Company ABC was expecting significant growth within its industry, so management decided to pursue a value creation program. During this period, the company witnessed revenue/profit growth and its internal projections demonstrated a positive outlook. Based on these data, if viewed in isolation, one would argue that the organization’s strategy was well defined and working. Yet, when overlaid with the fact that, during this period, the organization’s market share dropped in comparison to its competition (because the competition grew by a healthier margin), the perception of value undergoes a marked shift.

Almost all experienced professionals have seen an example such as this, or a variant of this, during their career, and they can pinpoint fairly well what was going wrong. There are numerous examples in history of corporations that became irrelevant by losing value over time—something that was unthinkable when the organizations first came to be. This article attempts to present one tool, from the many tools in an executive’s toolbox, that can be used to effectively address value creation and retention efforts.

Value: What Is It?
Value is in the eyes of the beholder. It means different things to different people. Yet, fundamentally, it is the same in all contexts. ISACA defines value as the “total life-cycle benefits net of related costs, adjusted for risk and for time value of money.” The Four Ares model succinctly captures the value paradigm (figure 1).

The Four Ares concept provides the basic “value” framework. It begs to ask some very simple questions whose detailed responses provide the path to “value” delivery.

Metrics: A Foundation of Good Governance
Metrics are a set of measurements that quantify results. A business metric is any type of measurement used to gauge some quantifiable component of a company’s performance, such as return on investment (ROI); employee and customer churn rates; revenues; and earnings before interest, taxes, depreciation and amortization (EBITDA).

As the saying goes, “Tell me how you measure me, and I will tell you how I will behave!” The key to value delivery through metrics is to measure costs and benefits of all organizational entities across their life cycles. Metrics do more than communicate data; they tell others what is thought to be important and what is viewed as a risk or a concern. They tell staff what management is watching. They are the means by which success is measured.
The Metrics Way of Delivering Value, One Approach

In the metrics view of the world, one can extend the Four Ares concept, beyond its originally intended use, by utilizing it as a new analytical tool for each organizational resource and work product. The Four Ares analysis provides a framework to evaluate value realization from all organizational resources in a holistic manner. It provides a context in which everything is viewed as an investment, and its ROI is calculated on an ongoing basis. The result is a 360-degree view of the enterprise and its constituents.

All organizations are in the business of delivering value. This is done by using business drivers as input and applying organizational resources in a manner that delivers optimum value. Deming’s plan-do-check-act (PDCA) cycle (figure 2) provides a model by which metrics can be appropriately planned/created, implemented and adjusted/retired/acted on so that it creates internal resonance between different lifetime organizational measures. Such internal resonance provides an environment where all components are in balance/harmony, and it leads to optimum value realization.

The overall organizational lifetime values can be broadly classified as follows:

1. **Employee lifetime value (ELV)**—This refers to the value provided by the employee to the organization after joining the organization and the projected value based on the outlook. There are a number of approaches available, including comparisons with the components of customer lifetime value. As a starting point in calculation of ELV, a simplistic profitability/value equation can be used:

   \[
   \text{Total Profit} = \frac{\text{Profit}}{\text{Employee}} \times \text{Number of Employees}
   \]

   The goal of any organization should be to maximize both of the expressions on the right of the equation. This insight calls for value realization—working on one employee at a time.

2. **Customer lifetime value (CLV)**—High-maintenance customers can be unprofitable regardless of their sales volume. It is key that the organization develops its own way of measuring (and attaching numeric value) its customers for their tangible and intangible value, with the goal of increasing this value over time. Figure 3 depicts one way of looking at CLV.

3. **Project (and program) lifetime value (PLV)**—All projects (and programs) of the organization should be tracked for their overall lifetime value, which includes all costs starting from inception to retirement of the work product, including the...
In effect, the PLV concept introduces a shift in measuring the value of the project (and program) by taking an end-to-end view. It extends the traditional lifetime of tracking the project or program because most of the value realization happens when the work product is in operations. This viewpoint is further reinforced by the third foundational principle of Val IT and the supporting Business Case Guide.9

4. **Nonhuman resources lifetime value (NhLV)**—This category includes all nonhuman resources of the organization, which includes software, hardware, the data center, networking and property/building leases—spanning their entire life cycles, from injection into the environment until retirement. With increased commoditization of nonhuman resources and availability of pay-as-you-go services, including cloud offerings, businesses must carefully consider the alternatives and leverage the scale and expertise of organizations specializing in noncore functions. There are firms that have their payment models linked to the delivered client value, i.e., payment is based on the incremental savings to the client. Value optimization in nonhuman resources could yield significant value impact, given the typical 54 percent IT spends on infrastructure.10 As the organization matures in using these models, NhLV can, over time, become a subcomponent of PLV. However, until that happens, it should be run as a separate effort.

