IT Efficiency and Business Value

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By Alan Gonchar

Introduction

Measuring, delivering, enhancing, and communicating IT value has emerged as perhaps the major challenge facing today's CIO.

A recent survey of 500 Chief Executive Officers and IT Directors, commissioned by Compass and conducted by the London School of Economics, found that CEOs believe that 55 percent of IT spending is "strategic" in nature. However, the same senior executives believe that only a third of IT spending results in a measurable impact on profitability. The task for CIOs is to close this perception gap and quantifiably demonstrate IT value.

The challenge is clearly formidable. For one thing, objective and meaningful criteria for measuring IT value are still in their earliest stages. At a more basic level, there's no consensus on what role IT–and IT management–should play within an organization.

This Compass white paper examines the relationship between IT operational efficiency and business value, and seeks to clarify how IT can deliver value at a variety of tactical and strategic levels.

What Role for IT?

IT adds value to a business when it either *decreases costs or increases revenues*. Clearly, IT can do both. An efficiently run data center adds value if it reduces costs of operation relative to the competition. Similarly, a state-of-the-art data warehousing application that targets prime prospects adds value if it results in increased sales and revenues.

According to business strategist Peter Drucker, “Efficiency is doing things right. Effectiveness is doing the right things.” From this perspective, the question becomes, what is the CIO’s value proposition? Is it doing things right–focusing on the mundane but essential blocking and tackling of everyday operations and existing infrastructure? Or doing the right things–identifying and implementing the latest tools and systems that will deliver a competitive advantage, and thereby helping to chart the business’ strategic direction?

As IT spending increases, and as IT becomes recognized as an increasingly important strategic tool, CIOs are clearly eager to take on the challenge of using IT to help a business do the right things. And well they should. However, CIOs are mistaken if they believe that IT provides value only through leading-edge initiatives. And those who think they can focus on business strategy and neglect IT efficiency are in for a rude awakening. To deliver IT value, and to be accepted as equals in the boardroom, CIOs must address and balance both objectives.

Efficiency and Value

An efficient IT operation adds value and enhances the strategic role of IT in a variety of ways.

First of all, efficiency is needed to gain credibility and respect within the boardroom. Senior executives will be more inclined to listen to strategic ideas from a CIO who delivers services efficiently and who runs a tight ship. For example, a chief of operations at a manufacturing company is not likely to be very receptive to a CIO's proposed initiative for a state-of-the-art supply chain management software application if the company's e-mail has been down three times in the past week.

Second, an efficient IT operation makes available the money and time needed to undertake strategic IT initiatives that enhance the business. More than 70 percent of IT spending, according to Compass analyses, goes to acquiring and supporting infrastructure. To fund strategic IT initiatives, CIOs have to manage efficiently and squeeze capital out of existing IT infrastructure budgets. That money can then be invested in e-commerce, data warehousing, and other advanced applications that address issues of effectiveness. Moreover, an inefficient IT operation must typically devote an inordinate amount of resources to putting out fires and addressing *ad hoc* problems. As a result, no one in the organization has time to look at how IT can enhance business effectiveness.

Finally, any IT project–no matter how innovative–will at some point be judged on its efficiency. For example, an insurance company CIO who champions an advanced AI software program that automates policy application reviews might win kudos from the boardroom. Eventually, however, the CEO will question the efficiency of the application. If it turns out that a competitor has implemented a similar program for half the cost, the credibility gained by the CIO will be short-lived.

Operational Examples

Efficiency/effectiveness links can also be identified in different IT operational areas. For one thing, a solid infrastructure allows organizations to efficiently add functionality, while minimizing costly and time-consuming changes to the underlying technology. In other words, when IT can deliver solutions to business units faster than the competition, IT provides a sustainable advantage over time.

More specifically, an efficient and rapidly implemented application development project provides functionality to users and enhances the competitive positioning of the organization–and thereby delivers business value. In contrast, a development project that founders and is outdated by the time it delivers places the business at a strategic disadvantage. Considering that, according to Compass data, the most efficient application development projects are 700 percent more productive than the worst ones, the consequences to the business can be substantial.

Another example of how IT efficiency impacts business effectiveness is client/server environments, where service level agreements have a direct impact on end-user productivity. Compass has observed organizations where users routinely devote time to fixing their own or their colleagues' desktop problems, rather than relying on inadequate or non-existent service and support staff. In a large organization, an average of even 10 to 15 minutes a day of such end-user effort can have a significant impact on productivity and the bottom line.

Conclusions

Defining, measuring, improving, and communicating IT value is a critical challenge facing today's CIO.

Efficiency and effectiveness are distinct concepts that are nevertheless closely related. CIOs and IT managers must take responsibility for both.

IT operational efficiency enhances business value in a variety of ways.

IT value cannot be measured in a vacuum. Its impact on other business processes and business units must be measured. Relatedly, other business unit managers must be involved in defining and measuring the role and value of IT within a business.

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