

CYTRAP LABS COVERAGE OF THIS ISSUE

research methodology 3 - IT valuations - what Insead, Financial Times and others have in common

Article in Financial Times

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Study calls for rethink on IT valuations

By Pan Kwan Yuk in Paris and Philip Stafford in London

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Companies need to dramatically rethink the way they manage and value their information technology assets if they are to extract better returns from these investments, according to a study published today.

Describing IT hardware and software as the "last remaining hidden corporate asset", the study, commissioned by Micro Focus, a UK software developer, said core IT assets should be valued with the same rigour and discipline as other corporate assets such as brand and goodwill.

Insead, the Paris-based business school that carried out the research, said that while IT now played a vital role in driving corporate performance, companies continued to treat their IT not as assets for value creation but as an expense item to be minimised.

"It's astounding," said Soumitra Dutta of Insead.

"While firms have long focused on creating value from physical assets such as factory or store space and intangible assets such as brands, IT assets as a vehicle for value creation have remained largely ignored."

One problem, according to Prof Dutta, was that even though companies spent billions of dollars every year on IT, few boardrooms knew the value of their hardware and software and the contributions they made to their business.

In a study released last month, Micro Focus and Insead surveyed 250 chief information officers and chief financial officers

from companies in the US, UK, France, Germany and Italy.

The survey found that fewer than half had tried to value their IT assets, while 60 per cent did not know the worth of their software.

"When it comes to technology, people tend to get lost in jargon and focus on the new and shiny," said Stephen Kelly, chief executive of Micro Focus.

"Very little thought goes into the benefits that result from the new system and almost none to deriving maximum value from it."

Yet Prof Dutta said that the potential savings for companies who took the time to analyse the value of their software assets could be huge.

"Think of a house," he said.

"Would you knock down an entire house when what you need is to update the kitchen? No.

"Yet we see companies spending millions of dollars to build a new IT system every other year when, in many cases, what the companies needed was just to update the existing one."

One way Prof Dutta

said companies could measure the business value of their core IT assets was through conjoint analysis, a statistical technique used in market research in which people make trade-offs across different attributes.

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Letter to the Editor

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Top managers have to lead on contribution of IT

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From Mr Jem Eskenazi.

Sir, Your article on the Insead/Micro Focus study about information technology valuations is confusing (" [Study calls for a rethink on IT valuations](#)", November 5). It is not clear whether the issue being highlighted is about IT asset values or the business value of IT, which is far more complex to track. If the latter, there are several

difficulties in coming up with a proper measurement.

First, it is more logical to calculate return on specific projects than to talk about the value of the contributions of IT to business in overall terms. And here comes the second difficulty: any successful strategic project involving IT is really a business project with an IT component. To calculate just IT's contribution to the project, critical as it may be, is just about impossible; it is the business initiative that has the value.

Probably the most fundamental reason that IT's contribution to business is not understood properly is because the right people in the organisation are not tasked to do so. I am a chief information officer and have been at various levels of IT management for more than 20 years. I have observed IT managers explaining the strategic approach to IT and how IT has to speak the language of business.

Most CIOs and IT directors I know would not consider embarking on a big IT project without a clear view on business benefits and value creation. The problem is, I have not seen a single event for chief executives and general managers about the IT/business partnership issue.

It is top management that has to lead the understanding of IT's contribution to the business, since top management understands the business best.

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