The Infonomics *Letter*
Plain Language about Leadership and
(Corporate) Governance of Information Technology
October 2012 Edition

Advancing the Cause

Hello and welcome to The Infonomics Letter for October 2012.

It's been a long time coming – and so I am extremely pleased to announce that the Spanish translation of Waltzing with the Elephant is officially on sale. There are new pages on www.infonomics.com.au that enable people who prefer to operate in Spanish to learn about the book, and to buy it. There's more detail in Spanish Elephant.

Last edition's Questions for Directors generated more than the usual amount of positive feedback. This month, we continue the three part series, looking at questions that directors might ask about the next stage in the management cycle – the implementation of IT-enabled business capability, or change.

I'm working on some "big fish" at present, so that's it for this edition – not that it's short on content or value. Look for something interesting in the November edition, when I will also complete the series on questions for directors.

Please enjoy!
Mark Toomey 29 October 2012

Spanish Elephant

Bailando el Vals con el Elefante is Spanish for Waltzing with the Elephant. After an intensive review of the translation prepared by Juan Pardo, we are delighted to announce that the Spanish version of Waltzing with the Elephant is now available for purchase at The Infonomics Shop. Pricing for the digital (PDF) edition is identical to that of the original English version. At this stage, only the digital edition is offered – shipping costs militating against the practicality of sending print editions from Australia to Spanish-speaking nations.

Already widely embraced in the global marketplace, Waltzing with the Elephant's Spanish edition has won additional praise from a high profile leader in Spanish political and business circles. Manuel Pimentel Siles, who is president of La Asociación Española de Empresas de Consultoría (AEC) (The Spanish Association of Consulting Companies) has written a prologue for the Spanish edition in which he echoes messages of leading Australian boardroom advisers, who emphasise that this is a book for business leaders, written in their language.

For the convenience of those whose primary language is Spanish, we have presented key parts of the information and the Infonomics Shop in Spanish, as well as in English (the prologue however, having been written in Spanish, is not available in English). There is also a free 65 page preview of the Spanish translation.

Questions for Directors

Last month, I launched a three-part series designed to equip directors with questions that they could, and should, ask about their organisation's use of information technology. This was prompted by a participant in this year's Company Directors' Conference technology forum, who said something to the effect of: *"I am new to the role of director, and I am concerned about information technology, but I have no IT knowledge. I came to this forum hoping to learn what questions I should ask, as a director, about IT".*

Perhaps she was lucky – I had prepared for the conference by compiling a fresh list of questions that directors might ask about information technology. In the last edition, we expanded on the questions around strategy and planning. This time we are looking at questions about the investment in IT-enabled capability building activities. Next month, we will look at aspects of operational dependence and performance.

Information technology has become pervasive in modern business, and is often critical to current and future business performance. Change is frequently enabled by, and dependent on effective use of information technology. But there are many case examples of projects which fail. In the public sector, such projects are generally highly visible and widely examined. In Australia, many of us know about the RMIT University Academic Management System, Sydney Water's Customer Information and Billing System, Queensland Health Payroll, and Victoria's HealthSmart (a scaled down version of the equally disastrous UK National Health Service Program for IT).

In the private sector, many failures are kept "under the covers", but those who work in the industry frequently know which projects are in trouble. A major bank had a financial accounting project fail after $300 million was spent. Australian Pharmaceutical Industries delivered its ERP project, but then experienced tremendous difficulty because somehow in the final switchover, half the year's profit disappeared. On the other hand, Commonwealth Bank has recently completed a massive replacement of its core accounting systems, some of which were said to be more than 40 years old, with new systems that process transactions instantly, maintaining real-time customer balances. Commonwealth Bank is now aggressively exploiting its new capabilities enabled by this new technology.

Researchers tell us that hardly more than 50% of all co-called "IT Projects" succeed by any measure. Some assessments, like the one done in 2005 by KPMG, focus on "delivering the outcomes for which the project was first approved" as the success criterion,

and then tell us that fewer than 10% of projects succeed at this level.

Critical examination of numerous failed projects (we tend to call them IT projects, even though such projects are always intended to deliver a business outcome or capability) reveals that many of them fail for reasons other than the technology itself – and even when the technology is patently a problem, that's more often than not a consequence of a deeper non-technology problem.

So here are some questions for directors to explore when they are satisfying themselves that their organisations' major IT-enabled change initiatives are likely to succeed. These are, of course, the tip of the iceberg – but they are also completely non-technical and help to emphasise that director oversight of technology can and should focus on the business use, rather than being limited by emphasis on technology.

Having received a business case and request for resources to launch a new "IT Project" – an investment in IT-enabled business change, directors should ask about:

- Objective – is there a clear definition of what we intend to achieve, and how stable will that objective be over time?

