Business Performance Is the Value of IT; CIO Desk Reference Chapter 14, Updated Q3 2012

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The business value of IT is expressed via improvements in business performance. Its value lies in enabling the business to operate in a better fashion. IT can improve business performance and increase enterprise differentiation and competitiveness in several ways. From a strategic perspective, enterprises embed IT into products, services and operations; from a tactical perspective, enterprises use IT to automate and transform operations. Understanding how IT impacts business performance is essential to making the right IT investments and maximizing IT value.

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CIO CALL TO ACTION

- Stop thinking and talking about "the business" as something you need to align, and start thinking about it as something of which IT is a part.

- Avoid value traps that hide the real business value of IT investments.

- Benchmark not only IT performance, but also business unit performance to demonstrate the value of IT investments.

- Discuss business issues in business terms, rather than IT issues in IT terms when talking to business leaders, and focus on how the business differentiates itself from the competition.

- Create a systematic approach for harvesting benefits from business initiatives.

- Undertake a portfolio management approach to IT investment to better evaluate the potential economic returns, strategic objectives and risk.

- Answer the question, "How does the company create more profit, more margin and more market share in terms of IT?" For a public sector organization, objectives related to the

organization's mission usually replace financial objectives, while operational objectives may be broadly similar.

- Develop a business reporting system that provides business-oriented data on the value of IT.

- Focus on competitive differentiation to change the perception of IT.

CONCLUSIONS

- All returns from business investments, including investments in IT, are business returns and must be communicated in terms of business performance.

- IT investment that sustains or improves business performance is an investment in the ability to do business in a particular way — not merely a cost.

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Analysis

In Gartner analysts' conversations with colleagues and clients, the phrase "aligning IT with the business" appears frequently, as does "IT and the business." The idea that IT should "align" with "the business" is long-standing dogma for CIOs, abetted by industry analysts and IT pundits everywhere.

As the figure below shows, CIOs no longer feel there is an alignment issue and view their IT strategies as closely related to their business's strategic priorities, with 81% reporting a strong or

very strong connection. However, the term "alignment" is still used frequently when talking about IT's contribution.

Figure 1. CIOs rate their IT strategies as strongly connected to the business's strategic priorities
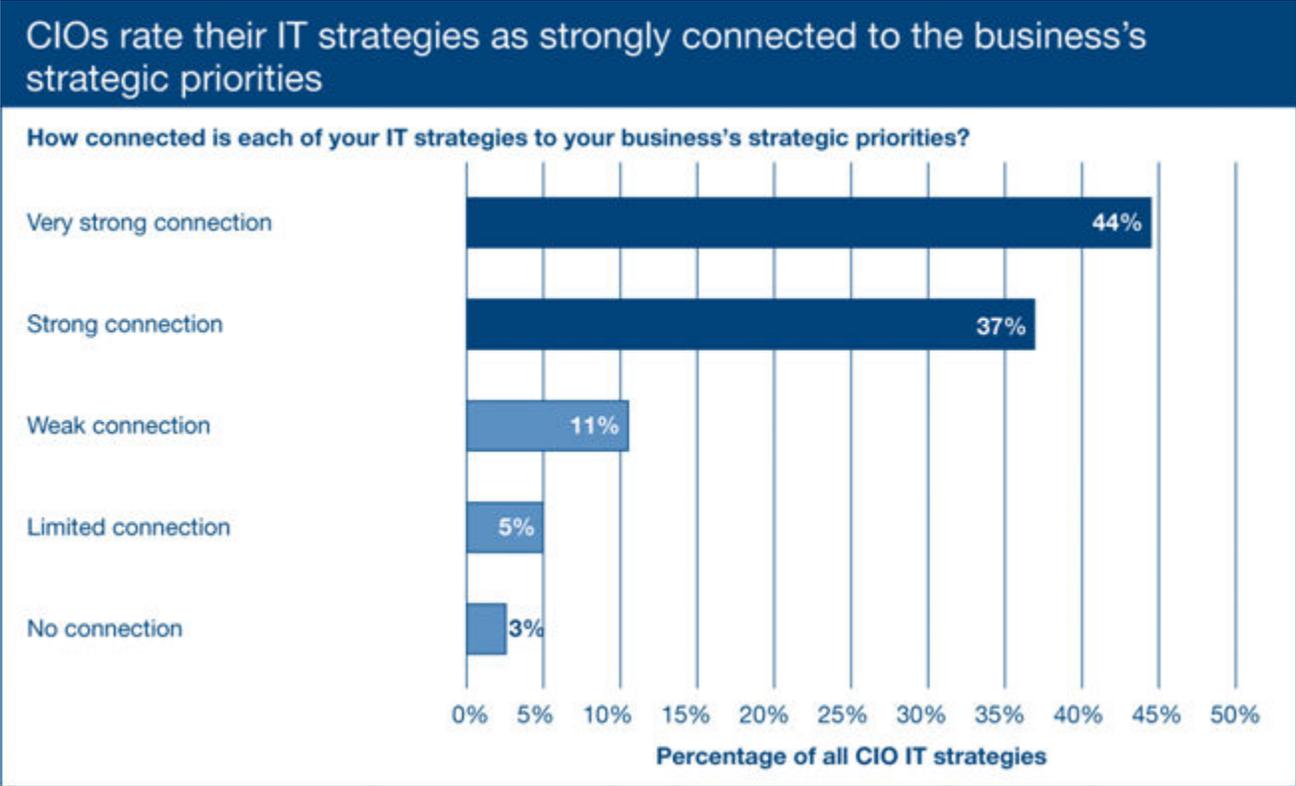
Source: Gartner (January 2011)

To put it simply, in the current business environment, the idea that alignment is necessary is fundamentally flawed, because it assumes that IT is not part of the business. In fact, if you take away IT and other functional areas (production, logistics, finance, HR or marketing, for example), then there is nothing left. Like all other disciplines, IT is an integral part of the business.

Figure 2. IT is an integral part of the business

The IT "Alignment" Worldview — A Better Worldview
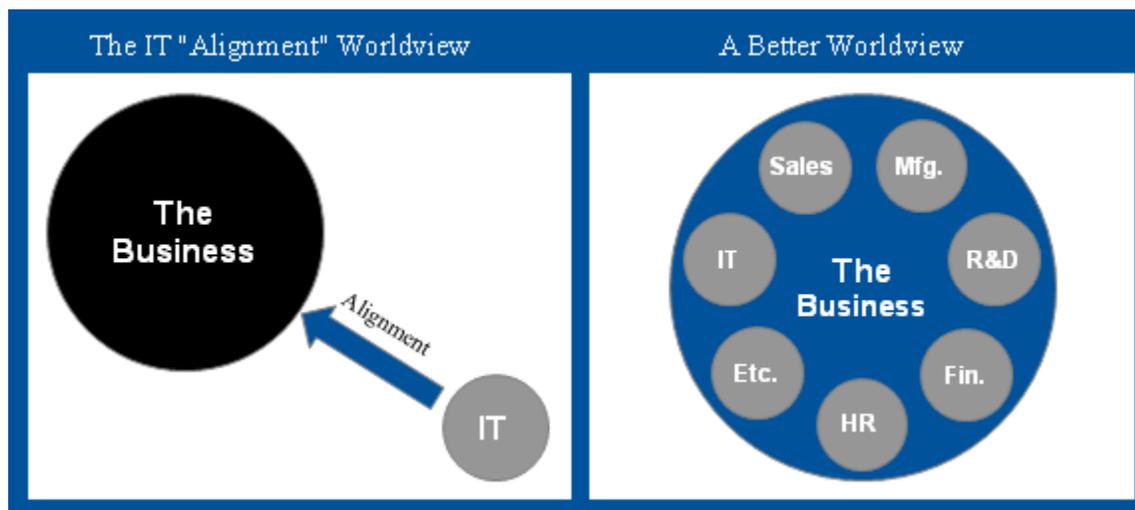
Source: Gartner (January 2010)

No enterprise in the 21st century runs for long without capable IT. Whether IT enables current operations or contributes to enterprise competitiveness, it is essential to success. But because businesses produce returns on investment, and IT does not, many CIOs struggle to communicate the value that IT produces for the business. The business value of IT is expressed via improvements in business performance. Its value lies in enabling the business to operate in a better fashion. Business success ultimately depends on increasing the numerator in the value equation — business performance — and not merely in reducing the denominator. This is as true of investments in IT infrastructure as it is of investments in informational, transactional and strategic applications.

Business Performance Is the Measure of IT Value

Business performance is the ability of the enterprise to achieve or exceed its objectives. Most such objectives are defined financially or operationally. For example, a financial objective might be to improve return on assets by 5%. An operational objective might be to increase call center operator productivity by 15% in 12 months, to increase favorable recognition of the company's brand within a certain geography by 20% in the same period or to reduce audited exceptions to regulatory requirements by 80% by the next audit. For a public sector organization, objectives related to the organization's mission usually replace financial objectives, while operational objectives may be broadly similar.

To communicate IT value, the value must be defined. Like any other asset, such as real estate, the value of IT is its ability to support and improve business performance. All returns from business investments, including IT, are business returns and must be expressed in terms of business performance.

An important implication is that IT investment that sustains or improves business performance is an investment in the ability to do business in a particular way — not merely a cost. This is as true of investment in IT as it is for investment in factories, real estate for retail store locations or sales and marketing programs.

This definition of IT value is simple, but the implications are profound — any discussion of IT value is ultimately meaningless unless it is framed in terms of business performance. Cost always matters, for IT as much as for anything else that a business does, but cost is not value.

However, IT value should not be measured strictly based on IT cost or cost-efficiency savings. When evaluating the value of IT, business leaders are not necessarily seeking products, services, features or functions; they want innovation that enables business outcomes such as more output, better quality, lower costs, revenue growth or improved market share.

Gartner research shows that almost 90% of enterprises believe IT to be an important contributor of business value from now on (see Figure 3).

Figure 3. Senior business executive rating of the strategic business value contribution of IT
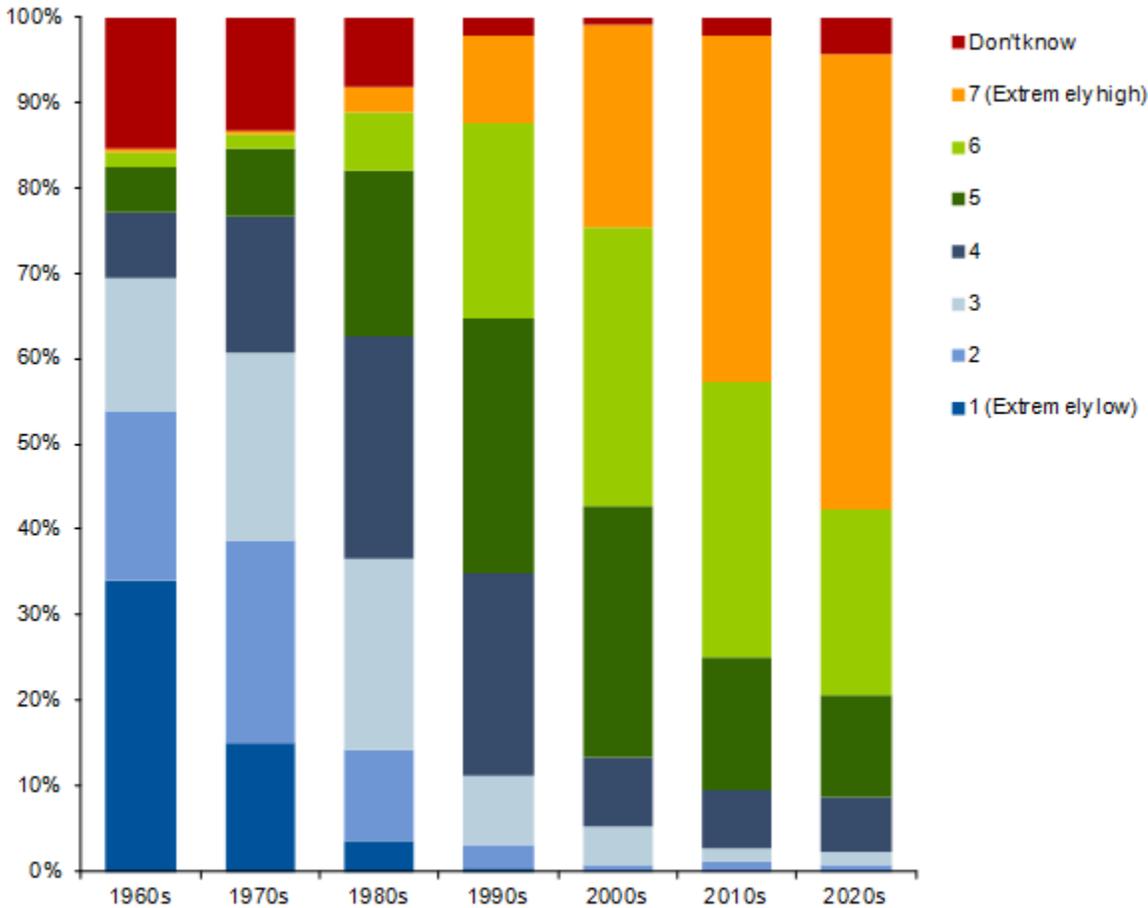
Source: Gartner (May 2011)

IT can improve business performance and increase enterprise differentiation and competitiveness in multiple ways: tactically, by removing technical and operational obstacles; strategically, by embedding information into products, services and operations; and dynamically, in terms of information or operations, by using information or information technology to transform enterprise operations.

