Business Value Assurance (BVA) during the Transformation Journey

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Abstract

Today, for Business Value Assurance (BVA), businesses need to look at value dimensions in their totality, determine what the IT and business enablers are, establish the relationships between them and accordingly invest in enabling technologies.

A BVA framework helps ensure that the CXOs are on the same page on the value dimension front. Businesses across the spectrum need to adopt such a framework that can help them focus on business outcomes.

However, every industry vertical / organization has different value dimensions and enablers. Take the instance of an end-to-end pharmaceutical company. The entire procedure starting from discovery to marketing takes a long time and involves humongous cost. A BVA framework, by indicating the business value of using simulation techniques, can significantly reduce the time taken. Reduction in the cycle time say from 14 years to 13 years, provides a wider window to sell the drug before the patent expires and can significantly impact topline and bottomline. Similarly the framework can quantify the possible cost savings from contract manufacturing enabling the business to take the right decision on the matter.

Introduction

Several businesses recognize the importance of creating value dimensions and are well aware of the role IT can play in realizing them. They therefore initiate relevant IT projects, but determine project success on the basis of metrics like time and budget. The undue focus on project management results may mean that many projects are deemed successful, but add little value to the business. An insurance company whose persistence rates are low might consider its Business Intelligence (BI) analytics project successful if completed on time and within budget. However to determine project success, the question they really need to ask is "Did the project improve customer persistence?"

Also, organizations often consider the derived value by taking an isolated approach, say measuring value only in terms of Return on Investment (ROI). However, what they need is a Lifecycle approach encompassing all value dimensions. This entails determination of value dimensions of the business, identification of their business and IT enablers and establishment of the correlation among all the three. Realizing that a framework could help them establish these relationships, IT divisions of businesses and IT service providers like Wipro have been putting in a lot of effort to put together a structure that could enable business value measurement.

Need for a Framework

The business-IT relationship has always been lopsided. A survey has shown that 80% of IT decision-makers in the UK see a significant gap between what businesses want and when IT can deliver. In Europe as a whole, the number is 65%. The research also shows that this gap affects innovation, business productivity and customer base[1].

CIOs are also feeling the heat of dwindling IT budgets post the financial crisis of 2008. They are often unable to establish a business case for IT programs due to lack of a platform that can quantify possible benefits. Moreover, in the absence of a framework, ineffective leveraging of IT would not only result in wastage of IT expenditure, but also prevent enhancement of business.

[1]http://www.computerweekly.com/news/2240222427/80-UK-CIOs-feel-significant-gap-between-business-and-IT-exists

With a BVA framework, the CIO can get his budget approved, the CFO can improve the financial parameters of the business, and the organization can tread the growth path.

Low cost of IT does not always mean an efficient IT. It can also mean inefficient Business Operations due to under-automation. In such situations, a framework to identify such opportunities to improve business operations through IT projects is crucial.

A Business Value Assurance (BVA) framework helps ensure that the CXOs are on the same page on the value dimension front. Businesses across the spectrum need to adopt such a framework that can help them focus on business outcomes.

The Model Framework

An ideal BVA framework is one that focuses on possible CXO requirements, one that is prescriptive in addition to being descriptive. It ought to be derived from actual business needs and not just from the perspective of justifying the allotted IT budget.

The point of balance will differ depending on the industry type, business maturity and culture. The framework should facilitate a step-by-step approach with well-defined tools and templates, without getting into the granular quantification of every benefit.

Ideally, the BVA framework should be suitable not just for standalone use by businesses, but also by service providers that make large bids or wish to take on standalone assignments and showcase how they will improve clients' profitability. It is also important to inject adaptability and customization of organization-specific needs.

For instance, companies in the pharmaceutical space might be involved in molecule discovery, patenting, contract manufacturing, contract research, drug formulation, generics production, sales and marketing of new drugs or regulatory assurance, or a combination of these. The value dimensions for each of these businesses will, thus, be different. While data security might be an important value dimension for a contract research company, for a generic producer it could be size of the product

portfolio. Likewise, in the oil and gas space, the value dimensions depend on the business function. For instance, a company that is into geological mapping of reserves would be more concerned about accuracy of mapping than quantum of reserves.

