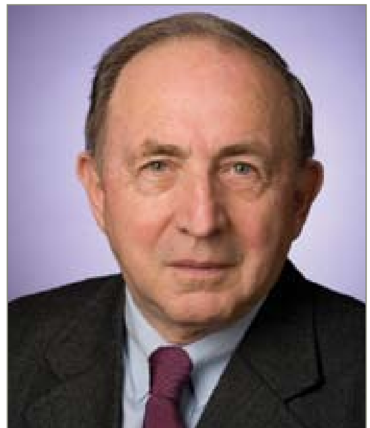
REAL NUMBERS

BY PAUL A. STRASSMANN

CAN YOU MEASURE INFO MANAGEMENT?

YES, YOU CAN. AND KNOWING HOW TO DO SO CAN HELP A CIO ALLOCATE PRECIOUS RESOURCES.



PHOTOGRAPH BY STEVE FREEMAN

THE TERM "INFORMATION MANAGE-ment" is perhaps the most over-used expression in the computer business. Google retrieved 123 million references to it, so I figured there must be a good explanation of what it means.

The Google search turned up articles that used terms such as "coordination" and "collaboration" to describe information management activities. There were plenty of clues, but no useful advice on how to measure whatever would be found.

So, I devised a model to evaluate the scope of information management activities called an Information Management Multiplier (IMM). (See "Measuring Info Management," p. 92, or *go.baselinemag.com/may06* to walk through the financial information you need to crunch to determine your own IMM.)

The index—based on the cost of information management versus the net cost of operations—will show how much of your company's resources are devoted to managing its information compared with production and delivery of goods, as illustrated below right.

How is this helpful to a CIO? A CIO can measure his effectiveness by examining whether the IMM ratio has declined over two or more years. If the various investments for which a CIO has oversight have made management less expensive relative to the costs of production or delivery of services, that will signal gains in effectiveness.

Data for making comparisons was available for 35 major U.S. companies and 108 major global firms. The median IMM for U.S. companies was 0.48 and for global firms it was 5.23, reflecting a surprisingly higher outsourcing ratio for most European businesses and likely a greater bureaucracy.

A ratio of less than 1.0 suggests that information management is less important than directly managed operations. Usually, this means that a CIO has to focus on operational applications, such as logistics and factory utilization, rather than higher-profile areas such as finance and human resources.

At companies with a ratio of more than 1.0, the scope of a CIO's job would likely grow in importance because that's where I.T.'s leverage would be the greatest.

Take BP, the British oil company that outsources just about all of its costs. According to my analysis, BP's information management consumes 19.6 times more resources than its directly managed operations. This suggests that BP is actually an "information company" and not an oil company. As a result, the firm's CIO is placed high in management councils to influence how BP leverages I.T. for greater gains.

The index can be used to compare how competing firms manage overhead costs. Consider this: The much-criticized General Motors comes in with an IMM of 0.6, compared to DaimlerChrysler's 11.8 and Volkswagen's 2.1. GM could argue it has already slimmed down headquarters—which it continues to do, with the recent announcement that it may lay off up to 30,000 white collar employees. Still, it would be necessary to secure other evidence to demonstrate where the GM "fat" is located, such as the large factory workforce that is kept idle, with full pay and benefits.

A firm's IMM offers a CIO useful insights about the importance of information management within the overall economics of a company. Though many of the prevailing conversations about the role of a CIO focus on the ratio of I.T. spending to a company's revenue—usually pegged from 1% to 7%—that ratio reflects only the scope of the work of a chief technology officer, and not a CIO.

Comparing the cost of managing information to the net cost of operations offers a new perspective on firms' shifts from industrial-age to information-age economics.

PAUL A. STRASSMANN IS NOW DELIVERING A SERIES OF LECTURES ON INFORMATION ECONOMICS AT GEORGE MASON UNIVERSITY. YOU CAN CONTACT HIM AT PSTRASSM@GMU.EDU.

COMPANY	Revenue ($ billion)	Information Management ($ billion) ÷	Net Cost of Operations ($ billion) =	Information Management Multiplier
Boeing	$52.5	$3.7	$12.7	0.3
Dow Chemical	$40.2	$1.4	$4.9	0.3
Caterpillar	$30.3	$3.7	$6.0	0.6
General Motors	$190.8	$13.9	$21.5	0.6
Volkswagen	$110.6	$8.3	$3.9	2.1
Deutsche Telekom	$72.0	$21.2	$8.8	2.4
Siemens	$91.5	$10.4	$1.6	6.7
DaimlerChrysler	$176.7	$14.6	$1.2	11.8
BP	$285.1	$13.1	$0.7	19.6