



When Execution Matters

Value Chain Approach to Managing IT July 1, 2009 – 5:38 pm by Dinesh G

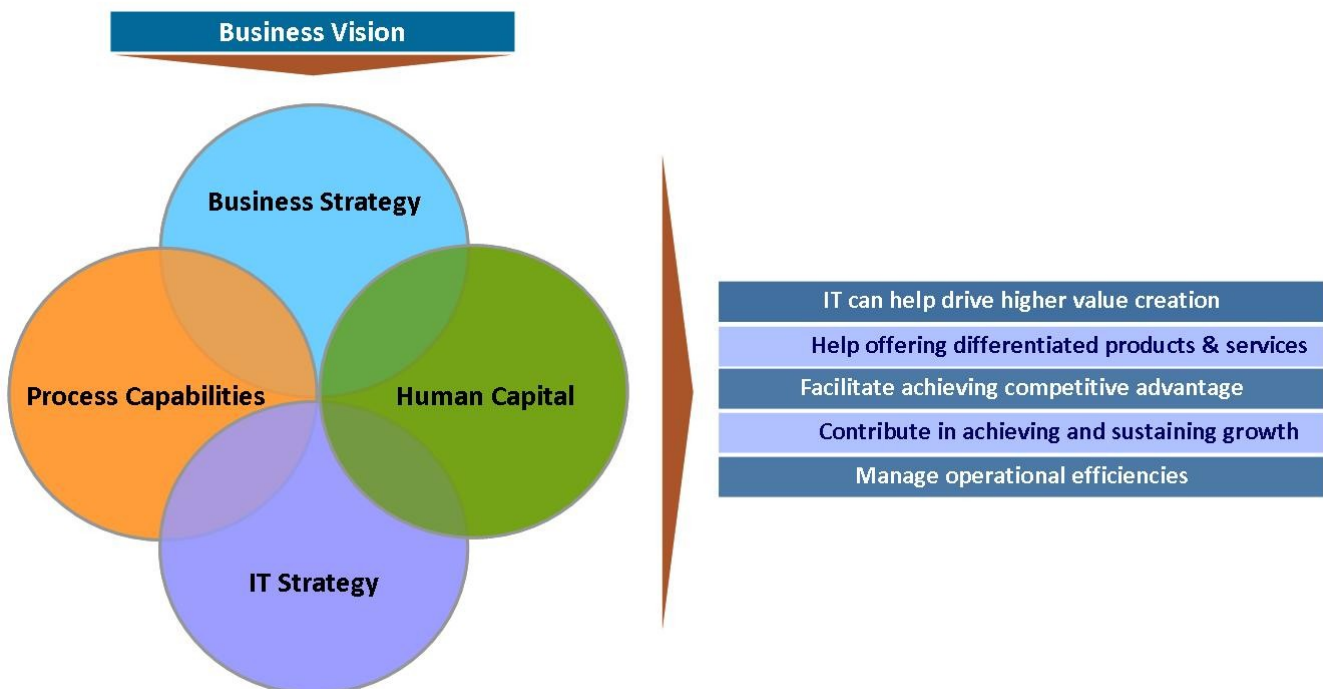
Managing IT beyond operational benefits can create significant value and can go a long way in building a competitive advantage. However, this requires a differentiated approach that many companies find difficult to execute. Some companies with a long-term vision that aligns IT with their strategic business direction have achieved significant results and created a hard-to-replicate competitive advantage.

Most companies today manage IT against short-term requirements rather than long-term business value. Often such short-term requirements are triggered by specific operational issues, and the priority is to address immediate needs. With a project-based view, these initiatives are managed on an ad-hoc basis at cost level and fail to focus on long-term impact.

Distinctively, companies that adopt a value chain based approach aligned with their overall business strategy can articulate clear requirements with an enterprise-wide business process view and achieve results of significant value. Here, initiatives are executed in close alignment with business strategies and operational investments. The overall rationale is to manage IT for its potential impact on business, not simply cost, and this may require necessary realignment for such initiatives to pay off in the long-term.

The fact is, IT can deliver a higher level of strategic value to companies when aligned with their business vision. While planning and managing IT, companies should consider the following key components and be driven not only to cut costs but also to achieve the goal of creating a strategic advantage in the long-run.

Figure 1



Companies should begin by considering the following: 1) Ensure that the business strategy outlines a plan for growth; 2) Assess the human capital required to build and manage the business vision; 3) Enable IT to act as a catalyst in transforming the operating model and achieving competitive advantage; and 4) Review mature business

processes capabilities to ensure that they reinforce best practices.

The initiatives must be planned around a company's growth strategy over a period of time in the market segment they operate and eventually IT should help in achieving targeted business results.

Such an approach gives a healthy outlook of business direction and can help in articulating IT requirements and the way IT can facilitate achieving and sustaining growth. It also provides predictability in managing enterprise-wide funding based on company's overall business strategy – this not only includes individual initiatives but also long-term strategic investments that support business goals.

A critical step in this process is to understand existing IT capabilities. Companies should realistically assess the gaps and potential of their current capabilities and the way they contribute to overall business operations and performance.

More importantly, companies need to identify capabilities that will make a significant differential impact. This helps in channeling IT efforts and also planning new investments to close operational gaps and address new opportunities through these strategic investments.

Overall efforts can be governed through a central operating model. This operating model creates an end-to-end ownership of all the IT initiatives. It is critical to consistently understand the needs of the business in helping structure requirements and to use IT to design and develop differentiated products and services.

The purpose of establishing a robust operating model is to proactively manage the IT roadmap along with investments to create a strategic competitive advantage. Companies must be aligned closely with the businesses they support and with the company's strategic priorities.

IT actually has an end-to-end view of a company's overall business processes and operations. Thus, IT has the potential to make a significant impact in managing the business and can contribute substantial value.

Many successful companies have made extensive investments in IT and in the process, lead a significant transformation in the way they manage their IT by understanding the needs of business and helping decide how to use IT for operational efficiency and competitive advantage.

For IT to reach its full potential it has to be an integral component of a company's overall business vision. By differentiating the way we manage IT through a value chain approach along with a long-term perspective, companies can run their daily IT operations cost effectively while making structured investments in new and innovative technologies and solutions that drive higher value creation within and for their customers.