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ActiveROI™:

Achieving Business Processes and IT Infrastructure Alignment through Real-Time Management

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Why Real-Time Management?

Business environments require organizations to quickly adapt to changing market conditions, take products from concept to market faster than competitors, and all the while optimize their production resources for stability and sustainability.

To meet these challenges, businesses have developed techniques and tools to measure how they are doing as a company, their position in the marketplace, and their cost profiles. Executive management must read, interpret, and adjust company priorities and performance objectives based on the needs of the moment, all the while keeping an eye on strategic objectives.

Through those efforts, organizations should recognize that differing business operations have strong relationships with each other both within and across businesses, and that sharing the marketplace makes collaboration with other businesses (even with competitors) a necessary prerequisite to consistently delivering on the customer value proposition. This dynamic, collaborative, market-driven business environment rewards businesses that have implemented a collaborative value chain, successfully combining different processes, products, organizations, communications and investment strategies. This capability for successful “co-opetition” will feature agile business processes, technically innovative products, adaptable organizations, and the ability to utilize business intelligence to quickly respond to investment priorities.

For businesses to survive and prosper in this climate, the IT infrastructure must be agile enough to meet changing demands without compromising quality. It must be flexible enough to readily produce and adopt new workflows and products; and thus responsive enough to quickly address shifting market priorities but still remain cost-effective. Those requirements demand the skilled practice of multiple business and technical disciplines. Business and IT alignment has distinct challenges primarily because organizations struggle to figure out how IT can be actively managed, on a real-time basis, using measurements that describe business-relevant IT performance?

CIO magazine reports that businesses are increasingly viewing IT as a commodity, not a strategic resource¹. More and more companies are appointing executives with a financial or business administration background to the position of CIO. These observations seem to indicate that there is more that IT management can do to align IT value with business requirements and objectives.

¹ CIO Magazine, “Special Report: The State of the CIO,” Eric Berkman, 1 March 2002.

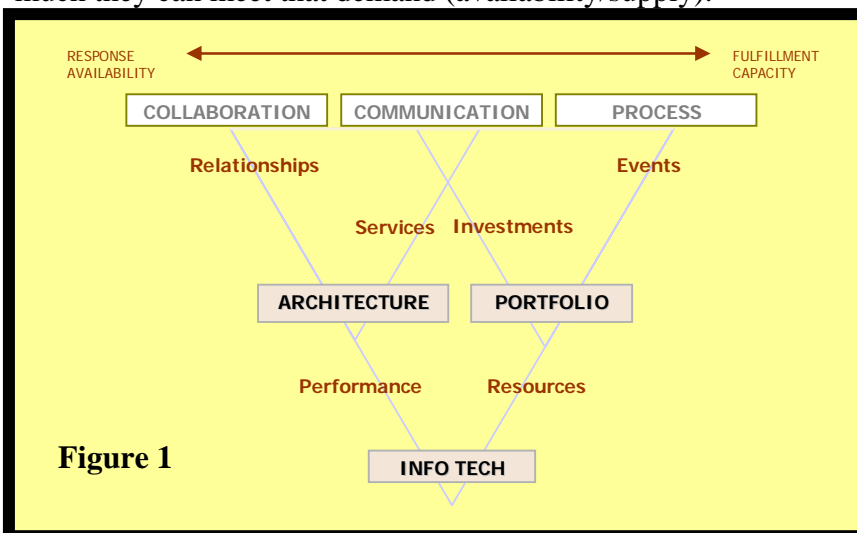
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Real-time business management of IT ensures that businesses achieve the "economic" successes (objectives) that it seeks, in the face of volatile pressures produced by competition, the economy, and the diversity of operating locations. Those pressures provoke operational deficiencies that prevent the desired dollar benefits (profits, low costs, etc.) from occurring. By utilizing real-time management tools for balancing the risk vs. managed environment, problems like risking misfires by acting quickly or being left behind by acting too slowly are essentially resolved.

What is ActiveROI™?

