

# Where's the ROI in IT?



## New Survey Shows that CIOs Are Counting Their Pennies— But Not Measuring the Results of Their IT Investments

### About This Report

Getronics, IDG Research and CIO Magazine's custom publishing group conducted an extensive, multinational survey of IT executives in the summer of 2002. Topics included IT spending past and future, IT and business priorities, and outsourcing. In general, the more than 450 executives in the US and six European countries—United Kingdom, the Netherlands, Italy, Spain, France and Germany—have more in common than not. This is the first of two special reports analyzing highlights of the survey. The second report, to be published in the Dec. 1 issue of CIO Magazine, focuses on 2003 outsourcing trends.

**IT SPENDING** IS SHOWING initial signs of being on the rise in some parts of the globe—at least in the optimistic minds of IT executives who are starting to dust off their wish lists. And so, too, is there evidence of a new frugality among IT leaders, who seemingly have emerged from the post-bubble recession with a new appreciation for the business value of cost reduction and profitability.

Yet here's the quandary: At a time when CIOs say all the right things about fiscal responsibility, they also say in strong numbers that remarkably few of them

actually measure ROI from their IT projects.

These points are among the key findings of a midyear survey of IT executives in the US and Europe, asking them about their business, IT and spending priorities for 2003 (see "About This Report," left).

Asked about their 2003 spending plans, 41% of executives surveyed



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report that they plan to increase spending an average of 20%. Most of the increases will be in hardware, software, telecom, networking and systems integration. As in 2002, 2003 IT spending priorities are focused on security and enterprise applications. IT standardization is among the leading priorities, perhaps reflecting the need to better use existing resources and reduce support costs.

And yet although the difficult economy does force IT leaders to exercise an increased emphasis on cost reduction and profitability, less than 20% of the respondents measure IT effectiveness with ROI or another financial measurement. This is in stark contrast to a 2001 CFO survey sponsored by Getronics and conducted by CFO Research Services. It found that 86% of the financial executives in the US and Europe use at least one metric to determine IT funding. Finance executives relied on ROI or payback period to judge technology investments, while IT executives in the new survey say their key barometer is whether projects are completed on time and within budget. (For more information on the 2001 CFO survey, go to [http://www.getronics.com/download/pdf/CFO\\_FINAL\\_getronics12\\_12.pdf](http://www.getronics.com/download/pdf/CFO_FINAL_getronics12_12.pdf).)

Among the key IT spending results from the 2003 survey:

Business/IT alignment is more critical than ever

Before the US recession, information technology was spoken of as a strategic priority in many companies. Today, business strategy clearly drives IT—not the other way around. Business strategy has a significant or critical impact on IT strategy in 82% of the companies surveyed.

Meanwhile, economic uncertainty has made lowering costs a higher business priority than increasing profit.

The bigger the company, the greater the need to keep business and IT strategy aligned. Three-quarters of IT executives surveyed say their IT and business goals are closely or very closely aligned. As company revenue increases, the perceived alignment increases as well.

This is true in both the US and Europe. While Europeans are just as likely as Americans to see the role of business strategy as critical or significant, they are less likely to describe the impact of business strategy on IT strategy as “critical” (37% vs. 53% in the US).

Generally, the IT organization has a lower status in Europe than in the US. When asked why business and IT are not more aligned, the most popular reasons are “Business goals are considered more important,” “IT is just another department,” “Political reasons,” or “Budgetary reasons.”

In the US, coordination and communications are the most

important reasons cited for a lack of alignment between business and IT strategy.

Given the uncertain economy and high-tech industry in recent years, IT is now more a solution for achieving business objectives, rather than a strategic imperative.

But firms that are growth-oriented spend more money on IT. Those with the greatest IT spending are less interested in decreasing costs and more concerned with increasing revenue and profit.

Business management is involved at all levels of IT decision-making

Corporate IT executives are the most likely to be involved at all levels in decisions to outsource, except for final authorization, where corporate business executives are the most likely to be involved.

