

# IT Knocks at the Boardroom Door

Directors must recognize technology not just as an asset, but as a competitive advantage

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**M**OST BOARD MEMBERS UNDERSTAND THAT information technology (IT) is expensive. Put bluntly, good IT is expensive, but bad IT is even more expensive. Every organisation has suffered from cost overruns, project delays, and uncertainty in IT deployment. This problem has been with us for decades, and will continue to be for the foreseeable future, especially as all organizations – public and private sector – come to rely increasingly on IT. Information technology is often at the core of business transformation. Moreover, direct IT costs range from 2% to more than 20% of a company's annual operating budget (and indirect costs can add another 33% to those costs).

So what are the key IT problems that organizations and boards face?

In part, the problem is trying to manage a technology set that has a half-life of less than five years. Just as a technology is understood and then mastered, it changes. Given that a company's selected technology platform forms the foundation for subsequent IT delivery, prescience is a prerequisite. Forrester Consulting states that it takes 161 days (almost half a year), to design and procure hardware for a new project – and much longer for software. Given that the design stage in software development should take less than 20% of the overall timeline, it's no wonder that major projects take years in development, and then more for subsequent deployment.

Five years ago, when I was called upon to deliver a speech on upcoming IT developments, I asked for some help from my 25-year-old son, who has a BA degree, not a software-engineering background. He told me all about Facebook and Twitter. Although I've spent three decades in the IT industry, I knew little about social media. With his help, I was successful at that time – or so it seems – in predicting evolving platforms. This demonstrates that even qualified and experienced

engineers, deeply immersed in their industry, may not always spot or understand revolutionary changes – innovations, discontinuities or “black swans.” (Further, my son invested in both Google and Apple stock five years ago, while I chose to sit that out. But that's another story.)

Part of the problem with IT projects is that no one ever knows their full cost, or even who should pay for what. Typically, the full project costs are well documented: hardware, software, development, and so on. My observation, over 40 years of management consulting, is that one-third of the costs usually go to hardware, one-third to project costs (software development), one-third to ongoing maintenance – and another third for change management. Because change management (the “business transformation” piece) tends to get done last, it is usually treated as a residual function: the work gets compressed to fit the time available. More often than not, that final stage never gets done at all.

The other key problem is that the industry does not have enough qualified people. Project-management guru Fred Brooks recognized, for example, that most project managers suffer the most in their second IT project – because in their first one they tend to be very vigilant to compensate for their lack of experience. Given that a \$5-million to \$10-million project may take two years to implement, if all goes well, it takes many years to develop the requisite project-management experience (replete with requisite failures). More often than not, one successful project implementation merits a promotion or better yet a new job elsewhere – leaving the next incumbent to begin the learning cycle all over again.

The boundaries of IT were well established decades ago: transaction processing for payroll, accounting, manufacturing and the like. But now the traditional



boundaries are fading. Social media – used now by well over 50% of FP 500 companies – is an essential part of every marketing strategy. Is that IT? Or is IT relegated to simply engineering the solution for the marketing department? Who owns that project? Or are they joined at the hip?

Probably more than 90% of IT shops are Level 1 (the lowest-skilled) on the Capability Maturity Model defined by the Software Engineering Institute. The CMM scale employs five levels to measure the maturity and capability of an IT shop to deliver quality goods to a budget of time and money. How hard can that be? Less than 1% of all IT shops in North America rank at level 5.

The IT industry is also full of firms that promise to do better than the in-house IT shop – through outsourcing or contracting of project delivery and subsequent support. While 50% of out-sourcing projects fail, the other 50% succeed. The industry is rife with hope, expectations and puffery.

So what can a board do?

First, every board should have a standing IT committee that has at least two board members with a strong IT background (not just peripheral knowledge). IT is as important these days in governance responsibilities as other key functions such as audit, nominating and finance, and especially so for transformational projects. Yet businesses aren't getting this message. The 2011 Canadian Spencer Stuart Board Index reports that the top 100 CSSBI companies had 11 types of standing committees – from finance to social responsibility. None was an IT committee.

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Secondly, the CIO should be asked to present to the board on a regular basis, just as the CFO does. Part of that presentation should be on emerging trends in technology, to inform board members as well as to demonstrate full engagement. Another part of each presentation should be a progress report on major projects. This dashboard should give the status of each major project – green, yellow or red – along with standard criteria of quality, cost, schedule, staff, risk, etc. Every IT shop should have a project-management office that produces such information routinely.

Third, the board should ensure that the IT shop builds its capacity and capability. It can benchmark its progress against other organizations using the CMM model mentioned above. Investing in IT calls for an end-to-end investment, and that includes the people deploying and supporting all corporate operations.

Fourth, the board should have thorough discussions on the company's sourcing strategy: what IT should the organisation buy, and what should it develop itself? Most IT shops want to build their own software, acknowledging they don't have the wherewithal to build their own hardware. But sourcing strategy should be driven by the needs of the business, and not by the needs of IT.

Finally, the board should approve a three-year IT strategy that covers technology, projects, people and resources. It should be long on direction and short on implementation details. IT is the glue that binds the entire organization, and as such it is integral to every part of the company.

As an agent of business transformation, IT is an increasingly important asset and a source of competitive advantage. It requires full understanding and engagement at the board level.

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