Wipro's Framework

Wipro has built a BVA Framework keeping in mind the needs of clients. Organizations looking to implement it need to map the value chain or the ecosystem and derive the value dimensions of the organization: topline, bottomline, business flexibility, goodwill, societal value etc., or a combination of these based on the organization's strategic direction. Companies can work towards enhancing these dimensions through IT and non-IT enablers, each of which contributes to a certain degree of value improvement. Multiple enablers can contribute to a specific value dimension and correlations between them need to be established. Also, there could be some IT enablers that do not bring substantial benefit either in terms of topline or bottomline. The need for a particular IT project is great when the risk of non-implementation (regulatory risk, for instance) and benefits of implementation are both high. In addition, organizations should also consider the various IT enablement costs involved, both capex and opex: hardware, software license, hiring of new employees, training, loss of productive hours when transitioning, hardware maintenance, software support contracts, business case preparation, Project Management Office (PMO), Value Management Office (VMO), consulting, RFP, procurement , administration, logistics and travel.

The final portfolio decision needs to be taken after calculating benefits in financial terms – Return on Investment (ROI), Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period and Economic Value Added (EVA) – and performance of cost-benefit analysis.

Wipro's framework is based on business value derived and not IT's perception of value. More importantly, it helps establish correlation between IT enablers, business enablers and business value dimensions. Figure 1 illustrates the structure of Wipro's framework.

Business-Value Assurance Framework
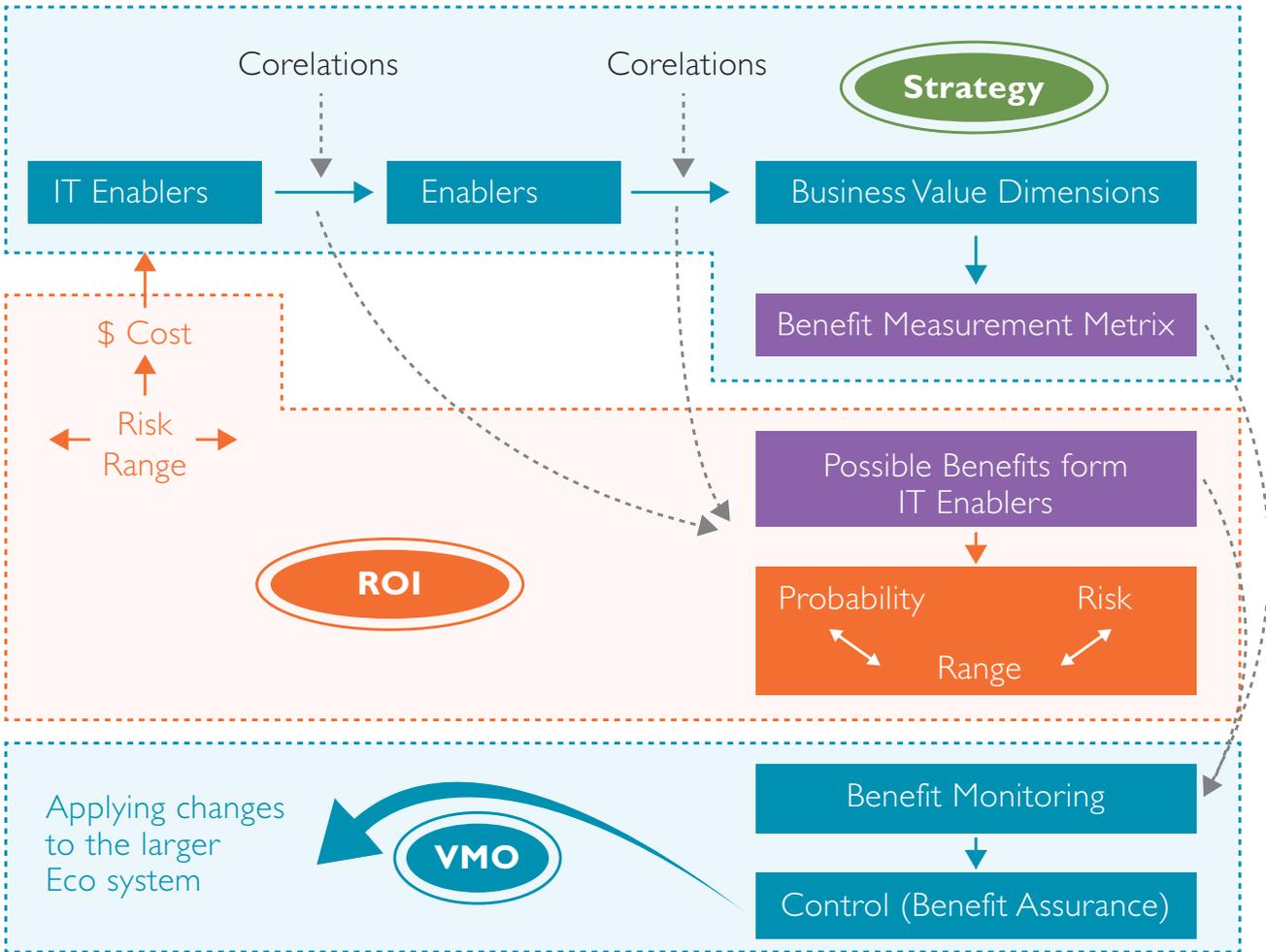*Mandar Vanarse, Consulting Partner, Wipro*