Avoid the Value Traps

The CIOs featured in this chapter are different from most. They work for executives who deeply appreciate IT's value and expect nothing less than excellence from the IT team. These CIOs are remarkably consistent in how they achieve and communicate business value for IT. In a phrase, everything they do and say about IT is framed in terms of business performance.

They have avoided the value traps: practices and behaviors that prevent the business from understanding how IT investment improves business performance. Some of these value traps relate to IT's inability to deliver reliable, cost-effective services. They signal to executives, "IT doesn't deliver," through:

- Unreliable delivery of projects and services

- Poor management of the business initiative pipeline

- Confusing IT risks with business risks

Successful CIOs communicate continually that their services are well priced and high-quality. Though CIOs don't always control priorities for business initiatives, when the pipeline is poorly managed, CIOs get the blame.

Automatically viewing IT risks as paramount ignores the business trade-offs involved in mitigating those risks. Those trade-offs matter most. When not considered, business executives can view the controls imposed by IT as excessive and obstructive. When IT is in the "IT doesn't deliver" trap, it is viewed as expensive and unresponsive. This is the prelude to an IT turnaround situation.

The Obstruction Value Trap

Recently Gartner encountered the case of a top executive who read about the features of a smartphone. He immediately wanted the IT team to roll out the device to the entire sales force. This situation is fairly common. But if the CIO simply says, "We can't do that," IT will soon be viewed as an obstacle, and business executives will start looking for ways to bypass the IT team.

A better way to handle this situation is to invite the executive to take a close look at:

- The anticipated value — in terms of improved business performance — of the new technology

- The costs, including all costs for purchase, training and business process changes to take advantage of the new technology

- The risks, such as the potential business consequences of loss or misuse of the devices

Then let the business decide whether the initiative should go forward.

At the least, the sponsoring executive will learn that the business team must do as much or more than the IT team to realize improvements in business performance. And ideally, the IT team will develop a reputation for saying, "Great idea, let's see how we can make it work," as opposed to being the team that always says no.

"IT Only Delivers Technology"

Other value traps, which result from IT's inability to link technology to business performance, signal to executives, "IT only delivers technology." These value traps can include:

- Conveying IT performance in technical terms that mean nothing to business executives

- Attempting to quantify the relative value contributions of specific IT functions (such as security or database administration), instead of the total value of business performance enabled by IT

- Delivering IT that produces uncompetitive business performance in key performance areas

- Failing to understand business initiatives and problems in their totality, not just in terms of IT solutions

"Is the Value of a DBA More Than the Cost of a DBA?"

Gartner recently received an inquiry about guidelines for estimating the relative value contributions of different IT functions such as business analysis, database administration and IT security. This is roughly like trying to quantify the relative value contributions of a car's engine and its transmission. The car's value absolutely depends on both because the value that is delivered — transportation — is a function of the two working together.

Different IT functions have different relative costs, but the value they deliver is the result of what is delivered to the customer — technology that supports business performance, for example. This value is a function of the whole, not of the parts. The cost can be calculated as the sum of individual contributions, but the value cannot.

Technical Versus Business Language

When IT performance is conveyed in technical terms, business executives cannot connect it to business performance, which is the only performance that matters. This is a key point: IT performance must be connected to business performance if it is to be meaningful to business executives.

The first step in connecting IT performance to business performance is to measure and communicate IT's operational performance. The next step is to communicate the fact that IT investment leads to improved business performance. Finally, the IT team must become a full participant in the business by thinking differently, acting differently and being different from the stereotypical "techie" who knows everything about the machine and nothing about the business.

When IT enables only mediocre business performance, business executives look elsewhere for services and technologies to achieve competitiveness. When the CIO and IT cannot see business initiatives in their totality, IT is considered an order-taker at best, not a contributor to executive discussions of the business risks and rewards of an initiative (Figure 4).

Figure 4. IT value traps
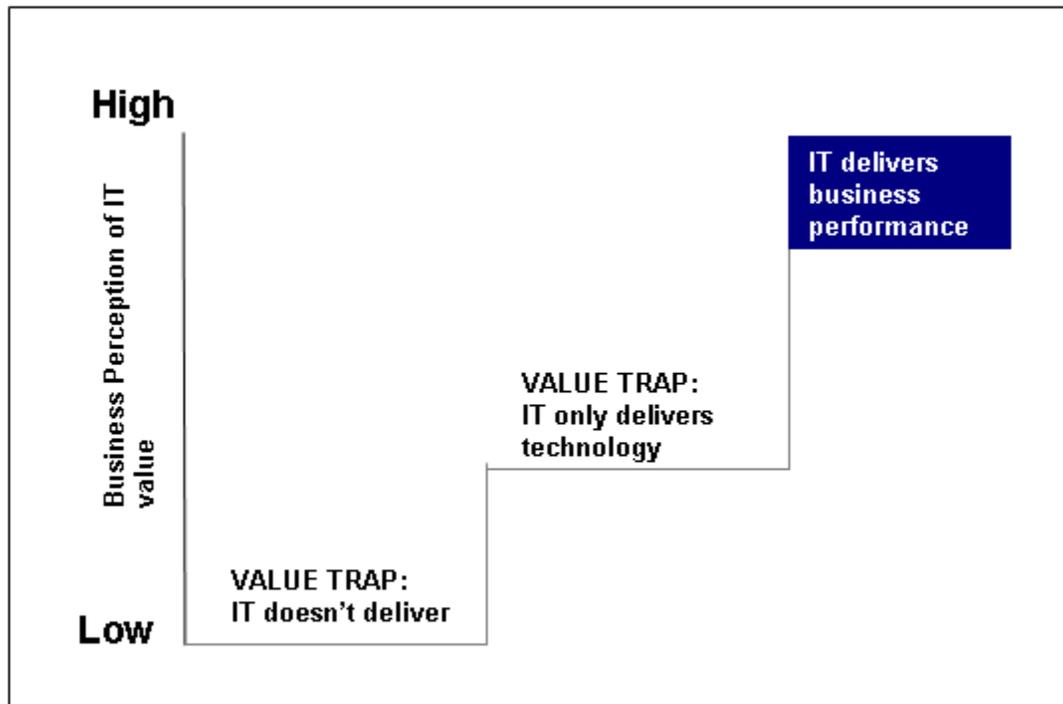
Source: Gartner (April 2007)

The Keep-It-Simple Approach to Reporting on IT Value

Many CIOs say too much when it comes to communicating IT value to the executive team or the board of directors. They should focus on simple messages that highlight IT's contribution to the most important enterprise objectives, while still raising important issues.

- Value is the outcome that the user achieves. To communicate value, focus on user outcomes.

- Too many CIOs put far too much information in front of the executive team or board of directors. No one can remember more than seven things at once. Less is more.

- A compelling argument gets weaker, not stronger, when it's surrounded by less compelling arguments.

The basic principle for successfully reporting IT value is, "*It's all about them,*" meaning that value is not about IT, but rather the outcomes desired by the people that IT supports throughout the enterprise. It's always about *their* goals, *their* dreams and *their* initiatives. It's never about the

technology per se. Fortunately for IT professionals, a presentation based on this principle is lightweight and relatively easy to construct — in fact, it can be done very well in only six slides. Here, we present the format for a successful presentation to the executive team regarding IT's most recent contributions to the enterprise.

Slide 1: List the half-dozen most important enterprise strategies and objectives — growth in certain markets, new product introductions, customer retention and so on.

This information will not be news to the audience. The purpose of putting it first in the presentation is simply to establish that the CIO — like every other executive in the room — knows what matters most to the enterprise. This can and should be done quickly and straightforwardly. If anyone asks why this material is included in the presentation, then the CIO can make the point that IT, like every other function in the enterprise, is focused on these strategies and objectives — and the rest of the presentation will show how. The CIO should also refer to the strategy as it is described internally, with project names if appropriate, as opposed to the version found on the company's externally facing website.

Slide 2: For each objective, list the initiatives that are intended to achieve it.

Each strategy and objective, if real, is supported by one or more initiatives. On the second slide, the CIO can lay out these initiatives alongside the objectives they support. The purpose here is to show that the CIO knows what the big investments are and what outcomes they're intended to produce.

Slide 3: Describe what IT is doing in support of each of those initiatives.

The CIO has now established that IT knows what the objectives are and which initiatives are aimed at particular objectives. The third slide describes IT's contribution to each of the initiatives in which IT is a player. The detail with which these contributions are described should vary based on the importance or novelty of IT's role in the initiative — for example, whether the technology involved in the initiative is new to the enterprise — as well as on the status of the initiative. If there's nothing particularly new about the technology and everything is going well, then a simple statement to the effect that the initiative is proceeding as planned is enough. If the technologies involved create important new capabilities for the enterprise, or if the initiative's status is anything but fine, then more explanation is useful.

The CIO must ensure that this section focuses on initiatives for which he or she can make a clear, logical connection between IT's support and the business outcomes. This may require him or her to show, for example, that one of the business's strategies (and the initiatives that support the strategy) requires capabilities that demand certain support from IT, which, in turn, has caused IT to change its approach or priorities.

Note that it's usually counterproductive to surprise the participants in an executive meeting. The CIO should take care to test all the above messages at least with the CEO and CFO before presenting to the rest of the executive team.

Slide 4. Describe what IT is doing to improve its own operational excellence.

As Sam Coursen, CIO of Freescale Semiconductor, said to us in 2008, "Half of what I do is about my own processes. The other half is about everyone else's processes." The CIO has described what he or she is doing for everyone else's processes; at this point, he or she can take a few minutes to describe what the IT team is doing to improve IT's performance, and how those improvements will benefit everyone else in the room. If preferred, this can be done with two slides, one of which describes recent benchmarks for IT's performance, and the other of which describes what IT is doing to improve and why. The "why" should refer to the enterprise outcomes that will be affected by IT's performance improvements, not simply to how much IT's internal performance will improve.

This section of the presentation should establish that IT is an efficient and effective provider of services that is working to improve in ways that matter to the enterprise.

Slide 5. Raise any issues related to IT's involvement in enterprise initiatives that must be resolved by the executive team.

It is a rare enterprise that does not suffer from political conflicts, poorly understood or executed governance arrangements, scarce resources (including essential resources outside IT), too many projects competing for executive attention or other avoidable ills that damage prospects for success for the enterprise's initiatives. This is the time to bring those issues to the table, and spell out exactly which initiatives and their performance are at risk if the issues are not addressed. Asking for input, a decision or a specific type of support is good because it displays confidence as a member of the business leadership team.

The CIO can also use this part of the presentation to highlight opportunities to increase the value that IT brings to the enterprise — for example, through exploration of new technologies that are material to the enterprise's interests.

Again, no one likes surprises. Any issues raised at this point in the presentation should have been previously discussed with any members of the executive team who might be affected.

Slide 6: Say "Thank you."

At this point, the CIO has demonstrated that IT is on board with the enterprise's strategies and objectives; that IT is actively contributing to key initiatives; that IT is working to improve its own performance; and that IT has identified issues that require discussions by and decisions from the executive team. All that's left is to say, "Thank you, it's a pleasure to work with you," and open the floor for questions. Note that some audiences — in particular, a board of directors — may already have begun questioning the CIO. Our advice is to answer such questions as they arise, and not wait for this point in the presentation.

