

Managing IT Investments in the High-performance Business

Strategic Information Technology Effectiveness (SITE)

accenture

High performance. Delivered.



• Consulting • Technology • Outsourcing

The role of IT in the high-performance business

Most companies spend too much time debating *how much* money to spend on IT and not enough time determining *how to manage and allocate* their IT spending (capital and expense). For chief executive officers and chief information officers seeking high-performance results from the use of IT, the real challenge is discovering how to separate high-business-value IT investments from those that are lower value.

Accenture's research into the characteristics of high-performance businesses suggests that a real differentiator in a company's financial performance is not overall IT spending but excellence in focusing this spending by business value. Companies with superior earnings growth:

- Spend less than their industry peers on IT but are able to free up more IT investment on new business initiatives
- Justify their IT investments with a rigorous, analytical process that enables them to discover exactly where business performance improvement opportunities lie
- Continually monitor their efforts to ensure that their investments generate the expected value
- Foster a culture in which the IT function and the rest of the business are aligned on business objectives and priorities, and work toward the optimization of IT resources globally for higher performance of the organization overall.

To help senior executives in this effort, Accenture's Strategic IT Effectiveness (SITE) practice has developed an approach to IT that addresses the three principal factors that determine how a company uses IT successfully to create shareholder value (see figure opposite):

- **Setting** an optimized IT agenda that allocates the right levels of investment to the right areas
- **Managing** an IT Governance process for managing these investments through to value realization
- **Executing** the IT agenda including tools that make these processes sustainable, flexible, fast and transparent.

Accenture research shows that while high-performance businesses consistently spend less than their industry peers on IT as a percentage of revenues, they generate greater value from their technology investments. Accenture's experience with managing IT investments indicates that implementation of a structured process to guide IT investment delivers dramatic business benefits. Direct savings of 10 to 15 percent in the IT budget are achievable within six to 12 months, while improved IT decision-making can increase IT productivity by a further 20 percent. Indirectly, the benefits resulting from a new set of prioritized projects and reconstructed IT-enabled business processes can deliver returns ranging from 10 to 500 times the invested capital.

This document demonstrates how Accenture has used this transformational approach to help organizations generate greater strategic, operational and financial value from their IT investments.



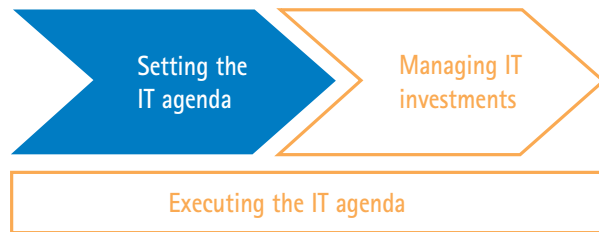
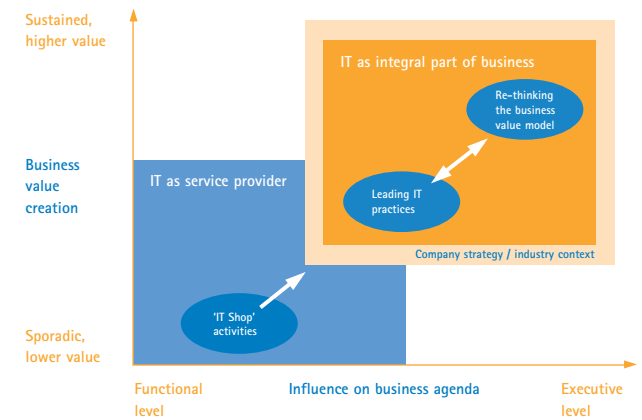