Fig. 1: Wipro's BVA Framework

The organization needs to determine the IT enablers and the degree of dependencies of each based on which IT initiatives can be finalized and given shape. The duration, tracks, milestones of each of these initiatives need to be captured and the IT strategy/transformation roadmap can be derived by consolidating IT enabler attributes. The framework enables determination of the quantum of improvements possible in an identified value dimension and the cost of introducing and implementing IT enablers, that in turn facilitate ROI analysis. Further, the VMO constantly monitors the benefits by weighing actual value against intended value with the help of benefit measurement metrics and initiates course correction in case of a mismatch.

A many-to-many relationship exists between an organization's IT enablers, business enablers and business value dimensions, which the framework clearly establishes. For an oil and gas organization, for instance, intelligent oil fields and knowledge management system are the IT enablers that contribute to the business value dimension of productivity enhancement. In the pharmaceutical space on the other hand, a company into molecular research can reduce cycle time, a value dimension, by activating two business enablers – opting for contract manufacturing and proactively applying for licenses. The organization can not only comprehend the multiple values that a particular enabler enhances, but also figure out which multiple enablers contribute to a specific value dimension, as indicated in Fig. 2.
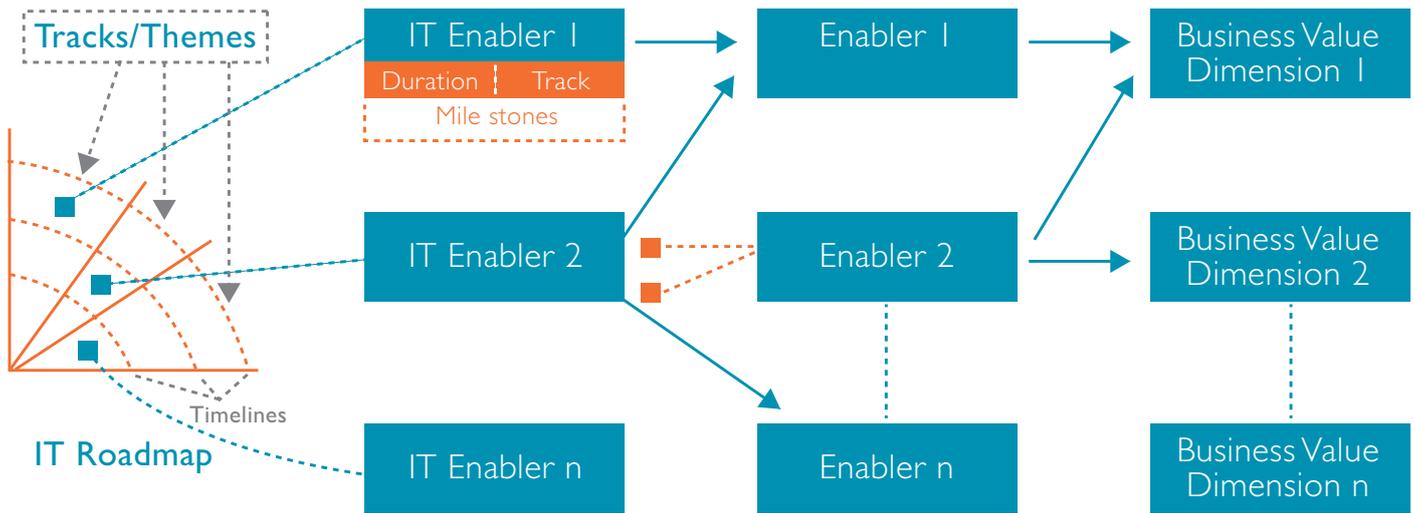
Fig 2: Many-to-Many Relationship between enablers and value dimensions

