



# Greig Ross Associates

*Bringing Business Clarity and Value to IT*

## **Don't Shoot, I'm only the IT Director or Why lenders repeatedly waste money on IT**

This is an industry sector that suffers certain endemic weaknesses. Mountains of print have been expended on the difficulty mortgage lenders find in maintaining a profitable relationship with their customers. Much less has been written on another common trait: the tendency of lenders to waste large sums of money on ill conceived IT projects. There are common characteristics between the two issues: both are frustratingly intangible; they tend to be in the hands of experts who are often positioned as masters of the dark arts; and they cause enormous angst to Board members who simply can't get a handle on this area in the way that, for instance, they can address Finance, Risk or sales results. But IT cannot continue to be either a mystery or an untouchable area, as lenders struggle to address the multiple threats of increased competition, commoditisation on price, erosion of margins and, above all, the need for real operational efficiency. There simply isn't room for waste.

And IT does generate waste. Lenders repeatedly encounter problems when choosing, implementing and then using major systems. The three commonly occurring issues are so pervasive that you will have come across them all: first, major IT investment decisions are made without anything like an appropriate degree of robust assessment. Secondly, core systems replacements go wrong, racking up huge cost and time overruns. Thirdly, IT installations – even when correctly bought and installed, repeatedly fail to deliver the promised value. The question is, in this most impenetrable of business worlds, why? And how can these issues be avoided?

The first thing to say (and it's scant consolation if your organisation is carrying the can for an unsatisfactory IT development) is that this is not a problem limited to the mortgage industry. According to Cranfield, an astonishing 78% of all IT projects fail to achieve 50% of their objectives. Various other studies indicate that typically an IT project is more likely than not to exceed its budget or its installation time by at least twice [see Graph 1: *The economics of failure*]. Whilst our own experience in the Mortgage Lender sector is not quite as alarming, it is not a whole lot better. Indeed, whilst many lenders acknowledge these problems exist, some other organisations are blissfully unaware that IT is such a high-risk area.

### **Why IT investment decisions lack robustness**

The first issue may appear to be mere semantics, but it's not. We tend to use the term 'IT investment' every time we spend money on IT. This is a term coined by IT suppliers and often bears little resemblance to facts. A post implementation cost and benefit analysis looking at a five year picture (which is what many organisations use)



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will often reveal very red figures on the bottom line. So point number one is that any reference to IT investment should be considered with a healthy dose of scepticism and challenge. This does not mean that IT investment does not exist; simply that it is not a given. I'll return to the issue of unwarranted optimism later on.

Determining the real costs associated with the project is not a simple process. Businesses should spend proper time setting up the basic frameworks and ground rules for calculating project costs and benefits. It often helps to employ an external party to assist, as the process is both complex and somewhat unfamiliar to many organisations. A separate Steering Group (N.B. *not the IT Department*) should be the sole decision making body for IT projects. This should include a number of key individuals from various parts of the business who are responsible for evaluating and prioritising new projects. Project sponsors should be subject to this group's challenges. In many cases the projects will often prioritise themselves, as the ones demonstrably delivering best value to the company will be selected first. The Steering Group's role is to challenge and ensure stated facts are as reliable as they can be; to act as a cohesive assessor; and to take the sole decision-making responsibility away from the IT Director.

This means specific roles for key persons in the Steering Group. As the guardian of the purse strings the Finance Director must have the necessary information to be able to make the necessary decisions on the IT expenditure. The FD must educate and assist those involved in promoting IT spend so that they can make evaluative assessments for themselves before they go anywhere near the decision making team. With experience this will help those involved to amend the requirements and costs to determine the optimum profit scenario. Having done this, if the sums do not add up at the outset you can be sure that they will not stack up when the project goes live.

## **Don't isolate the IT Director**

Unfortunately quite a number of lenders have none of the above in place, and projects tend to be given the green light on the recommendation of the IT Director alone. They often hold the view that once the business makes the key appointment of IT Director, it is that person's responsibility to ensure that only appropriate and well thought through IT projects are submitted. Ipso facto if the IT Director submits a project it must be sound. This is neither fair on the business nor on IT Directors, who will obligingly do their best to submit projects. Indeed, for all the stories of 'IT tyrants' who brook no argument and steamroller objections, in our experience the great majority of senior IT staff are only too aware of the degree of specialist responsibility placed on them by their business colleagues, and are generally relieved when the appointment of a multi-departmental Steering Group serves to reduce their isolation.

There is a profound and easily-forgotten component to the difficulties IT experiences in larger organisations, and that is the people component. Whereas it is a long-



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standing and accepted fact that Sales and Marketing people will have an uneasy relationship, as will Marketing and Finance, in practice IT tends to suffer as many antagonisms as any other area in its dealing with what it calls 'the business'. The very terminology rings alarm bells: IT, when it is correctly functioning as a support tool, and collaborating as a department, is truly as integral to the business as any other function. Terming its departmental colleagues 'internal clients' and 'the business' indicates that something is profoundly wrong both in its positioning within the organisation and its own sense of purpose. In this regard, it is absolutely vital that the IT Department works in harmony with key personnel in user departments. In the absence of proper cohesion, too often projects are not well enough considered and planned. There is a depressingly close correlation between IT failure and intra-organisational personality clashes, departmental ambiguity and internal politics. By contrast, some of the most successful IT projects we have seen were in companies which demonstrate a single purpose, a close working harmony and shared positive values.

