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Bringing Business Clarity and Value to IT

WHY I.T. INVESTMENTS GO WRONG

The Financial Services industry, including mortgage lenders, is littered with unsuccessful IT projects. The worst of these are usually quickly discontinued whilst others continue to use up valuable capital with at best meager returns. In the worst circumstances 'sacred cows' are allowed to drain the company of valuable investment seedcorn with the company being completely unaware of how much damage the continuation of the project is doing. It is often only when either a company brings in some outside assistance or due diligence is done on the company that the real impact is understood. Even more revealing than KPMG International's survey of 600 organisations across 22 countries that 86% of respondents reported the loss of up to a quarter of their targeted benefits across their project portfolios, was that almost 60% of organisations had no management process to measure benefits. This is in line with our own assessment of companies in the financial sector. The old adage of, "if you can't measure it you can't manage it" comes to mind and our own view is that only about half of all of the I.T. projects given the green light will result in real benefits to a company's bottom line.

Why then, do I.T. investments go wrong?

You might think with the number of well publicized IT project problems and failures that businesses would be very focused on learning the lessons. Examples such as the £456 million Child Support Agency project ("an appalling waste of public money", Work & Pensions Select Committee) demonstrate that irrespective of the amount of money spent on an I.T. project that there is something fundamental going wrong. Repeated surveys reveal that a high proportion of all I.T. projects will result in failure, poor returns on investment, missed deadlines, budget exceeded or inability to meet project requirements. Many who believe their company fares much better than this either have extremely good measurement and management practices in place or are naively unaware of how poorly performing their systems really are.

Focus on Creating Real Value

Chief Executives often ask whether their company is spending the correct ratio of IT expenditure to turnover. This is not only a meaningless question but demonstrates a fundamental misunderstanding of how to measure the contribution that IT is providing. The current spending on IT worldwide is currently measured in trillions of pounds. It is difficult to go anywhere without being aware of the impact I.T. has on our daily lives. It is therefore surprising to realize that most businesses are unable to quantify in any meaningful way the value attributed to the introduction of an I.T. project. The reality is that every company has become completely dependent on the use of information technology but is unable to determine whether these systems are contributing to the profitability of the company or detracting from it. In some cases nothing can be done about 'in place' problematic systems whilst in other cases the



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company can only move forward after extensive structural change. However there is a very real possibility of taking a different approach to new systems.

Some organizations place great importance on ensuring projects are delivered on time, to a high standard of quality and to the budgeted cost but fail to determine if the project will add value to the business. I.T. projects should be treated no differently to any other project and should not be undertaken on the basis of a hunch, 'me too' approach or following some latest technology or system fad. Many financial services companies have followed the customer relationship management (CRM) holy grail only to have ditched or down graded these systems some years later. This does not mean to say that CRM systems are poor value only that some companies did not do their homework to establish the value add to their specific business at the outset. Businesses can only grow profitably by having a solid business plan based on the expected returns from investments. To return anything less than the target return, the company would be better pursuing alternative more profitable investments which may not be I.T. related. It is said that one of the greatest dangers to companies is not that they aim too high and miss it but that they aim too low and reach it.

Why then are companies not obeying these fundamental rules? One issue is that many companies do not have any strict rules on who has responsibility for I.T. projects. Since I.T. is fundamentally a tool to help people and processes be more efficient and effective it stands to reason that whoever is responsible for the business process should be accountable for the expenditure of people, processes and I.T. for that business process. It follows that since all expenditure on I.T. is to undertake tasks for business activities all I.T. expenditure should be measured on the basis of business processes. Only then can the area responsible such as marketing be able to be responsible and accountable for the success or failure of projects within their remit. The I.T. function should have a responsibility to assist, guide and recommend but the business function must be the area responsible for determining whether a project will achieve the correct investment level to be considered as a potential planned development and measure and report on the results of the project after development and during its operational life. This will hopefully avoid one of the prime cost drains in many companies whereby the focus is on the wrong costs. All too often companies place three levels of sign-off to a simple laptop computer whilst at the same time place little or no control on staff's time as to what value they are delivering to the bottom line.

Understanding and justifying the business value of an I.T. investment is paramount and without a common language and methodology for business managers and the I.T. function to share it is difficult to express to the board the true value that a new I.T. project can deliver to an organization. Only then can a board assess the value of this investment versus other projects. Methodologies such as Total Value of Opportunity (TVO) provide the framework to help companies through this maze and BS15000 (soon to be ISO/IEC 20000) provides proven guidance to help put companies in control to ensure that continued investment in I.T. adds real value to the bottom line. Each project should carry an overall universally recognizable contribution level such as Return on Investment (ROI) which should be assigned to the project from the



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outset and live with the project during its development, implementation and operational use. The functional area responsible for the project should be accountable for regularly reporting the current status of the ROI and explaining the changes.

Successful companies have a constant stream of fresh ideas, a methodology of measuring and evaluating these ideas and recognize the need to manage their investments and their operational systems. In terms of their I.T. projects this involves managing all aspects from the ownership of a business opportunity to the delivery and successful running of the system. Successful companies are clear in their thinking, in the intentions, in the strategic purpose and in the commercial rationale. Successful businesses regularly ask whether previous technology investments have delivered what they promised based on their original justification and ask for the evidence to demonstrate this. Such I.T. project governance forms a cycle which once mature forms a closed loop feedback system between strategic planning, budgeting and execution, delivery and control.

System Selection and Procurement

In some companies, particularly in the financial sector, there is a tendency to consider only one option for a new I.T. project which is internal development. Companies state different reasons for this such as

- the company has an expensive internal resource which is deemed to be the trusted experts
- if it is developed internally then it is more likely that it will fit in with everything else
- companies have a known budgeted cost and therefore there is no additional 'surprise' external expenditure.

