

Technology

By Gates Ouimette

Insurers should determine if there is any strategic impact on corporate financial performance from IT investments.

Searching for Return on Investment

A recent information technology furor, begun by a provocative *Harvard Business Review* article entitled "IT Doesn't Matter," is just now subsiding. The article cites the lack of impact on corporate financial performance by information technology investment. While acknowledging that IT is important, the article states it is a commodity, much like heat and electricity, and that it therefore does not provide competitive differentiation.

While proving beneficial in creating discussion around this topic, the downside of this perspective is in downplaying the importance of IT to U.S. firms, including insurers. As expected, high-technology firms have a directly polar viewpoint on this subject. Industry research from firms such as InterUnity Group reports, "Market leaders recognize the value of strategic IT management and have made it a core competency. They make better decisions, have more disciplined management processes and govern with performance-based metrics. The result is stronger bottom-line business performance and a competitive advantage."

But just how did this dichotomy get started and who is right? Since the inception of computers, data processing and management information systems, IT has been relegated to a back-room function. This was primarily due to its perception as "too technical" for non-IT types to truly understand. With the Year 2000 concerns and the dot.com boom, IT spend increased significantly in terms of impact to a firm's bottom line, primarily as a siphon of profits.

Attempts to rationalize IT investments led to growth in the use of return on investment and IT efficiency benchmarking, which helped support the mirage that any good technology could provide a benefit to a company. This was even more "justifiable" if a company's IT department could demonstrate how efficient it was in the use of technology, as compared with an industry or segment.

The problem with these types of metrics was that they built false expectations among senior executives. Seventy percent ROIs for insurance customer-relationship management or sales force automation applications never became a reality based upon their rapid acceptance by numerous insurers, increasing productivity across the industry as a whole. Increased productivity led to increased pricing pressures across all insurers, not just one. In effect, the playing field had changed and the cost to play was the cost of the CRM or SFA system, negating any individual firm's ROI.

The question then is how does a senior executive determine if there is any strategic impact on corporate financial performance from IT investments. First of all, calibrating IT spend to industry benchmarks (an "arms-race mentality") does not distinguish a market leader, as defined by corporate financial performance. What does distinguish a market leader can be quantified along three dimensions:

- **Strategy**—higher levels of business automation, rapid adoption of strategic technology, focus on investments with near-term payback;

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- **Governance**—robust portfolio management capabilities, prioritized technology investments, strong collaboration that aligns IT and business units, less focus on enhancing current systems; and

- **Implementation**—focus on application development to enhance business functionality, outsourcing used to support new development vs. ongoing operations, lower overhead and operating costs.

Using a holistic approach to measure IT impact on corporate financial performance can answer the question for any insurance firm as to whether or not IT matters. Obviously, it only matters if it can be tied back to measurable/tangible business financial impact. Market leaders, based upon corporate financial performance, simply use IT more effectively, efficiently and productively than non-market leaders. "Based upon corporate financial performance" is the key.

Correlation between IT investment and corporate financial performance has been explored in recent industry research. The focus of this research has been on the effectiveness of IT spend, rather than the absolute amount of IT spend or the efficiency of IT.

Only by measuring effectiveness in IT spend can chief information officers provide meaningful insight into questions being asked of them by senior, non-IT management, such as "why are our financial results behind our competition?" Effectiveness analysis helps bridge the gap, including "valuing" the organizational intangibles associated with IT. The business adage "People cannot simply buy competitive advantage" applies to IT in the insurance industry as well. Measuring IT effectiveness of their own firms vs. market

leaders and their use of IT, can help senior insurance executives better understand how their IT investments are actually impacting their firm's own financial performance. BR



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