes to business value creation in some areas IT turns toward focusing on business value creation, but is mostly understood as service provider</p>
	<p>2 Basic</p> <p>IT mainly provides services allowing business to create value IT focuses on delivering solutions for business needs, but not a value creator on its own</p>
Low	<p>1 Initial</p> <p>IT disconnected from business value creation IT is not an integral part of value creation</p>

Increasing contribution to business value as the IT organisation increases its maturity

Organisation must be able to translate
IT maturity into business value contribution

IT Value

- *Allowing CIO to focus on clear goals -*



Source: Hewlett-Packard

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What IT value ?

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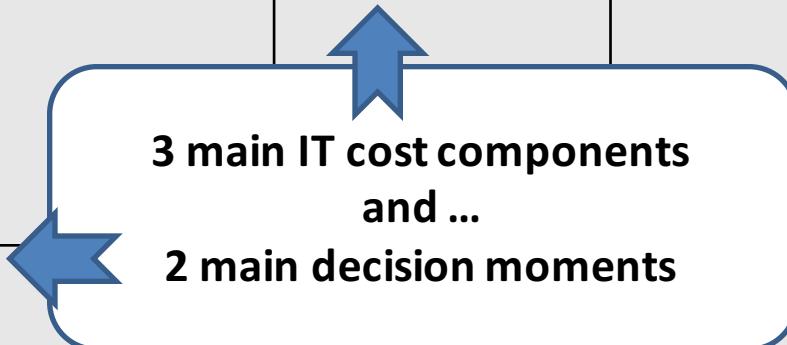
IT costs

- *Where is the money ? -*

	<i>People (Workforce)</i>	<i>Software (Applications)</i>	<i>Hardware (Infrastructure)</i>
Acquire (Forecasting + Budgeting)			
Maintain (Accounting + recharging)			

**3 main IT cost components
and ...**

2 main decision moments



IT costs

- *Main questions when acquiring resources -*

	<i>People (Workforce)</i>	<i>Software (Applications)</i>	<i>Hardware (Infrastructure)</i>
Acquire (Forecasting + Budgeting)	<ul style="list-style-type: none"> • Acquire = Increase cost => What business case ? • Sourcing = Impact on P&L / BS => What sourcing strategy ? • Balance = Allocation of budget => What balance between 'Change' & 'Run' cost to meet regulatory, internal, business, needs 		
Maintain (Accounting + recharging)			

IT costs

- *Main questions when maintaining resources -*

	<i>People (Workforce)</i>	<i>Software (Applications)</i>	<i>Hardware (Infrastructure)</i>
Acquire (Forecasting + Budgeting)			
Maintain (Accounting + recharging)			<ul style="list-style-type: none">• Monitor costs => What cost control mechanisms ?• Rebill => How to recharge real & fair costs to users ?• Des-invest => How to get rid of poorly used / too expensive products/services ?

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Building Business Cases

- *The key questions -*

Any business case must address 5 key questions:

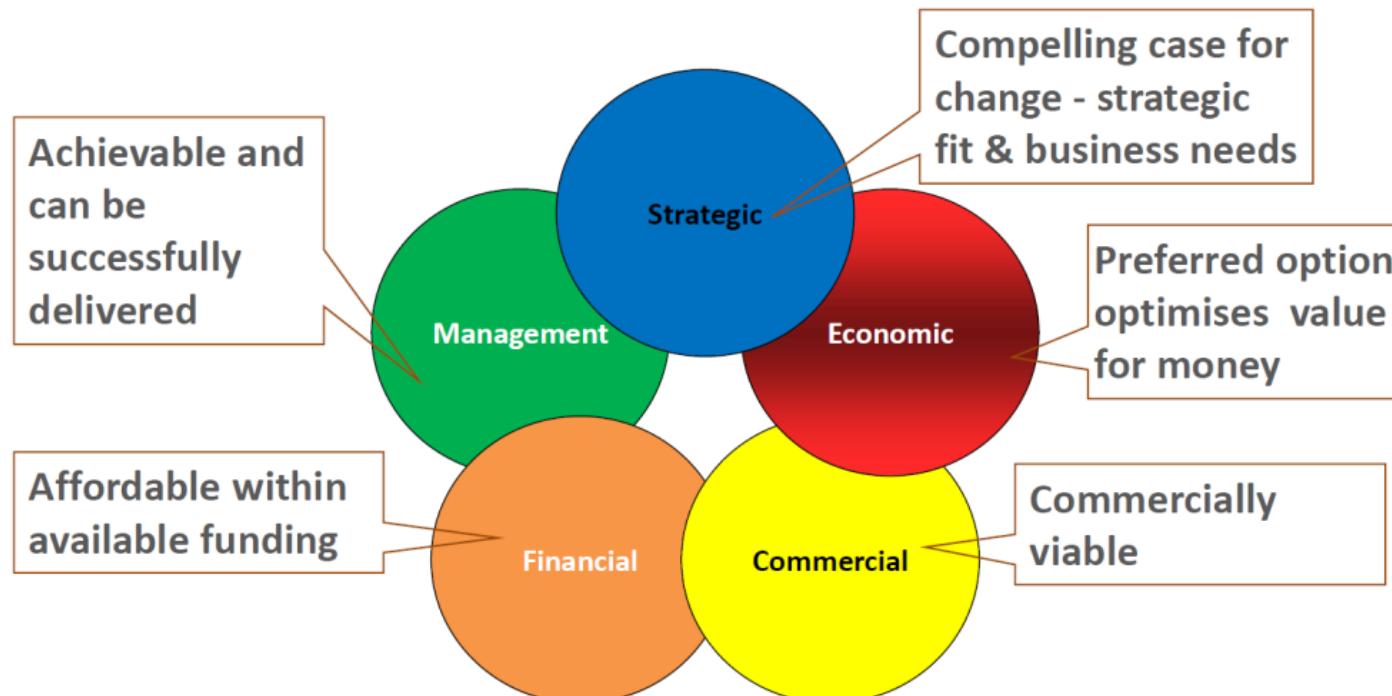
- Is there a compelling case for change?
- Does the preferred investment option optimise value for money?
- Is the proposed deal commercially viable?
- Is the spending proposal affordable?
- How can the proposal be delivered successfully?

