Tool 31: Current investments and costs

Purpose of this tool: provide insight in the cost centers of IT in an organization by evaluating all current and developing projects on financial criteria.

The following steps are defined by Michel Benaroch in his article 'Managing information technology investment risk: a real options perspective[1]' as an approach to manage IT investment risks. These steps must be reapplied when time passes, since some risks can resolve while new risks can arise.

Step 1: Define the investments and its risks

1. Define investment goals and requirements
2. Identify initial IT solution
3. State investment assumptions (economic, technological etc.)
4. Reveal investment risks in light of the assumptions
5. Link investments and decisions to payoff and costs

Step 2: Recognize viable shadow options

Map particular risks to options that can control them. Beware: mapping some risks to certain options could raise new risks. Therefore, it is sometimes necessary to reiterate this step.

A decision tree[2] could be used to show this step.

Step 3: Design alternative investment configurations

1. Use the in step 2 recognized (viable) shadow options to identify alternative ways to configure the investment(s)
2. Assess risk trade-offs between the identified configurations

Step 4: Evaluate options and investment configurations

Calculate option values for the investment configurations. This step finds the most valuable configuration. Identify the options' creation cost, maintenance cost, and exercise cost.

A lot of extensions are possible in this model, making it suitable for more complex cases.

On the next page the slide of this tool can be found.[3]

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[1] This is a link to an abstract. The full text is available for download on this site (on the right top of the site, below 'cached').
[2] This article is not about IT investments, but the concept is the same.
[3] This slide is based on Benaroch's Figure from the syllabus (p. 134)