For CIOs

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From IT Governance To Value Delivery
The Val IT Framework Shows The Way
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EXECUTIVE SUMMARY

An IT governance framework articulates decision rights with respect to IT investments to ensure that they deliver the maximum business value at an acceptable level of risk. To do this, you must be able to measure business value and also manage and communicate value delivery. IT value delivery is part of IT governance — it answers the following questions: 1) Are we doing the right things? and 2) are we getting the benefits? Building on COBIT, the IT Governance Institute has published Val IT as a framework for the governance of IT investments. Organizations struggling to execute IT strategies that deliver business value and to communicate this value to stakeholders should evaluate Val IT as a tool for improved value delivery.

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NOTES & RESOURCES

In preparing for this report, Forrester analyzed the IT governance frameworks established by the IT Governance Institute.

Related Research Documents
“SeaQuation: Leading The Way In IT Investment Management”
November 13, 2006

“The Business Case Makes Val IT Actionable”
October 2, 2006

“Measuring The Business Value Of IT”
September 25, 2006
MEASURING IT BUSINESS VALUE REMAINS IMMATURE

While much of IT may be a commodity, the management of IT certainly is not. Improving IT governance has gained significant traction over the past few years, but mature IT value delivery practices remain elusive. Despite a growing body of IT value methodologies, “Only one respondent reported a comprehensive approach to measuring and managing IT value and performance,” according to a recent survey by Deloitte Consulting of directors and C-level executives from 35 organizations.¹

The fact is that it remains difficult to tie business outcomes directly to IT investments, especially because IT is only one part of many business change initiatives today.

Calculating Value For Today’s Change Initiatives Is Harder — And More Critical

The goal of good IT governance is to ensure that organizations maximize the business value of their IT investments; however, this is getting increasingly more difficult. Much of the easy, low-hanging-fruit IT investments have been implemented. Maximizing business value from IT investments today often requires changes to existing business processes or the development of entirely new business processes that are harmonized with information technology. The value and the costs are a combination of business process and technology changes. These hard lessons were learned initially during early enterprise resource planning (ERP) projects and were further experienced in early customer relationship management (CRM) implementations, which merely attempted to automate existing processes. Optimized benefits were realized when business processes were changed to exploit the functionality of the applications software.

Yet today, most attempts at measuring value derived from IT investments is limited to simple ROI or other financial calculations, and few organizations consistently measure actual benefits after implementation.² A more comprehensive and systematic approach to measuring and delivering value is required. In an effort to help organizations significantly improve their returns on IT investments, the IT Governance Institute (ITGI), publishers of the Control Objectives for Information and related Technology (COBIT) governance framework, have recently published a framework specifically aimed at improving IT value measurement and delivery: Val IT.

Val IT has been heavily influenced by the IT investment management practices developed at the Dutch financial services firm ING. In fact, the Val IT case study published by the ITGI is based on ING.³ This means that the Val IT framework is grounded in real-world practices.

VAL IT IS A BLUEPRINT FOR VALUE DELIVERY SUCCESS

Accurately measuring and then delivering business value from IT investments requires a more expansive effort to quantify the full cost, benefits, and risk of IT-enabled business change. The Val IT framework provides a road map for organizations to follow on their way to improved IT investment decisions. Val IT is based on seven principles:⁴
1. **IT-enabled investments are managed as a portfolio.** Maximizing IT investments requires the ability to evaluate, select, sequence, manage, and monitor them from a holistic perspective to be able to make the necessary decisions and tradeoffs required to optimize their return.

2. **IT-enabled investments will include the full scope of activities.** IT investments today almost always require change in business processes as well. It is necessary to include those associated costs as well as the IT-related costs.

3. **IT-enabled investments will be managed through their full economic life cycle.** IT investments incur costs and also generate benefits long after the project is completed. Costs and benefits must be managed from project initiation until the application or system is retired.

4. **Value delivery practices recognize that there are different categories of investments.** Not all IT investments are created equal. This era of enhanced compliance and regulatory requirements requires a certain level of mandatory investments. These nondiscretionary investments need to be treated differently.

5. **Value delivery practices will define and monitor key metrics.** Value governance must include metrics to monitor the overall performance of the portfolio. The Balanced Scorecard framework is typically used for this purpose.

6. **Value delivery practices will engage all stakeholders and assign appropriate accountability.** In keeping with the maxim that these are IT-enabled business change initiatives, both IT and the business unit sponsors must be engaged and accountable for the overall success or failure to realize value from the investment.

7. **Value delivery practices will be continually monitored.** Value governance can constantly be improved. As organizations gain experience with their value governance efforts, this learning can be re-applied to continually improve the practice. Monitoring on a constant basis enables this.

**Principles Look Easy But Are Rarely Followed Without A Base Of Governance Processes**

These seven principles, when practiced together, form a comprehensive approach to value governance and build a foundation to realize maximum business value from IT investments. The harsh reality is that few organizations today practice some of these principles, let alone all of them. In theory, many of these principles appear relatively straightforward; however, in practice, they require a level of management maturity and close IT/business partnership to implement. For many organizations, implementing all of these principles requires a cultural change in attitudes and behaviors.

