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Newsletter

Aligning IT with Corporate Objectives—Sifting through the Blue Smoke & Mirrors

Aligning IT with an organisation's corporate objectives has become almost a mantra in the IT industry. Magazines talk about it, and what every professional CIO should do to ensure their organisation does align their IT. IT suppliers' products and services all guarantee to do it, and numerous seminar & conference presenters have the latest tools, tips and techniques on how to go about aligning IT.

Farrell & Associates researched this field for over five years in conjunction with a doctoral research project at Macquarie University, carried out by Jonathan Farrell, our organisation's principal. The research examined the origins of IT alignment in the 1980s, and analysed a mountain of research, case studies, etc. carried out over the last twenty years into the various methods that organisations have been using to align their IT with their corporate objectives.

Through all the blue smoke and mirrors surrounding this topic, we have made some very interesting findings. Firstly, organisations who are successful in aligning their IT with their corporate objectives perform financially better than those who don't. Secondly and most importantly, IT alignment is not something that can be done piecemeal, or in isolation to other parts of the organisation.

One of the main findings of the study was that, to successfully align its IT with its corporate objectives, an organisation must take into account twenty-one key factors that can influence that alignment. These key factors are both hierarchical and inter-related, and can be grouped into three levels: Management & Planning, Business, and Technology. The key factors cover the entire spectrum of IT, from IT Strategic Planning , through Standards & Procedures, to Service Level Agreements.

To see how well these key factors are used in an organisation we developed a methodology called Key Factor Analysis, which identifies and ranks each of the key factors against a proven set of characteristics.

The outcome from a Key Factor Analysis project is an indication of how well the organisation's IT is aligned, along with a set of recommendations to improve that alignment where it is not high. It takes about two to three weeks to carry out a typical Key Factor Analysis project in an organisation, and the results can highlight areas which may be costing the organisation significant dollars.

For more information, we have published a white paper, which is available on our web site at www.farrell-associates.com.au/WP.html. If you want any further information, please don't hesitate to contact us.

The Lure of Technology

It seems that every week there's a new piece of technology and / or methodology that will increase ROI, reduce TCO, provide improved TTM, etc. Industry pundits latch onto this new technology and confidently predict double and triple digit growths of acceptance and use of the new technology, with a forecast of a megabuck industry by 20?? *.

Many of these new technologies also promise to align the organisation's IT with it's corporate objectives, although they're very sparse in explaining just how that will happen (see the article above).

Over the last twenty-five years we have seen 4GLs, CASE tools RAD, JAD, WAP, BPO, in fact a veritable alphabet soup of new technologies, and over the same period organisations have spent billions of dollars for, in many cases, questionable returns on their investment.

We reiterate what we have said in the past—technology is an enabler of strategy not a strategy in itself. If an organisation does not have the fundamentals of its business strategy in place, no technology will help it succeed.

An excellent paper in a similar vein is "*Strategy and the Internet*", by Michael Porter, which appeared in the Harvard Business Review, March 2001 (vol 79 No 2). The message in this article was simple—get your strategy right first, then look at the technology.

*usually with a 60% probability proviso in very small type somewhere on the page.

In This Issue . . .

A Successful Project—an Oxymoron?

If we believe the pundits and soothsayers, less than 30% of projects involving IT will be successful, and the average project will take twice as long and cost twice as much as estimated by the time its completed. This lack of success has been highlighted recently by reports in the press of numerous projects involving IT (note – as per our last newsletter we don't call them IT projects). We have seen some spectacular failures in commercial, government and education arenas which have cost organisations millions of dollars. On top of this cost there is also the opportunity cost – i.e. the cost to the organisation of not being able to obtain the benefit of having the IT infrastructure in place, which can also cost millions of dollars. With a track record like this its no wonder that we should ask if the two words: successful and project, belong together in the IT industry.

