Business white paper

Six questions CIOs should be asking about IT and business alignment

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Executive summary

It’s clear to most CEOs and CFOs that IT should be run like a business. However, it’s not always so clear to the CIO how to make that happen. How do you transform IT from a source of cost and complexity into a source of high-quality services, new competitive advantages and innovations, and incremental revenue? How do you deliver full transparency into what the company is getting for its investment in IT? How do you get IT activities aligned with corporate objectives and priorities?

This paper gives you a starting point. It poses six questions CIOs should be asking about IT and business alignment, and the answers help you structure your thinking about increasing the value IT delivers to the business. The paper focuses on two core concepts: project and portfolio management (PPM), and IT financial management (ITFM), which are key to solving the challenge of running IT like a business. We begin with a brief overview of these concepts to provide context for the six questions.

Overview: PPM and ITFM

PPM is all about maximizing investment value and optimizing resource allocation for business activities. This means governing the full range of projects, applications, and opportunities that are in-flight or proposed; automating and managing the workflow; and gaining a higher level of visibility into the value that specific projects deliver to the business.

Effective PPM processes enable the business and IT stakeholders to make more informed decisions by creating apples-to-apples comparisons with multiple levels of input, review, and approvals across the IT portfolio. It does so by accounting for and automating the many variables that impact project results, including financial management, time and resource management, and demand management. By providing a clear view into all aspects of IT investments, ongoing programs, and projects, PPM can help maintain high levels of quality and deliver complex programs on time and on budget.

PPM has also proven effective in helping companies align IT activities with business goals. It can help IT management evaluate and respond to new proposals and adapt more quickly to changes in business plans. The CIO can quickly understand the impact a given change will have on the organization, get the information needed to meet new requirements, and readjust budget and resource allocations accordingly. In addition, PPM allows IT to implement best practices to support regulatory compliance and industry standards such as ITIL, CMMI, CoBIT, PRINCE2, or Six Sigma. And with PPM, the CIO can clearly communicate the health and status of projects to internal customers and summarize the day-to-day work of the IT staff.

ITFM delivers a higher level of visibility into the business value of what IT delivers. ITFM solutions provide the information required to understand exactly what the company is getting from the investments it makes in IT; this information allows the CIO to make better decisions about both what the business wants from IT and how IT will deliver it.

With ITFM, IT investments are managed as services rather than projects, and the relationships among cost, quality, and business value can be consistently measured and managed, providing more complete financial visibility.

ITFM solutions can thus be crucial in helping companies evaluate and prioritize among multiple investment opportunities, including data center transformation initiatives, merger and acquisition proposals, cost-containment projects, and even complex sourcing opportunities such as cloud computing, software as a service, multi-sourcing, and partner or “ecosystem” initiatives.

With more than 5,000 employees, a century of business history, and over $500 billion USD in assets under management, this U.S. financial institution, with a culture of continuous process and practice improvement, selected HP PPM while considering their journey to CMMI level 3. The results are remarkable:

- Within the first year of HP PPM deployment, the company not only recouped its investment in the solution, but achieve a ROI of over $3.5 million USD, representing 2.1 percent of its annual IT Budget.
- HP PPM brought increased visibility and oversight to systemically prevent non-strategic projects that were more than a net cost to the company.
- HP PPM recouped 19 percent, 48.3 percent, and 68.9 percent over three years of the annual labor budget by reducing change order requests.

