

Understanding the Relationship Between Your IT Function and Your Business What's Driving Your IT ROI?

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A New Model of Engagement

IT ROI needs to be a “3-legged stool” where

1. The **IT** function takes ownership of the technology
2. The **business** takes ownership of the organizational transformation
3. the **CFO** takes stewardship of the benefits

Agenda

- Understanding IT ROI
- What about your IT ROI?
- Two case studies – success vs. failure – hindsight is 20:20 vision
- IT ROI starts with project selection
- Ten steps to an improved IT ROI – reengaging the CFO in IT investment

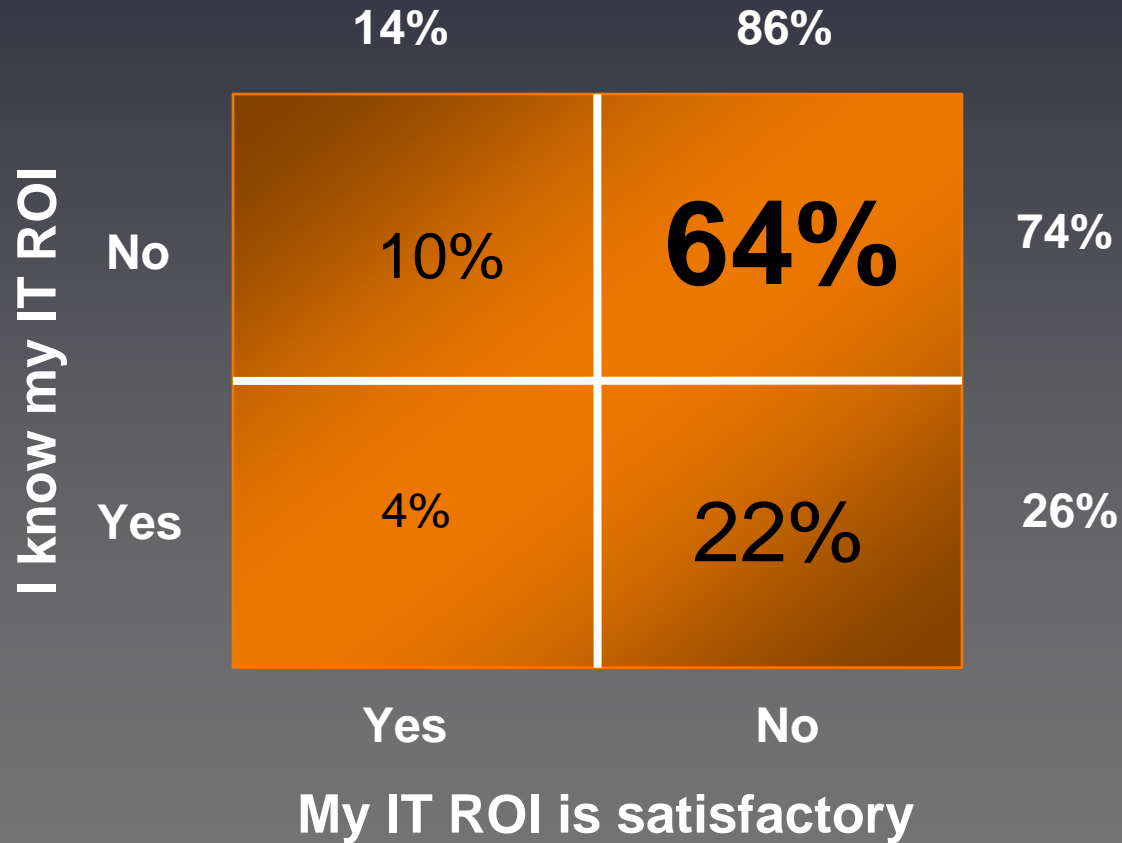
Assessing Your IT ROI

- Everyone uses the same set of tools to select IT projects (payback, NPV, BSC, alignment with corporate goals)
- Everyone uses common industry indicators (IT as % of revenue)
- Existing measures aren't perfect but they are good enough
- There is no “silver bullet” here

What about your IT ROI?

- Do you know your IT ROI?
(Yes/No)
- Are you satisfied with it?
(Yes/No)

Most CFOs don't know their ROI



but they know it needs improving!

It seems no one questions the importance of IT but ...

... most senior executives harbour a lingering doubt about whether IT is delivering what is needed by the business at a reasonable cost



IT project selection is the key to ROI. Unfortunately ...

in many organizations, project selection is like taking the whole family grocery shopping ...



