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Media Contacts:

Tim Brill

Micro Focus

+44 1635 565364

Tim.Brill@microfocus.com

Dan Chappell / Sam Kane

Brands2Life

+44 20 7592 1200

microfocus@brands2life.com

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INSEAD STUDY CALLS FOR DRAMATIC SHIFT IN MANAGEMENT AND VALUATION OF CORE SOFTWARE ASSETS

- *Global companies rarely invest resources in valuing I.T. assets*
- *Firms have managed core software assets as an expense item to be minimised for far too long*
- *Time for large organisations to move from cost control to value enhancement of I.T. assets*
- *INSEAD pinpoints Conjoint Analysis methodology as way forward for assessing true business value of organisations' core software assets*

Micro Focus sponsored INSEAD research paper offers CIOs a route to communicate the business value of hidden technology investments to the board

NEWBURY, England, 05th November, 2007 - Micro Focus® (LSE.MCRO.L), a leading provider of enterprise application management and modernization solutions, and INSEAD the leading international business school today call for a radical shift in management and valuation of IT assets at organisations worldwide.

An INSEAD research paper published today by Professor Soumitra Dutta, INSEAD Chair of Business & Technology and sponsored by Micro Focus challenges C-level executives to move away from managing their core software assets as an expense item often written off, and step-up to communicate the real value of core software assets to the boardroom.

Professor Dutta's study builds on quantitative research gathered from CIOs and CFOs announced in October by Micro Focus which uncovered evidence that despite a global annual IT spend of \$1 trillion [\[1\]](#) in 2006 alone, I.T. systems are the hidden corporate asset, highlighting how the size and value of I.T. assets are being ignored by the world's leading companies, compared to other regularly-measured corporate assets such as cash, brand, property and intellectual property.

Professor Dutta's INSEAD report identifies that software is a key asset, crucial to business strategy, that is also an important vehicle for value creation in business today. He also identifies a complete lack of adequate tools for assessing the business value of a firm's core software assets.

"Firms have managed their core software assets not as an asset for value creation, but as an expense item to be minimised. This has to change," said Professor Soumitra Dutta, Chair of Business & Technology at INSEAD. "Both CIOs and CFOs need to

be communicating the business value of core software assets to the Board and make it a priority to measure the value of their software assets. Core software assets represent the hidden value in firms and need to be correctly measured for making the right investment decisions; balance sheet purposes; mergers and acquisitions; joint venture negotiations, licensing and franchising and transparent investor relations."

"The INSEAD report demonstrates that corporations are not valuing core software assets. Given global IT spend exceeds the GDP of India [2], it is disappointing that corporations have not focused on deriving maximum value from core software assets," said Stephen Kelly, Micro Focus CEO. "These core assets provide the life support system for corporations and deserve the same respect and valuation as other asset classes like brand, property and goodwill."

Professor Dutta suggests Conjoint Analysis as the best approach for measuring the value of core software assets. "In a traditional conjoint analysis application, people make trade-offs across different product attributes. For applying the technique to software assets, the methodology requires people to make trade-offs across different business outcomes associated with the software asset," said Professor Soumitra Dutta. "If organizations analyse the conversion of real business outcome attributes generated by core I.T. systems into measures of business value, then there is a strong opportunity to calculate the real financial value of core software assets to the business."

"Professor Dutta identifies a clear route for I.T. to move beyond a traditional engineering background role, and offers the opportunity for CIOs take on a much more strategic responsibility by identifying and communicating the hidden value of core software assets to the boardroom," said Stephen Kelly, CEO Micro Focus. "There is huge business value within core software assets, often built up through many business processes over a number of years. For the first time CIOs and CFOs now have the ability to unveil and communicate the real value of this last remaining unvalued corporate asset to the board."

About Micro Focus

Micro Focus provides innovative software that allows companies to dramatically improve the business value of their enterprise applications. Micro Focus Enterprise Application Modernization and Management software enables customers' business applications to respond rapidly to market changes and embrace modern architectures with reduced cost and risk. For additional information please visit www.microfocus.com.

