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Why IT Projects Falter and How Astute Business Cases Help Save the Day

Information is the manager's main tool, indeed the manager's "capital," and it is he who must decide what information he needs and how to use it.

—Peter F. Drucker, Management consultant and writer

Theme

Many IT investment disappointments can be avoided when a value-focused business case plays a starring role during the project's entire lifetime.

WHEN IT PROJECT PROBLEMS ARE REALLY ROI PROBLEMS

IT Projects: Too Many Failures, Too Many Times

More than 83 percent of all information technology (IT) project investments fail to meet their economic goals.¹ This is a sobering

¹ Standish Group Survey. The Chaos Report (1995). Other Standish Group Research reports that the larger the project, the higher the failure rate.

finding for the biggest single user of capital investment funds! For example, at this rate a \$100 million public firm could boost its share price 3 percent annually by eliminating this 40 percent failure rate.² An organization having 1 percent of its expenses in IT projects could increase its operating margins by 3 percent.³

The opportunity costs of IT project shortfalls can be even greater, reshaping the character and destiny of both firms and industries. Some examples:

- For an enterprise, needed market share gains are undermined by disappointing customer relationship management (CRM) system upgrades. Massive defections of key customers are triggered by fumbled web-based customer service implementations.
- For an industry, entrenched leaders can fall to new entrants. A lack of IT vision and commitment hastened retailer K-Mart's forfeiture of industry leadership to "upstart" Wal-Mart.

Attempts by management to halt IT investment hemorrhaging have brought mixed results. Popular remedies, such as tighter project management controls, better training, and more senior management oversight, can reduce, but seldom eliminate, IT project shortfalls.

How Hidden ROI Problems Torpedo IT Success

Very often IT project problems are actually symptoms of deeper, hidden ROI-related problems of which decision makers are only vaguely aware. Both the concept and the usage of ROI are mistakenly trusted.

Being aware of ROI defects can be especially tricky because at first glance the analytical shine seems reassuring. To anyone who can count, an ROI of 125 percent looks better than one of

² Calculation assumes the firm has, before the failure rate improvement, a 10 percent profit after taxes, 10 million shares outstanding, an EPS of \$1.00, and a P/E ratio of 10.

³ Calculation assumes the firm has, before the failure rate improvement, a 10 percent operating margin.

55 percent. However, behind this facade may reside deceptive calculations, faulty logic, and erroneous conclusions. These flaws may not be intentional, but nevertheless they can threaten the very foundations of IT investment payoffs. Decision makers may be falsely guided to:

- Approve IT projects that should have been rejected.
- Reject IT projects that should have been approved.
- Never see project opportunities that should have been approved.
- Approve good projects that fail during implementation.

Ways That ROI Deficiencies Undermine IT Success

Because the link between IT success and ROI usage is often misunderstood, attempts to avoid IT disappointments misfire. For example:

- Project cost overruns are thought to be due to poor expense control during implementation. In reality that is only the consequence of a deeper problem: understated cost assumptions in the business case during approval of project funding.
- Missed project deadlines are said to result from unexpected expansion of the project's scope, which in turn is attributed to lax enforcement of agreed-upon project boundaries. Analysis reveals, however, that the real root cause is the unnoticed fuzzy project boundaries in the original cost-benefit justification.
- Low worker productivity is thought to stem from inadequate training on new systems. Deeper investigation shows the real problem is lack of worker motivation. No one identified "What's in it for me?" for these key stakeholders in the business case during the project's initial approval.

The leading culprit in these ROI-related deficiencies is the **business case**. Rather than being the accurate explanation of the true business value potential of a project, the business case unintentionally subverted the project's success.

Exhibit 1-1 illustrates several examples where business case problems were the unrealized root cause of IT project difficulties.