ActiveROI was developed by Principals at Renovance who recognized several major shortfalls in identifying and defining the business value of IT performance. ActiveROI is the model driving our methodology for diagnosing, analyzing, and recommending changes to IT environments and guides the implementation of optimized business processes, agile IT processes, flexible infrastructures, adaptable organizational structures, and cost-effective investment strategies. The ActiveROI-driven methodology helps organizations to identify key measures of business success by which management can monitor performance and provide benchmarks to proactively defend IT investments.

Businesses depend on IT for the effective provision of business intelligence. The selection of information builds the foundation needed for measurement and reporting. The decisions revolving around Information Technology assets are truly driven by the future effectiveness of the assets, not just by their fit to current circumstances. The investment in IT is ultimately a form of business risk management, based on the determination of what (e.g., products or services) the organizations must be able to provide to the customer; how well they can meet demand (capacity); and how much they can meet that demand (availability/supply).



The shortfalls in conventional approaches to defining IT value are the result of siloed views of IT performance. Renovance recognizes that a more holistic perspective of business process and IT infrastructure alignment is necessary for better preservation of ROI. ActiveROI emphasizes business-IT alignment as a key to allowing ROI to grow and persist. **Figure 1** illustrates

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how ActiveROI organizes the integration of certain management processes to logically enforce ROI with, effectively, a set of value chains for creating and continuously regenerating actual ROI.

ROI is much more than just a comprehensive view of financial impact. ROI should be characterized by how businesses engage the market. ActiveROI identifies three key differentiating modes for business engagement: *collaboration*, *communication*, and *process*. Prudent management of the practices that affect these instruments of engagement allows businesses to meet marketplace expectations. Therefore, the effectiveness of how the organization utilizes IT to engage the market should be the primary goal when defining and aligning strategic objectives and measurements in business and IT.

ActiveROI proposes business/IT alignment measures for these key business engagement modes:

- **Collaboration**
Identifies business measurements of bilateral IT support for internal and external relationships.
- **Communication**
Identifies status of IT enablement of the delivery of services (information products) and environmental response investments (financial outlays).
- **Process**
Identifies measurements of events generated, supported or managed by the application and utilization of IT. Events can either be specific business events like marketing campaigns or IT events like infrastructure upgrades.

By utilizing this methodology to demonstrate and monitor IT value, business/IT alignment can be proactively managed with the help of a “dashboard” of key metrics (qualitative and quantitative) that illustrate ROI. The “economic impact” of IT organizations, therefore, is evaluated not only through financial measures such as budget or cost compliance, but also diligently measured on other critical aspects of operations that make up business value.

The ActiveROI Approach

In order to achieve the real-time alignment that cultivates business value, the management tools and techniques of the ActiveROI-driven methodology must be sophisticated enough to integrate multiple disciplines – and to affect the strategies, tactics, and decisions in each of the disciplines. This holistic approach to defining business/IT alignment focuses IT performance management on those attributes of IT utilization which are most pertinent to business effectiveness.

Transforming businesses into real-time management organizations requires a substantial change program that outlines major risks and complex implementations. Realistically, this type of change

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is best done in an incremental way. To identify these increments, ActiveROI utilizes a top-down change strategy that emphasizes a portfolio view of resources while meeting the key business objectives. This portfolio driven analysis gives organizations the ability to define, rank and time multiple business process improvement opportunities, allowing for incremental development while maintaining operational continuity that will result in the generation of continuous return on investment.

ActiveROI allows you to:

- Understand gaps between business priorities and current IT responsibilities, Service Level Agreements and IT support issues;
- Devise and benchmark business oriented metrics that describe IT performance based on strategic objectives;
- Identify portfolios of key activities/processes/systems that support the metric;
- Design a roadmap prioritizing key changes in process, technical design, organizational structure, and investment strategy; and
- Monitor how improvements contribute to business/IT alignment objectives.

Halting the Erosion of ROI

Real-time management requires organizations to integrate knowledge of technical practices and business/IT alignment to include strategies that support the preservation of ROI through their impact on services, relationships, investments and events.

