

LINKING IT ASSET MANAGEMENT (ITAM) TO STRATEGIC INITIATIVES

AN IAITAM GRAY PAPER

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IT Asset Management (ITAM) involves many areas in an organization and can sometimes struggle to find a solid home within the organization. This lack of organizational focus can lead to not being included as part of an organization's strategies for goal achievement. Stronger strategic alignment and a more formal definition of ITAM measurements helps organizations leverage the benefits of ITAM into the overall success of the organization. Measurements provide the vocabulary necessary to clarify how ITAM contributes to the organization.

It is important to define and review these measurements from an ITAM perspective. Beginning with a discussion of the established concept of a balanced score card, the slightly less established information technology version of a score card is presented, followed by a quick overview of ITAM strategic drivers and how the ITAM key process areas are organized. After analyzing modern financial measurements, the concepts will be linked together.

Defining Organizational Strategic Initiatives

Organizations undertake strategic initiatives to advance their overarching vision and strategy. Generally speaking, there are four types of strategic initiatives undertaken by organizations. The initiatives are to improve the financial performance or viability of the organization, improve the relationship between the organization and its customers or clients, improve internal processes, or to position the capabilities of the organization for improved learning and/or growth (sometimes a more modern term is used here, organization capacity).

In modern-day business literature, these initiatives are summarized in a Balanced Score Card (BSC), which is intended to be a simplistic view of the organization's strategies and to provide data for choosing and measuring strategic activities. Generally speaking, although there has been criticism of the balanced score card, a score card is a reasonable tool as long as it is considered a high level tool for simplifying a complex

subject and as a means of classification and visualization. The score card loses credibility if it is brought into daily decision making and tactical operations. The Balanced Scorecard Institute seems to be one of the primary drivers and stewards of this concept. (<http://www.balancedscorecard.org>).



IT Initiatives

Information Technology (IT) departments have adopted the classic organizational score card and adapted it to clarify departmental strategies. This score card approach does not replace IT's inclusion and alignment with the organizational BSC. Instead, it provides a separate yet similar tool that can be used as an internal measuring device. Although conceptually similar, the categories for initiatives are refined to be an IT-specific BSC (ITBSC). The financial measurement is generally replaced with a corporate contribution measurement, the customer concept is replaced with an internal focus on user orientation, internal process are refocused to operating excellence, and the learning and growth component focuses on a future orientation (meaning how well the IT department is prepared for emerging opportunities). These concepts have generally evolved from ISACA's creation of its COBIT framework (www.isaca.org).



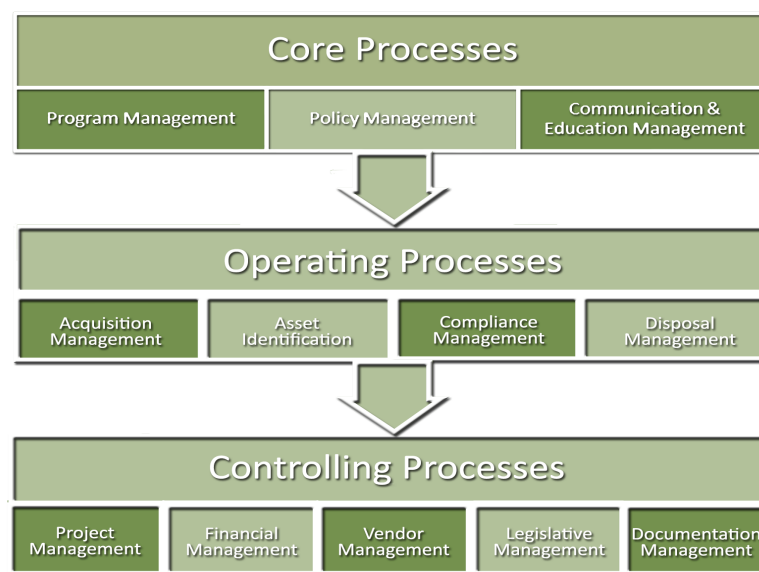
ITAM Initiatives

Since ITAM bridges many areas, including pure IT to specific business ownership (sometimes only from a financial perspective), a reasonable question is how to align ITAM initiatives, ITAM value, and ITAM measurements considering the different strategic perspectives of the current BSC and ITBSC. The first logical step to begin the alignment of ITAM is to define and categorize it.

