



WEATHERING THE PERFECT STORM

How Executives and Boards Can Help Improve Large Technology Projects

by Jack Bergstrand

INTRODUCTION

For too many organizations, major information technology projects turn out badly.

The demand planning project that was intended to revolutionize the business, but now forecasts large overruns. The new supply chain system that was expected to reduce inventory, speed orders and satisfy customers – but instead has added operational complexity and increased customer dissatisfaction. The steady slide, as initial optimism about new technology projects fades to skepticism, followed by pessimism.

Project failure in large enterprise technology projects is unfortunately very common from an operating and financial perspective. But it's not inevitable. Nor is it irreversible, if the right steps are taken.

This study assesses the current state of large technology project implementations and offers specific recommendations for how to get a struggling project back on course or keep it from going astray altogether.



➔ TECHNOLOGY'S PERFECT STORM

Major technology projects can often be like the tip of a whip. Managed well, they can improve revenue, reduce unproductive assets, increase savings and produce operational benefits at a multiple of their cost. When things go wrong they can compromise business performance, increase risk and inflict financial damage many times their direct costs.

This challenge becomes more serious as systems become more powerful, as integration becomes more critical, and as organizations consolidate vital business processes on fewer and fewer systems. Small and initially trivial problems, any handful of which would be manageable in isolation, can rapidly accumulate and negatively impact an entire operation.

Board members and CEOs charged with making sense of a struggling technology

project often have good reasons to be concerned – and confused. By the time project cost overruns are of sufficient magnitude to get the board's and CEO's attention – or the negative operating consequences of a major technology failure become clear – games of defense are already in motion.

Because company careers and consulting firm reputations are at stake, it can be difficult to get good information upon which to base decisions. Technologists also too often explain projects in ways that are very difficult for business people to decipher. It can be all but impossible to get a clear picture of the critical factors involved, never mind find a clear path forward.

It is important to understand why and how large technology projects go wrong so often.

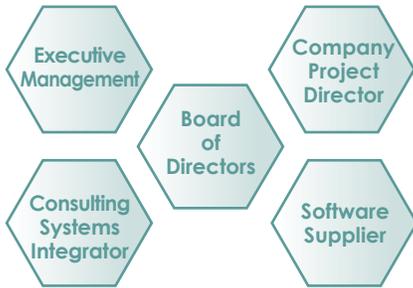
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The Anatomy of a Large Technology Project Problem

There are typically five major players involved in large enterprise technology projects:



For such projects, executive management typically retains a third-party consulting systems integrator to handle project management. Management also assigns an internal project director or program office, generally with very little independent support. This is because firms are so reliant on the consulting systems integrator.

The software supplier owns the actual application to be installed. They license their software to the client and often provide some measure of systems integration or other professional services if contracted during the implementation. Importantly, the software supplier is not responsible for most of an implementation cost. The majority comes from the cost of the configuration and implementation itself and is billed by the consulting systems integrator.

Throughout large enterprise technology projects, the company's board typically has oversight related only to budgetary approvals and go / no-go milestones. It is rare for the board to know whether a

technology project has been conceived and structured to succeed. It is even more unusual for a board – or the company executives for that matter – to have any form of early warning about potential project problems. The board, similar to management, can base their decisions only upon what they know. Unfortunately, the primary source of the information is also the largest vendor in the project.

The traditional approach for assessing major technology projects, when there appears to be trouble on the horizon, is to have the people and firms most involved in the project conduct their own audits and assessments. But no matter how well-intentioned or transparent such efforts are, they are incapable of truly providing an independent view.

This conventional approach increases the risks associated with major technology projects.

What's Going on Here?

In fact, based purely on results – as measured in comprehensive surveys and painful statistics [see sidebar] – the conventional approach to major technology projects has been proven to fail most of the time.

While there can be many causes of trouble in a large technology project – and the root problems are almost never caused by a single stakeholder – the most frequent issues are the following:

If the statistics sound familiar...

- Over half of organizations consider their enterprise launches unsuccessful.¹
- 7 in 10 technology projects are considered failures.²
- 88% of projects exceed deadlines, budget or both.³
- 40% of projects fail to achieve their business case within a year of go-live.⁴
- Half of projects will cost nearly 3X their original estimates.⁵
- Only 3% of projects with labor costs over \$10 million succeed.⁶
- Nearly one in five projects will be cancelled entirely.⁷

... how can you make sure your IT project doesn't become one?