The Val IT framework covers the value governance processes and management practices, the business case, ongoing measurement and monitoring, and all of their interrelationships, which are necessary for maturing value governance capabilities (see Figure 1).
Val IT follows the COBIT architecture in specifying high-level processes — in this case, three compared with COBIT’s 34 — and a number of related key management practices that positively influence the achievement of the desired result or purpose of a particular activity. Val IT complements COBIT by providing a “value lens” that focuses on value creation and delivery. The three Val IT processes include:

- **Value governance.** Value governance consists of 11 key management practices that establish a governance, monitoring, and control framework; provide linkages to business strategy for investments; and define investment portfolio characteristics like risk tolerance and hurdle rates. Taken together, these practices enable organizations to optimize the value of IT investments.

- **Portfolio management.** Portfolio management consists of 14 key management practices that identify and maintain resource profiles; define investment thresholds; evaluate, prioritize and select, defer, or reject investments; manage the overall portfolio; and monitor and report on portfolio performance. Taken together, these practices enable organizations to optimize their overall portfolio.

- **Investment management.** Investment management consists of 15 key management practices that identify business requirements, provide a key understanding of candidate investment programs, analyze alternatives, define and document detailed business cases for programs,
assign clear accountability and ownership, manage programs through their full economic life cycle; and monitor and report program performance. Taken together, these practices enable organizations to optimize individual IT investment programs.

Val IT processes operate both top down and bottom up. At the top, value governance sets overall objectives; at the bottom, investment management operates at the individual project or program level. As individual projects or programs are approved at the investment management level, they are elevated to the portfolio management level where they are evaluated along with other cross-enterprise projects or programs.

**The Business Case Makes Val IT Actionable**

At the heart of Val IT is the business case. Rather than the rudimentary, bureaucratic exercise that is all too common, the Val IT business case becomes an operational tool that is continually updated throughout the economic life cycle of an investment, and it is used to support the ongoing implementation and execution of a project or program. A Val IT business case considers that stakeholder value is created by a business capability, which is, in turn, enabled by an operational capability that is supported by a technology or IT service. For example, shareholder value is created through revenue growth, which is a result of a business capability, of effective cross-selling of additional products to existing customers; this is enabled by an operational capability of having a single integrated view of the customer, which is supported by an enterprise CRM system with referral capabilities (see Figure 2).

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**Figure 2 The Val IT Business Case**

- **1. Fact sheet**
- **2. Alignment**
- **3. Financial benefits**
- **4. Nonfinancial benefits**
- **5. Risks**
- **6. Optimizing risk and return**
- **7. Documentation**
- **8. Maintenance**

- Alignment with strategic objectives
- Alignment with enterprise architecture
- Delivery risk
- Benefits risk

Source: Forrester Research, Inc.
To enable executives to evaluate and make fact-based decisions about IT-enabled business investments, a business case needs to provide accurate and detailed information about the following:

- **Alignment analysis.** When evaluating potential investments, alignment ensures that the proposed investment supports at least one strategic business objective and is also aligned with the enterprise architecture and technology standards, guaranteeing the optimum use of resources. Investments that support more than one business objective are even more valuable.

- **Financial benefit analysis.** Standard financial analysis tools are used to assess the overall benefits and costs, including discounted cash flows expected, required rate of return, net present value (NPV), and payback period. This analysis should include both best- and worst-case scenarios based on assessed risks. Furthermore, you must calculate the full life cycle costs and benefits, including the development, implementation, ongoing operations, and retirement stages of the investment.

- **Nonfinancial benefit analysis.** Many investments not only deliver tangible benefits but they also often produce intangible benefits as well. These intangible benefits can sometimes be consequential and should not be ignored; they can include improved responsiveness or agility or better relationships with customers. These nonfinancial benefits need to be linked to business outcomes so that their value can be recognized and measured.

- **Risk assessment.** There are multiple dimensions to risk that require careful analysis. Even though two proposed investments may have the same financial return and the same contribution to alignment, they may have very different risk profiles. There are two major categories of risk: delivery risk (the risk of not delivering the required IT-enabled business capability) and benefits risk (the risk of not obtaining the expected benefits). You need to identify risk drivers and assess their potential impact before factoring them into the business case. For example, the greater the perceived risk is, the bigger the range between best- and worst-case outcomes.

- **Optimization.** Once the strategic alignment, financial benefits, nonfinancial benefits, and risks have been quantified, a risk and return profile for each proposed investment can be developed. Fact-based decisions about which alternatives to approve and fund can now be made by a steering committee. Furthermore, this same information can be used to sequence the investments based on resource availability.