So, what is needed to make a project successful? Based on our years of working with organisations and seeing dozens of projects in numerous organisations around Australia and overseas, we would like to offer the following as a basis for ensuring the success of projects:

- **Project Management**. It seems somewhat obvious that the success of a project depends on good project management, but it is amazing that so many organisations pay only lip service to it. Unfortunately, they fail to realise that there is a huge difference between project management and management of projects. The former can be performed simply by obtaining a suitable project management software package, feeding it with all the right information e.g. stage name, start date, end date, resources needed, etc. and then measuring the progress of the project against this information, showing how far ahead (or more commonly behind) the project is in relation to estimates. A very common sign of this is the proliferation of Gantt charts which are stuck on walls, presented at meetings, etc. and become gospel.

  The latter is far more complex. It requires a good *manager of projects* who can manage not only the project but all the other things which comprise the project – changes, risks, issues, resources, documents, meetings, suppliers, finances, etc. This simply can't be done by "feeding the software".

- **Change Management**. Change management is one of the biggest causes for projects to go "off the rails". Changes to a project must be managed within a proper, sound change management system which has been agreed to prior to the commencement of the project. Change management requires a discipline (unfortunately not always found in IT techies) which should dictate at the very least that each change is documented – including the reason for the change, the date of the change, the areas affected and the likely impact on the project in both time and cost. It should be agreed to by all parties in writing, and, when each change is completed, a brief report prepared to state what was done.

- **Document Management**. Documentation of a project involves more than just keeping the Gantt chart up to date. A typical project will comprise dozens if not hundreds of documents, from initial feasibility studies, project charters, approval reports, RFTs / RFPs, supplier responses to RFTs / RFPs, supplier material such as marketing information (especially Internet-based information that you may rely on for information), supplier evaluation reports, senior management / board presentation reports, through project review / steering committee meeting minutes, project change documentation, and particularly, all related emails by everyone involved. It may sound like overkill, but, having been involved in numerous reviews of project failures, we can not stress strongly enough the need to keep track of all project documentation. A good document management system can assist you in this.

- **Resource Management**. Again, a very obvious management requirement but one which is frequently overlooked. We have seen various projects delayed (and thus the project costs rise substantially) because the required resources were double booked with other ongoing projects. This typically delays completion of a stage which in turn cascades not only through the project but any other project dependent on its completion. The alternative is to hire contractors to carry out the work, however this attracts two additional costs – the higher hourly rate for contractors, and the fact that they will need to be brought up to speed with the project before they can become effective on the project.

- **Activity Management.** This is another area where we have seen projects go off the rails. By activity, we mean any form of meeting, interview, presentation, or review where information is provided or decisions made regarding the project. It is vital to ensure these are properly documented in the form of proper meeting minutes or discussion notes, particularly if the discussion is purely verbal such as a telephone call. Any verbal discussion should also be followed up by a formal note outlining the points discussed, any items agreed upon and any actions decided, along with allocation of responsibilities, etc.

- **Financial Management.** Another important reason why project costs soar is that, having estimated the cost of a project, the actual expenditures are subsequently forgotten, or at least overlooked. In addition, numerous changes, even if each one only costs a few hundred dollars, can quickly double or even triple a project's cost if they're not managed properly. We have also seen instances where certain expenditures have been allocated to a project because "there was no budget for it anywhere else". Its important therefore to ensure that the costs of a project have been properly estimated including resource costs, and to ensure that the actual costs of the project are tracked and recorded against the estimates.

- **Contract Management.** Every project, whether it be for software development, hardware roll-out, outsourcing or the like, should be governed by some form of contract or agreement. This agreement should dictate how the two parties will work together and what the procedures will be followed, especially where there is a difference of opinion (i.e. dispute resolution). It underpins all the management disciplines outlined above, which should form part of the agreement as schedules. The agreement is also an active document .

Although we can't guarantee that managing the above areas will mean project success, if the project doesn't include these areas of management then its almost certain it will become of one the 70% of projects that do fail.

