IT Decision Making

EMBA 514
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MARCH 16, 2017
Organizational Views of IT

(Hunter, 2007)

Business Value Views of IT

“Conventional IT strategic planning is similar to a funeral for a head of state. It is infrequent, requires very powerful people to come together and be miserable, and the end result is buried and quickly forgotten.” (Anonymous)
Business Value for IT Equation

**Business performance:**
The ability of the enterprise to achieve or exceed its objectives.

\[
BV(\text{IT}) = \frac{\text{Business performance}}{\text{IT Spending}}
\]

Mathematically, there are two ways to increase BV(\text{IT})

“IT Doesn’t Matter” Interpretation

How can you improve the Business Value of IT spending?

\[
BV(\text{IT}) = \frac{\text{Business performance}}{\text{IT Spending}}
\]

Option One
IT Spending is a cost to minimize in order to improve the business value of IT

“Most strategies focus on providing efficient and effective IT services...”
“IT Does Matter” Interpretation

How can you improve the Business Value of each IT dollar spent?

\[
BV(IT) = \frac{\text{Business performance}}{\text{IT Spending}}
\]

“IT spend that improves business performance is the cost of doing business in a particular way—not the cost of IT.”

Perspectives and Frameworks
Porter Generic Strategies Framework

<table>
<thead>
<tr>
<th>Industry-wide</th>
<th>Overall Cost Leadership</th>
<th>Uniqueness Perceived by Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation Focus</td>
<td>Cost Focus</td>
<td>Low Cost Position</td>
</tr>
</tbody>
</table>

1. Cost leadership
2. Differentiation
3. Niche Focus

Disruption and the 7 S’s

Vision for Disruption
Identifying and creating opportunities for temporary advantage through understanding
- Stakeholder Satisfaction
- Strategic Soothsaying
Directed at identifying new ways to serve existing customers better or new customers that are not currently served by others

Capability for Disruption
Sustaining momentum by developing flexible capacities for
- Speed
- Surprise
That can be applied across actions to build temporary advantages

Market Disruption

Tactics for Disruption
Seizing the initiative to gain advantage by
- Shifting the rules
- Signaling
- Simultaneous and sequential strategic thrusts
With actions that shape, mold, or influence the direction or nature of the competitors response

(Pearson & Saunders, 2010)
### 7 S’s

<table>
<thead>
<tr>
<th>Approach</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superior Stakeholder Satisfaction</td>
<td>Understanding how to maximize customer satisfaction by adding value strategically</td>
</tr>
<tr>
<td>Strategic Soothsaying</td>
<td>Seeking out new knowledge that can predict or create new windows of opportunity</td>
</tr>
<tr>
<td>Positioning for Speed</td>
<td>Preparing the organization to react as quickly as possible</td>
</tr>
<tr>
<td>Positioning for Surprise</td>
<td>Preparing the organization to respond to the marketplace in a manner that will surprise competitors</td>
</tr>
<tr>
<td>Shifting the rules of competition</td>
<td>Finding new ways to serve customers which transform the industry</td>
</tr>
<tr>
<td>Signaling strategic intent</td>
<td>Communicating the intended actions of a company, in order to stall responses by competitors</td>
</tr>
<tr>
<td>Simultaneous and sequential strategic thrusts</td>
<td>Taking a services of steps designed to stun and confuse competitors in order to disrupt or block their efforts</td>
</tr>
</tbody>
</table>

(Perison & Saunders, 2010)

### Organizational Agility

**Organizational Agility defined:**
- “ability of an organization to sense or create environmental change and to respond efficiently to that change.” (Plummer & McCoy, 2006)
- “Ability to detect and respond to opportunities and threats with ease, speed, and dexterity” (Tallon & Pinsonneault, 2011)

**Increasing environmental volatility → need for organizational agility:**
- “Always-on” connected world
- Shorter product life cycles / rapid product obsolescence
- Reduced sustainable differentiation & increased competition
- Increased buyer choices (increased buyer power)

**Technology plays a central role in achieving agility:**
- Major business transformations, changed business directions, reengineered processes must be enabled through leveraged use of IT

Organizational Agility

Benefits of Increased Agility

Highly agile organizations are twice as likely to see increased success with their new initiatives as (those with) low agility.