Exhibit 1-1 Business Case–Based Causes of IT Project Problems

Perceived Problem	Cost Overrun	Delivery Delay	Worker Productivity Shortfalls	Missing Key Functionality	Mid-Project Cancellation
ASSUMED CAUSE ↓	Poor cost control	Mismanaged implementation tasks	Inadequate and/or improper user training	Lack of project team resources to implement	Project management problems
ACTUAL CONTRIBUTING CAUSE ↓	Erroneous cost estimates	Project scope creep	Lack of user motivation to make the system successful	No value analysis of dropped features	Newly involved executives lack awareness of project’s business value
ROOT CAUSE RELATED TO THE BUSINESS CASE	Undetected omissions in the business case	Unresolved fuzzy project boundaries in the business case	No personal payoff for workers identified in the business case	Lack of postfunding use of the business case to determine functionality’s value	Lack of postfunding use of the business case to clarify project’s value

THE BUSINESS CASE: FLAWED AFTERTHOUGHT OR IT VALUE STAR?

The business case is one of the most important, yet misunderstood and underutilized, resources in the entire IT project management process. For the purposes of this book, a business case is:

A document written for executive decision makers, assessing the present and future business value and risks related to a current IT investment opportunity. A business case primarily consists of cost and benefit calculations, assumptions, rationale, evidence, and support.⁴

For all its good intentions, however, too often a business case is revealed to be an unintended cauldron of half-truths, glaring analysis gaps, convoluted conclusions, and so many numbers that even an accountant would choke.

⁴ For a more comprehensive definition, see the Glossary.

Spotting Business Case Defects

Recognizing potentially misleading business cases is not hard. Common warning signs include terminology confusion, content defects, and role myopia.

Terminology Confusion: When Your ROI Is Not My ROI

ROI confusion begins with the excessive variety of meanings used for the term “ROI.” In the pantheon of abused words, ROI stands tall. Try asking half a dozen IT project stakeholders for their definition of ROI. If you get two or more answers that are the same, you are the exception. Exhibit 1-2 lists a few examples where people use the term “ROI” but have different meanings for it.

Failure to be precise concerning what is meant by ROI can lead to erroneous investment decisions and/or undertaking tasks that underaddress or overaddress management’s expectations.

Content Defects: Curveballs from Everywhere

Many business case curveballs are traceable to flaws in the document’s content. Overlooked costs and benefits, misdirected payoffs, and misunderstood enterprise issues are but a few. Exhibit 1-3 outlines common failures of this type, with cross-references to chapters that discuss their detection and resolution.

Exhibit 1-2 Multiple Meanings for the Term “ROI”

When someone mentions ROI, she or he could actually mean . . .		
A FORMULA called:	Or a DOCUMENT, which someone else might call:	Or a PROCESS, which someone else might call:
<ul style="list-style-type: none"> • Return on investment (ROI) (which different people may calculate in different ways) 	<ul style="list-style-type: none"> • Business case • Cost-benefit justification • Benefit analysis • Benefits realization • ROI study • Value analysis 	<ul style="list-style-type: none"> • Value management • Benefits determination • Benefits realization

Exhibit 1-3 Examples of Common IT Project Business Case Errors

ROI-Related Problem	Example	Cause of Problem	Consequences	Details
MISSED BENEFITS AND COSTS				
Overlooked key benefits	“Improved quality of decision making due to better data” not included as a benefit	Lack of understanding, by business case creators, of the area being automated	Understated project value; risk of funding rejection	Ch. 4
Overlooked key costs	“Retraining costs due to normal employee turnover”	Weak understanding of the full spectrum of costs	Loss of credibility; mis-set ROI expectations	Chs. 4, 5
Lack of use of intangible benefits	“Only hard-money tangibles will be used in this project justification”	Lack of awareness of the central role of intangibles to informed decisions	Important decision factors unaddressed	Ch. 8
Inability to quantify important benefits	“Biggest value, better worker morale, not computed”	No training on converting intangibles to tangibles	Understated project value; risk of funding rejection	Ch. 8
WEAK LINK TO STRATEGIC ISSUES				
No link to enterprise vision-value-goals	“Strategic goal of better market share not included”	Lack of awareness by business case creators	Risk of funding rejection; understated project value	Ch. 4
Business risks inadequately identified	“Risks of investment are outside scope of analysis”	Lack of management directives; low business knowledge	Project shortfalls—no risk reduction plans	Ch. 4