Figure 1: Value creation in company / industry context



Setting the IT agenda

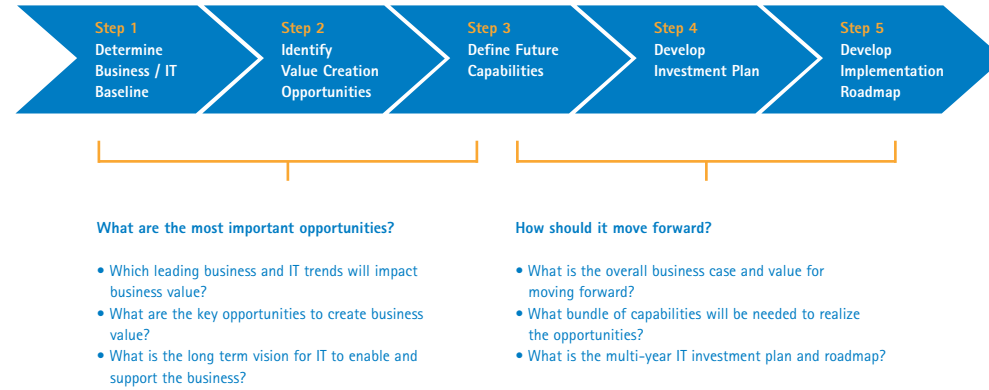
As business conditions change with increasing velocity, senior management teams expect their IT functions to do more than master the fundamentals. Highly successful enterprises who have established mastery in IT invest in and use technology in ways that few others do. How? Wal-Mart, Dell Computer Corporation and FedEx have achieved superior market success in part because they have succeeded in moving technology from a support role to a creator of value, and an integral part of their business models. All three companies built their business models around capabilities that new technology solutions made possible – creating long-term, shared investment agendas that allow IT to deliver on its promises and continually drive one IT-enabled innovation after another (Figure 1).

Importantly, such innovative use of IT does not depend on outsized technology budgets. For example, Wal-Mart's

total IT spending as a percentage of revenue is well below the average of its competitors. Study after study shows that leading companies almost always spend less than their industry peers on IT. Clearly these companies understand how to make value-based decisions about their IT resources more effectively so that they only invest in projects that generate maximum business value – a concept that is at the heart of Accenture's IT Value Discovery approach to formulating IT strategy (Figure 2). This approach incorporates two key principles:

- Create powerful and innovative IT points of view to engage the business around new business value-creation opportunities
- Partner around a selective, value-creating bundle of capabilities that together make a greater contribution to shareholder value.

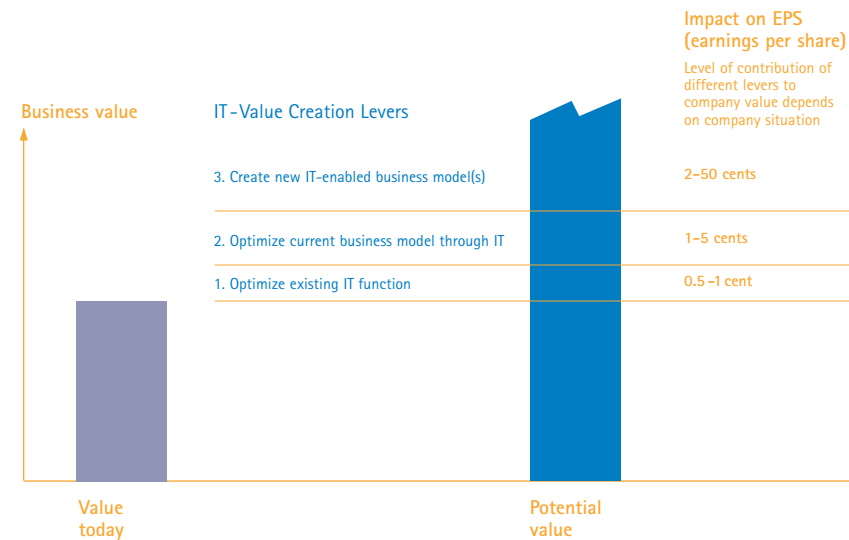
Figure 2: IT Value Discovery approach



The Accenture IT Value Discovery methodology goes well beyond traditional approaches to IT strategy. IT Value Discovery actively uncovers company-specific opportunities to create value. The approach also challenges the business to collaborate with IT to craft a bold new agenda to capitalize on those opportunities. The result can be a dramatic, positive impact on shareholder value (Figure 3).

IT Value Discovery involves a systematic evaluation of the three IT value creation levers. A company's options for leveraging IT to create value depend on the primary assets utilized and the industry or organization's rate of change. Accenture's approach investigates and assesses opportunities determined by identifying those levers that have the greatest impact on business value and overall business performance.