Critical challenges to business-IT alignment contribute to ROI erosion:

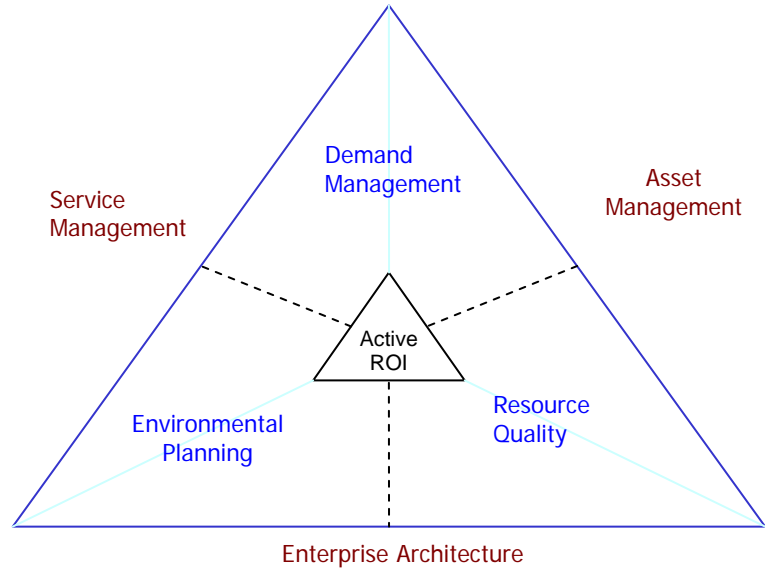
- Complicated or disorganized technical and operational environments,
- Excessive or volatile demand for services and resources,
- Inappropriate or unreliable technology assets, and
- Fluid and changing business requirements.

These factors undermine the basic relationships that make up organizational capabilities for sustained effectiveness. To avoid ROI erosion, the ActiveROI model encourages management to balance the impacts of Resource Quality, Environment Planning, and Demand Management. The methodology engineers alignment through applying and relating practices such as Enterprise Architecture (EA), Service Management (SM) and Asset Management (AM).

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The ActiveROI model positions:

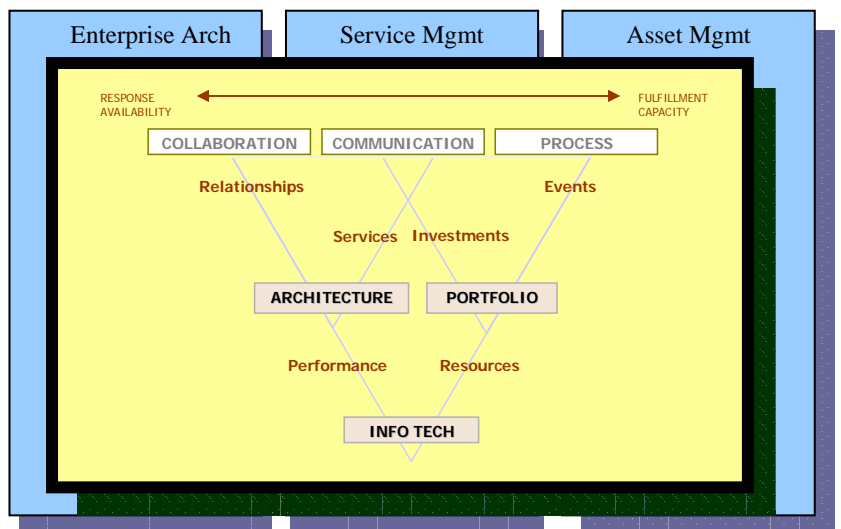
- EA for balancing Resource Quality and Environment Planning to optimize "IT Fitness",
- SM for balancing Demand Management and Environment Planning to optimize "IT Provisioning", and
- AM for balancing Demand Management and Resource Quality to optimize "IT Supply".