Read the entire report at **hp.com/go/ppm**

1. How do we determine the right amount to spend on IT?

The first step is to digitize IT business processes so they can be automated and enforced. This allows both IT and business leaders to gain visibility into the pace and flow of the investments of IT, which include both strategic initiatives and day-to-day operations. Automated collection of data, presented through real-time dashboards and reports, gives leaders the full picture of what's going on, including:

- Incoming requests from the business on IT
- The types of IT projects being funded: innovation, efficiency, infrastructure, or other
- Projected business value, risk, and cost of proposed IT projects
- Status of project health and delivery schedule
- Breakdown of IT resources spent supporting the business
- Analysis of IT cash flows

Historically, many companies have determined the "right level of spending" for IT by analyzing industry benchmarks. The logic has been, "If I'm close to my industry's average spending level, I must be about right." This approach, of course, does not take into account the strategy of the company and the role IT plays in its success. For example, does IT need to contribute to innovation or simply deliver needed services? What capabilities can IT provide to support the company's business strategy? Benchmarks can't tell you how much to invest in IT. More importantly, they can't tell you where to invest.

2. How do we determine which business services should receive priority for IT spending?

At most companies, an essential IT activity is determining which investments to include in the portfolio. Leaders of various business units bring their own priorities to the table; each is generally convinced their investments are the most important to the company. Not all of these are equally important, but how can each of these ideas be best evaluated?

There's no easy answer. Simply dumping investment evaluation decisions on IT without prioritization is an invitation to budget overruns, delays, and even outright failures. Implementing multiple major business systems simultaneously can bring the business to its knees. And letting each business unit "do its own thing" with IT can result in a proliferation of unrelated, uncommunicative systems that actually reduce the collective intelligence of the business.

IT-business councils are a positive step toward sorting out priorities for IT investment, but they cannot truly be effective without a reliable means of measuring and comparing prospective investments through a disciplined governance and portfolio management process. An optimized process of this kind sets up common parameters for judging diverse investments from across the company. Project submissions are made through a standardized method that captures all the important data about the project's business goals, benefits, projected schedule, costs, and risks. This allows "apples-to-apples" comparisons of projects from a variety of perspectives: time-to-value, net-present-value, total return, risk, and more.

With HP Project and Portfolio Management (PPM) Center software, business leaders can analyze prospective investments using business criteria they choose. They can run limitless "what-if" scenarios to balance value against risk. They can rank projects according to their degree of alignment with overall business strategy, and match the right IT resources to the right projects. And they can decide which in-flight projects to keep and which to kill and which existing applications to support and which should be retired. New projects can be considered within the context of all others and stack-ranked against those they are already doing. Evaluating whether or not a project is being done right requires IT to provide credible, predictable business results. Once established, trust will be built at the level where IT and business intersect.

Companies often implement a portfolio management solution as a cornerstone to consolidate or automate disparate IT operations. By standardizing previously ad hoc processes, both business and IT leaders can identify existing projects in trouble or unlikely to deliver the expected business value. This enables capital to be redeployed from budgeted projects that aren't or can't demonstrate value to projects that can. What can't be measured can't be managed, but with consistent processes, rational decisions can be made on an apples-to-apples basis.

Elements of HP Software's ITFM solution can contribute to your decision-making processes by helping you manage specific assets over their entire lifecycle, and by providing financial visibility for each stakeholder group. For example, HP Asset Manager software can govern the lifecycle of software and hardware assets (both physical and virtual). This detailed tracking information is necessary for accurate cost association with investments and services. You can calculate fully burdened asset costs, pricing for internal consumption purposes, and model depreciation. You can also allocate costs based on usage behavior and charge back for utilization of a specific business service.

The HP ITFM solution improves the quality of service delivery by helping you make informed decisions to improve business processes. It provides preconfigured metrics and analytics based on ITIL to enable business- centric measurements needed for continual service improvement. The HP ITFM solution includes data warehouse technology to provide specialized financial management and analytic capabilities for each set of stakeholders: business leaders and IT finance, financial accounting, and IT management. Allocation scenarios of costs by project, program, application, IT department, vendor, services, business process, and IT customer are all supported.

Business and IT leaders can effectively manage the IT portfolio management process with consistent and objective criteria. As a result, companies can forge the strongest, highest-value mix of projects for their business in a truly collaborative way.

