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## **Talking About Technology: The business value of information technology**

By Marc Berthiaume

Assessing the business value of information technology is complex, and there are many different opinions on the topic. But before I discuss the hows and whys of evaluating IT and business, I'd like to point to a research finding that will make business owners stand up and take notice.

The Hackett Group, a global strategic advisory firm, found that "IT excellence can drive real improvements to a company's bottom line." The firm's latest "Book of Numbers" research found that "companies that are top performers in IT Business Value Management also outperform their peers across a wide range of financial and profitability metrics, including net profitability, return on assets, and return on equity."

Although there are many different opinions on how to assess and measure the business value of IT, all the research and opinions from IT leaders point to one thing: A company's IT investment should be aligned to achieving the company's strategic business objectives.

According to "The Business Value of IT: Managing Risks, Optimizing Performance, and Measuring Results" by Michael D.S. Harris, David Herron and Stasia Iwanicki: "IT is involved in every interaction between business and the real world, e.g., sales, information, invoicing, stock control, etc. ... IT providers are inseparable parts of the operations of most businesses" and "small IT failures or improvements can have dramatic effects on a company's ability to operate and profit."

Instead of viewing IT as a separate business entity or expense, companies should see IT as an integral part of a company's workings, ultimately contributing to achieving the company's business objectives.

### **Clear priorities**

So how do you do all of this?

Harris, Herron and Iwanicki say in their book that companies should combine a clearly prioritized set of business needs with IT best practices. Businesses must expect communication and responsiveness from IT providers to three key stakeholders — business customers, business users and business managers.

Further, they write, defined IT processes ensure a springboard for continuous improvement and also help with risk management. They suggest that businesses should

have a discussion with their IT providers about adopting COBIT, ITIL AND CMMI frameworks, although there are others. (COBIT provides a framework for governance and control of IT providers. ITIL focuses on best practices for IT operations. CMMI focuses on best practices for systems and software development.)

Day to day, a business should be involved mostly with COBIT, then ITIL, then CMMI. With a company's objectives set and IT processes established, how then can IT value be defined and measured?

For discussion, let's use an accepted definition of IT value, put forth by Robert B. Grady in "Successful Software Process Improvement." It weighs the value of benefits like product capability, time to market, timeliness and product evolution against costs like development, rework and knowledge recovery. The



definition of value is found in this challenge: How does an IT investment help the business that bears the cost to achieve its financial performance targets and business objectives?

Many financial value measurements are used by accountants — total cost of ownership, return on investment, economic value added, real options valuation, return on assets and return on infrastructure employed. There are also non-financial value measures, such as multi-dimensional value and strategic value.

The explanation of these is not important for the purpose of this article, but it is important that both financial and non-financial benefits be considered when assessing and measuring IT value.

Harris, Herron, and Iwanicki lean toward the “business case” regarding IT value measurements for decision-making. In its simplest form, the “business case” for any new project should include quantification of the value of the project to the business in terms of tangible and intangible benefits.

It should be possible to track the value of these benefits in monetary units against the project costs throughout the life of the project — and arrive at a true business value of IT for your company.

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