Thus, ActiveROI positions IT within organizations to avoid or mitigate ROI erosion, and to balance the impacts of numerous business resources, locations or systems which are utilized throughout the organization.

Key Technical Disciplines

The three technical disciplines and practices of ActiveROI form the foundation for managing IT asset value: Enterprise Architecture, Service Management, and Asset Management. These disciplines help IT resources to demonstrate the value of IT investments as they are directly responsible for how hardware, software, and network devices are used and for how well they are utilized. (A fourth discipline, Project Management, is critical to IT utilization; however, it is responsible only for aligning the consumption of assets within the quality assurance of the project's production, not for managing the business value of the asset.)



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Appropriate management of the three disciplines (EA, SM and AM) is critical to prevent erosion of ROI and provides a reliable path to improved business performance. Each respective discipline consists of its own particular sets of tools, techniques and practices to implement successfully, and thus derives its own particular culture. By using the ActiveROI model for strategic guideposts, IT organizations can focus each of these key disciplines on the transformation effort towards real-time management.

Enterprise Architecture and IT Infrastructure

Enterprise Architecture is the discipline that establishes the design and guides the development of an operating IT infrastructure. The objectives of EA are to create elegant technical designs to increase the use of standards and eliminate redundancy, complexity, and potential failure points in an affordable manner. It is about designing the enterprise infrastructure, the meta-data model, the applications portfolio, network schema, etc. EA practices essentially shape and design domain architecture patterns, processing styles, etc.

While these are certainly worthwhile goals, “the development of a simple and elegant technological solution is a tactical goal at best. Cost savings are attractive in today’s business environment, but they are finite and usually short term. Tactical goals, such as cost savings, should never replace the strategic goal of enterprise architecture.”²

Design and development of IT infrastructure takes into account the responsibility of the IT organization for building innovative products to support business objectives quickly and cost effectively. It is mostly software driven but often involves new hardware, third party providers, and new collaborative networks with business partners. To be successful, effective production environments need to be agile, resilient, affordable, consistent, and easily scalable.

To meet these challenges, it is essential that organizations define an Enterprise Architecture that establishes the principles, standards, governance, and technology selection criteria for the development environment. The Enterprise Architecture defines and establishes the discipline by which IT will build innovative products in a way that guarantees better investments, time to market, and ease of collaboration. This is accomplished through the establishment of common development practices that promote software and infrastructure reuse, consistent sourcing practices, and standard integration tools and techniques.

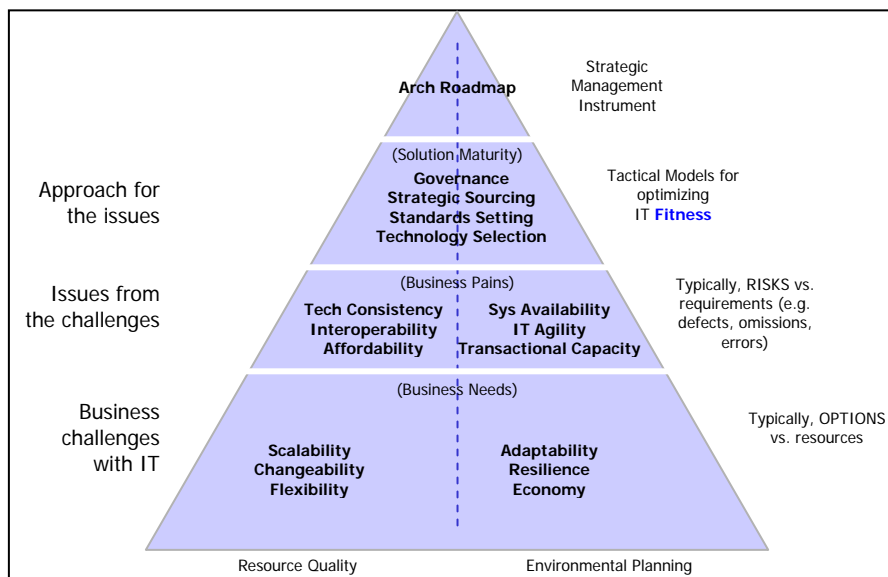
Establishing enterprise architecture practices also allows for better use of the IT infrastructure through the use of standards, consistent technology selections, and company established change management practices.