Building Business Cases

- *The key questions -*

Key questions: The 5 Case Model

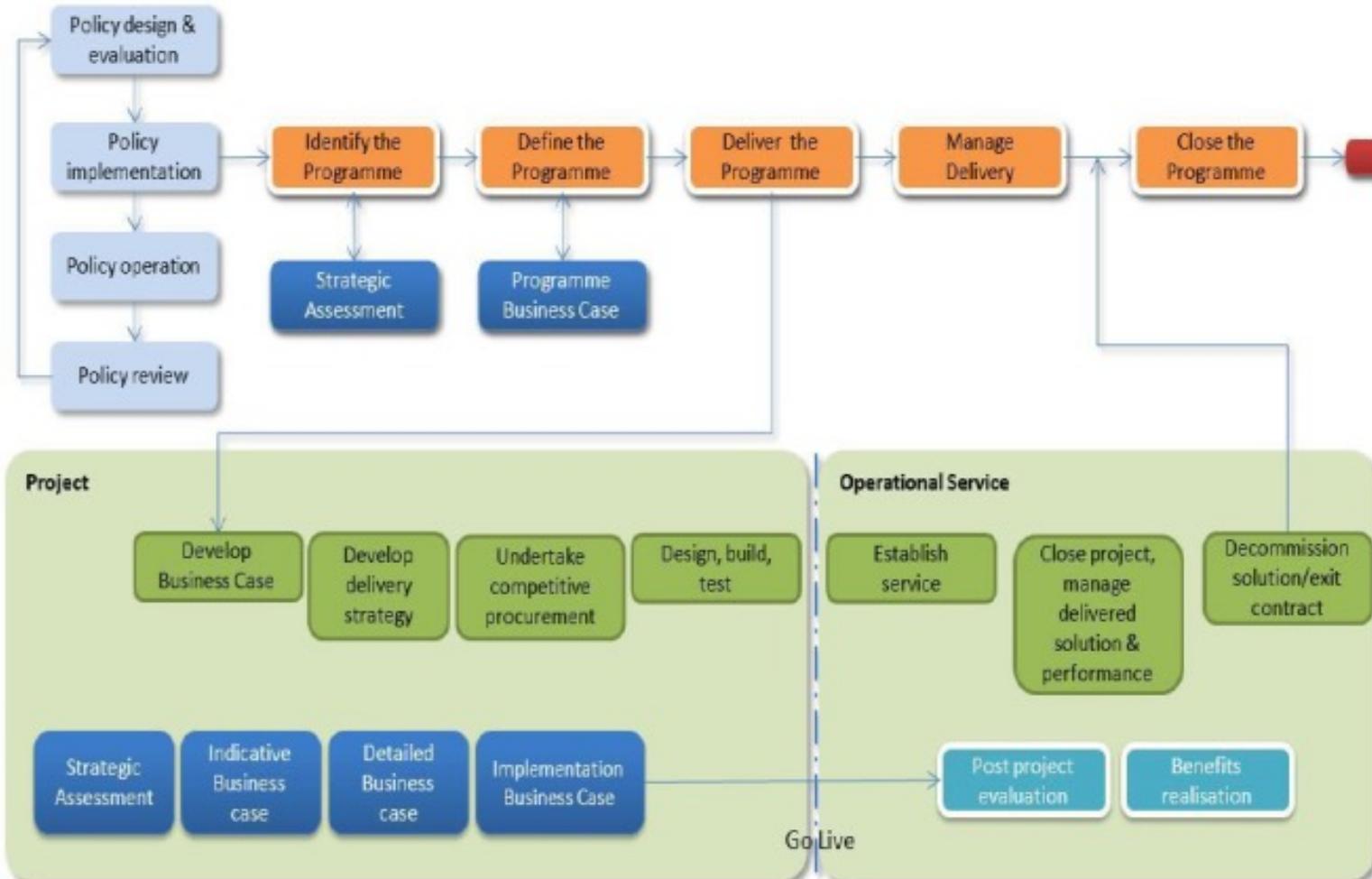
- Is there a **compelling case** for change?
- Does the preferred investment option **optimise value for money**?
- Is the proposed deal **commercially viable**?
- Is the spending proposal **affordable**?
- How can the proposal be **delivered successfully**?



Building Business Cases

- Positioning as part of managing value -

Managing business cases : part of Value management



Building Business Cases

- What should be in ? -

Questions to Answer With a Business Case

- What do you want to buy, do, make or get?
 - This means that you must be able to state exactly what it is that you want. Brand, size, colour, whatever...
- When do you want it and for how long?
 - Some suppliers will charge a factor premium for fast delivery, your financial controller may want some time to manage the cash flow impacts/leases etc. Buy, lease, rent are all decisions that can be framed around this point.
- How much will it cost?
 - Not just acquisition costs but whole of life costs including upgrade testing, migration to the new platform/version etc. Don't forget disposal costs at end of life.
- What happens if we do not do this?
 - Can we live for another year/month/forever with what we have? Or will some financial catastrophe take place? Is a new risk becoming clear here.. or not.
- When do I get my investment back?
 - This could be PEST payback (political, economic, social or technical) and how much?

Building Business Cases

- A *practical guide in 8 steps* -

Business Case Building Process

- Step 1—Building a fact sheet with all the relevant data concerning the scope
- Step 2—Alignment analysis
- Step 3—Financial benefits analysis
- Step 4—Non-financial benefits analysis
- Step 5—Risk analysis and response
- Step 6—Appraisal and optimisation of the risk/return profile
- Step 7—Structured documentation of the business case
- Step 8—Review of the business case during the programme execution, including the entire life cycle of the programme results

Building Business Cases

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Step 1 – fact sheet

- The business case fact sheet contains all the data needed for analyzing strategic alignment, financial and non-financial benefits, and risks of the program.

