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## On The Cover

### Chasing value

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*Is your IT budget prioritised correctly? Analysts say too little of IT budgets is being spent on creating value for businesses. SA CIOs think differently. Despite the difficulty with measuring the business value of technology, the best of them have come up with good spending ratios.*

THE ARGUMENT over the value that IT delivers to business has been going on for years. A Butler Group study on the topic, published in September, takes another stab at providing clarity, but it's ruffling feathers.

Entitled "Measuring IT Costs and Value", the report asserts that while every business invests money in its IT resources, few have any idea whether or not these investments pay for themselves.

"Many companies tend to think of IT as something that they have to spend money on, to keep pace with competitors, and [they] can even resent the fact - the result being that IT is looked on as being a cost centre, something that has to be maintained, instead of a resource that could improve the company's ability to compete," explain report authors and Butler senior research analysts, Mark Blowers and John Holden.

Among the firm's key findings is the one that states less than 8% of IT budgets in many organisations is actually spent on initiatives that bring value to the enterprise.

#### IS THAT RIGHT?

Ken Jarvis, CIO at SARS, drily says he wonders how Butler rates a payroll application in terms of value. "Does it add value? No; [but] just try taking it away and see what happens. I do find these reports rather boring and meaningless."

While Jarvis agrees that a large part of IT budgets is used for maintenance, he notes that this is not exclusive to IT. "Analyse a corporate budget in its entirety," he suggests.

Herman Singh, director: technology engineering at Standard Bank, also disagrees with Butler, saying the figures are way out. "We certainly have a higher level of productive benefits from our expenditure. Exact numbers are confidential, but international benchmarks are aiming for an even split between 'run' and 'change'.

"Business assesses the value contributed by IT every year. We aim to increase the funds allocated to changing the bank rather than running the bank. This is aggressively managed every year," he continues.

Jarvis is not above considering value. He believes it depends on the maturity of the organisation. "SARS is [at present] on a high technology investment cycle, so the numbers would not match our spend on innovation versus maintenance. And our returns are very worthwhile [due to the direct bearing of efficiency on collections]," he says.

#### ORIGINS OF CONFLICT

The disagreement would seem to stem from differences in how the business value of IT is measured. Standard Bank has a simple but extremely effective formula: "We classify costs into 'Run the Bank' and 'Change the Bank'. We then set benchmarks to maximise the change component," explains Singh.

Gartner has an equally simple approach. A recent paper by analyst Michael Gerrard opines that four steps define the roadmap for building an increasingly higher contribution of IT to business value. He contends value is realised by progressively elevating the credibility of the IT



Herman Singh, Standard Bank

organisation and the management of IT-related investments.

Expanding on his assertion, Gerrard notes: "The initial emphasis is on raising the reliability, predictability and cost management of IT service delivery to acceptable levels. The focus then switches to reorienting the IT organisation to maximise customer responsiveness and cost-effectiveness, by becoming truly customer-centric and customer-driven, and ensuring that capabilities and assets are sourced in the most effective manner possible."

SARS' Jarvis believes this is a no-brainer: "Any IT shop that does not do the basics properly, will not be able to add value anyway, and certainly will not have the credibility to be given access to funding for value-added projects. No board will or should allocate funding to a non-performing IT operation," he says.

"There is some value to be derived from a well-run and cost-effective IT operation. Imagine what would happen if a bank's systems are down, you could say it would destroy value. In this way stable systems do 'benefit' the bottom line in a strange kind of way," he adds.

Standard Bank's Singh agrees: "IT value-add is a function of delivery. In the real world this would be system reliability and performance for operations; and [it would be] project delivery in the project execution world. What business wants is reliability, certainty and delivery. It's quite simple - it's about value for money."

Speaking for IT departments within large companies he adds: "So we have to learn to operate as if we were an outsourced arm of the business in order to earn our keep. Lesson: you are only as good as your last month or project."

Apparently, value is something above and beyond infrastructure just doing its job. So what is it really?

### **COST IS NO PROBLEM**

Butler reports that while organisations have become reasonably competent at measuring IT costs, the same is not true about value. "ROI/TCO type measurements should include elements such as risk and IT capability," write the authors.

The report suggests that IT governance can, in addition to offering compliance and management capabilities, provide a useful framework for measurement value, as it ensures that IT and organisation investments are synchronised.

"It should be common sense that we cannot decide how much something is worth unless we can measure what it means to us - but businesses have allowed themselves to be put off by the difficulty of doing this," states the report.

IDC seems to think it has the answer. In a Dell-sponsored white paper, the organisation charges that end-users today spend nearly 70% of their IT dollars on recurring operational expenses, leaving only 30% of capital available for investment in new projects and innovation. It notes that these ratios (70:30) were reversed just five years ago.

However, if we consider the spending hangover after Y2K, it stands to reason that this was what caused the end of the exuberant spend of the end of the 1900s.

So the argument comes full circle. It appears that we're no closer to measuring value, but also that this isn't stopping analysts from berating enterprise spend patterns, or CIOs from scoffing at analyst numbers.

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