3. What level of ROI can I expect from implementing a PPM solution?

ROI can be a subjective measure so two points are important to make upfront: first, managing IT investments with a focus on business outcomes can deliver a change for the better—whether that change is driving more revenue by increasing customer satisfaction, enabling a higher level of innovation, accelerating time to market, enabling new channels to market, or improving bottom-line benefits through higher operational efficiency. Second, if IT fails to deliver, the business will fail to achieve its chosen objective.

According to recent research, a large percentage of IT projects are failing, with significant numbers of cost overruns and many that just don't deliver the expected ROI and business value. With this in mind, it is the elimination of project failure risk that offers the greatest source of return for PPM.

An effective PPM solution not only helps eliminate the risk of failure but also delivers positive financial returns. Recently, an independent research firm specializing in technology ROI, profiled the payback experiences of several organizations that have deployed HP PPM Center for at least one year.[1] Among the results the solution delivered to these companies:

- The majority achieved positive ROI in year one.
- The average return was $6.4 million USD and average ROI was $5.0 million USD by the close of the first year of solution deployment.
- The solution averaged $24.2 million USD in tangible benefits over a three-year post-deployment period, delivering a positive bottom-line impact of $21.8 million USD.
- The solution returned a savings of nearly 13 percent over three years of deployment as a percentage of average annual IT budget.

HP PPM Center has proven effective in helping companies align IT activities with business goals, which also contributes intangibly to ROI. It can help you adapt more quickly to changes in business conditions. It can allow you to evaluate and respond to new proposals without building out detailed project plans. You can quickly understand the impact a given change will have on the organization, get the information needed to meet new requirements, and readjust budget and resource allocations accordingly. HP PPM Center also allows you to implement best practices to support regulatory compliance and industry standards such as ITIL, CMMI, CoBIT, PRINCE2, or Six Sigma. And with HP PPM Center you can clearly communicate the health and status of projects to internal customers and summarize the day-to-day work of the IT staff.

[1] Source: "**Customers prove a positive ROI using HP PPM Center software white paper,**" HP, January 2012.

ITFM takes the advantages of PPM to a new level, delivering a new level of visibility into the business value of IT investments. ITFM brings a service-based approach to defining the IT value chain, enabling organizations to make more informed business decisions based on true financial visibility. Simply put, ITFM bridges the information gap that has impeded business-level IT maturity.

4. Will PPM and ITFM help us determine how good our IT services really need to be?

Yes. PPM and ITFM are valuable resources to senior business and IT managers in determining the level of quality and service required for the business—and perhaps even more important, in delivering that agreed-upon level of quality and service consistently and predictably.

Certainly, some companies cannot afford compromises in system availability. Financial services firms and exchanges are an obvious example: computer system downtime can cost millions of dollars a minute. Businesses that conduct much of their sales over the Internet also fall into this category. But other companies may find that taking a certain amount of risk of system failure or other problems is preferable to the spending levels required to build "fail-safe" backup capabilities. In similar fashion, different businesses have different time-to-market requirements for IT projects, which affect staffing levels.

It is probably an understatement to say that communication between IT and the business side has been less than optimal in most companies. As mentioned, business leaders have viewed IT as a "black box"—expensive but opaque, with mysterious doings inside and uneven results. IT leaders have viewed the business side as uninterested in the difficulties of providing technology to fast-moving businesses, and have grown accustomed to being blamed for any system failures, no matter how much work the business side has piled on.

Accordingly, the self-protective tendency for IT leadership has been to build very high levels of service into its cost base, but not making that clear to the business side. In many cases, this leads to gold-plated systems that deliver poor ROI. If the business and IT sides had trustworthy facts to frame informed cost-benefit discussions, significant cost reductions could likely be made at low risk.