... everyone puts things in the cart that they “need” but, when you get home, you can’t put a “balanced” meal on the table

Case #1: The Missing Partnership



- The company launched a \$3.5M IT project to replace its collection of underwriting systems
- Underwriters begrudged the time spent “explaining the insurance business” to IT
- Mid-way through, the business made the decision to cut functionality in order to meet their market target

The Outcome?

- IT celebrated their “on time” and “on budget” delivery – bonuses for all!



- Since going live, an additional \$2M has been poured into the system to add functionality
- The company has yet to “unplug” the old systems which the underwriters use to “check” the new system

IT ROI?

Disaster!

Case #2: Foundational Systems



The company rolled out a new “plant production and control” system to all its plants across Ontario and Quebec

Sponsored by the CFO and CEO, the system was aggressively resisted by the majority of plant managers.

The Outcome?

- The system was “way late” and “way over budget”



- Seven years later, the system was delivering benefits “far in excess of expectations” according to the CFO

IT ROI?

Huge!

So what makes IT ROI difficult?

- Long term ... lag effects ... complementarities
- Consumer surplus
- Difficult to trace infrastructure projects to the bottom line
- Few standalone projects today although we try to justify them on this basis
- Project benefits don't aggregate



**Ten Steps towards
Improving your IT ROI**

Improving Your IT ROI

1. Create a technology renewal program
 - Makes maintenance transparent (eliminates IT's "dirty little secret")
 - CFO formalizes the process
 - Funded centrally (tax on development)
 - Administered by CFO and senior executive
 - IT Director builds the case for technology renewal initiatives

Improving Your IT ROI

2. Ensure that major IT projects compete with other capital projects

- Every dollar spent on IT is a dollar denied to other uses ... and vice versa
- Pre-allocating IT dollars doesn't guarantee value creation
- CFO certifies all business cases

Improving Your IT ROI

3. Make “internal” IT projects compete with other IT projects
 - IT Director has “needs” for IT too
 - The IT Director should bring these internal projects before the project selection committee so that they compete with all other IT needs
 - CFO certifies the business case
 - Eliminates the “coffee can”

Improving Your IT ROI

4. Articulate role expectations with your IT Director

- Four archetypical roles (www.cio.com) are:
 - Business Leader
 - Innovation Agent
 - Operational Expert
 - Turnaround Artist
- Role discrepancies are highly frustrating and counter-productive
- Have you articulated and aligned role expectations with your IT Director?

Improving Your IT ROI

5. Create a “dynamic auction” for IT projects
 - All IT projects that have passed detailed specification but have not yet been implemented are considered “in the auction”
 - Projects in the auction can be expedited, frozen or supplanted by other projects
 - Even after resources have been allocated to a project, the organization does not commit to delivering the project ... See point above

Improving Your IT ROI

6. Allow managers to “change their mind” and withdraw an IT project from the auction
 - Balance the benefits of project “sponsorship and commitment” against the costs of “ownership and ego”
 - Don’t let the forces of organizational inertia drive you towards delivering questionable projects

Improving Your IT ROI

7. Harvest the benefits for new projects
 - “Stage gate” your benefits (revise/revisit benefits as well as costs through project development)
 - CFO organization monitors benefits for all new IT development projects (“stewardship role”)
 - Benefit transparency – tracked for 3 years by CFO
 - Harvesting benefits builds accuracy and confidence in IT ROI assessment

Improving Your IT ROI

8. Encourage “enterprise” systems

- Go where the greatest value exists
- Eliminate barriers that work against enterprise systems
 - Chargeback mechanisms (“first on the bus ... buys the bus”)
 - Decentralizing IT decisions to business units
- Develop “Robin Hood” funding models
- “100 percent plus” buy-back plan for first movers

Improving Your IT ROI

9. Fund “programs” instead of “projects”
 - Bucket funding offers better alignment with many new business initiatives
 - For example, if you wish to open a new web channel, put all the required projects in a “bucket” and fund (or don’t fund) the whole bucket.
 - Also, then harvest the benefits on the basis of the new channel launch

Improving Your IT ROI

10. Eliminate the “us-them” through “responsibility partnering” :

- **Articulate** the responsibilities of all partners
- Gain **acceptance** of these responsibilities
- Commit necessary **resources** to fulfill responsibilities
- **Agree** on what “success” looks like
- Commit to achieving success – **together**
- Recognize and **celebrate** joint successes
- **Harvest** the benefits

This morning we spoke about

**Understanding the Relationship
between Your IT Function and Your
Business: What's Driving Your IT ROI?**

This afternoon you can

**Change your Relationship with Your
IT Function and Drive Your IT ROI up!**

THANK YOU!

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