Exhibit 1-3 *continued*

ROI-Related Problem	Example	Cause of Problem	Consequences	Details
Assumes better data are a business benefit	“The primary value of project is better data integration”	Business case creators lack insights into how data helps business	Understated project value; risk of funding rejection	Ch. 4
WEAKENED CREDIBILITY				
Nonverifiable references to support claims	“According to industry experts, 20% can be saved”	No “credibility” guidelines for business cases’ creators	Erroneous payoffs accepted at face value; valid payoffs rejected	Ch. 5
Lack of evidence and support of calculations	“Annual \$1 million in data entry time savings”	Lack of knowledge of how to develop evidence credible	Erroneous payoffs accepted; valid payoffs rejected	Ch. 5
Inappropriate degrees of precision	“This project will save \$1,232,657.74 annually”	No understanding of realistic levels of precision	Loss of business case credibility	Ch. 5
LOW AUDIENCE APPEAL				
Concerns of all key decision influencers not addressed	Financial systems justification overlooks impact on non-financial users of data	Lack of awareness of all decision influencers, such as HR, field managers, etc.	Risk of funding rejection; implementation resistance	Ch. 4
Excessive length, no executive summary	70-page business case with no summaries	No management guidelines on format, size	Erroneous conclusions due to hasty skimming by decision-makers	Ch. 6
ECONOMIC LOGIC ISSUES				
No cost avoidance analysis	“Excludes \$2 million savings from future hiring”	Valid cost avoidance savings are not carefully justified	Risk of funding rejection	Ch. 5
Incremental labor savings are rejected	“Excludes \$2 million savings cut in labor per transaction”	Management disallowed partial labor savings	Valid saving ignored, cutting ROI appeal	Ch. 5

Role Myopia: Beware of the One-Trick Pony

A good business case is more than a free pass through the project funding police. Once a project has received the investment go-ahead, the business case's purpose should change from being a value forecaster to a value enabler. This new purpose requires the business case to star as management's value insurance policy throughout the project's life.

Six Ways Good Business Cases Shape Project Success

Exhibit 1-4 profiles the six important times during a project's lifetime when a business case plays an important role.

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Overcoming ROI defects and positioning business cases for stardom are not rocket science. A dose of management commitment and "structured common sense" will do the trick.

The remainder of this book will illustrate how to maximize IT success by using principles and examples from VALUE-on-Demand, the authors' executive decision-support process for boosting IT project paybacks.

The first step in boosting return on investment from IT projects is understanding how to recognize business cases that management decision makers can trust. The next chapter addresses this issue.

Exhibit 1-4 Six Roles of a Business Case During a Project's Lifetime

During funding

Role 1: “Money Magnet”: A business case's most common role: Get the financial support for the project by telling a believable story of sufficient future riches to gain the backing of funding decision makers.

During implementation

Role 2: “Crowd Convincer”: In this role a business case helps win the crucial support of reluctant end users of the new system who were excluded from the project justification loop. The business case becomes a crowd pleaser by explaining how the new system overcomes pressing problems they care about. User benefits are explained in their language, devoid of executiveese (e.g., not “enhance our firm's competitive advantage,” but rather “you will receive fewer irate customer calls”).

Role 3: “Gyroscope”: Gyroscopes stabilize ships during stormy seas, guiding them to safe harbor. A business case plays a similar role when project scope extensions threaten to add extra time and effort. By highlighting the value of the project's original boundaries, the business case keeps the project focused on the original plan and thus staying the course toward an on-time arrival at the planned destination.

Role 4: “Team Cheerleader”: Like our bodies, projects have biorhythms. The project team's “high” during early stages typically plummets as mid-project challenges surface. Unexpected obstacles, schedule slippages, and unwelcome overtime sap energy from the team. The business case's cheerleader role keeps teams motivated by emphasizing their crucial role in making project payoffs a reality.

Role 5: “Executive Reminder”: Projects need continuous executive support. Original sponsors often become distracted with other tasks or are replaced by less committed managers. Sooner or later someone with authority will ask: “Why are we spending all this money and time on this project? Aren't there better uses for these resources?” At this point, the executive reminder role of the business case enters to explain to management doubters why this project is so vitally important.

During the system's operational lifetime

Role 6: “Value Progress Tracker”: The business case should be the foundation of a feedback loop for measuring value-creation progress. The money magnet role forecasts value. The value progress tracker role reports if the forecast is becoming a reality.