Digitized portfolio management processes automatically capture valuable business data more reliably and at a small fraction of the cost of collecting it manually. This data generates a wealth of metrics to set, maintain, and monitor IT quality and service levels. At a glance, both business and IT leaders can review the performance of IT in terms of reliability, response time, cost performance, system downtime, rework levels, and resource utilization. With this real-time information, business leaders can best determine whether the quality of IT services matches the company's needs.

This analytical ability can be applied to both the quality of day-to-day operations and evaluation of major projects. HP PPM Center comes with best-practice-automated workflows right out of the box. These can easily be configured to meet a company's specific needs.

During the implementation period, IT and business leaders compare their current manual processes with our best practices and make modifications as desired. The very act of doing this provides a de facto review of each step in a process. Managers can decide whether steps can be eliminated, or the number of approvals reduced, without unacceptably raising risks. They can also spot vulnerabilities in their current process, such as inadequate reviews or conflicts of interest, which they can immediately remedy.

For strategic projects, the ability of HP PPM Center to automate data collection and stage-gate processes lets leaders measure the trade-offs in such areas as cost versus reliability, system response time, and more. This kind of knowledge can be very valuable during system development, allowing managers to opt for lower levels of reliability and response time on non-essential systems in exchange for lower costs. On the other hand, business managers might learn that a planned project has underestimated the cost of downtime in a customer-facing system, giving them the up-front option of additional investment in a more robust system to reduce that risk.

Once the analysis is done and the choices made, IT has the capability to deliver and monitor the agreed-upon service level at the agreed-upon cost. And with increased knowledge of IT processes, facilitated by the reliable metrics and clarity of display in HP PPM Center, business leaders find it easier to conduct constructive dialogues with IT leaders about offering and delivering IT services that are just as good as the business needs. By providing this clarity to business-side leaders, IT earns its seat at the table where these crucial business decisions are made.

5. Can portfolio management reduce our technology failures?

Yes, if the business side will let it. Processes will not work unless they are followed; technology cannot deliver value unless it is used. This is especially true at the enterprise-wide level. When a major technology initiative falls short, business-side leaders would do well to examine their own actions (or lack thereof) before pointing their fingers at IT. Examination of the many well-publicized CRM and ERP implementations that failed to deliver the expected value show how often business leaders abdicated their responsibility to adapt existing business processes—and the business' culture—to take advantage of the new technological capabilities. Because of this, what were often good IT outcomes did not equate to good business outcomes— and IT took the hit.

In most cases of this kind, the business leaders defined requirements, then tossed the project "over the wall" to the IT department and business consultants. The usual result is the automation of existing, probably inefficient, manual processes, hardly an optimal outcome.

"HP PPM gives our CIO a 'single pane of glass' dashboard. Our CIO can see all of the technology proposals and projects, along with the status—and knows at a glance whether we are delivering them as needed by our business."
—manager, Information Technology PMO Program Operations and Support, major U.S. energy supplier*

Without direct involvement by line-of-business people who live and breathe these processes every day, the golden opportunity to streamline them is lost. Worse, if the business side is not closely involved in system design, they may get presented with a "finished product" that is difficult, or even impossible, for their front-line people to use. This leads to rebellion among the troops, subverting the purpose of the initiative.

One effective way to avoid technology failures is for CEOs and CFOs to assign senior business-side executives the responsibility for optimizing the business benefits of an IT initiative. These business sponsors must be given adequate authority and resources to do this critical job properly. They must work closely with senior IT project personnel to keep the project on track, make changes where beneficial or necessary, and, jointly with IT, establish clear metrics by which the initiative's success will be measured.

HP PPM Center provides the right framework for this collaboration. Dashboards give both the IT and business side clear real-time views of where initiatives stand against their goals. Problems that threaten the realization of value can be quickly identified by taking advantage of the "management by exception" feature that highlights off-track tasks. The drill-down feature allows the specific difficulty to be found and fixed fast.