Why It Is Unique

Rather than adopting a piecemeal approach that considers only ROI, IRR, Benefit Quantification or Value Metering / Monitoring, Wipro's BVA framework assumes a Value End-to-End Lifecycle Management approach that ensures business value. The framework's flexibility and quantifiability enables accurate value measurement. Further, the base value dimensions for different industry verticals are embedded in the framework. Of course, various stakeholders in the organization will need to agree on them.

Wipro's framework follows the top down approach starting from value dimensions to realization. It also facilitates the transformation of the enterprise into a value-based organization by adopting the end-to-end transformation approach. Thanks to the framework, the organization can control environmental levers and take corrective action to ensure value realization. It also enables fixing each initiative's and project's accountability in contributing towards enhancement of value dimension and implementation of business strategy.

What It Means for Business

Correlation between enablers and value

Wipro's BVA framework adds tremendously to business value by facilitating the establishment of business dimensions and the determination of business enablers that improve each of these dimensions. IT enablers can then be determined and correlation among IT and business enablers can be established.

Fig. 3 illustrates the BVA framework of an energy company. The value dimensions of bottomline improvement and sub-dimensions of reduction in operational and capital cost are being improved by activating business enablers such as collection improvement and more cost-effective borrowing. The collection improvement enabler in turn is enhanced by other business enablers such as proactively contacting possible defaulters and reducing the metering to billing to collection cycle time. Possible defaulters can be determined with IT enablers such as BI while cycle time can be reduced by leveraging smart metering, another IT enabler. Wipro's framework helps identify the relevant enablers for a particular value dimension and quantify their potential contribution. Organizations in the retail and telecom sectors can also benefit from the framework.

Value-Enabler Mapping
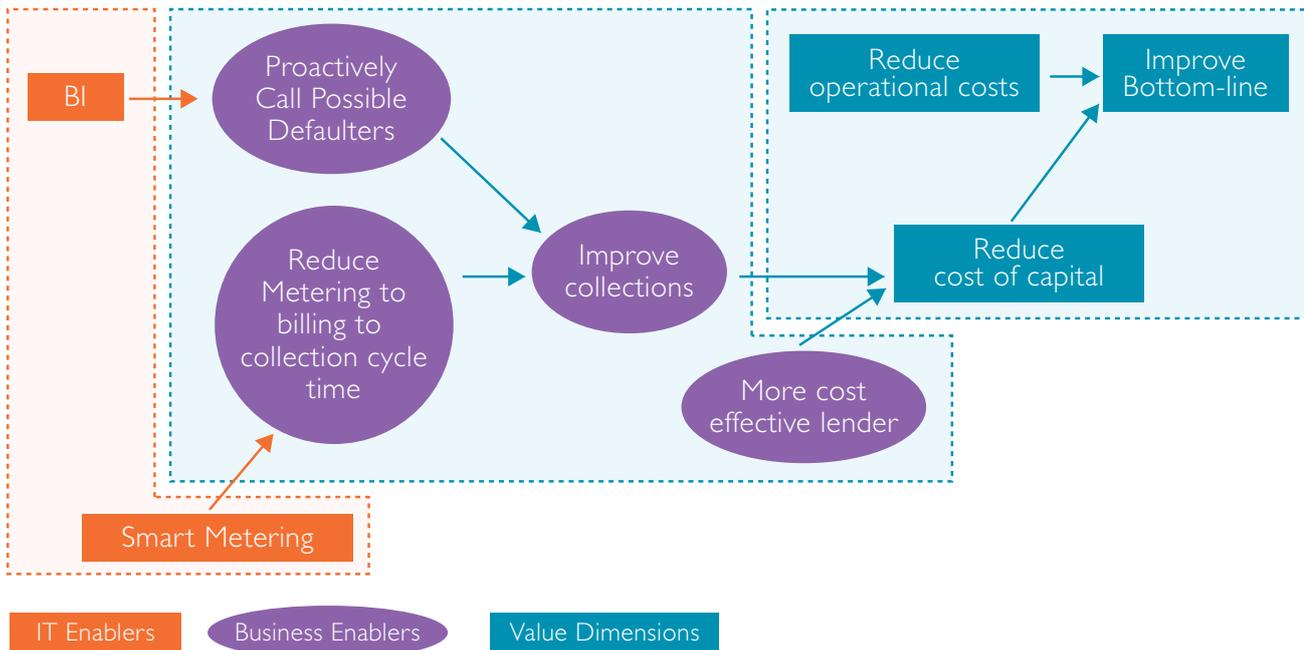*Business value dimension to Enabler can have multiple cascaded needs*