  The outcome of any investment in information technology should be, with no exception, a business capability, which can and should be articulated by one or more of the higher level business managers. Such capability may be framed in many ways, but should always be readily understood by the board, and as such should be capable of being evaluated for its worth and appropriateness. Broadly speaking, the new capability may enable the organisation to do something it has not done before, to do something better than it has previously been done, to do more or less of something that it has been doing, or to be ready for something that may be required in the future. The latter is often, but not always referred to as improving agility – being able to act more quickly and effectively to seize market opportunity or to deal with emerging threats.

  Whatever the objective, directors should look to the business leaders to convince them that the objective is appropriate and acceptably stable. They should be able to judge on the basis of the business leadership evident in the presentation of the objective whether or not there is a likelihood of the organisation being able to keep focus on the objective, and whether or not changes in circumstance will result in critical reappraisal of the objective and the effort being made to attain it.

- Value – what is the expected value of achieving the objective, how will it change over time, and does it justify the forward cost of getting there?

  Having a business case for an initiative typically means that there will be more value available as a result of the investment. However, many business cases fail to tightly link the value to the objective, and become vague about exactly how the value is manifest, let alone how it is extracted. If you can't see how the value is linked to, and primarily derived as a result of achieving the objective, chances are that the business case has been manufactured to make it through control gates, rather than to provide a true understanding of whether the goal is worthwhile, what work must be done to achieve the goal, and whether the work is do-able.

  It's important that the value statements also show clearly how the value is actually going to be realised. It's easy to claim that an investment will result in a percentage increase in some measure of performance – but what is the actual relationship between the initiative and the result? There are plenty if cases where the claimed result of an investment is actually the natural, organic change that would have happened regardless – and this becomes visible where projects are deferred and re-examined at a later date. Claims that costs will decrease also warrant close scrutiny – how does the small percentage change actually translate into real results? Claims around labour saving are especially challenging – how does a saving of 15 minutes per day of a single worker result in a noticeable reduction in workforce cost, or an increase in productivity for an unchanged workforce?

- Approach – what work must be done, by whom, in order to achieve the objective and realise the value, and is the work feasible in current and foreseeable circumstances?

  In the early days of IT, the majority of investments focused on automating what was already happening, and there was relatively little impact on the way the organisation operated. Those days are long gone, and IT is now a mainstream enabler of organisations operating differently. What was once, and with good reason, called an "IT project" is now a "business change enabled by IT project". The work that will be required is almost certainly more – much more – than merely introducing a new IT service. Indeed, in many cases, the IT aspect is almost insignificant. The real work starts with deciding how the business will operate in the future, or in some cases the question could be even as fundamental as what business the organisation will be in. Then it's necessary to work out all of the changes required, and how they will be orchestrated. In today's interconnected world,

the changes are quite likely to affect not just your own organisation's people, process and structure – they may well affect or depend on your suppliers, customers, regulators and other stakeholders. The business case you are asked to approve should contain evidence of rigorous analysis that leads to a complete understanding of the change that is required – and not just of the technology investment.

- Performance – what are the indicators and baseline measures of success from now until the results are delivered, and how are we currently performing against them?

  On this point, there should be no doubt that the most basic measures of performance for the project are those linked to the intended outcomes –they enable an answer to the key question of whether or not the project was successful. If we consider a vacation at a tropical resort to be an analogy for a project, the outcome might be measured in terms of stress levels, skin tone and sleep quality – but these are not the only measures of the project. We might also be measuring cost, service, excursions and so on, as these all have a bearing on achieving the overall goal.

  With any IT-enabled business project, there should be a range of performance indicators that enable routine awareness of whether or not the project is proceeding as intended, and of whether circumstances might be changing in such a way as to drive a change in perspective on whether or not the project should continue unchanged.

  Performance indicators should address three key topics – inputs, conditions, and outputs. When we drive a car, we should be aware of fuel (an input that is consumed), distance (an output that can be used to measure proximity of the destination) and a range of mechanical and environmental conditions such as light, rain and temperature. What are the elements that should be measured for your IT-enabled change initiative? For example, perhaps they should include hours worked by key people (many projects fail to allow for the workload they impose on people who are not part of the formal project team) and a progressive picture of the capability that has been established.

  Having a viable measure is only one part of the answer. For every measure, there should be clarity on the baseline against which change is measured, the natural change that will adjust the baseline due to factors not associated with the project, and the target change that is to be driven by the project. These measures should be plotted over time, so that they serve to communicate progress as well as completion.

- Risk – how do we identify and control factors that might impact our performance, approach, value and objective, and what factors are currently receiving significant attention?

  Many words have been written about the classical weaknesses in risk management for IT projects. Too often, the risk approach involves a snapshot taken well before the project starts in earnest, with an assumption that the risk profile won't change. Some projects seem to equate risk management to a treasure hunt – the more risks on the register, the better. Some do a passable job of identifying risk, but then completely fail to manage the risk.

