Information technology investments

Technology, Information Technology

Organizations make big investments in implementing IT systems. IT installations has become necessary to small and big organizations, now than the in the last decade. However type and level of IT investment depends on the scale of organizational operations. The large organizations are much using the informationtechnologyand also they are investing much on information technology as a percentage of their revenues than smaller companies (Mitra, Sabyasachi and Chaya, Antoine Karim).

Although the individual IT investments depend on organizational strategic and economic performance, they are also significantly related to group performance of the organization. However, though there are many significant benefits of IT investments in an organization, deciding on the right size of budget and ROI is not that much easy. Information Technology projects are organizational investments that anticipate positive returns. (Applegate et al. , 1996). Hu and Plant (2001) cited in Sam Lubbe, argue that the promise of increased advantage was the driving force behind large-scale investment in IT since the 1970’s.

So information technology investment is just like any other capital expenditure, and needs to concentrate on fixed, variable costs and expected rates of return. They suggest that an organization’s IT projects should be considered as an investment “ portfolio” that balances risk and rates of return. Managers need to understand and analyze the decision of investment on information technology like any other major investment. The investments in information technology (IT) can improve the performance the organization if managed wisely (U. S Accounting and Information Management Division, 2000).

This statement notifies that IT investment needs critical skills or intelligence to make it effective. Following can be some of the risks in IT investments: The Changing demands of the organization may not be satisfied by the older IT systems, so needs constant up gradation and recurring investments. All the shelf products may not be suitable to the organizational existing needs, and requires customized developments or patches, which may result risky and costly.

Frequently IT projects face the problem of cost overruns and schedule slippages which may result inadequate to cope with existing operations. The other concerns for the managers while making a decision on IT investment are, to demonstrate the value of IT deliverables to the organization and how they promote the business strategy to prove the IT effectiveness by better sourcing and managing of IT services to make the practices always ready for the regulatory requirements to prove the security and controls to reduce unnecessary spend Green and Jenkins (1998) have identified four factors that impede the development

of successful information technology plans; thefailureto develop asset management plans for information technology, the failure to develop a life-cycle approach to budgeting, the failure to match information technology expenditure with major income sources and the failure to develop benchmarks for return on investment in information technology. The decision of investment in Information technology (IT) includes both financial and technological issues. Also calculating the Return on Investment (ROI) of an information system is not as simple as calculating returns on other investments.

Information technology (IT) is defined as “ the use of electronic machines and programs for the processing, storage, transfer and presentation of information” (Bjork, 1999). IT encompasses many technologies such as computers, software, networks and even telephones and fax machines. The purpose of IT is to facilitate the exchange and management of information and has a lot of potentials for the information process. This needs the efficient staff and training for the staff, which is again a cost factor. Considering all these factors, IT investment seems like a costly affair for the organizations.

The profits on IT are also not time bound and are vague as the performance is dependent on many variables like, technology, fluctuations in IT industry, HR performance as well as adaptability of the current system and above all themotivationof the management. The gaining of more profits from the investment of IT depends on the performance other management practices in the organization like human capital, training, and software management (U. S Accounting and Information Management Division, 2000). However irrespective of the above perceived challenges and risks, organizations tend to do IT investments as part of their financial structure.