When IT Delivers Business Performance, Perceived Value Is High

As Figure 4 shows, IT organizations that are perceived as providing high value deliver reliable, high-quality and cost-effective services, and they baseline, measure and report on IT operations in terms of business performance.

Once CIOs prove that IT can deliver, they frame increased IT budgets as an investment in improved business performance — not the result of higher business performance, but the driver. They avoid the value traps.

1.5 Brown-Forman Case Study: Taking IT's brand from operational excellence to back-office problem solving, to front-office business value creation

This case study combines the case study "snapshots" on Brown-Forman in the October 2011 Gartner Executive Programs report, "Building the IT Brand: Impacting the Front Office and Beyond." The sequence of snapshots in that report follows the Gartner framework for building the brand impact of an IT organization (see figure 5).

Figure 5. Framework from Building the Brand Executive Programs report

Building IT brand impact

Process		Shine — Captive IT markets	Expand — Adjacent internal IT markets	Externalize — Enterprise brand impact
	Strategy	• Turnaround • Workplace transformation • Business services	• Sales • Marketing • Product development	• Channel • Markets • Products
	Leadership	• CIO personal brand • IT organizational brand • Corporate performance management	• Education and instigation • Program management • Workplace anthropologists	• Competitive differentiator • Business transformation office • Business strategist
	Engagement	• Efficiency • Business process • Business architecture	• Effectiveness • Holistic enterprise • Shared outcomes	• Agility • Marketing 2.0 • Taking on product development
	Innovation	• Decision impact • Strategy cascade • Microeconomic indicators	• Cross-channel synchronization • Performance feedback loops • Macroeconomic indicators	• Mobile and social channels • Market making • Transforming a product into a belief (à la Apple)

Key IT brand-building mechanisms

Source: Gartner (October 2011)

Among the 10 largest companies in the spirits industry, Brown-Forman produces, imports, exports and markets a diverse portfolio of more than 25 wine and spirits brands. With headquarters in Louisville, Kentucky, U.S.A., the company markets and sells its brands in 135 countries and has locations in Europe, Asia, Australia, South America and Africa. Founded in 1870, Brown-Forman has 4,100 employees worldwide and reported net sales of $3.4 billion in fiscal year 2011.

Shine - Strategy

CIO T. J. Graven sees technology at Brown-Forman as having three prongs. The most foundational prong ensures that everything works. "IT is held to a very different standard," he says. "You have to keep your eye on everything at the same time, because you are only as strong as your weakest link." Beyond operational excellence, Graven views IT's brand as needing to evince business understanding and a vision as to how technology applies to business problems (the second prong). Ultimately, IT's third prong is a direct contribution to business growth. "Contributing at that level," he explains, "requires you to create the opportunity to involve IT in the business dialogue. Part of that is marketing and branding; part is establishing the credibility IT needs to dust itself off and get out of the back office. Unfortunately, this is a really hard thing for IT to do."

To get the brand rolling, Graven and his team adopted a Brown-Forman marketing technique, instituting strategy and idea sessions across functional and brand groups. The sessions informed the IT agenda, helped identify critical areas where the enterprise needed technology and provided a prioritization mechanism. Even more critical from a branding standpoint, they targeted what would be of future importance in areas that could help drive business growth. The technology team explained new collaborative and analytic technologies in the sessions, sharing examples of how these technologies drove efficiency and enabled a better understanding of the company's consumers. With the sessions driving consensus on the reallocation of technology resources from back-office to front-office activities, successful delivery gave IT credibility as a provider of services to the front office.

Shine - Leadership

Graven and his team's leadership, and their clear vision of benefits, began the evolution of IT's brand. Soon Graven changed demand management from a process of request refusal to one that helped people understand why doing things consistently in the back office, with an eye toward the front, would benefit company growth. Leaders whose organizations traditionally make heavy use of IT services — including supply chain, accounting and HR — began to self-regulate their requests once they had a better understanding of Graven's priorities.

To improve corporate performance through digitization, Graven established a reverse mentoring program for senior executives, pairing a "digital native" with an executive so that both could explore the business possibilities of technology. Because the digital natives reflect the company's target audience and understand its technology habits, this was better than a traditional branding and marketing approach. Though most of the digital natives had engineering, finance and marketing degrees rather than traditional computer science backgrounds, they could still show senior executives how the target audience uses collaborative, social and next-generation technologies. Having gained broader awareness of their target market thanks to reverse mentoring, participating executives readily shared their reinvigorated perception of the IT brand with peers.

Shine - Engagement

Since shining as an IT organization requires a vision and an understanding of business value based on solid operational delivery, Graven's group continues to extend Brown-Forman's transactional

backbone around the world. IT also involved the supply chain group, with its deep knowledge of process and its language, to drive standardization and process efficiency. Now, when the company moves into a new market, IT begins with a desired operating model rather than customizing individual implementations to local desires. This limits the number of unique technology requests and the level of required support. Perhaps more important, it improves business efficiency by using standard processes and technologies. The savings have become a primary funding source for next-generation improvements that will take IT into areas where the business is growing.

Expand - Strategy

Operating with a strong operational support base and growing senior-executive appreciation of IT's role, Graven devised a strategy to uncover front-office opportunities in new markets. In markets outside the U.S., IT began pre-integrating emerging-market sales forces into the supply chain by capturing account characteristics (to thoroughly understand the market) and providing targeting, contact management and other front-office capabilities (to improve sales efforts). "Our company has forward-integrated because it makes good financial sense," explains Graven. "Rather than have partners market and sell our products, Brown-Forman has chosen to establish these functions internally. We are working to enable this with technology that lets us capture information quickly so that we can target and respond to opportunities to sell more of our brands. It's a departure from the traditional back-office focus." Using advanced technologies, Graven's team replaced surveys with data capture and analytics that enriched account information on new markets and generated better competitive market intelligence. "The ability to gather data has never been so clean or easy," he says. "This has really helped us become a credible partner [of the front office]."

Expand - Leadership

According to Graven, being a credible partner to the front office shifts IT from merely trying to drive behavior with technology to helping front-office personnel do their jobs more effectively using available technological tools. "To me," he explains, "the power of the front office revolves around becoming a more collaborative enterprise and using information to make better, faster decisions and improve relative performance. [Our job] is to make the front office more effective as it uses available tools. This is a different mind-set, and it means allowing people to use some powerful consumer technologies to do their jobs."

Graven faced a challenge, however, in measuring the effectiveness of the new collaboration, social and consumer technologies and media that his customers were using. The sophisticated effectiveness measures of traditional business technologies were not applicable to the new forms. Coming up with hard ROI numbers for senior executives was nearly impossible, so Graven pointed to Brown-Forman's use of billboards and asked how the company knew the effectiveness of this advertising. The company was growing, but how much of that growth could be attributed to the efficacy of a particular medium? "This sounds a bit confrontational but really wasn't," says Graven. "The fact is, we were holding technology investments to a different standard. I was simply encouraging the company to 'lean in,' as it does on so many other investments, and this worked." Ultimately, Graven earned IT a seat at the business growth table without a lot of proof - his working relationships with peers and directors saying enough about IT's influence and its potential for contributing to growth.

Expand - Innovation

Graven believes that growing the business means focusing on roles. He describes many of the legacy front-office tools as "clunky," not well connected and bandwidth-intensive; but worst of all, they make people tool-focused rather than role-focused. In contrast, new systems let the sales force capture information cleanly. For example, sales representatives can now take a picture of an enticing display with their phones, use a collaboration tool to share it with hundreds of interested people, create commentary around the picture, and learn from far-flung market experiences — all without massive system and behavioral change efforts. By arming front-office people with supportive, flexible environments and helping them stay focused on their jobs, Graven and his IT group are driving a new culture.

Externalize - Strategy

Graven's strategy is to provide the technology-enabled capabilities Brown-Forman needs to realize its market and brand aspirations. He has taken the time to build a solid operational infrastructure and seen that IT kept its promise to become a credible partner to the front office. This has meant resisting the urge, and even the demand, to build a purely technological strategy. Instead, he stays focused on understanding where the business has been and what is important to its future. Brown-Forman has created a 10-year rolling strategic plan, the "Brown-Forman 150" (because this is a 140-year-old company), so Graven crafted an "IT 150" plan around needs the business will have and using technology to help marketing and sales achieve their brand aspirations. To keep his plan current and allow people to concentrate on their jobs rather than on technology, Graven interviewed 40 nontechnology employees and makes extensive use of unstructured systems such as social networking and collaboration; he has found that structured systems simply make work for the front office. Although quantifying the impact of these contributions is problematic, IT is increasingly viewed as a direct contributor to business growth.

Externalize - Leadership

To solidify IT's brand as a contributor to growth, Graven formed a team of "passionate ambassadors." With short development cycles, iterative development and cloud-based tools, they can quickly show the business the possibilities of an idea. "When an issue pops up at one of our front-office technology meetings," says Graven, "the ambassadors will work on it immediately and present a solution by the end of the meeting — possibly in the form of a working prototype. When people can see possibilities and benefits in hours or days instead of months or years, you build the credibility and advocacy needed to continue in that direction. People then stand up and say, 'Hey, this really works, so let's listen to these guys and do this kind of stuff.' They really take it seriously."

Graven's team also does road shows and attends regional meetings to garner support, cultivate the new mind-set and build awareness of the brand. His team members have also been invited to sales and marketing meetings in Europe and Asia to share their successes. Graven adds, however, that "you still have to 'keep the lights on' as you work to be seen as having a strategic role. Still, to have an organization that gets the chance to show how we can grow the business with technology is really special. We get that chance because we're doing things right."

Externalize - Engagement

IT's shift from merely providing tools to helping front-office people do their jobs more effectively has driven change at the company in markets that have adopted this "new IT," especially with respect to the behavior of merchandisers. When systems were assurance based, the company checked merchandisers simply to ensure that they set up displays as marketing specified. Now merchandisers share displays, examine competitive displays and engage with each other through social networking — all of which speeds merchandising strategies into new markets. "This drives a culture of sharing," says Graven. "People are comfortable with the new, simpler tools, and we're pleased with their increased effectiveness and efficiency. The technology makes their lives easier and gets those who need to be in the field out from behind their desks. So we all win."

Externalize - Innovation

The new front-office technologies let merchandisers see what is successful in one market and help them apply it to their own. "If you couple this with the right kind of analytics, that's the sweet spot," says Graven. "We don't want the employees closest to our consumers behind a desk filling out paperwork."

The benefits of Graven's new systems are hard to measure, but their costs are very low and their impact on brands and sales has become obvious, breaking IT out of the vicious ROI/benefits realization cycle. "Our executive and strategy committees much prefer the connected framework to traditional IT metrics," says Graven. "It shows where our technology, market and brand aspirations come together and how much our work helps their organizations."

When he became CIO several years ago, Graven had 100 metrics and many charts and graphs sloping upward to the right, but IT was faltering because the larger organization was not reaching its potential. "Now," he says, "if I were to reproduce those measures, I don't know that all of them would be rightward- and upward-sloping, but because our marketers and our average knowledge worker can connect technology to how they work, and thus do it better, we have had an impact on growing the company."

Based on an interview with, and material from, T. J. Graven, CIO, Brown-Forman, July 2011.

IT Increases Competitiveness and Differentiation

At their root, IT organizations have two basic levers at their disposal for creating value. They can improve decision making by improving information quality or timeliness, or increase efficiency, quality and functionality by improving processes. Figure 6, although simple, represents the full range of approaches IT can apply to improve business differentiation and competitiveness.

