

# How to Improve Business Value of IT – Reduce Complexity, Show Value Proposition!

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## Abstract:

Which significance does IT have in an enterprise? How should the IT portfolio be designed to provide real business value? See how IT strategy is linked to business strategy and how to enhance and add value to business IT.

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# How to Improve Business Value of IT – Reduce Complexity, Show Value Proposition!

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Not only the question on how to prioritize IT projects initiates the question on benefits of IT for an enterprise again and again. Nicholas Carr has vitalized this discussion with his book “IT Doesn’t matter!”; his thesis: “Companies cannot take any sustainable competitive advantage just by using information technology!” The same message was already stated by Robert Solow (Nobel laureate for economics) in 1987: “You realize the computer era everywhere except in the productivity statistics of your enterprise!” How can we reduce cost intensive IT complexity to create real value with IT?

## Hidden cost of IT complexity

Although IT budgets are cut back and software vendors don’t stop promising multi functional, highly integrated solutions, IT infrastructure has grown more and more complex over the past few years – it’s documented in the number of installed systems and implemented interfaces in your own company. Our experience shows, that 2nd major reason for this growing complexity must often be seen in the high number of different data structures for identical business object within different IT systems in one company. To transfer these business object data structures from one system to the next, while maintaining its meaning and logic, requires a tremendous high amount of resources within any business unit. Data in different systems must be understood, interpreted and aligned; uncomplete or incorrect data has to be reassessed manually again and again. Just this complexity generates enormous indirect costs which of course are only hard to measure.

Vice versa identifying direct IT cost is not that challenging: systems, maintenance and staff. The important question is whether a cost cutting by e.g. 20 % really results in a positive value of IT or not? The same is the question for IT strategy – often the answer is simply the name of an ERP system or in the recent past a SOA component. IT is often just labeled a necessary nuisance that has to be run at minimal cost.

## IT Strategy has to follow Enterprise Strategy

A direct correlation between IT cost and business success does not exist. Research in production companies e.g. shows that companies with highly increasing success spend up to 40 % of their IT budget into new IT solutions, while other companies only take 30 % for IT innovation. The question is how to best control and manage the contribution of IT to business value!

Obviously there is a relation between IT strategy and business strategy. The St. Galler Management Concept is the right framework and the right methodology to derive the business value of the IT budget. First you have to define (in a multi step manner) your strategic program as the way to reach your business objectives (Figure 1). One of the crucial elements within this is the identification of strategic success factors (SSF). These are the fields of business activities, where a company has adopted specific abilities and reached a position, that ensures longterm competitive advantage.

Based on these positions, core processes of an enterprise are identified: main processes, that contribute massively to recognizable customer value compared to the competitors.

## Individualized IT solutions only for core business processes

Focussing on core business processes is the key for business - IT alignment! Only if you have identified your core processes you can derive your IT strategy. They clearly define at which point in an enterprise specific IT could add value. Uniqueness and a competitive advantage are kept or even extended. For all other processes standard is sufficient.

Normally, core business processes are well known because of their outstanding relevance for a company. Resource driver and resource consumption are well known and so their activity based costs are transparent. Knowing these costs, the contribution of an optimized IT functionality can be estimated, especially for the area of one specific core process. This must be the basis for all measures of IT efficiency.

Let me explain some examples: The website of the internet bookshop amazon is a vital element of the core process customer attraction and retention. Special innovative functionality is crucial for business success of amazon. The solutions have to reflect the uniqueness and the individuality of the webshop. To invest in those is absolutely acceptable. Another example is the