Fact Sheet Item	Building	
	Best Case	Worst Case
Technical capability		
Outcomes (intermediate and end)		
Alignment		
Financial benefits		
Non-financial benefits		
Resources		
Expenditure		
Risk drivers		
Assumptions and constraints		
Operational capability		
Outcomes (intermediate and end)		
Alignment		
Financial benefits		
Non-financial benefits		
Resources		
Expenditure		
Risk drivers		
Assumptions and constraints		
Business capability		
Outcomes (intermediate and end)		
Alignment		
Financial benefits		
Non-financial benefits		
Resources		
Expenditure		
Risk drivers		
Assumptions and constraints		

Get the facts together

- Objectives
- Scope
- Expected benefits
- Excepted costs
- Enabler
- Inhibitors
- Financial
- Risk
- Organizational impact
- ...

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Step 2—Alignment Analysis

Goals:

- Assure that investments
 - Contribute the strategic business objectives.
 - Are aligned with the target enterprise architecture.
 - Contribute
 - To current objectives and priorities of the organisation.
 - To objectives of a parent company or larger context within which the organization is operating.
 - To achievement of a desired future state or business vision.

Building Business Cases

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Step 3—Financial Analysis

the objective is to find projects that are worth more to the business sponsor than they cost—projects that have a positive net present value (NPV).

Steps:

1. Estimate the **expected future cash flows** from the project. This is like estimating the coupon payments for a bond or the dividend stream for a stock, and a maturity value or terminal sale price.
2. Assess the **risk** and determine a required **rate of return** (cost of capital or risk premium) for discounting the expected future cash flows.
3. Compute the **present value** of the expected future cash flows.
4. Determine the **cost of the projects** and compare it to what the project is worth. If the project is worth more than it costs (positive NPV), it is worth undertaking.

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Step 4—Non-financial Benefit Analysis

- Value obtained by **non-financial items** such as brand recognition, knowledge, and relationships with customers and suppliers.
- Non-financials are often ignored in the business case or their contribution is dismissed because of the difficulty of translating them into hard financial benefits.

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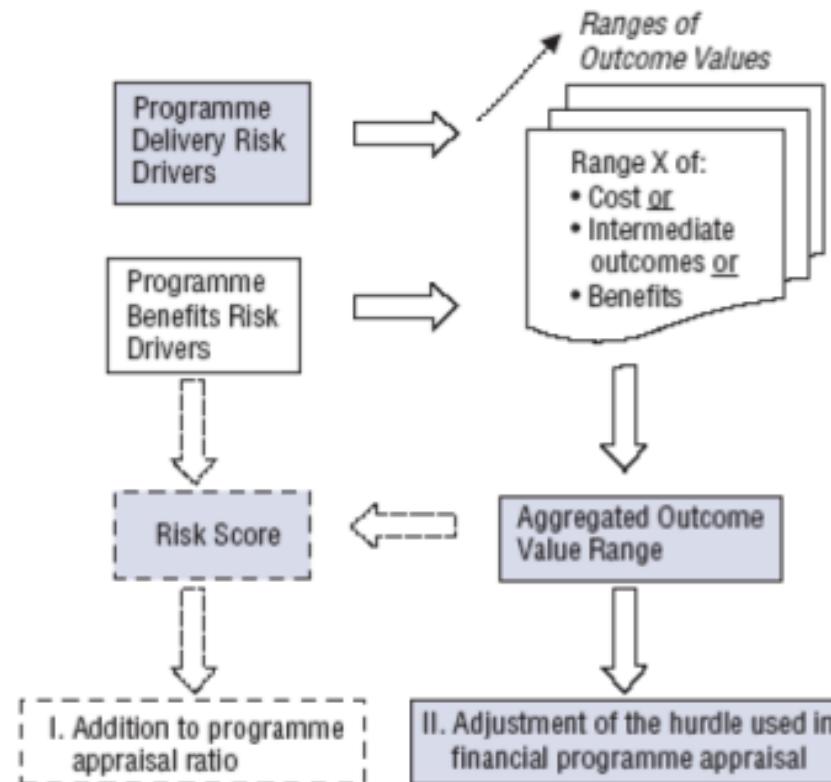
Step 5—Risk Analysis

- Delivery risk - The risk of not delivering
 - examples of delivery risk drivers include:
 - Quality of the program and project plans (completeness and reasonability)
 - Clarity of scope and deliverables
 - Unproven technology
 - Compliance with technology architecture and standards
 - Project duration - Size of the project in relation to earlier successful projects
- Benefits risk - The risk of the expected benefits not being obtained
 - examples of benefits risk drivers include:
 - Non-alignment with commercial policies or strategy
 - Non-alignment with technical standards, architecture, etc.
 - Compliance with security guidelines/policy
 - Clarity and credibility of desired business outcomes
 - Measurability of outcomes (lead and lag indicators)

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Step 6—Optimising Risk and Return



Building Business Cases

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Step 7—Document Business Case

- Executive Summary
- Background
- Current situation/ problem/ opportunity
- Assumptions/ constraints
- Options analysis
- Preliminary requirements
- Financials analysis and budget
- Soft Case
- Schedule estimate
- Risks Evaluation sensitivity analysis
 - Best case, achievable & worst case, Gap analysis & Tolerances
- Recommendations

Building Business Cases

- A *practical guide in 8 steps* -

Step 8—Maintain Business Case

- A business case is no more than a snapshot at a point in time.
- It is an operational tool that should be continually updated throughout the economic life cycle of an investment
- With specific regard to risks, they should be monitored and controlled throughout the life cycle of the programme by an iterative process of risk identification, risk assessment and risk treatment.
- As an integrated part of the enterprise portfolio, the programme should be actively managed, resulting in a higher rate of cancellations

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Modelling & charging IT costs

- Do you know the costs ? -

Do you know the costs of IT services employees use every day?

⇒ What would be included in a running cost...?