Division IT executives were most influential in technical evaluation and specification. Division business managers played the least significant role in the process (see Table 1).

European companies are more likely than their US counterparts

**TABLE 1 WHO MAKES IT DECISIONS?**

How are each of the following individuals or functional areas involved in IT outsourcing decisions for your company?

	CORPORATE IT EXECUTIVE	CORPORATE EXECUTIVE	DIVISION IT EXECUTIVE	DIVISION EXECUTIVE
Determining needs	56%	30%	30%	17%
Technical evaluations or specifications	63%	12%	31%	12%
Specifying or selecting vendors	58%	15%	31%	11%
Final authorization	41%	50%	14%	19%
Setting goals	50%	44%	18%	17%
Other	0%	0%	1%	1%
Not involved	8%	13%	20%	29%
Don't know	13%	25%	34%	35%

to involve their corporate business executives in all phases of IT outsourcing, from determining needs to final authorization.

It's clear that IT decisions must be made in the context of what is good for the overall enterprise.

*Business management is measuring IT performance*

Generally, corporate rather than business unit management is responsible for measuring the success of IT investments (see Table 2). In the US, "corporate management" typically means IT management, and in Europe it is equally likely to be corporate business management.

*IT isn't demonstrating return on investment*

In the absence of true ROI metrics, IT departments continue to use operational and cost-based evaluations of the success or failure of IT investments (see Chart 1).

Only 18% of the IT executives we talked to measure performance using ROI or other financial benchmarks. For most, such outcome-oriented formulas as time and budget, decreased cost, higher productivity and increased revenue are the measurements of choice.

The larger the company or its IT budget, the more likely the organization is to employ ROI or some other formal tool.

Europeans are much less likely to use ROI (15% vs. 35% in the US), with the most likely in the Netherlands (31%) and least likely in Italy (low single digits). Finally, IT executives are at odds with finance leaders regarding return on investment. In Getronics' survey of finance executives in a half-dozen countries last year, return on investment and payback were

the strong favorites for evaluating IT decisions.

*Spending plans and priorities are closely tied to the economy*

Cost control will reign as long as the economy remains troubled.

As of midyear, despite the continued high-tech slump in the US, many IT executives felt encouraged enough (perhaps overly so) to predict either a modest budget increase or level funding in 2003.

Companies are now more interested in decreasing costs than anything else, including increasing profits. Our respondents' top three business priorities are to decrease costs, increase profit and increase customer loyalty.

In Europe, fewer companies are interested in increasing revenue (39% vs. 59% in the US), and more are concerned with supplier efficiency (25% vs. 8%).

Overall, the lowest priorities are e-commerce, corporate expansion and providing better quality of service. Although e-commerce is not seen as a key business strategy, its high share of the IT budget implies it is an integral part of the business/IT alignment.

*Conclusion and Recommendations*

■ **Business strategy will drive IT, not the reverse**, as was the case at some companies a few years ago. Technology spending must now be justified on its ability to satisfy corporate business requirements.

■ **IT executives must learn to use ROI.** Too many IT executives do not appreciate the importance of return on investment. Despite the fact that corporate managers and finance executives are increasing their scrutiny of IT budgets, IT executives appear to

TABLE 2

**WHO MEASURES IT PERFORMANCE?**

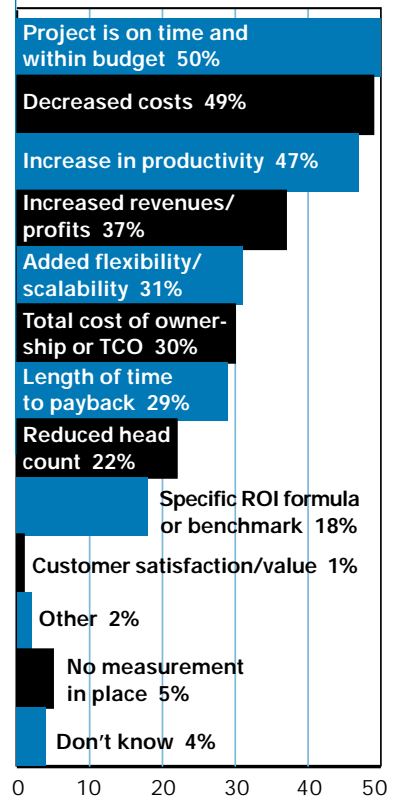
Who is responsible for measuring the success of your company's IT investments?