All sound projects undertake a considered evaluation of the marketplace by a collaborative team of people from the business process area and the I.T. function and measure this against an in-house development before the project is put forward as a possible investment project for selection by the board.

Just as it is normal to firstly consider bureau services or external packages for payroll and accounts systems there is an increasing number of systems which are better handled by using an external package rather than developing a system in-house. Similarly, almost without fail during an I.T. audit we discover I.T. which has been purchased at high above the going rate and other I.T. which continues to be paid for which is no longer being used or adding value. Companies that employ a regular external I.T. audit usually find this pays for itself time and time again.

Another major issue is the manner in which projects are procured. As often as not the company standard approach to I.T. system selection can be a gigantuan process involving many suppliers, huge invitation to tender specifications with all parties trying to protect their own posteriors. This is not only a huge undertaking but as often as not results in poor decision making. This is almost as bad as the single selection approach. A much better approach is to get to two closely matching suppliers as a



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result of asking a few key questions as quickly as possible and work with them closely with a view to selecting the more appropriate supplier as a working partner.

Planning and Control

Like the success of so many things in life one of the main factors in governing the success of an I.T. project is the quality of the person responsible for driving it forward. In order to create a successful outcome to any I.T. project it is absolutely essential that there is a champion from the business area who believes in the project and who is ultimately responsible for it. This individual must be knowledgeable about the company, the current processes employed and the actual customer requirements. This person should be guided by well considered principles and the company methodology on how to evaluate a project and present it in the normally accepted form. The argument of the proposal should be adequate without any need to badger or force through ill-conceived projects. Unfortunately all too often in our experience business leaders don't know exactly what they want and would rather delegate responsibility. Similarly they have a poor appreciation of what opportunities can be obtained from I.T. projects usually through a lack of basic I.T. understanding. Regrettably in financial services, there still exists the mentality of senior managers not using the simplest of technology because it is outwith their scope and responsibility.

The reasons why projects over-run, cost much more than expected or perform poorly can often be traced back to the initial preparation work. Fundamentally the I.T. system has not been rigorously reviewed and evaluated and issues such as size and complexity have not been considered. A system has to match the size of company it operates in. There is no point in having the best available technology when a simpler much lower cost solution will do. It is worth remembering that the Americans spent millions of dollars developing a pen that could write in zero gravity whilst the Russians gave their astronauts pencils.

Sound project managers will avoid project documentation which is dominated by patches that hides the key features and actual requirements. A lot of this documentation is legalese to defend the designer's position should anything go wrong but generally turns out to be not worth the paper it's written on.

Any project is a partnership of all of the parties involved in it's development. Putting great effort into ensuring that the group operates as a team will repay itself over time and especially when the project hits difficult times throughout it's life. The importance of the value of a good project manager cannot be overemphasised. Dispersed and poorly defined roles and responsibilities are a sure-fire way of creating one incredible mess. More often than not this can cause specific difficulties when a project operates across numerous departments and management levels.

Unfortunately it seems to be beyond the capacity of many people to keep all of these balls in the air at once. The devolution of management, the dividing up of responsibilities and the hiding of culpability behind a mire of committees,



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subcommittees and management hierarchy are all part of the problem within the financial sector.

"A good plan, violently executed now, is better than a perfect plan next week." (General George Patton)

The importance of time on a project should not be underestimated. Whilst important, this is nothing to do with meeting board's expectations of deadlines or costs associated with time such as wages. I.T. projects can take six months, a year or even much longer and during this time much can happen in the marketplace and indeed to the company in terms of its objectives and strategy. This problem can easily be seen on large scale MOD projects such as developing a new fighter plane or a new aircraft carrier whereby by the time these projects are completed the technology is well out of date and the threat which they were supposed to combat has changed or no longer exists. In commercial terms this can lead to regular demands for changes during the life of a project all of which pushes projects off course and late. Specifications that are ill-defined present a moving feast of continual change during the build, deploy and commissioning periods. This is why projects should wherever possible, be planned and delivered in manageable chunks aiming at the parts which will deliver most value quickest. The old adage of "keep it simple" (KIS) rings true to extract maximum value. Compare this to a recent assignment we were asked to become involved with where the project had not even started twelve months after the project had been given the go-ahead. As Larry Carter, Chief executive of Cisco Systems said, "it is no longer about the big beating the small, it is about the fast beating the slow".

How many projects in your company are delivered late? Typically businesses deliver more late projects than ones on time or (unheard of in some companies) early. In some companies it is a standing joke that I.T. projects are delivered late. There are many reasons for this and any company that is fortunate enough to have highly competent project managers will understand that it is a question of ensuring that all of the bases are covered. It is important to remember that decisiveness is only an asset if the decision is right and it is more likely to be right if it is well informed. Wise project managers will recognise where they can benefit from the knowledge and experience of others. This includes evaluating and regularly reporting the risks using an appropriate methodology, ensuring that all the functional departments are primed and committed and ensuring that good communications are in place throughout the life of the project. As well as well documented and minuted meetings the status of the project should be reported back to not only the project sponsor but to the board on a regular basis. Wise project managers never assume, because assume makes an 'ass' out of 'u' and 'me'. Most importantly stipulate the acceptance criteria at the outset otherwise a project will roll on and on without anyone knowing when it has finished. Wise project management always ensure that there is a review after each phase of the project is put live to ensure that any future project has learnt the valuable lessons.

No-one ever said that introducing I.T. projects was easy. Far from it they are complex, multi-departmental, risky, technology dependent and full of unforeseen



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twists and turns throughout their life. Never-the-less they are the cornerstone of today's successful financial services companies both in the UK and internationally and it is essential that companies in order to continue to be successful must get to grips with managing them much better than they have up until now.