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- 1) The consulting systems integrator has almost all of the critical expertise and true project management authority. And while there may be reputation effects associated with project cost overruns, consulting firms unfortunately can benefit financially when their project costs exceed budget. Even when projects are stated as fixed fee there are “change orders,” and these result in the same cost overages.
- 2) The program director for the company is usually a respected business or technology executive who has never run a large enterprise technology project before and – in the conventional approach – depends too much on the consulting systems integrator from the start. They also rarely have enough independent and experienced help, become consumed by company political and organizational conflicts and wrongly expect the integrator to be managing the project in a turn-key fashion.
- 3) The configuration of the software, the decision-making process and the change management processes are almost always over-engineered on a bottom-up basis by consulting firms. On the surface this has validity, to get the entire company involved in an enterprise project. In practice, it adds complexity, creates confusion and causes time delays that translate into budget overruns.
- 4) There are often significant time delays between a project problem and a budget issue of sufficient scale to be visible to executive management or the board. A project can often come in comfortably under budget for many months because the work isn't getting done. Then, all too often, a large time extension produces a seemingly instantaneous – and often material – budget overrun.



A study of over 250 organizations in 23 countries showed that companies with better than average technology governance practices deliver at minimum a 20 percent higher return on assets than organizations with weaker governance.⁸

CASE STUDY: Leading Computer Hardware Manufacturer

When this manufacturer's server division planned to connect a legacy order entry system to work with its new system, one in five orders got hung up. The chairman and CEO told shareholders the glitch created a \$120 million order backlog that led to \$40 million in lost revenue, as disappointed customers went directly to competitors, and many never returned. A technology project expected to cost \$30 million snowballed into an avalanche of bad news for the company - because management failed to anticipate the broader impact of a system migration on the company's supply chain. The company was simply left flat-footed when an order back-log built up, and the contingency plan hadn't built up enough inventory to cover it.

CASE STUDY: Global Sportswear Company

In its effort to switch to a centralized system, this multinational company ran into a software glitch in its demand-planning engine that called up factory orders for thousands fewer of its leading product than the market needed - and thousands more of another product than it could absorb. This cost the company over \$100 million in lost sales and depressed its stock price 20 percent. The CEO referred to the technology debacle as a \$400 million “speed bump,” one that took months to get over.

Your enterprise is ultimately your corporate brand. Both companies had the resilience to work through these setbacks, on their path to creating better enterprise systems – and the endurance to drive agreement on the shared business practices and common data definitions fundamental to the success of major projects.

Other companies – such as drug retailer FoxMeyer and Tri-Valley Growers – were ultimately unable to get their systems working. This, in turn, proved to be a key factor in their closing their doors.

Audit committees and CEOs have the opportunity to turn technology problems into successes and avoid these problems altogether. But they can't do it using a conventional approach, or by depending entirely on consulting systems integrators that are already vested in their projects.

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The challenge most audit committees and CEOs face is that the first sign of trouble in a large technology project tends to arrive in financial terms. Board directors and executives skilled in finance naturally focus on the budgetary implications of a struggling project. But the budget is a lagging indicator.

In an effort to manage the problem, directors and CEOs often find themselves in the uncomfortable position of needing to do something without having strong technology backgrounds or clear information. Also, unfortunately, cutting funding and slowing down projects to get them under control can often place a struggling project in even greater jeopardy – eventually resulting in an even larger financial problem. Having the vested consulting partner audit its own project also doesn't make sense.

Early Warning

There are ways for an audit committee and CEO to pick up early signs that a major technology project may be headed for trouble, by focusing on a few intangibles:

- **Is there a clearly-understood master plan?** Since large technology projects impact business operations, there needs to be a clear plan that makes sense in business terms. If you're hearing a lot of technology acronyms, you probably have a problem.
- **Are the governance and change leadership process over-engineered?** If a lot of committees and an undefined number of people are allowed to make key trade-off decisions, expect delays. These delays can cost a fortune in a large enterprise technology project.

- **Does the company's program director have enough independent support?**

The program director needs independent and experienced help to be successful. If you expect the consulting systems integrator to manage the project in a turn-key manner and trade-offs to occur without facilitation, you are asking for trouble.

- **Do decision makers welcome bad news?**

With large enterprise technology projects, bad news is good news if it comes early. It is important to shift the worry curve up front. Facts are friendly. If it doesn't seem as if there are a lot of problems to solve early, your problems may all come at once – and be much more difficult to handle.

- **Do you use contingency planning as a management tool?**

Managing a large technology project via a monthly budget can be very misleading and dangerous. Schedule risks, budget risks, quality risks and overall scope risks should be managed through a specific and consistently-applied independent contingency management process.

Even from its position outside the day-to-day operations of the project, an audit committee and CEO can – and should – focus on more than the direct (and lagging) budgetary implications of a struggling project. The guidelines above can help.