IT corporate management	42%
Business corporate management	38%
Business unit management	23%
IT business unit management	19%
Not specified	4%

CHART 1

**Evaluating IT Investments**

How is the success of your company's IT investments measured?



Peter Hanselman On ...

## Getronics' CIO Shares Insight on Survey Hot Topics

**IN THE WAKE OF THE MULTINATIONAL** IT trends survey conducted by Getronics, IDG research and *CIO* Magazine's custom publishing group, Getronics CIO Peter Hanselman was asked to offer his business/IT perspective on some of the key results. Among Hanselman's insights are those on:

### ■ ROI

In the past two years, use of ROI has been increasing. But there are a couple of issues with ROI. First, you must do [ROI analysis] at the beginning if you're going to follow it during and after. Second, the CIO is able to track the investment, but the revenues and cost savings flow to the business unit. Most management information systems are geared toward measuring ROI at the business unit level. The business unit manager must share this information with the CIO if you're going to measure ROI.

ROI makes more sense in evaluation of strategic initiatives. Start with small steps, and perform a pilot test of an idea. Don't reinvent your business from the outset. Many attractive ideas are impractical because the customers are not responsive or the technology is not ready.

### ■ IT/Business Alignment

Business strategy should lead IT strategy. IT is a component of business, like sales. If IT isn't in the service of business strategy, you're just playing with technology. The role of the CIO is to translate business strategy into information technology.

When IT people try to drive business strategy, they fail. IT people are by nature enthusiastic about technology.

But it's also a mistake to look at IT as a cost factor with no influence on business strategy. Business and IT strategy must influence one another, and it is the role of the CIO to explain the business possibilities of new technology.



### ■ Risk-taking and the CIO's Role

We're not living in a market with double-digit growth any more. All companies are cutting costs, and it's logical for them to look at IT costs. Everybody should be aware of the economic loss to pursuing profit. IT is a fairly small share of most companies' costs, but business processes represent the vast majority of their cost structures. IT can provide a lot of efficiencies for those processes, and IT spending can lower unit costs. But if you cut IT, you may also be cutting profitability. Recklessly cutting IT can lower efficiency and profitability, leading to a deadly spiral of cost-cutting.

It's risky for a CIO to be seen as a cost center. The CIO must be able to demonstrate an ROI. It's a good idea to execute projects in small steps with clear objectives and a quick payback. Strategic projects with long payback are much less likely to succeed. You should insist on small, measurable steps, even if technologists say it can't be done.

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have little appetite for measuring the financial performance of IT projects.

Not every IT project requires ROI analysis. Computing has become as much of a business necessity as electricity and telephone service. But projects such as CRM, ERP, or Web-based applications (top priorities in the survey) depend on the bottom-line impact for their justification. IT needs ROI to assure funding for future projects.

Without ROI, IT risks being seen solely as a cost center—and may face increasing difficulty in obtaining executive support. While it might have been acceptable to be a cost center in the 1980s and the '90s, this is a dangerous position as the economy remains uncertain and IT matures as an industry. ■

### About Getronics

*With more than 26,000 employees in over 30 countries, Getronics is one of the world's leading providers of vendor independent solutions and services to professional users of information technology. Through consulting, integrating, implementing and managing infrastructure solutions and business solutions, Getronics helps many of the world's largest global and local organizations maximize the value of their technology investment and improve interaction with their customers. Getronics' headquarters is in Amsterdam, with regional head offices in Boston and Singapore. Getronics' shares are traded on Euronext Amsterdam ('GTN'). For further information about Getronics, visit [www.getronics.com](http://www.getronics.com).*