Figure 6. Four sources of new value from IT
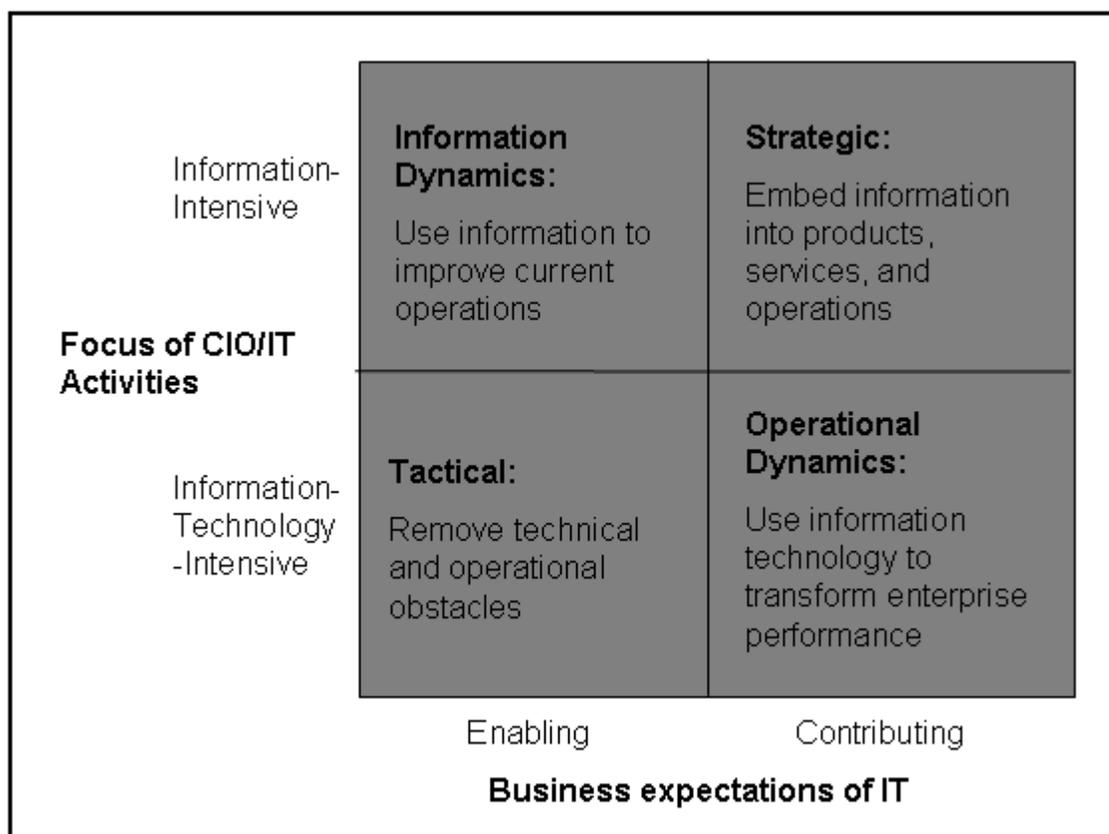
Source: Gartner (April 2007)

The four ways that IT can improve business performance:

Optimizing: Specific obstacles to performance are addressed by automation. The scope of problems and solutions is typically limited to one or a few steps within a process, as opposed to the entire business process.

Reshaping: Extensive changes are made, often to entire business processes, that alter the way customers and partners interact with the enterprise, how they work with the enterprise's products and services or the levels and kinds of service provided.

Internal informing: Information is supplied to internal audiences to support decision making related to specific operational issues. Resulting performance improvements may be visible to external parties such as customers and suppliers, but the information itself typically is not.

External informing: Information is supplied directly to external parties such as customers and suppliers in order to enhance or change the enterprise's value proposition, relationships or operations.

In any business, the IT organization may find opportunities to make important contributions to business performance in more than one of these ways. Enterprises move from the left side of the figure to the right side — from internally focused initiatives to initiatives that change the way customers interact with the enterprise — as improvements in information and processes create a stable, highly functional platform for change.

When Opportunities Are Identified, Explore the Sources of IT Value

Although much of IT's effort is spent meeting requests from the different stakeholders in the enterprise, simply taking orders is a value trap. CIOs who provide high value to their enterprises do more than that. They help to shape stakeholder requests into forms that are more valuable for the enterprise. They suggest new initiatives that provide value well beyond what the other stakeholders can suggest. The "four sources" model is a useful framework for identifying those opportunities:

Optimizing opportunities revolves around using IT to streamline processes through automation or consolidation. For example, at Intel, maintenance technicians had to move from machinery to a green screen and back again while doing their work. To optimize this process, Intel's IT team developed a single handheld device that combined five green-screen applications on a single mobile interface, allowing technicians to do the manual and computer parts of their work simultaneously. Other optimizing opportunities come from automating manual processes steps, eliminating steps in a process or providing automated help for manual tasks.

To explore *optimizing* opportunities, ask:

- What are the processes that contribute to the key operational performance metrics for the enterprise?

- What are the major steps in those processes? Who are the key personnel and functions involved in each of those steps?

- What are the most important obstacles those personnel face?

- Can we automate one or more specific capabilities for those personnel, to reduce or eliminate one or more of those obstacles?

- How do cycle times and efficiency measures for those processes compare with similar processes elsewhere in the enterprise, or in other enterprises?

- Can we improve the process by eliminating steps or making them easier to perform?

- Given the enterprise's goals for growth in revenue or profits, and the implied performance requirements, what new capabilities could be introduced to the enterprise by improving or consolidating existing information systems?

The people who are best placed to ask and answer these questions are the personnel involved in a process and the IT personnel who directly support them. One way to generate more ideas for optimizing is to embed IT personnel physically in the business units they support.

Reshaping opportunities improves business performance by changing the way customers and suppliers interact with the enterprise and its products or services. Reshaping may include reducing

costs by offloading internal processes to external parties, such as when companies offer customers a self-service capability. Other reshaping activities include making process interactions easier across the enterprise's boundaries, simplifying the customer's experience or for the company to work with others. Wal-Mart's supply chain initiatives, for example, make Wal-Mart's processes more efficient by requiring suppliers to use standard processes.

To identify *reshaping* opportunities, ask:

- What are the pain points in the way processes work with parties outside the enterprise?

- How can IT make doing business with the enterprise easier?

- How can IT improve the way external parties do business with the enterprise?

- What are the current performance levels for the key processes in the enterprise? What changes to the process can produce step improvements in those performance levels?

- How can IT make itself more valuable to those other parties by improving their processes?

- Consistent with the broad strategic objectives and performance requirements of the enterprise, what new ways can IT create to increase customer or partner engagement with our enterprise?

Many reshaping opportunities are identified in a similar way to optimizing opportunities, but involve external as well as internal stakeholders. Especially in business process outsourcing relationships and other high-level partnerships, IT plays an important role in the customer's operations, and the CIO works closely with customers. Ideas come from any source, in fact, that sheds light on how the business and its customers engage, including business analysts, relationship managers, customer service specialists, and business unit and enterprise executives. Of all four approaches, reshaping is the likeliest to involve extensive business process re-engineering.

Internal informing opportunities arise when IT provides information that enterprise employees can use to improve their own performance. The Boston Red Sox credit their innovative application of information to hiring and coaching decisions with helping them win their first World Series in 86 years. Capital One places information in the hands of its marketing personnel along with easy-to-use tools so they can conduct thousands of experiments each year selling new credit products to different customer segments. Internal informing cannot be done by blindly firing information at the enterprise in the hopes that someone will be able to use it; the individuals who will use specific information for a specific purpose and outcome must be identified.

To identify opportunities for *internal informing*, ask:

- What do specific executives or roles in the enterprise want to know that they do not know now?

- What questions will those people answer when they get the information?

- What actions will they take when the questions are answered?

- What changes in capabilities and outcomes will result?

- Will cycle times for key decisions change, with impacts on costs, risks and/or revenue?

- Will errors be reduced or quality otherwise enhanced?

- Will customers perceive a difference in responsiveness or quality?

- Will investment decisions be more accurate, producing increased yields and/or lower risks?

- Will some other observable outcome result?

- What information does the enterprise gather that is not well used by other processes? What other processes could use that knowledge?

- What processes rely on standard operating procedure or intuitive judgments when better decisions could be made with better information?

- What processes that use dated or nonintegrated data could be improved with real-time integrated information?

Questions such as these are often best answered by the executives in charge of particular business units, and (as always) by the IT relationship managers assigned to the business unit. In many cases, executives also have staff members who are responsible for knowing the numbers that are driving the business. Those staff members may not have exalted titles, but they often wield significant influence as trusted advisors. We have seen cases in which such personnel, when asked about the value of a particular piece of information, instantly recited a hard dollar estimate supported by a detailed and accurate rationale.

External informing is often the most difficult, and most rewarding, source of IT value. By providing customers and suppliers with information that other enterprises cannot provide, the enterprise cements tighter relationships with those external parties. For example:

- Insurer Progressive provides information on competitors' prices as well as its own, helping customers feel more confident when selecting Progressive as an insurer.

- Consumer packaged goods enterprises such as Procter & Gamble provide retailers with sales data by SKU, allowing them to better understand purchasing patterns in their stores.

- Auto manufacturers provide information about future products and production plans to their networks of suppliers, allowing suppliers to bid on new work, suggest new component designs or adjust their own product plans.

- When an incident affects a Symantec customer, the company notifies other customers running similar software that they may have a vulnerability.

- Financial services companies provide customers with information on their whole portfolios as well as the performance of products that they do not own, allowing customers to understand how their portfolio performance matches benchmarks, and how to adjust their assets appropriately.

To identify opportunities for *external informing*, ask:

- What are the outcomes that customers seek when they use our (or competitors') products and services?

- What outcomes do partners or other external stakeholders seek when dealing with us?

- What does the customer or partner have to know in order to get that outcome? Do we, or anyone else, supply that information? If not, can we?

- What information do we already have that others would consider valuable for their decision making?

- Can we embed information directly into our product as a functional capability or a decision aid? Can we provide it through our value network?

Questions such as these might be answered by a wide range of personnel, from customers themselves to anyone in the enterprise whose role involves frequent contact with customers and other external stakeholders.

Regardless of where an idea comes from, it must be analyzed further to determine what its impact on business performance will be, both in terms of operational improvements and in terms of the impact on profit and loss.

No Single Approach Is the Right One for All Enterprises at All Times
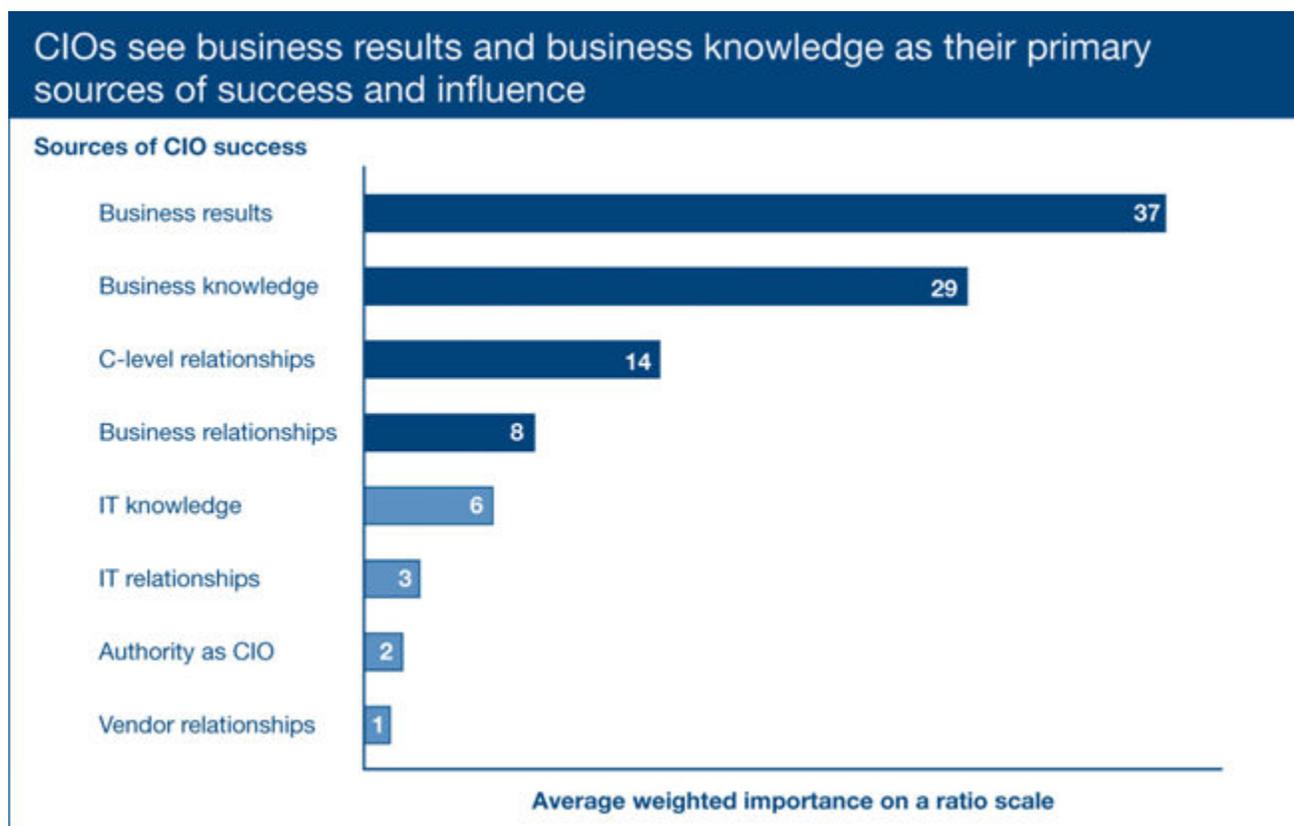
The four sources of IT value do not represent a maturity model, in which the highest level is presumed to be the most desirable. *None of these approaches is intrinsically higher in value than the others.* A solution should not be discarded simply because it is tactical — tactics are the means by which grand strategies come to fruition, and plenty of companies have achieved excellent outcomes with less-than-strategic initiatives. External initiatives are not somehow better because they move beyond the boundaries of the enterprise. And informational value is not superior to automation value just because it often helps managers instead of lower-level employees. Any of the four approaches to adding value via IT might be the right one for a specific enterprise at a specific point in time.