Fig. 3: Value-Enabler map of an Energy Company

Business-IT Alignment

The framework facilitates Business – IT alignment by establishing correlations between Business and IT entities. The organization first needs to determine the following:

- How should the business services be designed in terms of availability, security, scalability, interoperability, maintenance, performance, lower cost, extendibility and reliability (ASSIMPLER) from end consumer perspective?

- How can the services be delivered by processes? What should be the design principles for these processes if they have to deliver the business services with the required ASSIMPLER parameters?

- How should the information, Application and Integration Architecture be designed so that the process's ASSIMPLER parameters can be delivered?

- How should the infrastructure be designed to support the applications sitting on it, so that the latter can deliver the required ASSIMPLER values?

- How should the Support systems /operations be designed so that they deliver the infrastructure, applications, data, processes and finally business services with the required ASSIMPLER values?

Benefit documentation

Wipro's framework helps to document the benefits and lay down measurement metrics .For instance, the benefit of capital cost reduction can be measured on various parameters such as Days since outstanding (DSO), Provision for doubtful debts (PDD) etc. Establishing correlations between enablers / IT enablers and value dimensions and actual values in the measurement metrics is the most tricky part of value management and generally requires accurate calculation, prudent judgment, study of precedence, conduction of surveys, collection of opinions, study of benchmarks or a combination of these.

The framework also helps determine the possible range. For instance, there may be a possibility of bringing down a 100 days collection cycle time to 60, but it is advisable to set a reasonable range, say, 48- 70 days based on various assumptions, probabilities, buffers and so on.