² Gartner Group, “Enterprise Architecture is Not About Technology,” Research Note, 7 July 2003

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The collection of designs, practices, standards, and guidelines are documented in the Architecture Roadmap that identifies the critical success factors for businesses in the development environment. The Roadmap is the basis by which IT identifies the “Fitness” or quality of technology within the organization.

Service Management and Operations



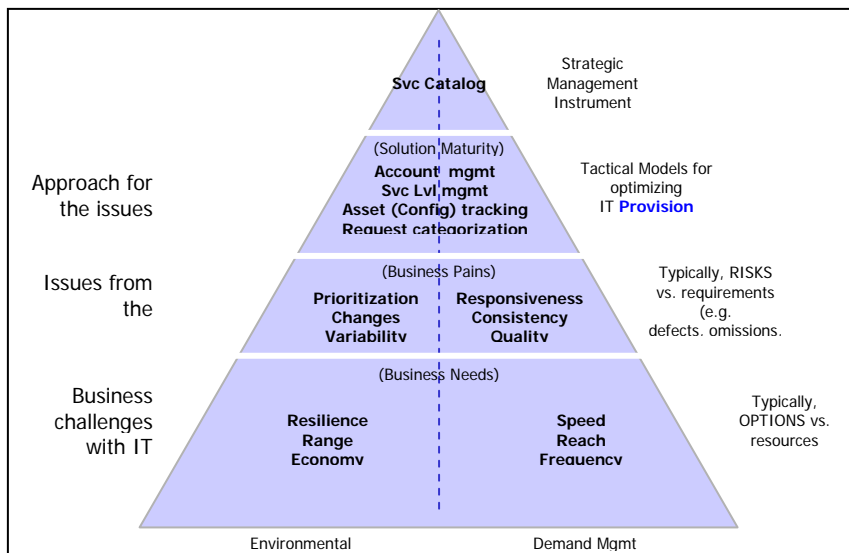
Service Management (SM) enables businesses to do valuable things by formulating and managing IT as a reliable set of consumable services. SM is the discipline that establishes the practices for operating and supporting the IT production environment according to user requirements. Operating and supporting IT infrastructure involves IT's responsibility for

running and servicing the hardware, software, and data networking complex that support the business. In some businesses, it also includes telecommunications as well. Complex business environments provide many challenges to IT, including the demand for transactional capacity on systems and in maintaining a stable environment. User demand challenges the IT infrastructure to remain fast and be reachable by the user community. In order to meet the demand of such challenges, IT Infrastructure has to be responsive, consistent, and of high quality. IT organizations have to be able to prioritize changes and withstand the variability of new products as they are introduced into the environment to ensure stability.

IT organizations must develop the discipline of service management. The industry has identified a benchmark set of best practices and assembled them into the IT Infrastructure Library (ITIL). The library, however, does not define processes and practices that are appropriate for particular businesses; this is left to be assembled by IT organizations into an IT Service Management (SM) program. The ActiveROI-driven methodology focuses the definition of the program on business-value aspects of SM so that real-time management can be accomplished within the everyday practice of the discipline rather than being retro fit.

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To meet the challenges of business demand and environmental stability, the IT organization's SM program defines numerous essential activities, such as:



- account management, to manage the IT infrastructure needs of different constituents;
- service level agreements, to define contracts by which the infrastructure provides speed of response and resiliency;
- configuration management to track IT assets operational capabilities; and
- change management to track and control changes to the infrastructure environment.

These activities then form a catalog of service categories that defines the “Provision” or availability of operational services to support business requirements and objectives.