How to Steer a Course Correction

Best Practices The need for technology project governance has been around for a long time but has struggled in its execution due to over-engineering. While overall corporate governance and enterprise risk management focus on problems that could keep a company from achieving its strategic objectives – in areas such as business continuity, internal controls and legal compliance – few boards deliberately build technology into their portfolio (beyond the basics of data security and controls).



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This in itself introduces risk because sound IT governance, overseen by the board and CEO, can ensure that technology picks up and delivers where strategy leaves off. Here, as in much of business, timing is everything. Early, deliberate and sustained oversight can avert wrenching intervention later.

As much as the board and CEO need to review and approve funding for major technology projects, they should also have a clear mechanism to anticipate and plan for key project contingencies throughout the enterprise technology initiative.

In practice, anyone who hasn't lived through a major technology meltdown may find it difficult to fully envision the degree to which participants stop seeing the forest for the trees and the critical need to provide a steady hand in an unsteady environment.

Large Technology Project Governance: Three Critical Areas

I. CLEARLY ARTICULATED MASTER PLAN

What is the project – and what *isn't* it supposed to do? It is very common for large enterprise projects to focus on the parts at the expense of the whole. When there isn't a clear master plan – articulated in clear business language – strategy, business objectives and the technology project itself will go in three separate directions. This inevitably results in scope confusion, project delays and cost overruns.

II. DECISION-MAKING *How are decisions made? Who has the authority to make them?* These questions must be deliberately answered and clarified to every key player. Required are: a streamlined governance structure; a 24 hour deadline for critical decisions; a rapid escalation / trade-off process; a shared framework for project steps and the timing and dependencies between those steps. In large enterprise projects it must be crystal clear who has the authority to make a decision, versus who has the authority only to offer input.

III. COMMUNICATION AND CHANGE LEADERSHIP

Are project communication and change leadership separated from line management? They shouldn't be.

Effective enterprise projects should not have distinct identities within their organizations. Communications and change leadership should be done only as needed, and should come directly through the line management hierarchy. If communications and change leadership initiatives don't come from somebody's boss, they aren't going to be productive enough. They must be precise, clear, consistent and credible.

One of the most critical predictors of top performance⁹ has been the percentage of managers in leadership positions who can effectively describe the project's governance. Nearly half of all managers in the top two quartiles of performers can accurately describe how project decisions are made in their firms, and how those decisions align with strategy – while fewer than 30 percent of the managers can do so in the poorer performers.

Core Decisions in Large Enterprise Technology Projects

The key project governance drivers can be reduced to half a dozen elements, all interrelated and interdependent:

- Clear master plan
- Streamlined decision making
- Rapid escalation process
- Simple communications
- Integrated change leadership
- Independent facilitation



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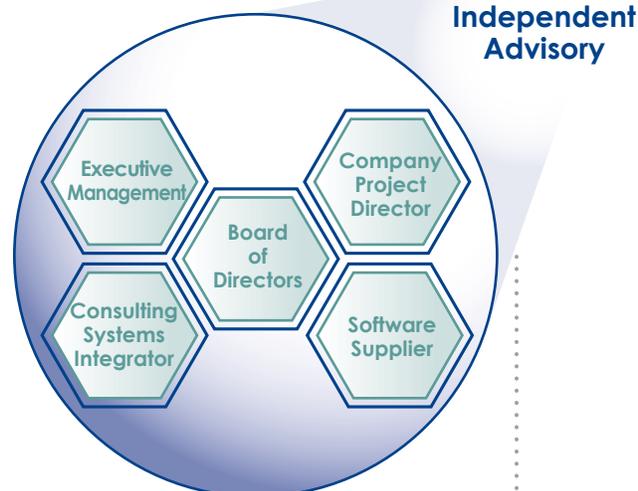
The better your decision making and change leadership are designed, communicated and facilitated through the company's line management hierarchy, the better the project will be executed. Projects that deliver operating value do so only because key people fully understand what the system is intended to do and why, what needs to change and what needs to stay the same.

Improving Large Technology Projects

To correct issues with technology project governance or put a major project back on course, the audit committee or board, in conjunction with the CEO, should consider the following:

- 1) Focus on fixing problems, rather than affixing blame.** Provide a steady hand in a chaotic environment. Convey optimism, support and a new chapter. Remember that you're joining a story that has already generated considerable fatigue and stress for many hard-working people involved.
- 2) Put a premium on realism and truth-telling.** Reward honesty. Consider candor a compliment. Facts are your friend. Your purpose is to build trust, extinguish finger pointing, reward collaboration and accelerate progress.
- 3) Seek independent guidance and facilitation.** There is no substitute for an unbiased perspective, seasoned expertise on the ground and an accelerated approach to rapidly assess and reinvigorate large projects.