- Of a desktop/laptop
- Of a Man Day
- Of infrastructure components? Servers, DB, storage,...
- Of an application

IT calculates and recharges all its costs to its 'client's (internal or external)

Modelling & charging IT costs

- *What is modelling & recharging ? -*

- Modelling IT direct and indirect costs based on service definitions
- Allow to recharge the clients in function of the consumption
- Hence, a Cost Model should be recognized as being fair (reflect consumption) and transparent (provide enough details for general acceptance)

It should help the clients and IT managers to use resources properly and better manage their Costs

Challenges :

- Making sure all Services are modelled
- Correctly measuring client consumption of IT services

Modelling & charging IT costs

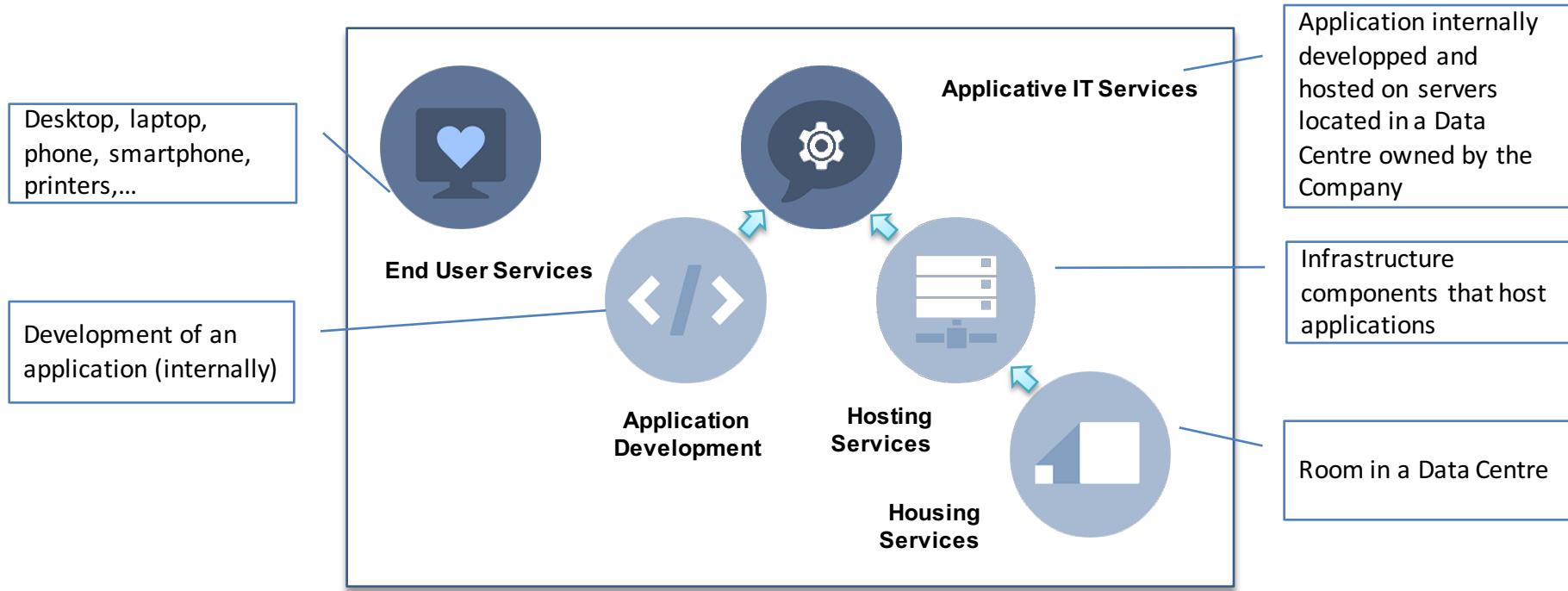
- Costs include various elements -

	Desktop/Laptop	Man Day	Infrastructure components	Application
Direct Costs	HW cost (leasing or depreciation) SW cost (OS, Office, antivirus,...)	Wage	HW cost (leasing or depreciation) SW cost (OS, monitoring,...)	
	Support (e.g. SW deployment, User support Centre)	Training costs	Support (e.g. staging, security patches,...)	Maintenance of the application
	Underlying infrastructure (access management, NW connection,...)	Work environment (development tools, desktop,...)	Underlying infrastructure (access management, NW connection,...)	Underlying infrastructure (servers, DB, storage,...)
	Transversal processes, Management, reporting	Transversal processes, Management,...	Transversal processes, Management, reporting, monitoring	Transversal processes, Management, reporting, monitoring
Indirect Costs	Facilities cost, HR costs,... (of people that support the service)	Facilities cost, HR costs,...	Facilities costs (DC, power, cooling), HR Costs	Facilities costs (DC, power, cooling), HR Costs

Modelling & charging IT costs

- *Defining your services and knowing your clients -*

The **Services** that an IT department can offer:

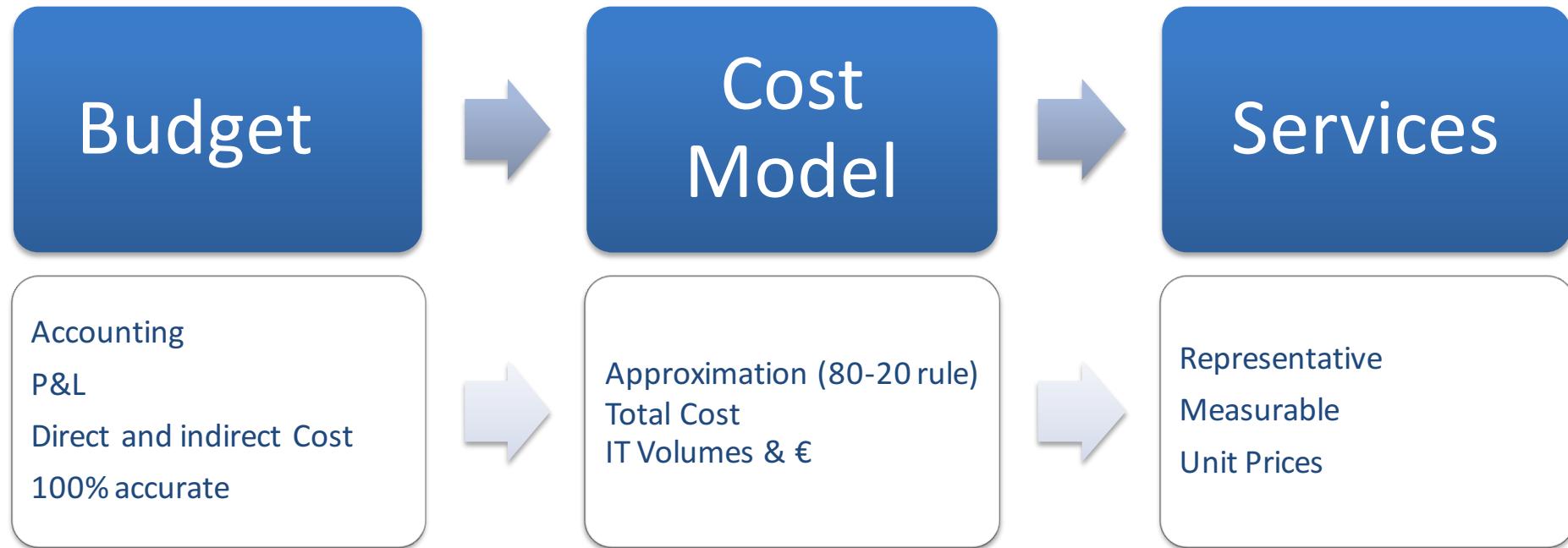


IT department's **Clients**:

Any internal department or external company that is using IT Services

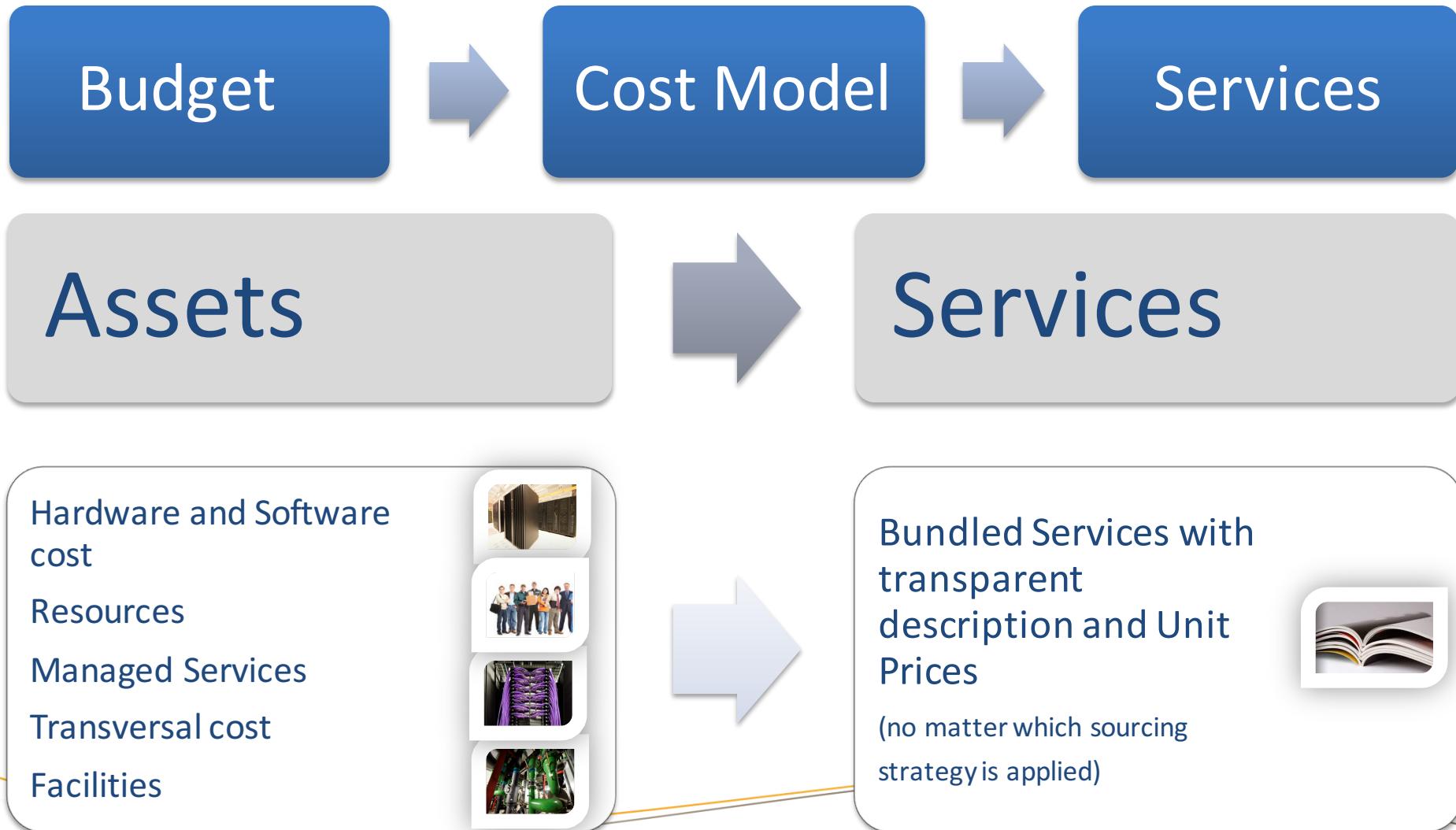
Modelling & charging IT costs

- *Budget Management VS Cost Management -*



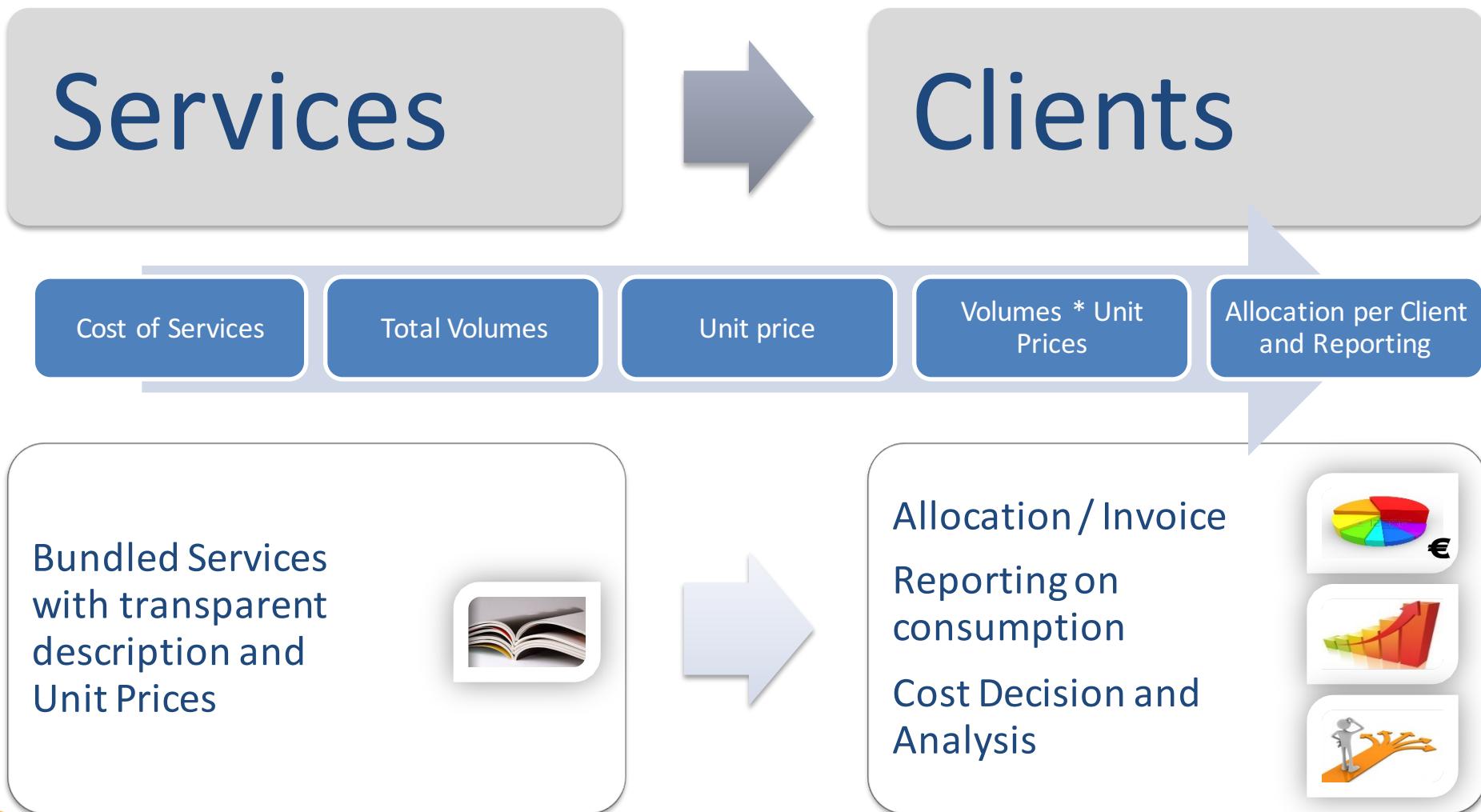
Modelling & charging IT costs

- *Modeling: From Assets to Services -*



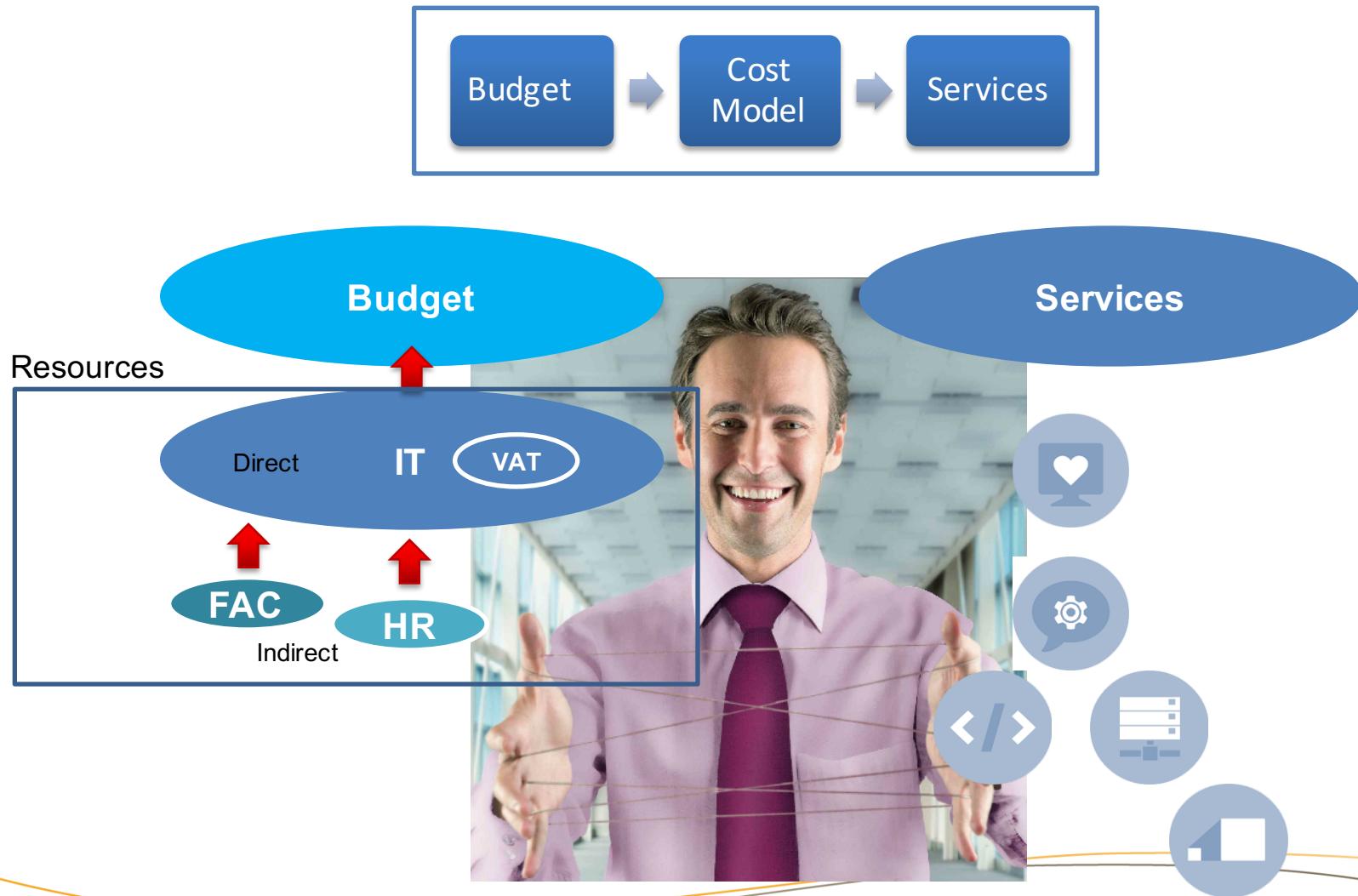
Modelling & charging IT costs

- *Recharging: From Services to Clients* -



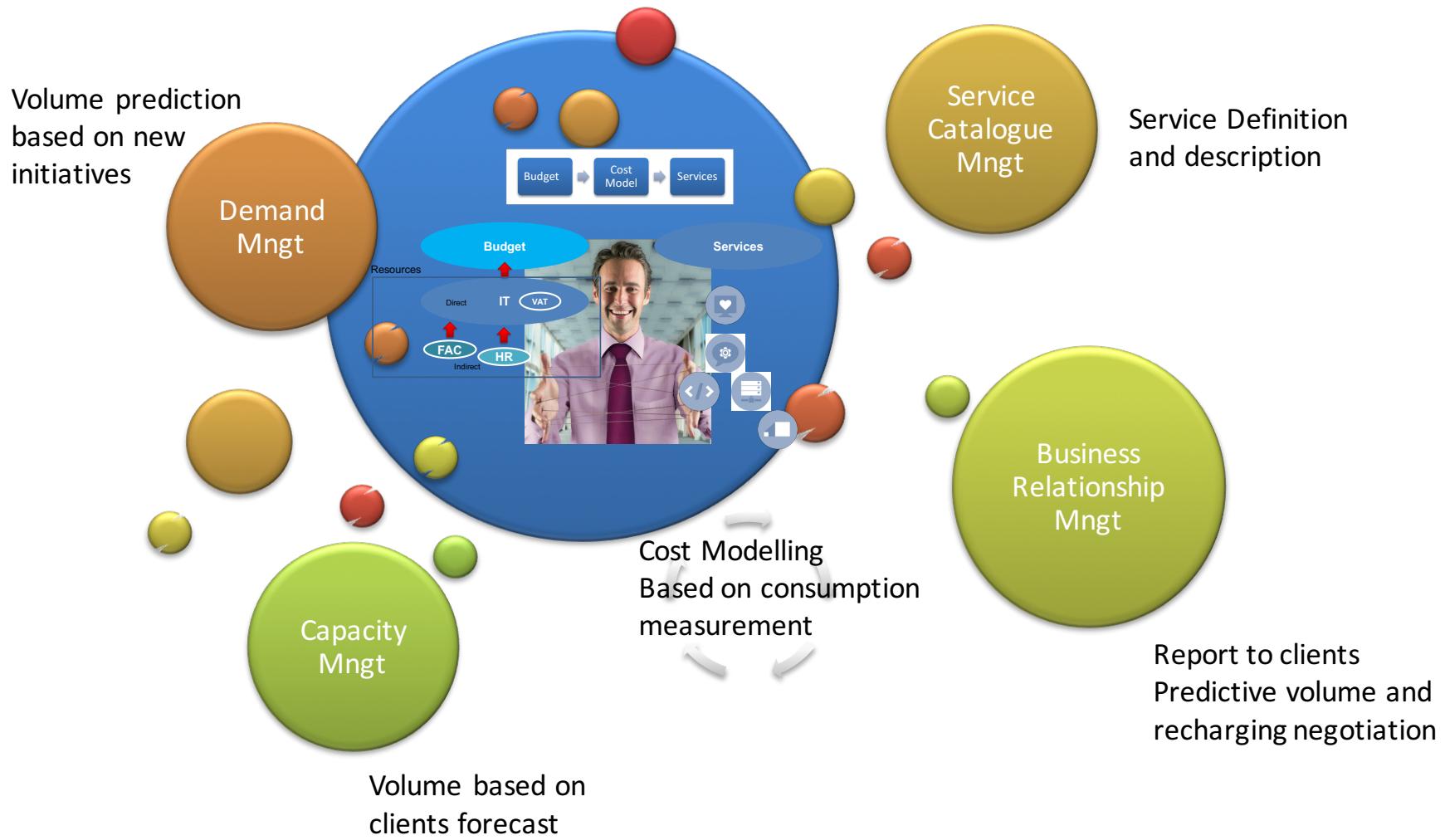
Modelling & charging IT costs

- *Recap key elements of IT cost modelling -*



Modelling & charging IT costs

- *Links with other IT processes* -



Key take aways in a nutshell

IT Value

- IT only has value if it has value to the business.
- Connect IT investments with Company strategy by setting up the right framework and associated governance. Val IT as a useful framework to increase IT contribution to the company

IT Costs

- 3 main components: people, software, hardware where ‘acquisition’ and ‘maintenance’ moments trigger specific questions for CIOs

IT investment decisions

- Business cases should answer 5 main topics: case for change, value for money, commercial viability, affordable investment and successful delivery.