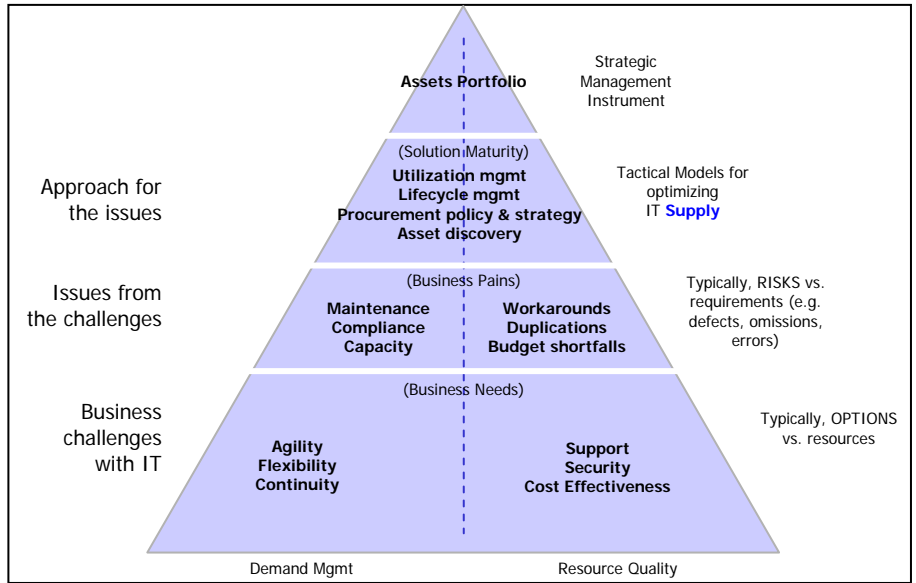
Asset Management and Investment

AM is the discipline that establishes practices for evaluating and maintaining the value of IT investments. Investing in IT has traditionally been a difficult thing to justify, quantify (e.g. infrastructure investments) or track (e.g. product revenues derived from particular IT assets). IT investments, however, are made either to improve the quality of current IT resources or to meet the demand for new products or increase scale.

The pace and complexity of a dynamic, inter-related business environment presents challenges to making IT investments that are cost effective, secure, and supportable. The variability and volume of what businesses need to respond to competitive pressures challenge IT investments to produce systems that are agile, flexible, and stable. For every new asset that is targeted, there are other solutions that can be applied, other assets that can be used instead of a new purchase, or not enough money to pay for the new asset. For the investment to be consistent with other investments already made, one must consider the maintenance costs of the new asset, whether it is compliant with the organization's technology guidelines, and if it will be sufficient to handle the capacity of the new transactions that it will drive.

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Once an investment has been made, however, businesses should derive value from the assets. The IT organization must not only define existing assets, but they must utilize ActiveROI to drive identification of what value the assets are supporting. Establishing IT asset value most likely results in cost allocation, but rarely a revenue pull-through or other subjective measurement of value.



ActiveROI establishes values in the Assets Portfolio which define the “Supply” or availability of assets to support business requirements.

Maturity of IT Practices

The ActiveROI methodology encourages incremental changes in the IT organization to achieve transformation to real-time management.

Most IT organizations already have established disciplines and practices for EA, SM, and AM. Unless the best practice defines and describes a value of the IT asset’s disposition within the company, then the best practice does not go far enough towards reporting business value. Each technical discipline has particular objectives that are necessary to support business requirements. Transformation decisions should consider the challenges and issues in each of the silos and account for critical success factors.

The respective practices, therefore, will be in various states of readiness for reporting on the appropriate measurements that illustrate the business value of asset components and utilization. Each practice may also require a different level of improvement and change in order to prepare business intelligence required for reporting.

Dynamic business environments demand fast and accurate decisions that cannot be fully or optimally effective when made from the viewpoint of a single discipline. Real-time management, therefore, requires IT organizations to have processes, designs, organizations, and investment strategies that are sophisticated enough to account for the critical factors within and between silos.