Savvy CIOs also use their knowledge of the business, and one or more of these approaches, to lead the executive team to a greater appreciation of IT's ability to improve business performance.

Business results are a CIO's greatest asset and most potent liability

To achieve results, CIOs must draw on different sources of power and influence (see figure 7). The importance of this will grow as IT becomes increasingly integrated into the enterprise. There is no such thing as a pure IT project anymore. Whether investments are more IT-intensive or less so, they are all business projects.

Figure 7. CIOs see business results and business knowledge as their primary sources of success and influence

CIOs see business results and business knowledge as their primary sources of success and influence

Sources of CIO success

Business results	37
Business knowledge	29
C-level relationships	14
Business relationships	8
IT knowledge	6
IT relationships	3
Authority as CIO	2
Vendor relationships	1

Average weighted importance on a ratio scale

Source: Gartner (January 2011)

In discussions with public-sector CIOs, Gartner has found that fewer than 20% have instituted a world-class portfolio management process. But in future years we believe 40% of the CIOs will have improved their perceived value to the enterprise as a result of adopting a budget cost accounting and reporting program centered on an IT portfolio management discipline for managing and communicating public value.

The U.S. Clinger-Cohen Act (CCA) requires that the government demonstrate a clear return on investment from its IT investments, and supplement its information resources management policies. To accomplish this, executive agencies must establish a comprehensive approach to improving the acquisition and management of their information resources. This should be accomplished by:

- Focusing information resource planning to support their strategic missions

- Implementing a capital planning and investment control process that links to budget formulation and execution

- Rethinking and restructuring the way work is done before investing in information systems

In conforming to Clinger-Cohen, public sector CIOs should define IT value in terms that will let stakeholders and tax-paying constituents see the public sector value of IT. This approach adheres to the following tenets of value in terms of a citizen-centric government bent on creating, capturing and communicating value, both quantitative and qualitative:

Operational efficiency/agency value. Identify financial benefits as well as costs. Financial benefits include increased revenue, operating cost reductions, productivity savings and increased staff retention. Costs include operations, capital expenditures, time and quality impacts.

Constituent service. Define user financial value including cost savings to users of a service, and any increased or faster payments received from government.

Social value. Describe the beneficial consequences for each target group affected by the initiative to be stated. Reach and impact are expressed through qualitative ratings.

Political return. Acknowledge strategic value measures of how well the initiative is aligned with the most important outcomes and political objectives. Add a list of criteria to measure the achievement of each objective based on the agency mission and strategy.

Governance value. Measure how the initiative contributes to improving key aspects of governance. It should include areas such as increased citizen participation, greater transparency and accountability. As with social value, rank and rate it in terms of reach and impact.
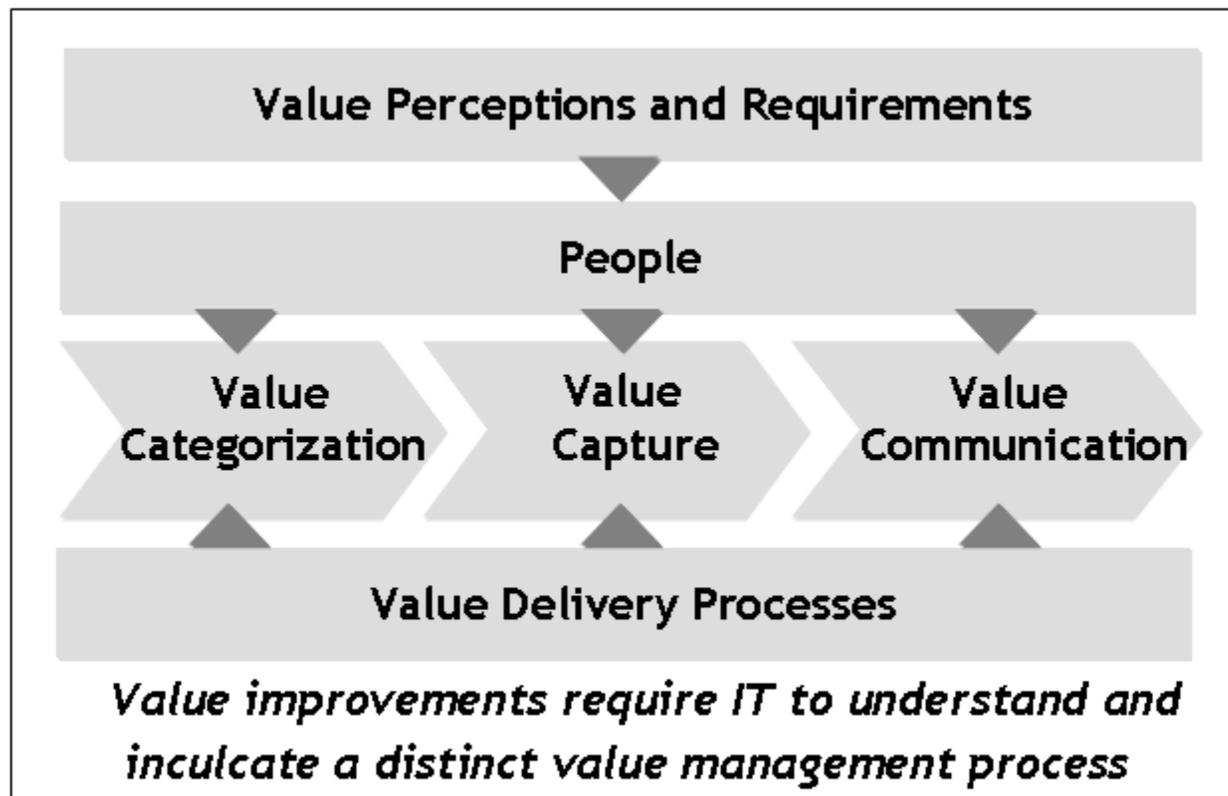
Risk to program delivery. Ask whether the project will go over time or over budget. Are project managers making the right technical decisions? This includes technological and architectural risks and security issues, as well as program planning and management capabilities.

Report on IT Operations in Business Performance Terms

Many of the executives in this chapter are in businesses that consciously depend on IT, such as banks, credit card companies and companies in various industries that sell enriched customer data, market data and data analysis to corporate customers. It is not surprising that these executives recognize that IT has value. What is surprising, though, is that these CIOs still must prove, every day, that their IT operations are reliable and cost-effective in terms of business performance.

High IT value starts with value for money. To communicate value for money, the CIO must translate IT operations performance into business performance. Using the Gartner value management process is a recommended best practice, see Figure 8.

Figure 8. Effective value management

Value Perceptions and Requirements

People

Value Categorization → Value Capture → Value Communication

Value Delivery Processes

Value improvements require IT to understand and inculcate a distinct value management process

Source: Gartner 2007

To begin, consider the difference between an exercise machine and exercise. An exercise machine enables exercise. It offers potential for value. But it is pointless to measure the value of the machine in terms of its operations. The only meaningful metrics are the machine's effects on the user. For example, consider these exercise-machine-centric metrics:

- Number of hours per week that the machine is in use

- Number of calories burned per minute, per hour

- Muscle groups exercised

These metrics contain useful information but not the information that matters most: changes in the performance of the user. These machine-centric metrics are a value trap. By contrast, consider user-centric metrics:

- Weight loss since start of exercise program

- Weight left to lose to reach target

- Maximum bench-press weight

- Time to run 100, 200 or 500 meters

- How much better the user looks and feels since beginning the exercise program

These metrics express delivered value in terms of the user's performance, and confirm the wisdom of the investment in the exercise machine.

The lesson of the analogy is this: Do not report to business executives on technical operations. Instead, report on how IT operations affect business performance. This means IT performance must be expressed in terms of the ratio of business activity to IT operational costs, or that IT performance must be translated directly into relevant business performance. For example, the availability of point of sale terminals or call center agents, both of which are end-user metrics, are more meaningful to a business executive than network availability, which is a technical metric.

When not directly applicable, or performance metrics are not available or meaningful, IT costs can be correlated to business performance by means of ratios such as IT operating expenses versus number of accounts and revenue, as well as average uptime for key business production processes. Ratios such as these are an especially powerful demonstration of IT value-for-money when IT expenses per unit of growth are dropping.

"I Want IT to Be Seen as a Business"

As described by several CIOs, the path to business-performance-oriented reporting or user-centric IT operational metrics has several steps:

- **Identify critical business performance metrics.** This step requires participation by business executives because IT staff cannot assume they know which metrics are most important to executives and business unit management. The metrics that they find critical may be operational, financial, compliance-oriented or fall into some other category. Execute this step at the start of the program or when substantial change occurs in the business.

- **Trace IT metrics to business performance metrics.** Identify specific IT operational measures, such as unplanned network or server downtime, and correlate them to comparable business metrics. Or combine multiple IT metrics to produce a single business metric. For example, combine network availability with desktop availability and other means to measure call center agent availability. Or use ratios to correlate IT metrics to business performance metrics by, for example, calculating the cost of IT operations per business user, new customer account or sale.

- **Benchmark and set guidelines for performance.** The business cannot appreciate IT value for money until it knows how the IT organization is performing relative to its peers. Several companies in this report benchmark annually or biannually to establish a baseline for IT performance.

- **Report operational performance continually.** Other companies also report against benchmarks to demonstrate progress in a turnaround situation. But all of the companies expect to report IT organizational performance forever, to demonstrate that IT's value is high and rising.

McKesson — Turning IT Around to Reap Synergies

McKesson is America's largest and oldest healthcare services company, ranking 15th on the Fortune 500. It is the leading pharmaceutical distributor in North America and the leading healthcare IT company in the U.S.

"I perceive IT's value through business results," says John Hammergren, chairman and CEO. No one ever brings me a proposal for IT, per se. They bring an issue or opportunity defined around the business, and IT is one of the pillars. We measure the outcome of our investments, going back repeatedly, up to two years after implementation, to make sure that we get the value.

"The 'A-ha!' moment came for me when I invited the technical people to the table with the business people. I could see firsthand that when I had the technology and process experts embedded in the leadership team, we were getting better-crafted technology investments — and technology was seen as a solution, not a cost."

Making IT Business-Governed

CIO Randy Spratt has been at McKesson since 1986, but only became CIO in 2005. At that time, IT was not seen as critical to the business. "That's changed because we've refocused IT as a services business, away from the former role of trying to impose the same models on all the business units," says Spratt. "Some units were building their own IT to get what they needed.

"In 2002, John Hammergren began to bring the top BU leaders together to foster cross-BU synergies. As the synergies emerged, it became more apparent that we were investing in duplicate systems, mostly in IT. That's when IT began showing up at the CEO's table. It was a shift from seeing IT as an IT cost, to seeing IT as a component of business cost."

To bring IT and the business together, Spratt took three major steps. First, he introduced a business-run IT governance model. At the top, the operating executives sit on a governance board that functions as a kind of operating committee. "I had to sponsor and support this idea, and recruit the presidents to serve," says Hammergren. "Without my influence, I'm not sure it would have gotten off the ground. The fabulous thing is that it's changed the conversation from, 'You're killing me with these expenses,' to 'What's the value of this investment?' "

Second, Spratt benchmarked McKesson's IT costs and then got the governance board to agree on an allocation policy so that businesses could see their costs and the drivers. "IT has gone from an opaque cost to an understood cost and value driver," says Spratt. "The business is comfortable that we're measuring expense, quality, customer service — all the things you do to run a good business."