The responsibilities within ITAM are defined as Key Process Areas (KPA). These KPAs blend financial management, risk management, and productivity management in a unique way that is aligned to the defined ITAM program mission.



Pure ITAM best practices focus on Return on Investment (ROI) and Total Cost of Ownership (TCO) to capture their financial contributions. The Key Process Areas (KPAs) mentioned earlier are derived from the best practices library and industry stewardship provided by the International Association of Information Technology Asset Managers (www.iaitam.org). The twelve KPAs in ITAM are: Program Management, Policy Management, Communications & Education Management, Acquisition Management, Asset Identification, Disposal Management, Financial Management, Vendor Management, Compliance Management, Documentation Management, Legislation Management, and Project Management .



Core ITAM processes focus on the value and establishment of the overall ITAM program including the creation and communication of necessary ITAM policies. Core processes also include organizational education, and a forward-looking roadmap the aligns the program activities.

Operating ITAM processes center on the physical and contractual work that must be done including framing up the asset acquisition process, tracking assets through their life cycle within the organization, building processes according to compliance requirements and disposing of assets appropriately.

Controlling ITAM processes bring together the constraining elements of ITAM, including project management, financial management, documentation management, vendor management, and legislation management.

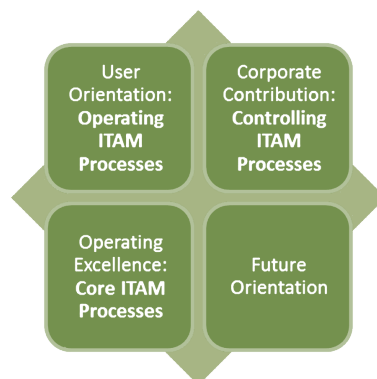
Financial Measurements

Organizations are currently using a wide array of financial measurements which might be unfamiliar to a practicing ITAM Program Manager. ITAM metrics should support the calculation of these financial measurements, although how the ITAM metrics are applied depends on how strategic ITAM is to the organization. Financial measurements include:

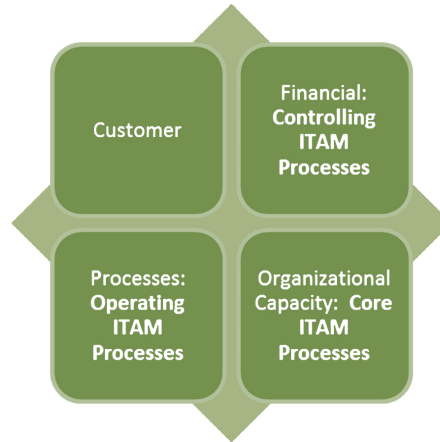
- ⇒ **Return on Investment (ROI):** This is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. It is one way of considering profits in relation to capital invested
- ⇒ **Return on Capital (ROC):** This is a ratio used in finance, valuation, and accounting. The ratio is estimated by dividing the after-tax operating income (NOPAT) by the book value of invested capital
- ⇒ **Return on Invested Capital (ROIC):** This is a financial measure that quantifies how well a company generates cash flow relative to the capital it has invested. It is defined as net operating profit less adjusted taxes divided by invested capital and is usually expressed as a percentage
- ⇒ **Net Present Value (NPV):** This is a time series of discounted cash flows, both incoming and outgoing, and is defined as the sum of the present values of the individual cash flows of the same entity. This shows the relative weighted value of an investment in today's dollars
- ⇒ **Internal Rate of Return (IRR):** On a project, this is the rate of return that makes the net present value (NPV as $NET \cdot 1 / (1 + IRR)^{year}$) of all cash flows (both positive and negative) from a particular investment equal to zero. In more specific terms, the IRR of an investment is the discount rate at which the net present value of costs (negative cash flows) of the investment equals the net present value of the benefits (positive cash flows) of the investment
- ⇒ **Payback Period (PP):** This refers to the period of time required for the return on an investment to "repay" the sum of the original investment
- ⇒ **Real Options Valuation (ROV):** This is the identification and valuation of IT projects timing respective to management and market uncertainty. This measurement provides measured flexibility to management decision making relating to project size, timing and operations once the project is established (or deferred)

So how do score cards, measurements and ITAM all fit together?