Figure 3: IT investments contribute to shareholder value in three ways (illustrative)



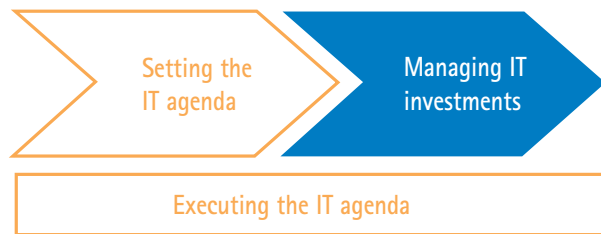
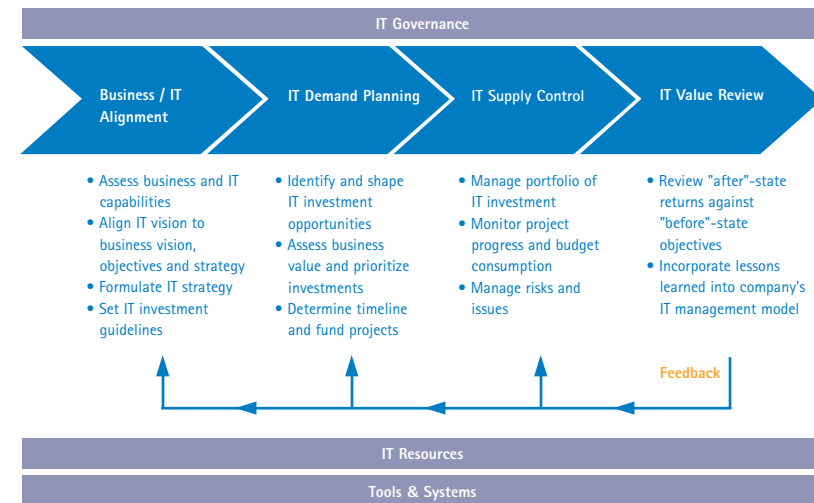


Figure 4: Accenture IT Demand Management Framework



Managing IT investments

Accenture's IT Value Discovery addresses several critical questions about IT strategy:

- Are our information technology investments helping us drive the highest performance from our business?
- How much should we be spending on IT?
- Is our IT spending effective relative to our peers?
- Where are we deriving value from IT?
- How can we make it easy for everyone in the organization to understand how best to generate value from IT?
- How can we use information technology to reduce operating costs and fuel growth?

Traditionally, the answers to these questions have proven elusive, because: 1) there is poor alignment between the objectives of the business users of technology and those of the IT organization; and 2) there are limited measures

in place to evaluate whether or not technology solutions implemented are delivering appropriate business value to the organization.

In some organizations the IT department has become essentially a supplier of commodity services and there is strong separation between "IT demand" – the line businesses – and "IT supply" – the IT organization. In Accenture's experience such a separation invariably fails to optimize IT investments. In most high-performance companies the line businesses and the IT organization have a collaborative relationship that enables users and IT management to determine jointly which IT projects are funded and when; to set objectives for those projects; develop service level agreements that are consistently enforced; attract and hold senior management attention; ensure accountability; define go / no-go checkpoints based on value delivered; and define the metrics by which the business results of every IT project will be measured.

Many companies make occasional one-time efforts to build these processes, but this approach almost always falls short of delivering durable benefits. Only by institutionalizing this process can a company ensure that all of the individual components of its IT value chain are addressed completely and continuously.

To that end, Accenture's approach incorporates a structured IT Governance process, supported by robust tools and resources, that guides companies through the challenges of aligning IT and business, IT demand planning, IT supply control and IT value review (Figure 4).

- **Business / IT Alignment:** Based on an assessment of existing and planned business and IT capabilities, a company first must align its IT vision to its business vision, objectives and strategy. This includes formulating an IT strategy and setting top-down guidelines for IT budgeting and investment. At minimum, this exercise should be performed semi-annually.