Third, Spratt hired relationship managers who work in the business, primarily with the divisional CIOs. "By doing this, we discovered that we were more organized around technology than function," he says. "We reorganized around ITIL plan-build-run functions.

"I've modeled IT after service businesses I've run. Services are hard to pin a value proposition on. You're most successful when you move up the value chain, from help desk to a level of intimacy about the account. You tailor your ability to offer services to the pain points of the business. The

ideal state for IT is at the top of the chain, where you are a consulting partner that's integrated with the business."

Based on interviews with, and material from, John Hammergren, chairman and CEO, and Randy Spratt, CIO, McKesson, December 2006.

Position IT Investment as the Cause, Not the Effect, of Improved Business Performance

Many executives see rising IT investments as the result of increasing business performance, and reach conclusions such as, "I'm getting more customers, so I have to buy more servers." This too is a value trap. The CIO must position IT investment as the driver, not the result, of increased business performance.

A more accurate viewpoint is that careful investment in IT drives business growth by providing the capacity in infrastructure, operations and management visibility that makes improvements in business performance possible: "I want and expect to grow, so I need to build the infrastructure that will support growth."

When HSBC CIO Ken Harvey spoke at the 2006 Gartner Symposium/ITxpo conference in Cannes, France, he demonstrated a keen understanding of how changes in any of the bank's channels drive demand in others. For example, 10% growth in Internet-based accounts increases demand for ATM transactions by 25%.

The idea that IT drives growth (as opposed to trailing it) is a bold assertion for many enterprises, especially those with management that is focused on driving down IT costs year after year, regardless of IT's impact on business performance. To make the point that IT investment drives business performance improvement, the IT organization needs to benchmark and measure not only its own performance, but also the performance of the business units.

Intel has taken this approach further than most businesses. It has benchmarked business performance in dozens of areas, using industrial engineers to divide processes into components that can be measured (with stopwatches in some cases). The resulting baseline measurements allow Intel to measure the impact of investments in IT where it counts — in business performance.

The Gartner Business Value Model

The Gartner Business Value Model framework offers a widely applicable set of nonfinancial business-performance-oriented metrics sourced from a range of industry groups and thought leaders (Figure 9). These metrics are specifically intended to address the gaps in business performance measurement that result from a financials-only approach.

Figure 9. The Gartner business value model

Business aspect	Aggregates			Primes	
Demand management	Market responsiveness	Target market index Product portfolio index	Market coverage index Channel profitability index	Market share index Configurability index	Opportunity/ threat index
	Sales effectiveness	Sales opportunity index Cost of sales index	Sales cycle index Forecast accuracy	Sales close index Customer retention index	Sales price index
	Product development effectiveness	New products index	Feature function index	Time-to-market index	R&D success index
Supply management	Customer responsiveness	On-time delivery Service performance	Order fill rate Customer care performance	Material quality Agreement effectiveness	Service accuracy Transformation ratio
	Supplier effectiveness	Supplier on-time delivery Supplier service performance	Supplier order fill rate Supplier care performance	Supplier material quality Supplier agreement effectiveness	Supplier service accuracy Supplier transfor- mation ratio
	Operational efficiency	Cash-cash cycle time	Conversion cost	Asset utilization	Sigma value
Support services	HR responsiveness	Recruitment effectiveness index HR advisory index	Benefits adminis- tration index HR total cost index	Skills inventory index	Employee training index
	Information technology responsiveness	Systems performance New products index	IT support performance IT total cost index	Partnership ratio	Service-level effectiveness
	Finance and regulatory responsiveness	Compliance index	Accuracy index	Advisory index	Cost-of-service index

Source: Gartner (April 2007)

Focus on Competitive Differentiation to Change the Perception of IT

No enterprise can lead in every aspect of competition in all its markets. But many businesses cannot accept the truism that competitive focus is necessary. Lack of this focus produces mediocre business performance at best. Lack of focus also clouds the impact of IT investments on business performance. When a business has a strong competitive focus — meaning that senior executives clearly understand how the business is differentiated from its competitors — then IT's perceived value is likely to be high.

Also, the connection between IT and business strategies, as pointed out earlier, does not guarantee that IT's contributions are fully strategic. Furthermore, not all strategies are created equal. For example, strategies that lead to unique solutions contribute more to competitive advantage than strategies that reflect industry standard practices; and CIOs view only 35% of their business's strategic priorities for IT as unique or differentiated in their indus¬tries (see Figure 10).

Figure 10. CIOs see their organizations pursuing nondifferentiated business strategies

CIOs see their organizations pursuing nondifferentiated business strategies

How unique is each of your strategic business priorities compared to those of your industry peers?

Unique in our industry	7%
Differentiator in our industry	28%
General practices in our industry	27%
General practices across all industries	27%
Common knowledge and commodity	11%

Percentage of all business expectations

Source: Gartner (January 2011)

This creates a paradox for CIOs. They may see IT as strategically relevant to the business, but the business sees IT's strategic contribution as helping establish general industry practices, not creating sources of competitive advantage.

CIOs may try to help the business understand IT by improving communication, coordination and plannning, yet in the eyes of business executives, this may only confirm IT's limited contribution to competitive advantage. To address the paradox effectively, CIOs need to demonstrate that IT can connect to the business by driving competitive advantage. The CIOs in our survey view the following strategic business priorities as having the strongest connection to competitive advantage:

- Contributing to an increase in enterprise innovation
- Implementing the unique aspects of enterprise strategies
- Bringing new products and services to market

Business Competitiveness Controls IT's Purse Strings

Analysis of Gartner Executive Programs CIO Agenda survey data over several years shows that effective IT organizations are never found in ineffective businesses. In addition, the success of the

CIOs interviewed for this research is a result in part of working with executives whose competitive vision is focused and clear. The conclusion: CIOs whose executive teams lack competitive focus should do all they can to help those executives understand their own business models and competitive strategies. When executive teams do not understand how they compete, their CIO is likely to feel constant pressure to reduce IT costs; because when the company direction is unclear, any IT costs beyond the bare operational minimum looks risky and excessive.

L'Oreal Japan uses front-office IT to differentiate itself from the competition

L'Oréal Japan is a subsidiary of L'Oréal Group, the world's largest cosmetics company. In 2010, L'Oréal was named one of the 100 most sustainable and ethical companies by Corporate Knights magazine, and one of the most ethical companies by the Ethisphere Institute. L'Oréal employs 67,000 and had 2010 revenue of €17.5 billion (US$22.3 billion).

Responding to business needs by accelerating development of the front office

For IT Director Mikako Tanaka, defining business needs for a developing front office is more intense than doing so for the back office. Interviews with business leaders must go deep to expose the market opportunity that solutions will need to satisfy. Moreover, the small windows typical of cosmetics market opportunities dictate short development times.

To address these challenges, Tanaka's group uses a spiral development model combining attributes of waterfall and rapid-prototype methodologies, while emphasizing accurate requirements gathering and deliberate iterative risk analysis. Tanaka has sped up front-office development by opting for packaged solutions over building from scratch, and instead of committing to deliver 100% initially, she delivers 80% functionality upfront and offers to work toward the remaining 20%, if necessary, after going live.

As Tanaka explains, "If you spend too much time on definitions, design and development, the business needs could change before you're finished. By making our development stages faster, we can be more responsive."

Generating ideas for a front-office innovation pipeline

Tanaka's IT organization works in a highly collaborative manner to bring front-office opportunities to the surface. It not only collaborates with its counterparts at L'Oréal Group for fresh perspectives but also continually interacts with business partners, vendors, suppliers, media agencies and marketing companies. This method affords a multilevel view of the market, establishes priorities and creates an innovation pipeline.

"To compete in this market," says Tanaka, "you need to know what your competition is doing at every level. But for true differentiation, you need to look at what your competition is not doing, and focus your energy and resources there."

In staffing her IT front office, Tanaka looks for extroverted people who communicate well — the same qualities that help IT's sales and marketing counterparts succeed. "The opinions and ideas of such people won't be ignored," she says. "Front-office IT people have to be different. They must

connect with business people and interview them effectively — the only way to obtain the information we need to do our job. If they aren't different, they can't be successful in that environment."

Based on an interview with, and material from, MikakoTanaka, IT director L'Oréal Japan, January 2012.

IT Is the Business

In the "IT is the business" scenario, the traditional arm's-length consumer/provider relationship paradigm between IT and the rest of the enterprise breaks down, and the CIO assumes responsibility for some type of business result — up to and including revenue accountability. The enterprise integrates IT decisions into everything it does in the same way it considers money and finances. The IT organization's success is measured in terms of business results, and the CIO influences and helps drive enterprise strategy. Technology is evaluated on not only its ability to further enterprise strategic goals, but also its potential to create or drive those goals.

The "IT Is the Business" Scenario Is, Above All, Highly Differentiated

When IT is the business, the enterprise and the IT organization that supports it are highly differentiated, seeking leadership through speed and innovation. Information is the explicit product of the organization or is inseparable from the product. In either case, it is a key element of the value proposition offered to customers. As a result, the enterprise in this scenario is structured explicitly around flows of information (as opposed to processes or functions), which increases responsiveness and agility and reduces costs (including opportunity costs) resulting from delays.

The traditional, standardized configuration of IT organizations across enterprises and industries that is the historical norm comes to an end in this scenario. IT's earliest roots lie in the automation of back-office support functions, which are largely undifferentiated across industries and enterprises. However, when IT is the business, the IT organization is heavily focused on maximizing the enterprise's differentiation, which takes IT out of the back office and moves it into the front office — in many cases, into the paying customer's office.

The words "typical IT organization" are oxymoronic in this scenario. IT organizations that are not highly differentiated have ceased to exist, replaced by undifferentiated (and less expensive on a unit cost basis) cloud-based services. The IT organization is focused on innovating within the value chain, as opposed to directly enabling the supporting services that are found in every enterprise, as shown in Figure 11.

Figure 11. "IT is the Business" value chain focus
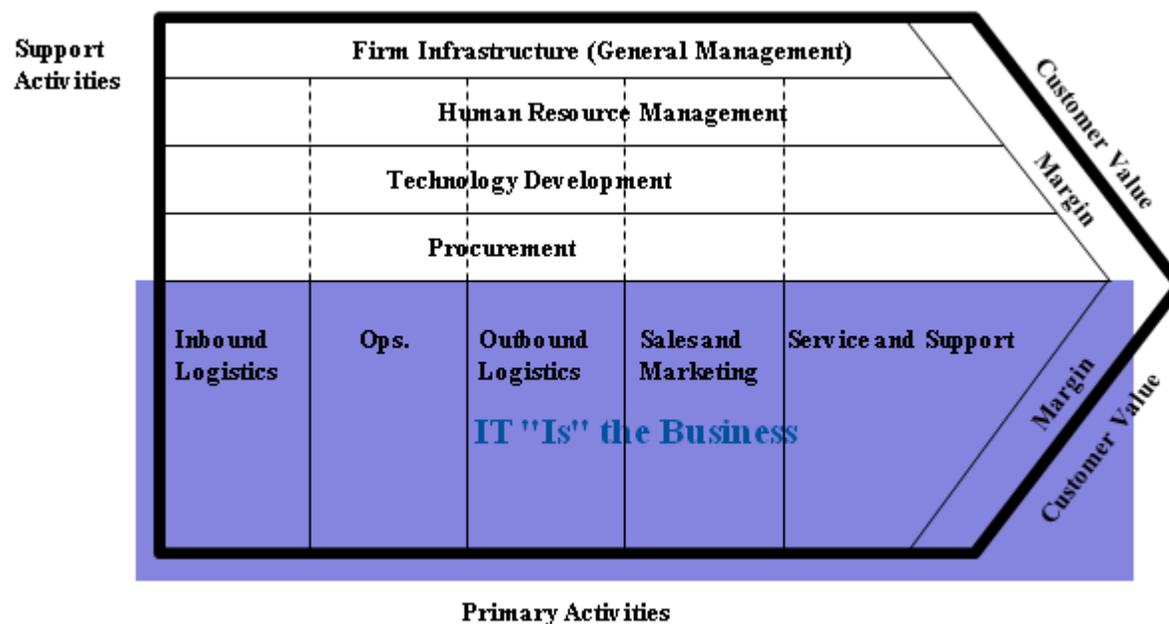
Source: Gartner (April 2012)

Think Differently, Act Differently, Be Different

To reinforce the idea that IT is one of the costs of doing business in a particular way and a key lever for the executive team to increase business performance, the CIO and IT team must talk the business talk and walk the business walk. They must think differently, act differently and be different.