The framework thereby enables quantification of total gains or improvements that can be achieved in a value dimension from all enablers as well as benefits to various value dimensions from a single IT enabler, as shown in Fig. 4.
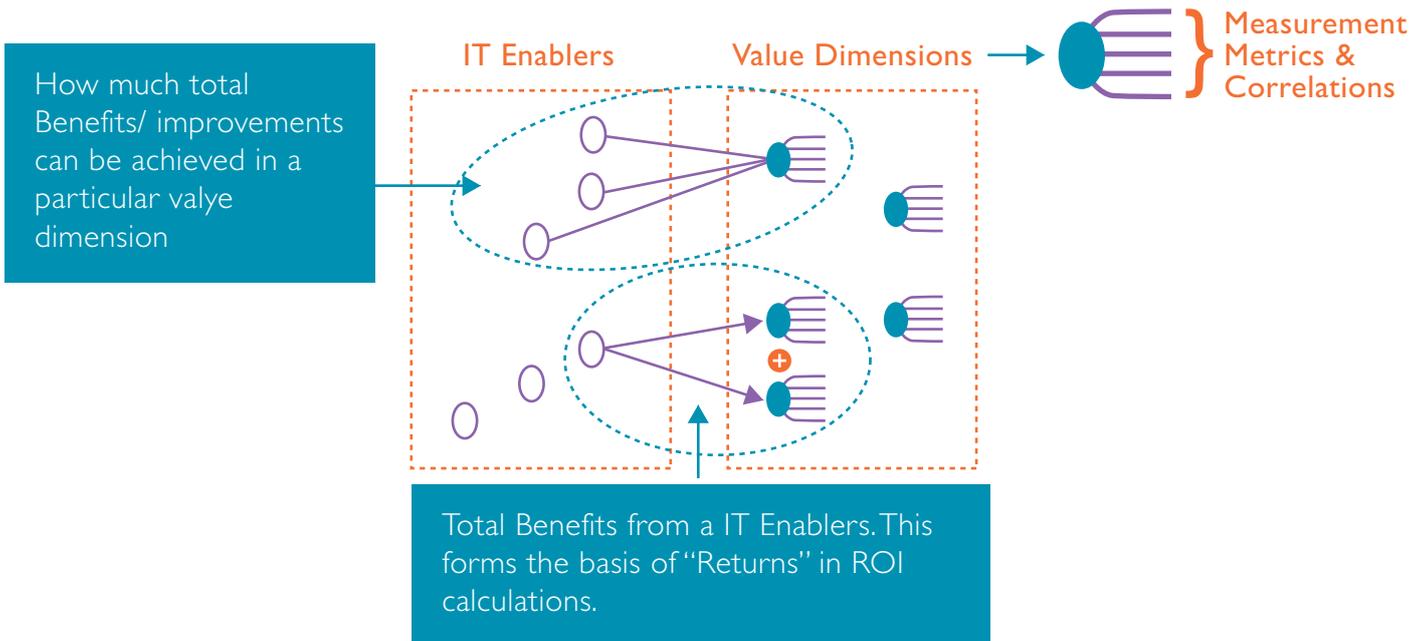
How much total Benefits/ improvements can be achieved in a particular valye dimension

IT Enablers

Value Dimensions

Measurement Metrics & Correlations

Total Benefits from a IT Enablers. This forms the basis of "Returns" in ROI calculations.

Fig. 4: Quantification of benefits

The benefit plan is based on the expected quantum of benefits and realization time. One or more benefits can be linked to the project (IT enabler) milestones and be expected to realize after a specific time period. Based on the range in benefits with respect to quantum and time, a benefits locus can be defined. The upper graph in Fig. 5 indicates project milestones and the time required to achieve each milestone. The lower graph shows the benefits locus. One or more benefits can be linked to project (IT enabler) milestones. Delta t in the lower graph denotes the time lag between the first milestone and the realization of a specific business dimension.
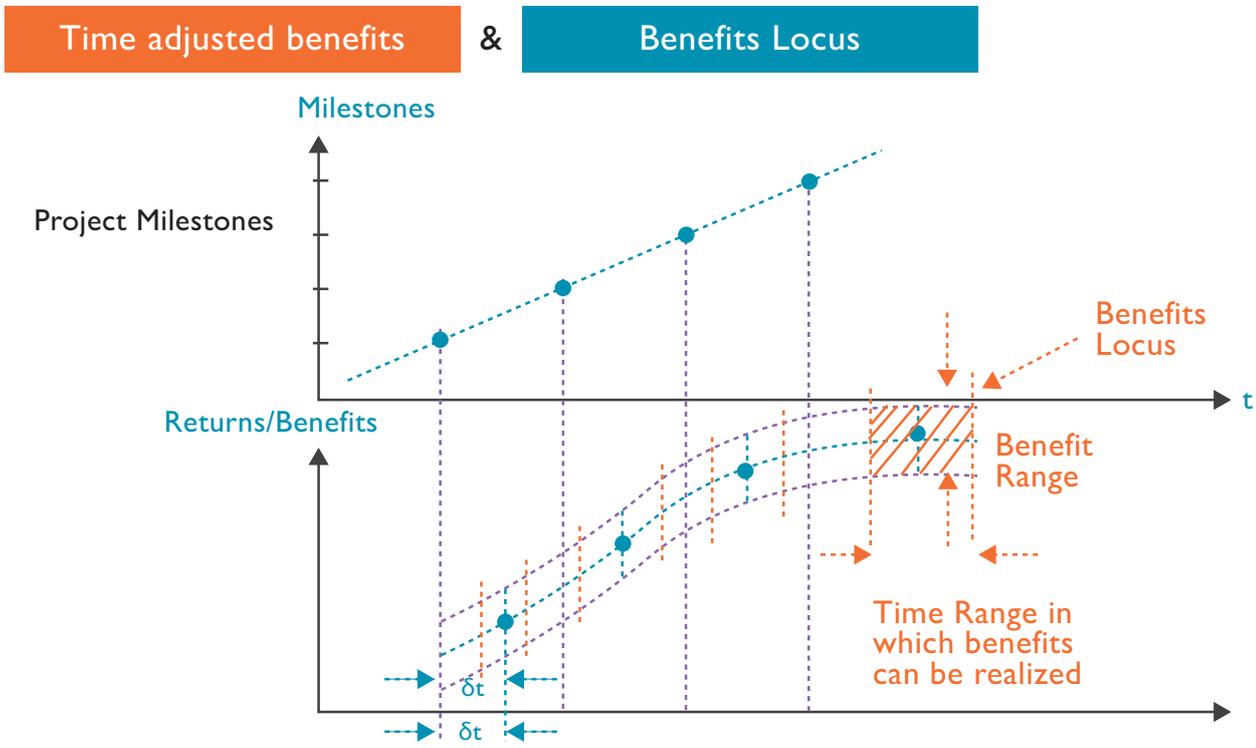