Figure 5: Typical spending impact of IT Investment Management (illustrative)*

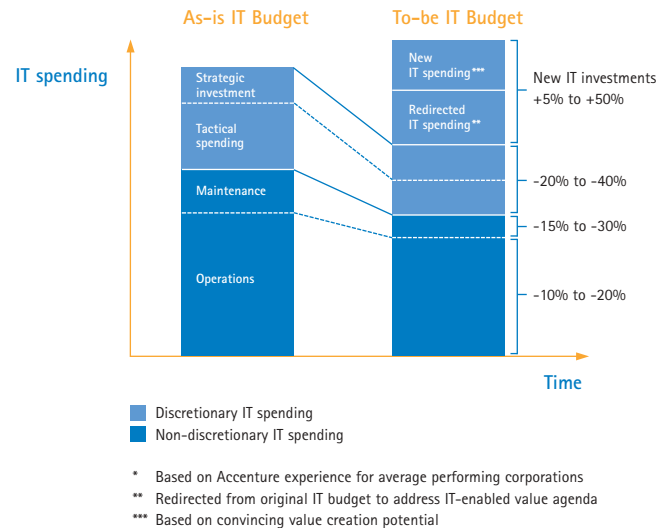
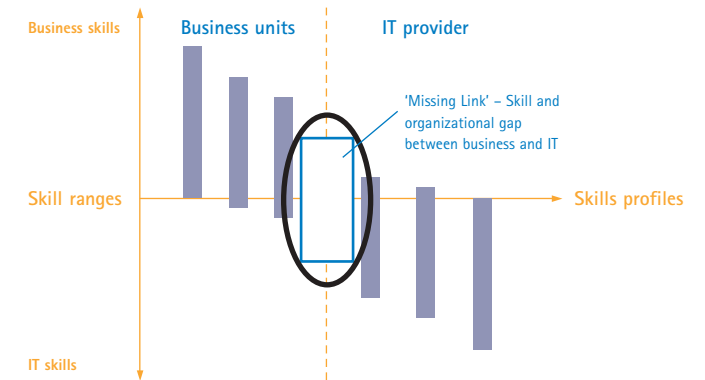


Figure 6: Typical distribution of business and IT skills across the business units and the IT provider of a corporation (illustrative)



- **IT Demand Planning:** Next, the company must identify, shape, scope and specify its IT demands. The priority and value of future IT investments should then be assessed in the context of the organization's strategy and business. Funding and decision-making for IT projects should be closely linked to the company's overall budgeting and capital request processes, and monitored closely against clear business performance metrics.
- **IT Supply Control:** During the provision of IT services, it is critical for the company to routinely monitor all aspects of execution, including project progress, resource consumption, and risk and issue management. In doing so, the company can ensure that IT is delivering what is expected of it – and that the product ultimately delivered meets the time, budget and quality requirements determined at the beginning of the initiative.

- **IT Value Review:** Once the new solution has been implemented, the company must conduct a post-project review to determine whether the value anticipated was actually realized. Such a review can help pinpoint specific areas where value may not have been fully achieved and suggest ways to address these shortcomings.

Importantly, while Accenture's process is structured, it also accommodates company-specific practices, situations and data. For instance, the process can be applied as easily in a company that is focused on initiating new IT projects as one that is retiring non-performing projects. Similarly, it is as effective in helping an executive manage the IT development portfolio against competing stakeholder interests as it is in protecting the overall IT budget from reactive corporate cost-cutting.

Our approach not only helps companies systematically manage their technology investments to drive performance, but it also shifts the IT organization from

the role of tactical-delivery group to strategic advisor. Such a shift depends on a change in organizational processes and structures, and usually a transformation of the IT workforce. Such a transformation addresses: skills gaps that may exist in the IT organization and the line businesses, core values and behaviors, key processes, management and governance structure.

Using Accenture's "business-driven" IT Governance process, companies can:

- More effectively prioritize value-creation opportunities
- Generate a higher return on invested capital (ROIC)
- Deliver measurable value
- Develop more favorable ratios of strategic versus tactical spending
- Gain real-time visibility and control of the IT project portfolio
- Improve executive IT customer satisfaction.