Think Differently

IT is one lever an executive team can pull to improve business performance. But CIOs must know enough about the business to know when IT is and is not the right lever to pull, and then say so.

To know when IT is the answer and when it is not, CIOs must keep the following in mind:

- The value of an IT investment is always measured in terms of business performance. Many CIOs and their executive teams are beginning to use techniques like net present value (NPV) analysis to compare investments. This approach is perfectly valid for analyzing and comparing investments in IT (or anything else) so long as the CIO remembers that improved business performance is the "value" in NPV, and this is true regardless of whether the investment is in IT or anything else.

- The CIO's job as an executive is to boost business performance, not IT performance.

Being part of the executive team means thinking primarily in terms of business performance, and only secondarily in terms of IT performance. It means knowing that IT is the answer only when it is a

way to improve business performance, taking into account all business costs, risks and alternatives. Thinking and talking in those terms are what make the CIO part of the executive team, as opposed to the "IT guy."

It's not enough for an IT professional to *refer* to valuable business outcomes in a conversation with colleagues. Value must lead the conversation, because the topic that leads is implicitly the one that matters most, and IT professionals must demonstrate that what matters most to them is what matters most to everyone else in the business.

Of course, IT professionals are supposed to be expert in the ways of technology, just as marketing professionals are expected to know marketing. But the IT professional, like everyone else in the building, is there to help the business create value for its customers and itself. Technology is not value, and a conversation that begins with technology is at least one step removed from a conversation about the value the enterprise creates.

Thinking like a business executive means paying attention to personal style as well. How does the executive team dress? What do they talk about? What do they read? What do they do for leisure? External signs and adherence to norms for personal behavior indicate membership in the team. How else could an observer tell at a glance who plays for which side at any organized sporting event?

Such signs have nothing to do with competence per se, but they have everything to do with "tribe." The personal influence and value of CIOs depend a lot on whether they are perceived as being part of the executive tribe.

Gartner continues to observe enterprises using limited criteria to select and prioritize IT investment projects (generally some type of cost-benefit analysis or ROI/ROA/ROE calculation). Few CIOs include important decision-making criteria such as risk, life cycle costs and economic or strategic value. Many organizations still rely on a first-come, first-served "squeaky wheel" method of allocating scarce IT resources. Of the CIOs Gartner engages with regularly, fully 40% do not have a formal portfolio management discipline in place.

IT investment decision making has traditionally been a deductive, logic-based IT-centric process. In the past, business leaders and the IT organization would identify an information-related problem, examine a series of IT solutions, and then make an IT investment decision. Although this process has been adopted by many CIOs, it ignores critical issues and often leads to inappropriate and/or wasteful investments which few enterprises can afford, regardless of the economic outlook.

High-performing CIOs adopt a business-centric portfolio management approach to balancing strategic and economic value that includes an informed assessment of both technology and business-related risks.

CIOs should undertake a portfolio management approach to IT investment to better evaluate the potential economic returns, strategic objectives and risk. Economic value should quantify the impact or the value to business by balancing strategic value with economic value and risk. The values and assumable level of residual risk should influence investment decision making as to

where, when and how to invest and allocate IT resources to promote greater operating efficiency and business effectiveness.

Act Differently: Get the Whole IT Team Talking in Terms of Business Performance

The CIO is not the only member of the IT team who must deal with internal (and often external) customers directly. Therefore, the CIO can set a personal example for the entire IT team by focusing discussions on the business, inside and outside the IT organization.

One means of doing this is to encourage and reward IT personnel for discussing the business in business terms in CIO staff meetings, IT governance councils and meetings between business unit executives and their IT support and relationship management personnel.

Another technique is to "get physical" by embedding IT personnel in business units at multiple levels. The CIO of one major company recommends the following CIO agenda for a monthly meeting with a business executive:

- Discuss the opportunities and problems the business is facing. What are the three most important opportunities and problems on your plate right now?

- Discuss how IT might help, potentially including "blue sky" ideas involving new technologies, in terms of their ability to raise business capabilities.

- Discuss ongoing projects and how they are meeting their milestones.

- Discuss the books and periodicals the business executive is currently reading.

By following this agenda each month, CIOs will be able to accurately reflect the executive's most important concerns, a key step in winning credibility. They will also be well-positioned to compare concerns across the entire executive team, and thus understand which opportunities and problems are driving the business as a whole.

Knowing the final item on the CIO monthly agenda — the executive's recent reading list — was mentioned by several of the CIOs interviewed for this report. They noted that CIOs who read and discuss what the executive team reads and discusses are perceived as more "executive" than CIOs who do not. It is another aspect of being part of the tribe.

In discussions at all levels, IT staff should be encouraged to focus on the key competitive differentiators for the business and how IT affects those differentiators. In short, conversations should always be about what the business can do, when, where and how — not about what the technology can do.

Sharp HealthCare — Improving Patient Care Via IT

Sharp, a healthcare provider in San Diego, California, illustrates how one IT organization has assimilated the values and beliefs of the business in its way of working, including a clear focus on service to patients as the defining measure of business performance. ROI arguments are secondary to the business values defined in the company's "pillars of value." A not-for-profit, Sharp relies on

philanthropy to fund its seven hospitals, three affiliated medical groups and a health plan with a total of 14,000 employees.

"Our basic theme is to improve patient satisfaction by improving physician and employee satisfaction," says Bill Spooner, senior vice president and CIO. "Our key pillars are finance, service, quality, people (employees), growth and community. When patients walk away feeling they've been taken care of, we believe our two final pillars — growth and community — will take care of themselves."

Sharp's culture is such that when someone stops an employee in the hall to ask for directions, the employee physically takes the person to the right place. "My office is located some three miles from our flagship hospital," says Spooner. "Our building is identified as a Sharp facility, but it's not a hospital. One day, someone came in looking for healthcare. My boss, the CEO, took that person to the hospital. If he's doing that, I'd better do it, too."

Healthcare accreditation groups have developed key metrics that define better patient care. They involve tracking the frequency with which hospitals administer antibiotics before surgery, get patients off antibiotics after surgery, immunize pneumonia patients, get heart attack patients from the emergency room door to catheterization within 90 minutes and so on. Better patient care means patients receive this defined level of care.

The Core Patient Care Project

Sharp does not develop its own applications, but it is a beta site for many new applications. Its website has won numerous awards, and Sharp is one of the six healthcare systems in the U.S. to be on the "most wired" list for all 10 years of the Hospitals & Health Networks magazine survey. On the other hand, its IT budget is not aggressive.

"Since the late 1990s, we have pursued a best-of-breed strategy for our IT applications," says Spooner. "There were no alternatives. No vendor could do most of the critical functions. But our integration of the multiple apps was not effective. Physicians still had to go to multiple systems to get their data."

In 2000, management began designing Sharp's newest hospital, which was to be fully digital, with no paper charts at nursing stations. But existing products were not functional enough for the physicians. They still had to enter data into multiple applications. So Sharp decided to throw it all out and install an integrated product suite, called the "Core Patient Care Project".

The value of the new core patient care project goes far beyond IT to better patient care, a better working environment for physicians and nurses, and modernization of the facility to meet the California seismic law requiring buildings to be able to withstand earthquakes.

Last August, Spooner had a 90-minute conversation with Sharp's board of directors on this system. He holds a quarterly IT committee meeting to report major status. He creates a report for the board every month. And he meets with the CEO every two to three weeks.

"IT value is always in the conversation," he says. "In our conversations with the board, we have an ROI component. The less we consider a project to be a core project — because it does not support one of our pillars — the more we emphasize ROI. It's difficult to demonstrate ROI on a lot of projects."

"One of the interesting things we're doing in conjunction with the move from best-of-breed to an enterprise system is a cultural change," says Spooner. "We've allowed a lot of independence at the department level before. Now we're discussing how we value those requests and encouraging the operating units to collaborate to achieve the best outcome for all so that we can get them down to a reasonable-sized list that we can prioritize."

Based on an interview with, and material from, Bill Spooner, senior vice president and CIO, Sharp HealthCare, November 2006.

Drive the Message Home: All Initiatives Are Business Initiatives

If IT costs are an investment in business performance, then all initiatives are business initiatives. Above all else, CIOs must drive this message home at every opportunity, for several good reasons.

Except for infrastructural investments, IT is usually a relatively small portion of a larger business initiative that involves significant business process and organizational change. But many enterprises act as if the opposite were true by, for example, referring to a major business process change initiative as an "ERP solution."

If a program is seen as an IT initiative, business executives will feel less responsible for ensuring its success. And if the initiative fails, which is more likely when executives feel no responsibility for it, IT will take the blame. Use the language of business performance and business outcomes to describe every initiative, no matter how much IT is involved. All IT initiatives are business initiatives with business payoffs, or they should not be on the agenda. This applies to infrastructure investments as well as applications because infrastructure is just as much about how business is done as anything else.

Typical examples of IT-speak translated into the language of business performance are shown in Table 1. This is not simply a matter of semantics. If an IT investment can't be meaningfully translated into improved business performance, there is no reason to include it in an executive discussion.

Table 1. IT-speak versus business-speak

Don't say	Say
ERP solution	Business process change
Network uptime	POS uptime
AD life cycle	Product development life cycle
Build IT infrastructure	Support business growth
Install CRM	Get and keep customers

Source: Gartner (April 2007)

Manage the Harvest

To show that IT investments produce value, CIOs must ensure that the business performance improvements are harvested and measured. This topic was the subject of the December 2005 Gartner EXP CIO Signature report "Show Me the Money: Advanced Practices in Benefits Realization." The harvest cycle described in that report is shown in Figure 12. Without a systematic approach to harvesting benefits that includes planning, review, audit and measurement, it is difficult to either achieve value or prove it.

Figure 12. Harvest cycle for benefits realization on a major initiative
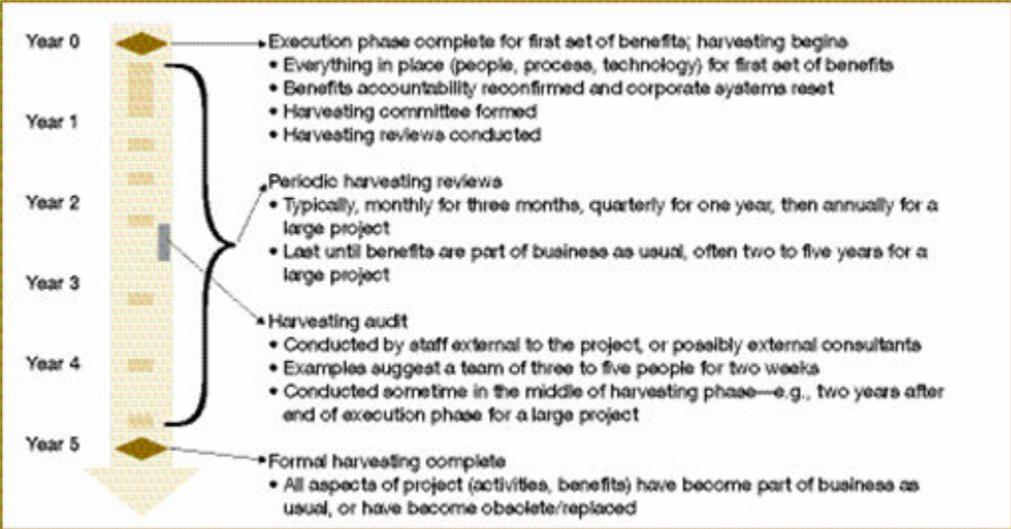
Source: Gartner (April 2007)

It takes effort to plan and execute the harvest, but it pays off for the entire enterprise in terms of better business performance resulting from superior planning and prioritization for investments, and management attention to the activities that ensure that benefits are harvested.

CIOs and their business peers need to focus on the "tougher stuff," such as holding key stakeholders accountable for deriving the intended benefits of IT-intensive business initiatives. Only then can on-time, on-budget delivery lead to true performance improvements. This becomes even more important as the scope of IT-intensive projects extends beyond efficiency and process improvements to the intangible, future-oriented benefits attached to business model and management innovations.