**The Business Case Lives On Through Continuing Updates**

Val IT lives in the business case because, within the Val IT framework, business cases are not static documents like they are in most organizations. When a proposed IT investment has been approved and moved into the active portfolio, it must be monitored continually. Because of inherent risks, it is likely that during the course of the project changes to the original assumptions may occur. For example, the anticipated benefits may increase or decrease as a result of external factors like...
economic or competitive impacts. Likewise, the delivery assumptions may be affected as a result of scope changes, late delivery of technology components, or unexpected loss of resources. Each time that there is a change, the business case must be updated to reflect it.

As these changes are made to the business plan, its estimated risk-adjusted return may change as well. During regular portfolio reviews, all active investments must be re-evaluated. The updated business case provides the basis for these reviews. During the review, two decisions need to be made:

- **To buy, sell, or hold the investments.** As the assumptions change and are reflected in the business case, the IT steering committee must decide whether to continue with the investment, terminate the investment and re-allocate the assets to a more favorable investment, or temporarily stop work on the investment. This process ensures that resources are always being allocated to the most important opportunities.

- **To reprioritize the investments.** Once the portfolio has been reviewed and the buy/sell/hold decisions have been made, projects that remain active must be examined to determine if the sequencing needs to change. For example, a project may find that the original benefits had been significantly underestimated, which would indicate that it should receive a higher priority and its implementation should be accelerated.

The stakes have never been higher for IT to deliver business value. But delivering business value requires a disciplined approach to measuring the potential value of IT investments, choosing the correct ones to pursue, and managing them through their entire life cycle. Using a framework like Val IT can help IT organizations accelerate their move to value delivery.

**RECOMMENDATIONS**

**VAL IT REQUIRES MATURE IT MANAGEMENT**

Implementing a value governance framework like Val IT requires a level of commitment and long-term engagement that will change the culture of the organization in its approach to IT. New skills will be required, tools will have to be acquired, processes will need to be put in place, and dedicated resources will need to be assigned and trained. There is a significant upfront cost that cannot be underestimated, and there will undoubtedly be opposition. CIOs should:

- **Ensure that there is a solid governance foundation in place.** IT governance does not start with Val IT. Before a value governance methodology like Val IT can be implemented, there must already be a mature, stable overall governance framework and a strong, well-functioning IT steering committee in place. Optimizing the portfolio across the enterprise to maximize value creation requires making the difficult decisions about how to allocate finite resources among all of the potential opportunities and then sequencing the ones that are approved. Implementing COBIT would be a good place to start for organizations that do not have strong governance processes and structures.
• **Prepare executive management for resistance.** Value governance shines a light on IT investment decisions, making them more transparent, fact-based, and consistent across the enterprise. This may appear threatening to managers who have been used to relying on personal relationships or political clout to drive decision-making.

• **Get business management much more engaged in IT strategy and execution.** Val IT requires that business management take ownership of the business case and share accountability for the overall success of IT-enabled business change investments. If the current relationship between IT and the business is strained or weak, it must be fixed prior to introducing Val IT.

• **Build in metrics and monitoring from the start.** Progress and eventually results must be measured and communicated. CIOs must be able to answer questions about the progress of the Val IT effort and ultimately the return. Using an IT Balanced Scorecard is an effective tool for both measuring and communicating this progress to stakeholders.

**ENDNOTES**

1 Some of the methodologies, which we have analyzed in comparison to Val IT, include Business Value Index, Total Economic Impact™, and Applied Information Economics. See the September 25, 2006, “Measuring The Business Value Of IT” report.

In January 2006, Deloitte Consulting interviewed directors and C-level executives from more than 30 organizations that ranged from highly mature multinational corporations to smaller, emerging ventures. The organizations represented a combined market capitalization of more than $1 trillion and employed more than 2 million people globally. Source: “What the Board Needs to Know about IT: Phase I,” Deloitte Consulting, 2006 (http://www.deloitte.com/dtt/article/0,1002,sid%253D26551%2526cid%253D132853,00.html).

2 The current state of practices for business cases and value realization shows that 75% of North American and European enterprise use ROI as their financial analysis methodology. See Forrester’s Business Technographics® November 2006 North American And European Enterprise IT Budgets And Spending Survey.

3 The ITGI, as part of its set of Val IT publications, has included a case study based on the investment management experiences at ING. This case study is available for free (http://www.itgi.org/template_ITGI.cfm?template=/ContentManagement/ContentDisplay.cfm&ContentID=32164).

4 Source: IT Governance Institute and Forrester Research.

5 COBIT is an IT governance framework published by the ITGI. See the April 24, 2006, “COBIT 4.0 Is A Strong Governance Platform” report and see the January 5, 2006, “COBIT Versus Other Frameworks: A Road Map To Comprehensive IT Governance” report.

6 Smart IT executives must present compelling and credible business cases to defend worthwhile initiatives that clearly spell out project costs, benefits, risks, and scalability to win the funds and support needed for proposed projects. For an in-depth treatment of business cases, see the October 2, 2006, “CIO Success Depends On A Credible Business Case” report.
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