IT Cost modelling & recharging

- IT recharges all its costs to its (internal & external) ‘clients / users’. Modelling costs starts from assets to derive cost of services. Recharging fairly reallocates usage of services to ‘clients / users’

At ease now to answer the question ?



**Dear CIO colleague, we hear a lot about IT costs
Could we discuss the value of IT ?**

END



Finance every day

Key questions, hot spots & way to address

	People (Workforce)	Software (Applications)	Hardware (Infrastructure)
Acquire (Forecasting + Budgeting)	<p>Forecast needed staff capacity (who / how much ?)</p> <ul style="list-style-type: none"> - Think about 'skills' and 'heads' - Do a workforce planning <ul style="list-style-type: none"> - Need for 'Change': Input from business & IT projects - Need for 'Run': Input from CIO/CTO. Budget based on 'Historical FTE' or Zero-based budgeting (based on drivers of activities) - Identify 'critical resources' (skills) - Secure flexibility of workforce skills and size - ... <p>=> Key practice: Sourcing Management</p>		
Maintain (Accounting)	<p>Maintain needed staff capacity</p> <ul style="list-style-type: none"> - Track people time registry (activity-based) - Allocate correctly time on 'projects' or on 'run' - Detect and unblock bottlenecks (overcapacity / undercapacity in teams) - ... <p>=> Key practice: Resource Management</p>		

Finance every day

Key questions, hot spots & way to address (cont'd)

	People (Workforce)	Software (Applications)	Hardware (Infrastructure)
Acquire (Forecasting + Budgeting)		<p>Forecast software needs</p> <ul style="list-style-type: none"> - Make or Buy or Cloud (AaaS)? - How to integrate in current architecture ? - ... <p>=> Key practice: Application Development Strategy</p>	
Maintain (Accounting)		<p>Maintain software needs</p> <ul style="list-style-type: none"> - Track software depreciation / amortisation - Plan upgrades (versions / releases) - Review code to optimise performance / lower data consumption - Decommission unused apps or apps with low use - ... <p>=> Key practice: Application Development Strategy</p>	

Finance every day

Key questions, hot spots & way to address (cont'd)

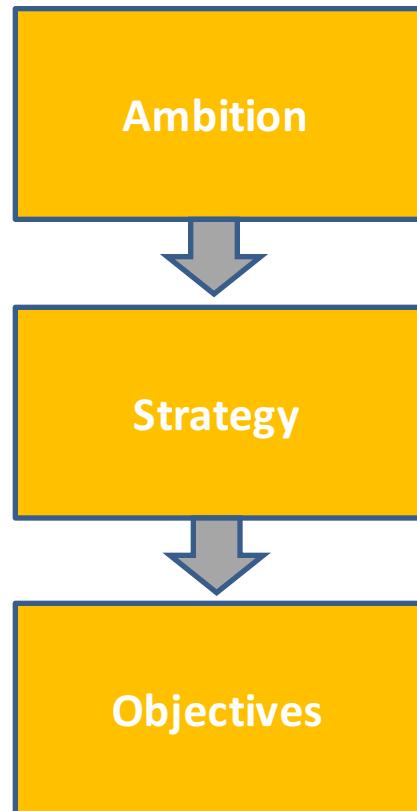
	People (Workforce)	Software (Applications)	Hardware (Infrastructure)
Acquire (Forecasting + Budgeting)			<p>Forecast infrastructure needs</p> <ul style="list-style-type: none"> - Used capacity by asset (main infra component / asset) ? - Forecasted capacity (trending / forecast based on business volumes) ? - Increased capacity needed by new assets (projects) ? - Lease or Buy or Cloud (IaaS)? - ... <p>=> Key practice: Infrastructure Management Strategy</p>
Maintain (Accounting)			<p>Maintain infrastructure needs</p> <ul style="list-style-type: none"> - Track infra depreciation / amortisation - (Re)-Allocate infra capacity used by service / business - Reallocate infra capacity (virtualisation) - Decommission infra assets - ... <p>=> Key practice: Infrastructure Management Strategy</p>



Cockpit View

- Step 1: Zoom on your scope -

Identify the measures that allow you drive where you want to go !



- The corporate's **value proposition** on the long run (3-5 years)

Eg:

- **Achieve in year 'Y+3' a market share of 'x%' for product 'P' in country 'C'**

- The short to medium term (1-3 years) **target supporting the ambition**

Eg:

- **Launch in year 'Y+1' a digital offering of product 'P' in country 'C'**

- The **goals for this year** (1 year)

Eg:

- **Go live in year 'Y' with a digital offering of product 'P'**

Cockpit View

- Step 3: Build the dashboard -

Customers

- # customer complaints (split per category of products)
- Customer satisfaction scores
- ...

Op. Quality

- # incidents (split per priority / category)
- Availability of critical applications & channels (%)
- ...

Delivery

- # functional points delivered
- Main exception reports (scope variance, budget overspent)
- Overall calendar and RAG view of projects
- ...

Costs

- Cost evolution per funding type (Eur)
- Budget VS Actuals per department
- ...

Risks

- # recommendations (audit / regulators) closed / to close by year end
- # applications for which Disaster Recovery exercises have been tested
- ...

People

- Evolution of absenteeism per department (# days)
- People Motivation Barometer (scores/category)
- ...

Cockpit View

- Step 4: Communicate / Discuss / Act -

- Your dashboard is only worth **the actions it enables**
- To enable actions, dashboards should be '**public**' and subject to **discussions** with the teams in charge (all stakeholders)
- **Corrective actions** to achieve targets should be registered and reviewed in the next team discussion
- Try weekly or daily '**Stand Up Cockpit Meetings**'
(works well in Scrum practice)

Dashboard
=/= Indicators
=

- Indicators (figures)
- + Macro Action Plan
- + Issue board

"Cockpit meetings are regular meetings to systematically and continuously improve performance towards objectives and to make sure that tasks and deliveries run according to agreed schedule"

"Cockpit meetings at team level create a PACT between the manager and his team, a system that enables delegation and trust"