Figure 13. Actual and perceived effectiveness of BR techniques in terms of frequency
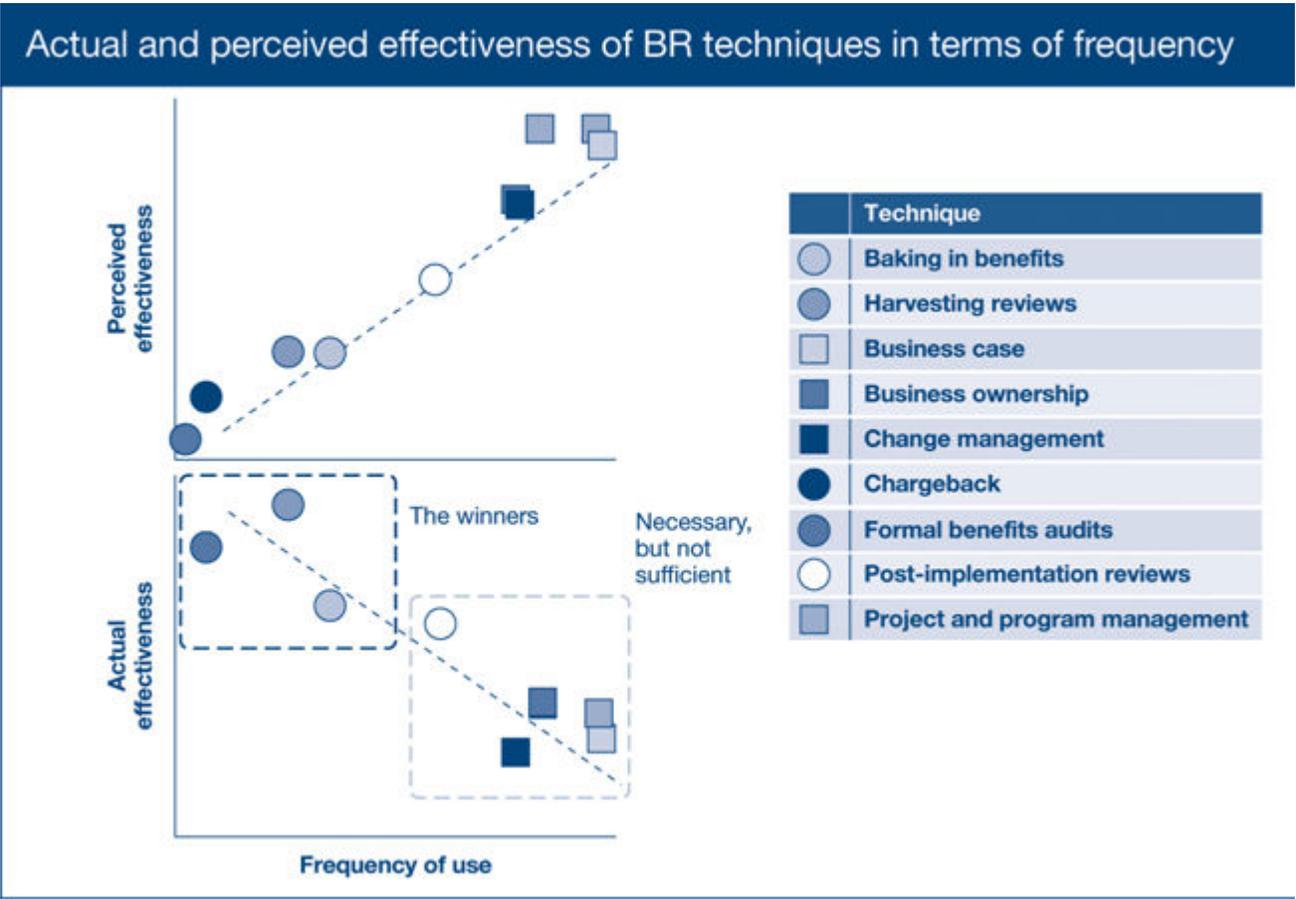
Source: Gartner (September 2011)

Some CIOs are improving benefits realization even further using advanced techniques such as the following:

- Creating scorecards to rate how well the rest of the business partners with IT (see "Internal Partner Scorecards Make Business Partners' Contributions Visible" in Further Reading)

- Forming separate value challenge teams tasked with reviewing project and program execution, focusing on whether the benefits will come instead of on-time delivery, and how to correct the situation if benefits do not come (see "Show Me the Money" in Further Reading, that report's Samsung case study having particular relevance to this point)

- Building benefits dependency networks that map every activity, change and assumption needed to achieve benefits, with each item assigned to an accountable owner

Build Lag Into Business Value Measurements

In measuring value through improved business performance, CIOs should be aware of the lag between IT investment and the arrival of value. In a study with profound implications, Professor Erik Brynjolfsson of MIT found that the value of major IT-supported initiatives (in terms of measurable business performance improvements) increased significantly after one year and continued to increase over a period of seven years. This is the most important reason why Gartner recommends that benefits be harvested and measured over a period of time that matches the business cycle for the initiative.

Business performance improvements lag completion of an initiative because the organization needs time — typically one to two years for a major change — to assimilate new processes. In fact, during this assimilation, productivity often declines. Business performance improvements also level out over time because improvement peaks at some point. Diminishing returns set in, and another round of radical change is necessary to get to the next performance plateau.

In short, to capture the real impact of a major initiative on business performance, CIOs should begin to measure benefits after one year and continue for as long as necessary to show increasing benefits. Measurement of smaller initiatives can be scaled accordingly, but CIOs should still watch for the lag.

It Takes Time to Change the Way We Think — So Start Now

Multiple sources indicate that IT organizations are continuing to struggle with the issues that "alignment" is intended to address. "Linking business and IT strategies and plans" perennially ranks at or near the top of CIO priorities in the annual Gartner Executive Programs CIO Agenda survey. At the 2007 Gartner Application Architecture, Development and Integration Summit, attendee evaluations indicated that the topic of "business alignment" was missing from the agenda — a point confirmed in a follow-on survey at the 2008 conference. We could say more on the subject, but we don't think it's necessary to keep proving that IT organizations strongly want to integrate their mind-sets and activities with the enterprises they serve.

There's nothing wrong with that desire. What *is* wrong is the focus on "alignment" as the means to the desired end, for all the reasons cited above. *The way to fully integrate IT with the rest of the enterprise is for IT to explicitly adopt the goals and performance objectives of the enterprise in all its dealings with the rest of the enterprise.* This means:

- *Know what outcomes and performance matter most.* We had a conversation with the CIO of a luxury product manufacturing company two years ago at Gartner's Symposium/ITxpo in

Cannes. This CIO informed us that she couldn't engage the executive team in a strategic discussion. When strategy was discussed, she was outside the room. We asked her this question: "What percentage of the cost of one of your products, as manufactured, is accounted for by labor?" "I don't know," she told us. "But I guess I should." Indeed. The labor cost for that luxury product is a metric that every other member of the executive team knows by heart and thinks about every day. If the CIO doesn't know that number, the CIO is certain to be outside the room when strategy is discussed.

- *Know the six top operational and six top financial metrics for every non-IT manager or executive you work with, and why those metrics matter.* Getting to this level of detail helps demonstrate that the IT professional is really paying attention to the performance needs of business units throughout the enterprise. "Operational" metrics are emphasized here for the simple reason that they are too often ignored.

- *Name initiatives based on outcomes, not technologies.* We have seen a lot of "Project SAP" initiatives in our time. But technology is never the point in any project — the point is the outcomes the technology is intended to enable. Naming the project after the technology has the effect of telling the rest of the organization that the project has no connection to anything that anyone outside IT cares about, and that's not a good way to talk about value. For example, one CIO of a large construction company told us that the business case for the company's "Project SAP" was that it would double the company's margins. Why, we wondered, was the initiative not called the "Double the Margins" project? Similarly, we spoke recently with a large healthcare organization about its electronic health records (EHR) initiative, which it referred to as its "EHR Project." Why was that project not given a name consistent with the outcomes that an EHR is intended to produce, such as the "No More Medication Errors" project?

- *Practice, practice, practice.* It takes time to change the way one thinks, and changing the way one thinks is essential to changing what one says. CIOs can start the ball rolling by practicing value conversations — ones about outcomes, not technologies — with their staff, and encouraging their staff to do the same with their reports. Over time, the mind-set of the IT organization will change, and IT personnel will be better prepared to lead with value — meaning the outcomes and performance that matter most — in their conversations throughout the enterprise.

Numerous cases have shown us that it takes time for IT professionals to change the way they think about their goals, and the goals of the enterprises they serve. Regardless of how the IT organization is perceived by peers within your enterprise, that perception will be improved only when IT abandons the language of "IT-business alignment" in favor of the language of business operational and financial outcomes and performance — the language that is used by every business professional every day. Doing so is an important means to improving the real and the perceived values delivered by the IT organization. For every IT organization, there is no better time to start than now.

Observations From the Field: Discussions With CIOs

In recent discussions with CIOs, we have observed that one key to communicating the business value of IT is to focus on how the actions/activities of IT impact business performance. Although it is important to have metrics that measure the IT organization's performance, it is more important to

have common metrics that are used by the enterprise and demonstrate how IT contributes to the business's revenue, profit or market share growth, cost management (beyond IT) and competitive advantage.

CIOs have struggled with how best to articulate IT's contributions to the enterprise. A typical perception of the IT organization (ITO) is as a cost center, versus a revenue generator. And CIOs are constantly asked why IT (and the ITO) costs are so high. The problem is not what the ITO is doing, but how it is being communicated.

Successful companies start the process of articulating business value by changing the way they think about IT and the language they use to describe the initiatives they are working on. For instance, a healthcare\care delivery organization in the Southeast recently hired a new CIO from outside the organization and one of the first things he did was to stop referring to "IT projects." Instead, he insisted that all projects be referred to as "business projects," and delivered this message to everyone, from his direct reports to the board of directors. In doing so, he immediately changed the conversation and stopped the questions about why the ITO was doing certain projects. IT projects are now defined as by their contribution to the business.

Another CIO, whose company provides IT services to the oil and gas industry, faced challenges when debriefing senior executives on the state of IT. The information provided was highly technical, which made it difficult to understand and "make actionable." His solution was to emphasize what the business cares about most. "So I began converting the language in some of my reports and presentations to terms that embodied the cost of a barrel of oil, and suddenly the senior executives became more engaged because they could directly relate to the business issues and language," the CIO told us.

Another CIO who changed the conversation was a mid-Atlantic retailer who recently implemented a new point of sale system and replaced dozens of dial-up lines with broadband access in all of the company stores. "But instead of talking about the systems and the technical infrastructure changes I made, I spoke about how these changes enabled us to service more customers, increasing the number of transactions and throughput in each store, and ultimately to increase revenue/store." These initiatives thus became an investment in IT that resulted in a return to the business versus being a cost.

Conclusions

CIO Call to Action

- Stop thinking and talking about "the business" as something to which you need to align, and start thinking about it as something of which IT is a part.

- Avoid value traps that hide the real business value of IT investments.

- Benchmark not only IT performance but also business unit performance, to demonstrate the value of IT investments.

- Discuss business issues in business terms rather than IT issues in IT terms when talking to business leaders, and focus on how the business differentiates itself from the competition.

- Create a systematic approach for harvesting benefits from business initiatives.

- Undertake a portfolio management approach to IT investment to better evaluate the potential economic returns, strategic objectives and risk.

- Answer the question, "How does the company create more profit, more margin and more market share in terms of IT?"

- Develop a business reporting system that provides business-oriented data on the value of IT.

- Focus on competitive differentiation to change the perception of IT.

Conclusions

- All returns from business investments, including investments in IT, are business returns and must be communicated in terms of business performance.

- IT investment that sustains or improves business performance is an investment in the ability to do business in a particular way — not merely a cost.

Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

Hunter, R. and Westerman, G., *The Real Business of IT: How CIOs Create and Communicate Value*, Cambridge, MA: Harvard Business Press, 2009

CFO Advisory: Maximizing the Business Value of IT; Business Enablement

Reimagining IT: The 2011 CIO Agenda

Change the Way You Think: Lead With Value, Not Technology

The Keep-It-Simple Approach to Reporting on IT Value

Gartner Business Value Model: A Framework for Measuring Business Performance

A Simple Framework to Translate IT Benefits Into Business Value Impact

Business Performance is the Value of IT

Talking Business Is the Only Way to Go: Road Note

Building the IT Brand: Impacting the Front Office and Beyond

Benefits Realization: The Gift That Keeps on Giving

Exploring the Future: IT Is the Business