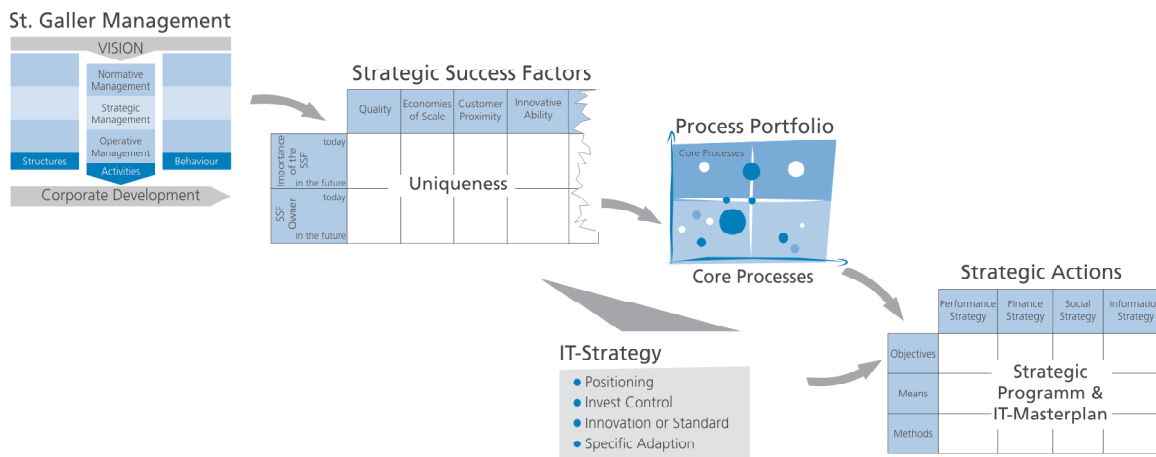


Figure 1: IT strategy follows business strategy

configuration system of an engine building company with multi variant but predefined product range. The objective of the system is to present the complete product range to customers and sales people as well. Requests for special solutions should be reduced to a minimum (as this would lead to additional product complexity). Therefore new product solutions have to be implemented and represented as fast as possible within the configuration system to be available for customers and sales.

Vice versa, for all non core processes of an enterprise, standard tools with low maintenance have to be sufficient. The guideline indeed here is: reduce costs. Simple rules to reduce complexity have to be applied:

- No individual data structures or processes
- No extensive interfaces
- No proprietary development
- No unnecessary updates for running systems

### Identify and clean up unnecessary IT complexity

We have developed and introduced a methodology to get evidence on the degree of IT complexity within your company; with it you are able to deduce the right actions to be taken. Starting point are the above mentioned strategic success factors (SSF) and core business processes – they build the framework for your IT strategy.

In a first step the most relevant business objects (business data structures) are identified within your

main business processes: Material master, organisational structures, classification systems etc. One major question is whether identical business objects exist in different data structures and what are the reasons for this.

The second step is to identify existing IT systems and align it along business processes: standard applications, specific solutions as well as interfaces get visible in this IT map of your company.

After having revealed the overall IT infrastructure step three consist of allocation of relevant business objects to IT systems; the data master must be identified. Inconsistencies show organizational problems and lack of clear responsibilities that both need for clear decisions.

The fourth issue is the evaluation of IT support based on a more detailed process reflection: Which are the core business processes with high impact on the SSF for the enterprise, and what about IT support for these. Our experience shows, that in many cases you are able to measure the effects of the use of IT by identifying the resource drivers and the use of resources within a defined core process. Together with an indeed more qualitative rating of the benefit of IT use, you can really measure the value of IT!

Unnecessary complexity becomes obvious: Functional oversized systems, unnecessary extensive and fault-prone interfaces, or even missing structural elements. The resulting need for actions could be allocated to systems or major business objects and is transferred into an IT roadmap or masterplan

## Conclusion

Priorities for the design of enterprise IT should only be derived from the value added to your business success! Technology is not more than a means to an end. The essential precondition is to clean up processes, structures and at least systems. A grown up set of IT systems often implies a complexity, where single tasks are supported, but overall business success or value orientation is not the focal point. You have to assess all IT activities – within the IT department but also in the operating business areas.

Looking at an IT portfolio (Figure 2), it is easy to see that complexity is to be kept low where there is no added value recognizable. Only within core business processes with high value proposition specific solution are allowed, the rest has to be avoided - it is waste. If you are in the (rare) situation where you generate value with only little IT effort – e.g. as you have found a very tricky solution within a process - you can be sure that this advantage could only be hold for a short time. You have to try to expand this competitive advantage as fast as possible to stay in an extraordinary, unique position.

Only by consequently following the above shown five step approach (we named it IT Complexity Check) the link between business and IT strategy is obtained. A sustainable integration of processes and IT functionality is set up. IT activities are in a critical review and get more focus. Unnecessary complexity with minor value effects is reduced or - even better - does not arise.

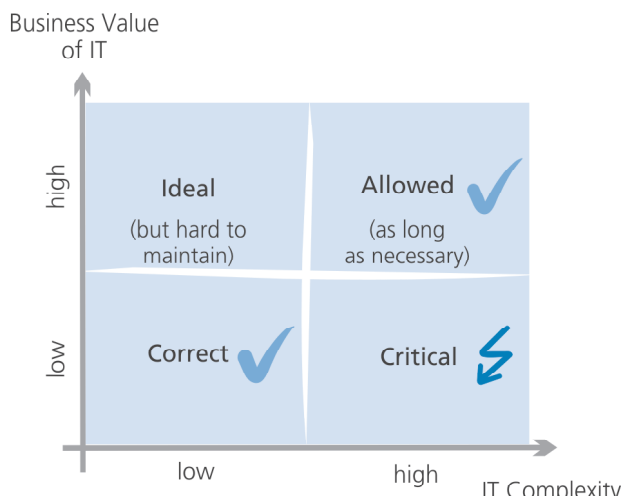


Figure 2: Value orientation of enterprise IT

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