Value is delivered one component at a time. At a minimum, the Four Ares analysis should be applied to optimize value across all of the previously mentioned components. As organizations mature in usage of metrics, they can set a standard for the minimum acceptable level of value across each lifetime value concept, thereby benchmarking it and taking measures to further enhance its value delivery capability.

**Key Considerations**

For true value delivery, the following questions need to be addressed:

1. Is a 360-degree view of the project available? Do all projects have a business case? Is the project value tracked throughout the life cycle? Are there any stage-gate reviews? What happens if the results (or future forecasts) happen to diverge significantly from the plans?

2. How are projects selected for implementation? Is a portfolio approach followed? What are the selection criteria? Do the projects have incremental value delivery or big-bang value delivery implementations?

3. How is accuracy of the costs and benefits ensured? What is the confidence level of all the assumptions? Are the assumptions validated, or are they skewed to provide a favorable business case?

4. What are the top metrics for the organization at each layer of the chain? Does someone own metrics life-cycle management, i.e., introduction and retirement of metrics? Is a documented definition of each metric and its usage

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**Figure 3**—An Approach to CLV

**Worksheet: customer lifetime value**

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<tr>
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<th>Yr 1</th>
<th>Yr 2</th>
<th>Yr 3</th>
<th>Yr 4</th>
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<tbody>
<tr>
<td>Customer revenues</td>
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<td>Direct product or service costs</td>
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<td>Cost to serve</td>
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<td>Customer-specific overheads (if any)</td>
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<tr>
<td>Future profits</td>
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<td>Discount rate</td>
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<tr>
<td>Discount factor</td>
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<tr>
<td>Present-day value of future profits</td>
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<td></td>
<td></td>
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<tr>
<td>Total customer lifetime value:</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Source: Ryals, Lynette; *Managing Customers Profitably*, John Wiley & Sons, 2008
available? How frequently is it reviewed?
5. Is a 360-degree view of organizational resources available? Are the life cycles of metrics captured for individuals in any organization? Of more importance, are they effectively utilized in decision making to deliver more positive outcomes and to refresh organizational resources?
6. How is value fraud prevented? How is the quality of the data life cycle ensured? If fraud is found, how is it handled? Are there built-in mechanisms to prevent value leak?
7. Is the information available in real time via a drill-down dashboard?
8. For any issue, is the true root cause identified and fixed, or are only the symptoms addressed (leaving the real problem to manifest itself in a different scenario)? Does the organization have a mature process to address these issues?
9. Are the internal facing and external facing metrics in balance?
10. Is everyone in the organization on the same bus? Is a shared vision exist?

Conclusion
Value delivery rests on a strong governance process, one that is grounded in facts. The metrics must clearly articulate the facts, not only as outcome results, but also as the leading indicators for appropriate decision making. Metrics are one of the most powerful tools in any organizational arsenal. If used appropriately, they have the potential to deliver breakthrough results. If used inappropriately, they stand to cut the organization inside out, with “value” leaking out of the organization. Extreme caution is advised.

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Disclaimer
All views expressed in this article are those of the author and do not necessarily reflect those of the organizations where he currently works or where he has worked in the past.

Endnotes

1. ISACA, Glossary, “Value,” www.isaca.org/glossary
8. While Val IT defines “project” as a “structured set of activities concerned with delivering a defined capability” and “program” as a “structured grouping of interdependent projects that are both necessary and sufficient to achieve a desired business outcome and create value,” in practice, some enterprises do plan and deliver business value through their own projects. Hence, an all-inclusive term, “projects (and programs),” is used here.
10. Well, Peter; Sinan Aral; “Managing the IT Portfolio: Returns From Different IT Asset Classes,” Center for Information Systems Research—Massachusetts Institute of Technology and Sloan School of Management (MIT Sloan) Research Briefing, vol. IV, no. 1A, March 2004