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ActiveROI defines several levels of maturity in management practices that support each discipline. These maturity levels identify processes, designs, organizations, and investment strategies that are increasingly more collaborative between disciplines and are focused on deriving value from IT assets and infrastructure. Although all processes are not required to be collaborative, ActiveROI defines various levels that should be utilized to effectively manage critical business priorities and objectives.

- **Ad Hoc / Monitored**
Collaboration and business value is emphasized and practiced on an Ad Hoc basis
- **Coordinated**
Some amount of collaboration between disciplines is required but is not essential.
- **Managed**
Collaboration is formal and is actively planned and controlled.
- **Real-Time Managed**
Collaboration and information exchange is an organic practice of the organization.

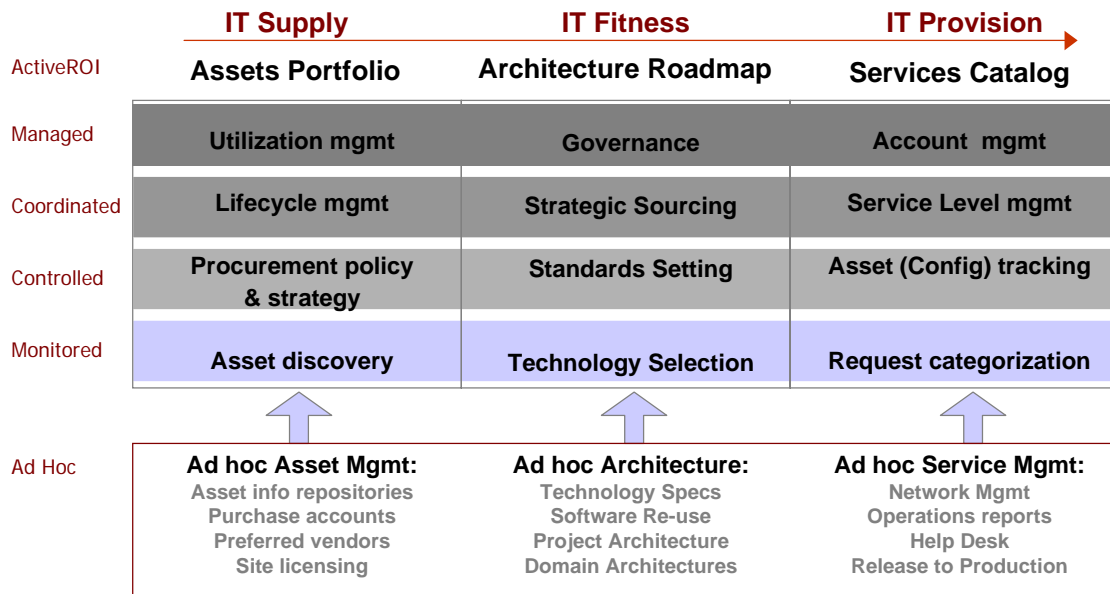


Figure 2: ActiveROI Practice Maturity

Figure 2 illustrates how ActiveROI drives organizations toward real-time managed environments.

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A Holistic Approach to Managing Enterprise-wide Alignment

ActiveROI drives processes, technical designs, organizational structures and investment strategies that leverage Enterprise Architecture, Service Management and Asset Management initiatives to achieve the following objectives:

- Bring a holistic perspective of the IT organization into view – as it pertains to strategic, tactical, and operational perspectives
- Improve the ability for IT investments to command better ROI and better business performance
- Improve the ability to invest in the right projects and to secure the necessary stakeholder participation and funding
- Ensure that IT investments are used to create value to the fullest extent possible by using services to align requirements (demands) with sourcing (supply)
- Ensure that the strategic, tactical, and operational risks of projects, as pertaining to changes in the existing infrastructure, are identified and handled appropriately
- Build and follow a senior management approved roadmap that would facilitate adoption of a maturity model to encourage constant innovation and improved business performance

By utilizing methodologies and metrics like ActiveROI, organizations take a holistic operations approach that cultivates the potential to achieve real-time business/IT alignment and derive greater business value from existing and future IT investments.