## **Why core systems replacement projects go wrong**

What is and is not core depends on what products and services the business provides. For most lenders this includes systems such as mortgage processing and retail management and will also include the underlying hardware and software architecture. Replacing a core system is neither simple nor low cost and there has to be a good reason for proceeding with this type of project; too often there simply isn't. In addition, the benefits are often incorrectly assessed. Remember that only incremental improved benefits should be weighed against the costs of the project. In other words, the new system's improvements and advanced features need to outweigh the total costs of development or purchase, customisation and delivery and of the opportunity cost of doing something else.

## **Case studies: three CSR failures**

To demonstrate that lenders are not getting this right, we have encountered the following recent examples. A project which when implemented will replace all of the core transactional systems is currently running two years late – and although it is expected to be delivered in six months there is still nothing visible to indicate the system is going to be delivered correctly. Another core project replaced a fairly limited contact system with a CRM system, but was delivered one year late and has provided less than fifty percent of the expected benefits. In a third case, a point of sale retail system is currently being delivered providing 'vanilla offerings' rather than original expected benefits, and resulting in a worse system than the one which currently operates and no timetable for introducing the requested new features.

In each instance there is no single reason for failure but the list of factors includes:

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- not having an adequate framework for calculating costs and benefits at the outset
- proceeding without a sponsor and customer sign-off
- inadequate project management
- an arrogance from IT that they know best – without providing quantifiable evidence
- a general propensity to err on the positive side when anticipating benefits or costs
- changes to key personnel during the life of the project
- poor communication, with varying degrees of antagonism between the user area and the IT department.

These are common features of unsatisfactory core system replacements. Conversely, there are occasions when core systems are not replaced even though it would benefit the business to do so. Interestingly, this often seems to coincide with IT working too closely with one single supplier, to the point that they are blinded to the real opportunities available in the market place. There are some well documented examples of businesses having substantially reduced their costs over the medium term by making such changes – though of course this will be resisted by the current system supplier. For this reason IT should build into their planning a supplier review every five years.

## **Why correct IT installations fail to deliver the promised value**

The way in which projects are measured is itself vital. A key mistake is to measure projects solely in terms of time and cost which, while obviously important, too often obscures the key priority of ensuring that the project delivers the expected value to the business. If this value is not delivered the project is a failure. Simply delivering the project on time and to budget – rare though that is – guarantees nothing but cost. This is merely the start point.

Lenders do not often take the time to establish whether these benefits were achieved. In most cases, senior management (including the Chief Executive) are utterly unaware of whether this huge expenditure has been an investment or a complete waste of time and money. Again, this is the oddity of IT – and the reason why robust evaluation and governance, from the very outset, are so important. It is inconceivable that most businesses would be similarly unaware of the result of comparable investments in driving and supporting the business. All projects should be subject to correct business disciplines, but this rarely involves IT expenditure.

A similarly frequent occurrence is the breakdown of relationships between IT and the supplier. In one recent engagement we were informed that a new project which was about a year into development was going to make such a difference to the user



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departments affected “because the last system which was put in three years ago was a major mistake and totally useless.” It transpired that the previous Head of IT had fallen out with the supplier – who was more than delighted to be given a new chance to address the outstanding issues. The work was estimated at several weeks, to which the lender partly contributed. With this extra effort the user department were delighted with the results and had a first class working system; and the new, expensive development was canned. Again, with remarkable frequency issues of apparently intractable system complexity prove to be more a factor of poorly controlled human relations. The answer, again, is proper governance – not the isolation of IT from the rest of the business.

The final cause of IT underperformance is the crushing weight of expectation attached to long-anticipated projects. Indeed, the longer the delay attached to a project the greater the likelihood of perceived failure, as the business expectations have been steadily building like a tide. On the one hand, a delayed IT project becomes a convenient scapegoat for multiple departments, and a reason to delay their own projects further on the grounds that without the new IT system their effort would be wasted. On the other hand, the user department or sponsor will often give an inaccurate picture of the anticipated benefits. This can occur because the users have been waiting their turn for literally years before IT comes anywhere near them, and the easiest way of attracting prioritisation is to put forward an exaggerated business case. Users will also tend to optimise their opportunity by adding as many further requirements as they can whilst they have IT’s attention. In both instances, there is an inevitability about the project’s inability to deliver the expected benefits, and an inevitability about the subsequent blame and recrimination. What is worse is that no-one is held accountable and the business stumbles from one disaster to another with no lessons learnt.

## **Doing the simple things well**

Good, well integrated systems will streamline processes, reduce manpower and reduce costs. But there are very few killer applications in the sector, and too often in the past suppliers and consultancies have promised a competitive advantage which in most situations does not exist or at best is transitory. The important thing is to do the simple things well. Spread accountability; introduce a robust process of governance; introduce measures, and expect IT to deliver on them – and reward IT according to their contribution and the level of success and value they have added to the business. Most importantly of all, make sure that the IT Director is at the heart of the business, and playing by the same rules – not on the outside looking in.