

Chapter 25

A Process for Estimating the Value of ITIL Implementations

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ABSTRACT

As World economy lingers it is increasingly more important to justify any investment so that available corporate funds are spent wisely. However, estimating the value of ITIL investments is not an easy task, which means that most CIOs do not invest in large-scale ITIL projects as much as it would be desirable. Instead, CIOs prefer to embark on quick win implementations (e.g. solely implement the incident management process). In this chapter I propose an ITIL Value Estimator. This estimator is based on an estimation process that quantifies the project's total cost, along with each process's benefits. The outcome of the ITIL Value Estimator is a Monte Carlo simulation whose result provides CIOs with a justification of the value of large-scale ITIL implementations, which can be used to gain the upper hand during the decision-making process.

INTRODUCTION

Today's competitive and turbulent economy forces organizations to struggle in order to remain competitive. Organizations can only grow by cutting costs as well as optimizing resources. Having this in mind, a growing number of organizations has become increasingly dependent on Informa-

tion Technology (IT) to manage and grow their businesses.

A five-leg wheel chair is a good analogy to understand how organizations are structured these days. Each leg symbolizes a business function within the organization – for example: sales, marketing, manufacturing, product development and human resources; and, representing the chair's spinal column is the IT department which links and integrates the information that drives the business (Harvard Business Review, 1999).

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If all the wheels (business functions) are aligned, as a result of having a common direction (strategy), then all of them will roll towards the same pathway (business goal). However, this wheel synchrony is only possible because the chair's column (IT department) supports the chair (organization) by connecting all the wheels. This simple analogy pictures the fact that organizations are intrinsically dependent on IT.

In the past, this IT dependency meant a growing IT budget, despite the fact that there was no evidence if IT investments would bring benefits to the organization (Ross & Weill, 2002). However, disproportionate budgets are no longer allowed by the executive board, as Chief Information Officers (CIO) must justify their IT budget, and must prove that IT projects are indeed necessary for the organization to maintain its competitive level.

CIOs who have negotiation skills are able to understand the power division in the board, pinpoint who has decision rights and who is accountable in the decision-making process, and then successfully use relationships with key stakeholders to influence their stance (Broadbent & Kitzis, 2004).

Another essential skill CIOs should have is a broader understanding of the organizations' structure. Organizations are gradually becoming flat instead of having a vertical structure. This transition leads to the establishment of horizontal processes in detriment of vertical silos, which made it possible to align IT and business. And, CIOs should be able to effectively manage the link between the two of them (O'Leary, 2002).

However, without a coherent framework to manage business processes, organizations are not well prepared to avoid or solve problems related to this transition. Hence, organizations that manage their IT correctly generate returns at least 40% higher than their competitors and, for that reason, it is very important that organizations adopt an IT management framework (Ross & Weill, 2002).

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In the present day, ITIL v3 consists of a set of guidelines that specify what an IT organization should do based on industry best practices. These guidelines offer advice on the definition, plan, implementation, execution, monitoring and continual improvement of the IT service management. Therefore, it is crucial not to regard ITIL as a technological project but as organizational change process (Silva & Martins, 2008).

To sum up, ITIL investment justification is a non-trivial subject and only by analyzing the investment are CIOs able to justify the value of ITIL investments. In this way, the analysis of the investment ends up being the main justification support because it produces numbers that help justifying the ITIL investment, by calculating the benefits and costs. Thus, calculating the value of the investment is part of the investment analysis, and this analysis is absolutely necessary in order to justify the investment.

Implementing ITIL

Nowadays there are multiple research case studies which support the statement that ITIL brings value (Gartner, 2006). However, CIOs are going through great difficulties so as to justify the value of ITIL implementations to their peers, as there is no pragmatic methodology in their grasp to prove the business value of ITIL implementations.

In a recent survey, 50,5% of the executives interviewed claimed that they did not approve ITIL implementations for their organizations because the business value of these implementations cannot be proven as it is depicted in figure 1.

Indeed, estimating the value of ITIL implementations is not an easy task because many variables have to be considered (Seddon, Graeser & Willcocks, 2002). Maturity level, tangible and intangible benefits and costs, organizational complexity, and cultural context are just some of the variables that can be considered. The time factor

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