HP PPM Center also brings the kind of enforced processes to IT that have benefited finance departments for years. No major business today would tolerate letting an accountant operate off in a corner with a green eyeshade and ledger, completely divorced from the corporate ERP system. Yet many businesses allow IT operations to be run in an ad hoc manner, indulging informal requests that bypass approved processes, and allowing work to be executed in the same informal, undocumented way. By digitizing IT processes, then enforcing and automating them, HP PPM Center gives business executives visibility into IT—along with the ability to oversee those IT activities where business leadership is essential.

* Major U.S. energy supplier transforms project management processes (4AA2-2127ENW), HP customer case study, June 2010

6. Should the CEO and CFO take responsibility for portfolio management?

Effective IT is essential to business success in virtually every company in every industry today; thus, business-side executives must play a role in portfolio management.

The best course is to share responsibility for IT portfolio management between leaders on the business and IT sides. That's why more companies are setting up IT portfolio management structures that follow principles similar to those used for financial governance. This helps everyone understand, for example, how software applications should be implemented, in the same way they understand how cash flow is managed across the company. The key is to ensure that IT-related decisions embody consistent principles about the role IT plays in the company.

With decision-making input and participation required from both the IT and business sides, it becomes essential to be able to speak a common language. HP PPM Center provides that language. It makes IT business processes crystal clear to all system users, displayable in graphic workflows that highlight every decision point and decision maker, imposing and enforcing accountability. It provides appropriate, factual information and analysis to all participants in the process through its dashboards, which can easily be configured to match the responsibility levels and interests of each user.

HP PPM Center provides business executives the same reliable data flow and metrics for the company's technology initiatives and operations that effective ERP systems provide for its financial operations. For years, top executives have been comfortable making crucial financial decisions from ERP-generated data. Today, C-level executives at more and more leading companies are using the visibility provided by HP PPM Center to answer their questions about IT and business alignment.

Conclusion

Now more than ever, IT executives have greater responsibility and accountability to their organizations. They no longer view IT as a maintenance and support function, but rather as any other business unit responsible for the success of the business. They expect the same level of efficiency, reliability, and economic return from IT as they do from other parts of the organization: credible, predictable, reliable business results.

Effective project and portfolio management and IT financial management is an achievable goal. You can start at any level of organizational maturity; you can start quickly or you can phase in new tools and processes one by one. But the key is to get started.

Research and plenty of anecdotal evidence has shown that traditional methods of managing projects and IT finances simply are not working. Not for end users, not for IT staff, not for the company. It's time to break the cycle and evaluate new alternatives such as PPM and ITFM.

With HP's approach, your PPM and ITFM solutions can give your organization visibility into everything that's being worked on—including project health metrics, non-project work, resource allocations, and overall costs. You can aggregate both strategic and operational projects and see the critical interdependencies among projects—for example whether the resource demands of an operational project might prevent you from undertaking a proposed strategic project. You get the big picture so you can see the forest and the trees. You can capture all the details about all current work so every decision is supported by hard data.

Our approach also helps you define and enforce "control points" throughout the process. This enables management to make more informed decisions about actions to take, and heightens the level of confidence in those decisions. You get field-level audit trails for all changes to critical applications and projects—and you can be sure that your data is accurate, helping you maintain regulatory compliance.

In addition, our approach allows you to adopt either a top-down or bottom-up project planning approach. It lets you bring in project plans from Microsoft® Project and other data sources and gain an aggregate view across strategic and operational projects. It enables you to implement standards and methodologies across the enterprise and bring order out of chaos. And it allows you to achieve rapid time-to-value without customization, so you can get started quickly and adopt new capabilities at your own pace.

The objective of efficient project and portfolio management is not incremental improvement of IT project results. It is revolutionary advances in business outcomes and the creation of breakaway business advantages. With HP's approach, your PPM and ITFM solutions can be truly transformative.

For more information

To discover how your organization can achieve demonstrated ROI and improved business outcomes, visit **hp.com/go/ppm**.

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