If relating ITAM to the organization's strategic initiatives, use the standard BSC perspective and align the core ITAM processes to the organizational capabilities area; the operating ITAM processes to the internal processes area; and the controlling ITAM processes to the financial area.



If relating ITAM to the IT version of the balanced score card (the ITBSC), the alignment is a little different; here it is best to align the core ITAM processes to the operating excellence area, the operating ITAM processes to the user orientation (as users are the primary stakeholders here), and the controlling ITAM processes with the corporate contribution area.



There are substantial alignment differences which can cause confusion. A reasonable assumption may be that the ITBSC simply uses different names, and that ITAM should align the same way to both score cards. This is, surprisingly, not the case. The good news is that, in most cases, the actual metrics that are tracked do not change, although their magnitude or focus might.

There is no silver bullet for aligning ITAM measure into either the standard BSC or an IT specific balanced score card. The Balanced Scorecard Institute's "Nine Steps to Success" still dominates the thinking here, and it is something an ITAM Program Manager should be aware of, and use, when contemplating how to align their programs measurements to a larger organizational strategy. The nine steps, in order, are:

1. Assessment
2. Strategy
3. Objectives
4. Strategy map
5. Performance measures
6. Initiatives
7. Performance analysis
8. Alignment
9. Evaluation

With this quick review of strategic management and measurements, the IT Asset Manager has a foundation for relating ITAM through these techniques to other areas despite the complexity of the world that ITAM lives in. The ability to align strategies increases the effectiveness and understanding of process analyses. An ITAM program that is aligned will be perceived as being more successful because the relationship of ITAM processes is specifically linked to organization and/or IT strategies. Alignment may even increase the organization's ability to leverage the benefits of the ITAM program more broadly. This effort is not simply about score cards, but since the score card is a well-established method for clarifying and documenting strategies, it is a good way to build a common ground for a strategy conversation. With familiarity, the IT Asset Manager will find value in strategy formulation and alignment as guidance for development of the ITAM program.

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About IAITAM

The International Association of Information Technology Asset Managers, Inc. ("IAITAM") is the professional association for individuals and organizations involved in any aspect of IT Asset Management ("ITAM"), Software Asset Management ("SAM"), Hardware Asset Management, and the lifecycle processes supporting IT Asset Management in organizations of every size and industry across the globe.

After years of discussion, consulting engagements, process improvement studies and research back as far as 1998, IAITAM officially incorporated in March of 2002. The organization's concept came about when this small group of software and hardware asset managers began meeting to discuss the need for a centralized organization devoted to expanding and codifying information and knowledge within the IT, Hardware and Software Asset Management fields. The outcome of these initial discussions was to add structure and recognition to the newly created profession of IT Asset Manager within the enterprise, which included items such as:

- ⇒ The development of advanced training programs and industry accepted certifications to build formal expertise and gain professional recognition
- ⇒ There was a definite need to obtain access to unbiased answers to specific questions through a neutral industry advocate
- ⇒ Professionals needed to have a secure area to frankly discuss mission critical issues within the IT Asset field with other IT Asset Managers
- ⇒ There was and still remains a definite need to educate executive management regarding the benefits of an Asset Management program and acquiring and retaining trained expertise in the field of IT Asset Management and program implementation

Until the formation of IAITAM, the IT industry as a whole had not recognized the value of accurately monitoring IT assets and consequently suffered from over-investment and under-utilized IT assets and the resulting lack of control and inflated budgets. Throughout IAITAM's history, we have striven to support the IT Asset Management profession through expert training and advice as well as lead the profession down a path of best practice to enhance the business drivers of ROI, efficiency, risk avoidance and professional development for the practitioner, resulting in value for their organizations.



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