Farrell & Associates Celebrates Twenty-Five Years in Business

On October 11,1983, Farrell & Associates commenced operations in Australia. Our mission from the very first day was to assist senior management in optimising the use of IT throughout their organisation to support the business. Considering that over 80% of business fail within the first two years of operations, we are justifiably proud of achieving this milestone.

There have been significant changes in technology over the last twenty-five years. When we began, the PC had just been released, the Macintosh was still eighteen months away, and mainframe computers were still the primary source of computing power in industry.

Within five years however, PCs were becoming widely used in business for a wide range of activities and mainframes were being rapidly replaced by smaller, more powerful midrange computers. The Macintosh had become a very popular desktop computer with its superb graphics-based operating system and in response, Microsoft had released the first (although very clunky) versions of Windows.

With this surge of computing power on the desktop, as well as the spread of computing around the organisation rather than just in a centralised location, the issue of aligning IT with the organisation's corporate objectives was becoming a major concern to senior management. Interestingly, it still is one of the major concerns today.

Many "new" IT concepts were being marketed to increase productivity, reduce costs, etc. New buzzwords and acronyms such as 4GLs, CASE, RDBMS, MRP, MRP II, etc. were all being pushed by vendors. IT Outsourcing also saw the light of day towards the end of the 1980s, with the first major deals being done with Enron and Kodak. During the 1990s, IT outsourcing became a whole new industry. Wholesale outsourcing was the norm with entire IT departments being handed over to the outsourcers. Today however, the pendulum has swung back with many organisations re-insourcing at least part of their IT.

Its interesting to note that, even though there have been incredible changes in IT over the last twenty-five years, many aspects of business haven't changed. Organisations still have management structures, albeit flatter than in the past, managers still plan, and still need access to timely and correct information to run their organisations effectively.

Twenty-five years on our mission hasn't changed. We are still working with organisations in Australia and overseas helping them to gain maximum benefit from their IT, whether it be through selective sourcing of IT services, aligning IT with their corporate objectives, setting up and running a cost effective service desk, or looking at new and different ways to use technology to gain sustainable competitive advantage.

As part of our mission, we have maintained our business using three basic rules:

Stay Small. Unlike many other consulting organisations, we did not want to grow into a large consultancy practice, with all the problems and risks of keeping large numbers of consultants gainfully employed. Such growth, we could also see, would potentially dilute the quality of the service we provide our clients.

Stay Independent. Over the years we have been frequently invited to join forces with a variety of organisations—consultancies, hard and software vendors, etc. Although there were in some cases substantial financial incentives, we felt we would not be able to provide our clients with sound, objective and unbiased advice that would be necessary for their success.

Tell clients what they need to know, not necessarily what they want to hear. The advice we provide to our clients is based on our analysis of the situation backed by decades of experience. Our clients engage us to get the right information not an echo of their thoughts. In fact, we have declined consultancies where the client wanted us to provide a pre-conceived set of recommendations.

We would like to thank our clients for engaging us over the years. We look forward to providing our clients with continued high quality of service and independent, unbiased advice over the next twenty years.

Newsletter Archive

Don't forget the Newsletter Archive on our web site. It contains a copy of each of our newsletters as we publish them, along with a list of the articles that have appeared in each newsletter.

To download any newsletter, just go to our web site: www.farrell-associates.com.au and click on "*Newsletters*" on the left hand side. You can then peruse the list of articles and click on the edition (e.g. February 2009, on the left hand side of the page to download it.

Comments / Feedback

This newsletter is being sent to you as part of our commitment to keep you informed of the on-going trends in the marketplace, particularly with respect to IT Outsourcing, Services Management, Project Management and Strategic Planning. We would appreciate your comments and / or feedback as to whether this newsletter is of interest, and whether you would like to be kept informed about future developments and trends in IT. Send your email to: information@farrell-associates.com.au

We also want to make sure you don't receive unwanted email from us. If you don't want to receive any future newsletters, please send us an email with "*unsubscribe*" in the subject header and we will remove you from our email list.

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