



Chapter IV

Measures of the Business Value of IT

In any business a “dashboard” of vital performance indicators is needed to gauge how the company is faring. Such a dashboard, consisting of the appropriate measures to indicate strengths and weaknesses, provides a guide for management and forms the core of planning and control. A dashboard of performance indicators allows management to evaluate the contribution of several factors that impact the overall performance of the organization. One of these factors is the application of IT.

To evaluate IT, a dashboard of relevant performance indicators for IT must be developed. The BTRIPLEE framework offers the structure of the dashboard and identifies the distinct but interdependent levels of Business value of IT, Effectiveness of IT, and Effectiveness and Efficiency of IT supply. This chapter aims at developing the appropriate performance indicators (the gauges) at the first level within this structure: measures of the business value of IT. The following two chapters are devoted to the other two levels.

Measures are not all of the same kind: different types of measures exist to support different purposes and sorts of measurements (a discussion on different attributes of measures can be found in Appendix A). In any situation, it is necessary to select the appropriate measures from the many measures that will be proposed and discussed in this and the following chapters. Choices between possible measures have to be made to evaluate IT and to interpret actual measurement results in the context of the specific situation and the company’s ultimate business objectives and goals. For instance, one organization might choose a cost leader strategy, while another organization might opt for, let’s say, a niche player strategy. Such choices have implications for IT, and thus, for the measures to evaluate IT. In other words: the dashboard of IT value gauges has to be custom designed to reflect the specific internal and external issues at hand

This chapter appears in the book, *Measuring the Value of Information Technology* by Han van der Zee.
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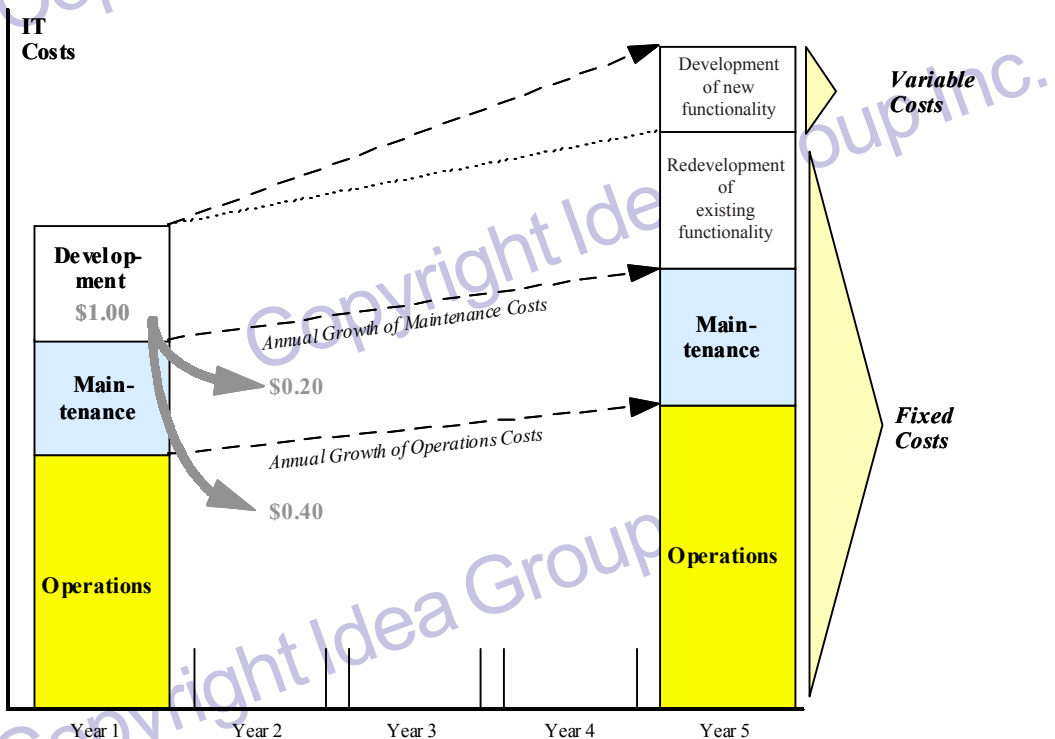
(Chapter 8 describes how to construct and put in place a custom-designed performance measurement system).

As stated earlier, the business value of IT is measurable on three related dimensions. Measuring the business value of IT is concerned with the relationship between the costs of IT and its contribution to the improvement of:

- *financial performance*, measured by financial indicators such as profitability, productivity, earnings, etc.;
- *business performance*, measured by non-financial indicators such as competitiveness, new product sales, product development lead times, manufacturing lead times, distribution lead times, customer satisfaction, etc.;
- *strategic performance*, measured by indicators that match specific management objectives (management's critical success factors).

A key component in the discussion of business value is the level, purpose, and categories of IT costs, followed by an investigation into the impact of IT on the performance of an organization. First, we will take a closer look at the cost dynamics of IT and the different purposes of IT spending. Then, we will review the three relevant valuation dimensions to arrive at an aggregated approach to correlating IT cost with business value.

Figure 4.1: Cost Dynamics of IT



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