  Risk is a major part of the director's domain. If a director can't be satisfied that any given IT-enabled project has a proper understanding of risk, and a suitable approach to identifying and managing risk, there should be loud alarms ringing. Directors should look in the proposal for the project, in its key resources, and in the established behaviour of the organisation, for clear evidence that risk can be identified and managed right through the project cycle, from its first inception until the value is fully established and embedded in the normal activity of the organisation.

  Risk profiles change with time. Some risk applies to the justification for the initiative, but not to its conduct. Some risk has a definite "ends by" date – often related to the progress of the initiative. Other risk can be insignificant, except at a critical juncture where it becomes paramount in its importance. But above all else, risk must be seen as a key responsibility of those who have primary responsibility for the initiative – and this must include the business leaders who own the intended outcome as well as the project leaders who are orchestrating its delivery. These people must demonstrate a sound understanding of the real risks and articulate an effective approach to risk management. If they can't, there is every likelihood that the project will fail to detect and respond to matters that warrant adjustment to one or more of objectives, value, approach, or performance!

The five points mentioned above should be examined at the outset for any project (not just ones that rely on IT), and on a progressive basis as the project moves ahead. By repeatedly asking these questions, or variants of them, directors should be able to establish:

- Objective – whether it remains relevant and attainable, and whether or not the project remains focused on it;
- Value – whether or not the original estimates of value were based on a sound understanding of what actually drives value, and of whether

changing conditions warrant any acceleration, slowing or redirection of the project;

- Approach – whether the analysis of work to be done gave an accurate reflection of what is still to be done, and as a result whether or not the project is likely to cost more or less than forecast. If there are significant changes, there may be an argument for complete reappraisal of the initiative.
- Performance – whether the project is delivering to plan, and whether the circumstances in which the project is being conducted are evolving as anticipated.
- Risk - whether the original risk assessment gave an accurate picture; whether the risk monitoring process is continuing to maintain an accurate current picture; whether the risk management process is effective in managing risk; and whether the actual risk profile of the project has changed in such a way as to require a more fundamental reappraisal of the project.

Regular reporting on progress of a major investment in IT-enabled business change should also allow directors to ask themselves and executive management these three questions:

- Is this like standing at the stern of the Titanic, marvelling at the power of the engine, or standing at the bow, navigating through obstacles to arrive safely at the destination?

  It can be very easy for people working on a project to report on what has been done, and what resources have been consumed. But if the project is not focused on and capable of attaining its objectives, such information can be worse than useless. Using less resources than expected at a particular point in time may, for example, be interpreted as a good situation – a saving. But if the reason for this is that some required work has not been done, the whole project may be in jeopardy. To give the clearest possible picture, progress should always paint a clear picture of what is yet to be achieved, using a comparison between actual and estimated progress and resource consumption to show whether or not the estimating technique produces valid forecasts.

- Given the current situation, what is the business case for continuing?

  An effective approach to progress and performance management should provide clarity for this question, on an almost continuous basis.

  What is important to consider with this question is that even when projects are running exactly as they should, circumstances around the project may change. Where the value of the outcome increases, acceleration may be appropriate. Perhaps the intended outcome has become irrelevant – but an alternative outcome is feasible and can be profitably achieved by redirecting the project. Where the prospective value has evaporated, an orderly shutdown and redeployment of resources may be desirable.

  The business case for continuing should be well known to the key leaders who own the outcomes of the project. In a majority of cases, these should be business leaders who have a clear understanding of what is intended, how it will be achieved, and how its value will be manifest. They should be well informed by project and technology specialists on the effort, costs and other considerations involved in achieving the objective.

- Is there a committed and accountable business executive who will ensure that the project delivers the expected outcomes and value?

  Not all change happens quickly. Sometimes a plan begins well, with high levels of energy and enthusiasm, strong, focused leadership. However, time takes a toll on these elements. Job assignments change. Priority issues demand more attention. Often, those who created an initiative disappear from the landscape, leaving the project to fend for itself. But projects that must fend for themselves are at a substantial disadvantage. Without ownership and leadership from the top, they lose focus on the objective and drift into "project for the sake or project" mode, rather than "project to deliver an outcome". In some cases, the project can become a political pawn – exploited to "demonstrate" a predecessor's failure, or to be a grandstand on which a newcomer can exhibit power and achievement.

  It's not essential that the board look deeply into the machinations that may happen here. As the proverb says, *the fish rots from the head* and if the board cannot see clear evidence that the initiative is owned and steered by an appropriate business leader, there is every likelihood that the project will be going off track – or perhaps inappropriately staying ON a track that is no longer appropriate.

These questions are far from exhaustive. They are a start, not an end. However, asking them may give you useful insight to what is, and what should be happening in your organisation.

In the final part of the series, we will look at how directors and business leaders can consider IT in the context of operational performance and risk.

Infonomics serves business leaders with resources to help them ask questions and understand answers about IT situations, without underlying technical knowledge. If you found these questions challenging, or need further advice, please ask for help.