The best way to move a project forward is by independently identifying the critical issues and developing next steps – while earning the trust and buy-in of all concerned. It is critical to help the internal program director be successful. It is also important to ensure that the consulting systems integrator is successful. Finally, it is critical to develop clear lines of communication and objective progress reporting to all involved parties, including executive management and the audit committee.



An independent, experienced and accelerated approach:

- Establishes clarity about what the project is – and isn't
- Creates effective linkages between the stakeholders
- Identifies and prioritizes the most critical elements necessary for recovery
- Simplifies communications and change leadership
- Accelerates the decision-making process

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- Creates and maintains clear role definitions
- Ensures accelerated progress and objective reporting

In this regard, it is difficult to overstate the importance of independence, senior experience and an accelerated approach. A measure of clarity is required that nobody internal to the organization, or employed by the systems integrator or other vendors, can truly provide.

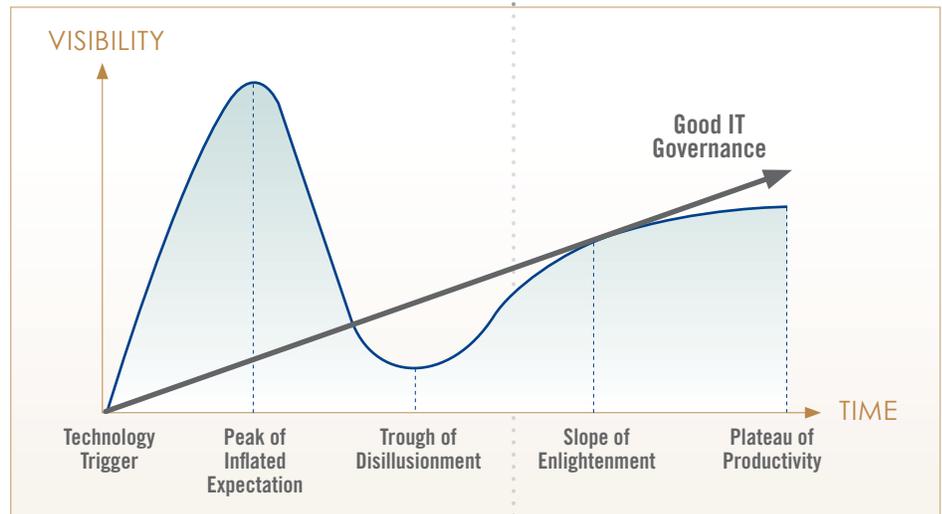
Clear communication is at a premium in large technology projects. Technologists, who tend to be inductive by nature, often find it difficult to articulate what they need from senior management in a form that can easily be acted upon by decision makers. Technologists think in terms of technologies and problems. Business leaders think in terms of business decisions to be made.

Building a bridge between these domains is critical for success.

Conclusion

It can seem like a long journey from the initial enthusiasm surrounding a major IT project, to an impending debacle, to a sound recovery and positive business outcome.

The level of organizational turbulence and churn that can be associated with a major technology project is memorably expressed by Gartner Research, in its now-legendary “hype cycle”:



*Gartner Research

The Board and CEO have a critical role to reinforce productive technology project governance that delivers smooth project trajectories.

A troublesome technology project, as difficult as it can be, is an important opportunity to re-think and refine the fundamentals of accelerated enterprise project management. After resolving a significant challenge, organizations can put themselves in a far better position to successfully implement future enterprise projects.

The benefits of a clear master plan, streamlined decision making, a rapid escalation process, simple communications, integrated change leadership and independent facilitation are clear. They put future projects on a course that will be more compelling and more effective in the long run.

To discuss a large technology project in more detail, Jack can be reached at jb@brandvelocity.com and at 404-660-5240.

Endnotes

¹Robbins-Gioia survey of 232 organizations, both public and private sector (2001)

²OASIG study of 14,000 user organizations

³Standish Group, cited in www.bcs.org/server.php?show=ConWebDoc.8418

⁴The Conference Board, survey of 117 companies that attempted ERP implementations (2001)

⁵The Standish Group, Chaos Report survey of 365 organizations and 8,380 applications (1995), still considered a seminal reference and widely cited

⁶Jim Johnson, Standish Group, quoted in “How to Spot a Failing Project,” *CIO* magazine 7/17/07 <http://www.cio.com/article/print/124309>

⁷*Ibid.*, Standish Group

⁸Ross and Weill, “Recipe for Good Governance”, *CIO* Magazine 6/15/04 http://www.cio.com/article/29162/Recipe_for_Good_Governance

⁹*Ibid.*, Ross and Weill

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