RESEARCH BACKGROUND

- The INSEAD paper, sponsored by Micro Focus is produced by Professor Soumitra Dutta, INSEAD Chair of Business & Technology based on qualitative research interviews with C-level executives at global organisations.
- Professor Dutta's INSEAD paper highlights the large proportion of companies who do not know how much software they actually own and how much they spend on it. More importantly that it is time for business and the CIO in

particular to uncover the huge hidden value of these core software assets for the firm, so they can be exploited to provide even more business value.

- A key finding by Professor Dutta is that CIOs are currently too focused on developing software systems bigger and more complex than ever, which need to meet increasing demands for higher quality and performance. At the same time CIOs are scrambling to cope with the pressures of managing cost of software purchase and maintenance rather than concentrating on the extra value that core software assets can bring to the business.
- The INSEAD report builds upon previous quantitative research [\[3\]](#) by Micro Focus which surveyed 250 respondents across France, Germany, Italy, UK and US, comprising 50% CFOs & 50% CIOs at companies with revenues from \$100m up to over \$1bn. Respondents surveyed included CIOs & CFOs from manufacturing, financial services, and retail sectors. This study shows that less than half of all CIOs & CFOs (48%) ever try to quantify the financial value of their IT assets. Only 37% of CIOs have tried, compared to 60% of Finance Heads. Less than a third of all respondents (29%) from both groups, ever try to quantify the contribution all their IT assets make to the business' performance.
- The quantitative research also found that nearly two thirds (60%) of CFOs & CIOs do not know the size of their core software assets, whereas a third (29%) do not know what they spend on their core software assets each year. This research clearly shows that management are not investing the time and effort in assessing the real value of these assets. Dutta's INSEAD qualitative research paper points to the fact that this is happening despite the knowledge software assets capture about vital business processes crucial to global business strategy today and that the volume of software assets in organisations is continuously increasing.
- This extensive qualitative and quantitative research project follows a KPMG/Micro Focus study in May 2007 which revealed 90% of leading companies failed to attribute value to IT investments in their annual accounts.

Key anonymous C-level executive quotes cited by Professor Soumitra Dutta's qualitative research paper:

"We have been doing ourselves a great disservice. We have created an enormous base of intangible assets [our software systems] and then we have largely elected to ignore it. We have under-invested in extracting value from our software assets. I think that this will change as the performance pressures on firms increase."

"They say that a cat has nine lives. Software for sure has more. Whenever you think that you are ready to retire a piece of software, you always hear voices asking for it to be spared. There are always good reasons given with the plea. Customers need it, old products need to be serviced, workers are too busy to be trained on the new system, etc., etc. You have to be strong and disciplined to retire software."

"The long tail of the older software assets consume a significant portion of the total resources that my firm spends on technology today. These software assets are the hardest to grapple with in terms of identifying total spend. Most of this spending does not even appear on my [central] budgets."

"I have been involved in a number of mergers over the last years. In each case, I had significant challenges in doing the due diligence of the technology systems. If I had a simple way to compute the business value of the software assets, my life would have become much easier."

NOTES TO EDITORS:

Conjoint Analysis

Conjoint Analysis is a research technique used to measure the trade-offs people make in choosing between products and service providers. It is also used to predict their choices for future products and services. Conjoint Analysis assumes that a product can be "broken down" into its component attributes. For example, a car has attributes such as colour, price, size, miles-per-gallon, and model style. Using Conjoint Analysis, the value that individuals place on any product is equivalent to the sum of the utility they derive from all the attributes making up a product. Further, it assumes that the preference for a product and the likelihood to purchase it are in proportion to the utility an individual gains from the product. [4]

[1] Source: IDC Jan 2007; IT spend \$1.16 trillion in 2006

[2] Source: <https://www.cia.gov/library/publications/the-world-factbook/print/in.html>

[3] Research carried out in partnership with research organization Vanson Bourne

[4] Description taken from: <http://www.populus.com/techpapers/conjoint.php>