Organizational Agility is Enabled by ...


AND... a cyclical model of continuous improvement
The Enablers are Enabled by IT...

**IT Enabled Agility also involves:**
- Alignment of IT & Business Strategy
- Optimized use of established technologies
- Reduced failure rate implementing IT solutions
- Single, unifying, business architecture that optimizes IT investments

**Technologies supporting information flow → Awareness**
- Knowing What Is Going On: The Right Information
- Executing Well Day To Day: The Right Processes And Operations

**Technology Development capabilities enable new options & effective solutions → Productivity & Flexibility**
- Confronting Expected Change: The Right Options
- Confronting Unprecedented Change: The Right Reactions

**Integration and interoperability... core agility technologies → Flexibility**
- Technologies providing connectivity and access to information → Adaptability

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**Metrics To Improve IT Investment Decisions**

(Hunter et al, 2008 Gartner)

Measure business value of IT in improved business performance as perceived by business stakeholder

Use appropriate business metrics to build value proposition:
- Run-the-Business
- Grow-the-Business
- Transform-the-Business
Determining the Business Context

Figure 1. Business Value Category Decision Tree

<table>
<thead>
<tr>
<th>Investment Category</th>
<th>Value Definition</th>
<th>Example Process Areas</th>
<th>Example Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Run-the-business</td>
<td>Operating essential business processes at Reduced cost, Improve price/performance, Reduced risk</td>
<td>Procurement, Manufacturing/service delivery, HR, IT, Finance, Regulatory</td>
<td>Price/performance ratio, Asset utilization, Sales costs, COGS</td>
</tr>
<tr>
<td>Grow-the-business</td>
<td>Visible operational improvements to whole value chain within current business models</td>
<td>Marketing, CRM, Sales, Product development, Customer service</td>
<td>Market Share, Time to Market, Sales cycle time, Customer retention</td>
</tr>
<tr>
<td>Transform-the-business</td>
<td>Creating new opportunities that transform the industry, market or enterprise</td>
<td>Strategic planning, Marketing, Product development</td>
<td>Revenue growth by BU</td>
</tr>
</tbody>
</table>

Metrics for IT Investments

(Hunter et al, 2008 Gartner)
IT delivers Business value when...

- IT is closely aligned with business
- Business & IT leaders are collaborators
- Alignment is combined with flexible IT infrastructure
- IT investment ROI is measured in terms of business performance
- The value metrics are appropriate to the purpose of the investment

Compelling Business Value Statement

Business Context for Proposal
- Run, Grow, Transform
- Business Goals
- Competitive Strategies

IT Capabilities → Changes to Business—processes, capabilities, etc. → Impacted Business & Operational Measures
Example: Compelling Business Value Statement for an IT Investment

**Business Context for Proposal**

Our Business needs to run its operations more efficiently in order to reduce prices relative to our competitors.

**IT Capabilities**

We need the ability to integrate our data on sales transactions from each store,

**Changes to Business**

so that we can centralize our ordering and distribution, to gain economies of scale, and quality discounts.

**Business Measures**

Our target is to cut vendor costs by 5% and reduce distribution costs by 10% within six months.

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**IT Investment Competition**

**Goal: Select the best IT Investment for the Firm**

1. Select one OMB proposal from your team
2. Create a compelling value statement (1 flipchart)
   - A. Business Context
   - B. IT Capabilities
   - C. Business changes to enable
   - D. Measurable business effects
3. Presentations (Elevator Pitch)
   - A. Each team: 5 min presentation, 2 min Q&A
4. Decide
   - A. Class is the Board of Directors
And back to Carr...

Carr in 2013  "Some details are outdated. .. But what I think I did was to put the question of IT firmly into the broader question of business strategy. ...The other reason I think it's had legs is that I've been told the article served as an inspiration to a lot of entrepreneurs who got interested in cloud-based businesses for corporations."

"If you look at IT, the bulk of investment these days especially among vendors... is on cloud systems and applications. (but) cloud is still a fairly small percentage of overall corporate spending, even though it's growing quickly. So we're kind of between two eras... I think we're still at the beginning of that shift."

References


Pearlson & Saunders, 2010