Time adjusted benefits   &   Benefits Locus

Milestones

Project Milestones

Benefits Locus

Returns/Benefits

Benefit Range

Time Range in which benefits can be realized

δt

δt

Fig. 5: Benefits Locus

The boxes in Fig. 6 indicate the difference between planned and actual benefits and the permissible range within which the business enabler benefits should lie. The VMO monitors the realization of value at real time and identifies root causes of non-realization of intended value.

Benefits/value monitoring & control

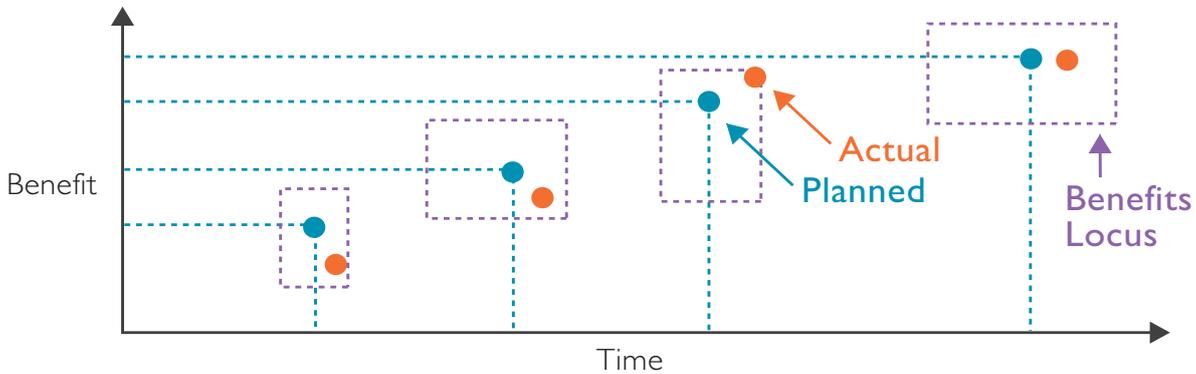### Actual Benefits can be monitored with regard to benefits/value plan