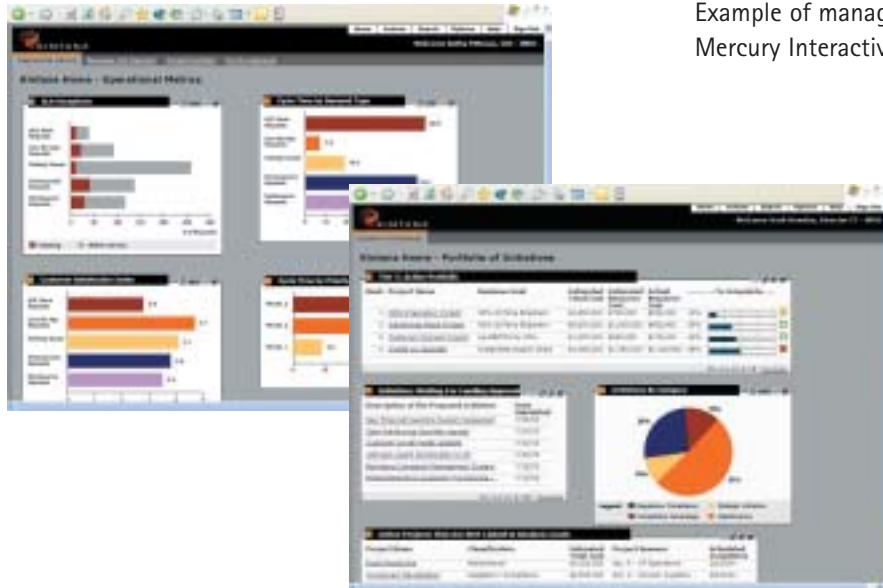
Executing the IT agenda

A company's commitment to a strategic IT agenda can fall apart without disciplined execution. To deliver on a demanding IT agenda an organization needs streamlined IT processes, clear roles and responsibilities, skilled people with the right incentives, a value-focused culture and more. Building an IT capability that delivers quality and high throughput is demanding and requires attention to all these facets. Fortunately, recent market developments have made this easier by providing more advanced tools to support management in executing the IT agenda.

In large and complex organizations Accenture sees greatest value derived where management decisions are supported by effective tools for streamlining key processes and reducing administrative activities.

Modern commercial tools can add value in several ways by:

- Accelerating both the design and the deployment of new IT management processes, helping the company more quickly generate bottom-line improvements. For example, dashboards, such as the one illustrated on the following page, can rapidly help put IT managers in control
- Helping communicate the vision of strengthened IT management to other executives, thereby building buy-in and momentum for change
- Helping sustain agreed-upon management processes over time, reducing the risk of sliding back into more ad hoc approaches after improving IT governance
- Streamlining day-to-day management operations and accelerating decision-making by automating key IT activities. Improving decision-making by focusing management attention on the issues that are most critical to business value.



Example of management dashboard:
Mercury Interactive's Mercury IT Governance

As an example, Mercury IT Governance provides integrated support to accelerate such results. Based on field tests and compelling results at clients, Accenture has established an alliance with Mercury to facilitate and accelerate the implementation of Mercury IT Governance. We have also augmented the tool support to deliver greater value: tested configurations, standard templates and low-cost tool support services all contribute to de-risk and speed up implementation – with a particular focus on industrializing strong processes in the IT organization.

We have created specialist capability in Accenture's Delivery Centre in Bangalore, India, to enable rapid, offshore development of Mercury IT Governance implementations, a facility dedicated to helping clients execute IT strategy with the latest tools available. A global insurance company facing a major challenge in delivering on its ambitious IT agenda, recently worked with Accenture to implement the tool to achieve greater

transparency and improve management control. In the first year spending and focus were redirected aggressively to prioritized areas and in the process the company realized a 10 percent reduction in IT spending.

By investing in leading IT management tools in the right context, companies can:

- Rapidly improve IT management processes
- Enhance communication that focuses on IT management
- Ensure that agreed-upon processes are followed, both in the short term and over time
- Streamline and accelerate IT-related decision making
- Improve the quality of IT decision making.

Building on our outstanding track record of delivery excellence, and extensive experience enabling organizations to build strong IT capabilities, Accenture can help you deliver these benefits more quickly and with less risk – and, importantly, sustain those benefits for the long run.

Go to www.accenture.com/site



About SITE

Accenture's Strategic IT Effectiveness (SITE) practice helps organizations achieve greater business value from IT. Our professionals bring a boardroom perspective to IT, help optimize IT investments and transform IT capabilities through integrated services in four areas:

- Focusing the IT debate on creating business value
- Creating powerful propositions for IT-enabled change
- Optimizing the IT investment agenda
- Transforming the IT function to improve capability and business results.

For more information go to www.accenture.com/site

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources and a proven track record, Accenture can mobilize the right people, skills and technologies to help clients improve their performance. With approximately 90,000 people in 48 countries, the company generated net revenues of US\$11.8 billion for the fiscal year ended August 31, 2003. Its home page is www.accenture.com.

Copyright © 2004 Accenture.
All rights reserved.

Accenture, its logo, and
High Performance Delivered
are trademarks of Accenture.

