IDEA GROUP PUBLISHING
701 E. Chocolate Avenue, Hershey PA 17033-1117, USA
Tel: 717/533-8845; Fax 717/533-8661; URL-http://www.idea-group.com
ITB8051

Chapter II
A Benefits Realization Approach to IT Investments

John Thorp
The Thorp Network

Information technology is today transforming all aspects of our lives — how we work, shop, play and learn. It is transforming our economic infrastructure — revolutionizing methods of supply, production, distribution, marketing, service, and management. This represents nothing less than a fundamental redesign of the entire supply chains of most industries and indeed a fundamental restructuring of many industries themselves. The potential long-term impact of information technology represents an economic and social transition as fundamental as the shift from rural agriculture to urban industry 200 years ago, during the first Industrial Revolution.

Yet today we have a problem — a big problem! Chief information officers (CIOs) are finding themselves increasingly under fire for the perceived lack of value from ever-growing investments in information technology (IT) — investments that in the U.S. now represent close to 50% of companies' new capital investment and a significant portion of their operating expense. Our investments in technology are not being consistently translated into business value. The link to business results is not clear. It is hard to demonstrate how investments in IT, or in producing information translate into economic value.

A 1996 U.S. survey by the Standish Group found 73% of IT projects were cancelled, over budget or late, with 31% being cancelled. Project failures cost an estimated $145 billion. This figure does not include the loss of anticipated business benefits, likely amounting to trillions of dollars. More recent studies confirm that project failures are continuing to occur at a similar rate, and this applies to more recent ERP, e-Commerce, Supply Chain Management and Customer Relationship Management projects as well as more traditional projects.

THE QUESTION OF VALUE

As we enter the so-called "New Economy," the question that is increasingly being asked is: "Are our investments in information technology providing the greatest possible value?" Unfortunately, the CEOs and other senior executives who are asking their CIOs to compute the value of IT investments are asking the wrong person. They should instead take a hard look in the mirror. This is not a technology issue — it is a *business* issue. Not only CEOs but all business managers should indeed be asking tough questions, but, more

This chapter appears in the book, *Information Technology Evaluation Methods & Management* byWim Van Grembergen.

importantly, they must recognize and step up to their responsibility in answering those questions — failure to do so is nothing less than an abdication of their responsibility.

At the root of this question of value is the fact that the way we apply technology has evolved. In the past, we largely automated operational tasks such as payroll, where benefits were clear and relatively easy to achieve. Applications of IT today, such as e-commerce applications, enable increasingly strategic business outcomes. Yet, while these outcomes would not be possible without the technology, the cost of the technology is only a small part of the total investment that organizations must make to achieve their desired outcome, often only 5% to 15%. The reality is that there is no such thing as an IT project any more — only business change programs of which IT is an essential, but often small, part. We are today no longer implementing technology — we are implementing change. Implementing change is a very different challenge from implementing technology.

Unfortunately, our approach to managing IT has lagged in recognizing this shift. A number of years ago I was meeting with a number of senior project managers of a very large US organization. I asked them how they defined a successful (IT) project. The answers included on time, on budget, delivering the expected functionality and "getting out with my skin intact." Wrong, I told them. A successful project is one that delivers the expected benefits to the organization. This was not a totally fair response, as they had never been asked to do this.

SILVER BULLET THINKING

We still exhibit "silver bullet thinking" when it comes to IT. We act as if, once determined, the benefits associated with an investment will automatically happen. As if addressing the WHAT is sufficient to achieve them. However, simply identifying and estimating benefits won't necessarily make them happen.

Paying attention to HOW benefits happen is as important, if not more important, than focusing on what the expected benefits are. Too often, the HOW is taken for granted. With the evolution of IT applications, a new approach to the management of IT investments has become a business imperative. Benefits realization requires a new mindset, one that is focused on business results but that recognizes that IT alone cannot deliver these results.

I am not saying here that bringing projects in as specified, on time and on budget is not important. It most certainly is. It is however necessary but not sufficient. Not only the implementation process should be managed, the benefits realization process should also be proactively managed. We must shift from a single minded focus on completing initiatives on time and on budget, to understanding the results that the business expects, HOW they can be achieved out of the initiative, and ultimately undertake a proactive management stance to ensure their realization.

As we enter the uncharted waters of the new economy, these problems will become more acute and will threaten the very survival of organizations. The need for a new approach to the management of IT investments is critical. As Peter Senge said in *The Fifth Discipline,* "Learning disabilities are tragic in children, but they are fatal in organizations. Because of them, few corporations live even half as long as a person — most die before the age of 40." The need for organizations to learn how to better manage their investments in IT-enabled change has never been greater. The life expectancy of those organizations that do not learn will be significantly reduced.