Fig 6: Benefits / Value Monitoring and Control

Transformation Roadmap

Further, a roadmap can be derived through automated tools, based on parameters such as track (hardware, information, operational process and so on), time and the portfolio decisions taken, as illustrated in Fig. 7. The framework tracks the project in terms of milestones, cost and quality through its PMO feature and benefits/value through the VMO feature also shown in the same figure, providing feedback through the feedback control mechanism.
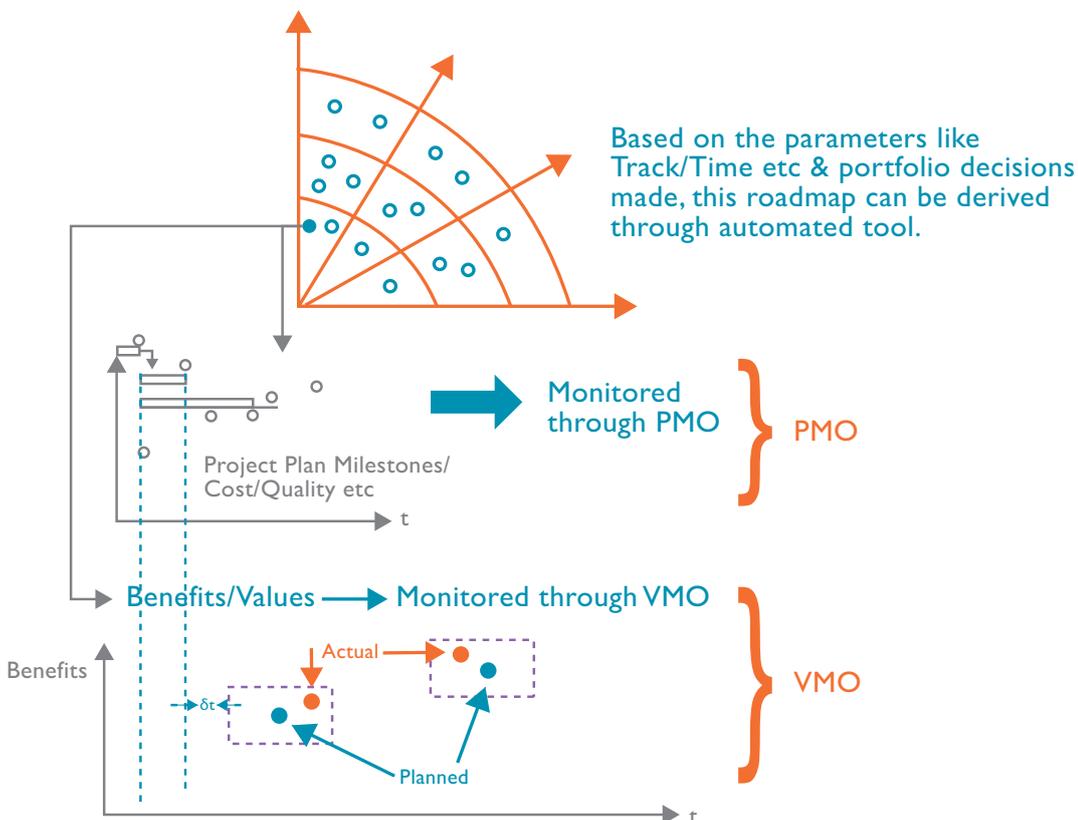

Fig. 7: Transformation Roadmap and PMO / VMO Benefits

Conclusion

Businesses that aim to grow and prosper cannot restrict their focus to ensuring project completion within the set parameters and need to measure the business value derived from a project. A seemingly small issue like suitability of bank timings for opening a customer's bank account acts as a business enabler to the value dimensions of expanding the customer base and enhancing customer experience. A framework that determines such values and establishes their correlation with various enablers will facilitate better alignment between business and IT, ensure judicious investments, encourage innovation and also generate wealth for the organization.

About the Author

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For last 2 decades, Mandar has been in various leadership roles in IT and Consulting industry. He is the Author of ASSIMPLER Framework for EA and IT Strategy. He has led many cross-cultural teams onshore and offshore. His experience spans across Energy and Utilities, Telecom, BFSI, Pharma, Infrastructure and Government. Mandar has also led Practices, ODCs and start-up organizations in the capacity of Head, CTO and CEO, to successful profit centers. He is a strategy Coach and Mentor to many Country-wide & Organization wide transformational initiatives. The countrywide EA framework project which he directed has also received UN award.

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