CHAPTER 1

Why Value Leaks Torpedo Program Success

A small leak will sink a great ship.

—Benjamin Franklin, 1706–1790,
American politician, inventor, and scientist

Theme

Value leaks, like water seeping through a dike, can become catastrophic.

When IT Program Problems Are Really Value Leakage Problems

More than 76 percent of all information technology (IT) program investments fail to meet their economic goals.[1] This is a sobering finding for IT—the biggest single usage of capital investment funds. For example, at this rate a $100 million public firm could boost its share price 3 percent annually by reducing this failure rate by 40 percentage points.[2] An organization with 1 percent of its expenses in IT programs could increase

1. Standish Group Survey, *The Chaos Report* (2009).
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.

its operating margins by 3 percent.[3] The opportunity costs of IT program 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. For example, a lack of IT vision and commitment hastened the forfeiture of many retailers' leading market positions to IT-empowered Wal-Mart.

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

How Value Leakage Problems Torpedo IT Success

Very often IT program problems are actually symptoms of deeper, hidden value leakage–related problems of which decision makers are only vaguely aware.

Being conscious of value leaks can be especially tricky because at first glance, the analytical shine of a promised return on investment (ROI) seems reassuring. A ROI of 125 percent looks better than one of 35 percent. However, behind this seemingly impressive financial facade may reside erroneous assumptions, overlooked inconsistencies, and/or unreliable data. On top of that, during the actual building of the solution and rolling it out to the field, a lack of a disciplined focus on value management can result in major benefit shortfalls that could have been prevented. These flaws may not be intentional, but nevertheless they can threaten the very foundations of IT investment payoffs. Consequently, decision makers may be falsely guided to:

- Approve IT programs that should have been rejected
- Reject IT programs that should have been approved
- Overlook program opportunities that should have been proposed
- Approve good programs that fail during implementation

3. Calculation assumes the firm has, before the failure rate, a 10 percent profit before taxes.

Top Ten Danger Areas for Value Leaks

Because the link between IT success and value leaks is often misunderstood, attempts to avoid these implementation disappointments often misfire. For example:

- Program cost overruns are thought to be due to poor expense control during implementation. In reality, overruns may be the consequence of a deeper problem, such as misstated cost assumptions in the business case during approval of program funding.
- Missed program deadlines are said to result from unexpected expansion of the program's scope, which in turn is attributed to lax enforcement of agreed-upon program boundaries. Deeper analysis indicates, however, that the real root cause is the fuzzy program boundaries that were allowed to slip by in the original cost-benefit justification.
- Slower than expected field adoption rates for a new initiative are blamed on technology hiccups. Closer assessments uncover that field management hesitated to embrace the new solution due to lack of buy-in to the business value touted by senior leaders.
- Lower than expected worker productivity increases are thought to stem from inadequate training on new systems. A more thorough investigation shows that the real problem is lack of management and worker motivation. The business case never identified "What's in it for me?" for these key stakeholders during the program's initial approval.

There are certain times between a solution's proposal and its implementation when it is especially vulnerable to value leakage. These benefit-draining danger spots are frequently found in 10 areas (see Exhibit 1.1), all related to management decision making.

The remainder of this book expands upon how to detect obvious as well as subtle value leakages in these areas.

The Business Case: The High Cost of Not Getting It Right

While there can be multiple causes of value misfires occurring when passing through these top 10 danger areas, the leading (and foundational) culprit in these ROI-related deficiencies is the *business case.* Rather than being the accurate explanation of the true business value potential of a program, the business case can have unrealized shortcomings that can greatly misrepresent value, thus threatening program investment decisions.

EXHIBIT 1.1. Top Ten Danger Areas for Value Leakage

Solution Approval
1. Project funding
Solution Shaping
2. Capabilities prioritization
3. Requirements prioritization
4. Package selection
5. Customization decisions
6. Scope control decisions
Implementation Rollout
7. Project sequencing
8. Project prioritization
Accountability
9. Assigning value responsibility
10. Tracking value results

In addition, an untrustworthy business case can undermine the assignment of value accountability, design targets, and benefits tracking. For these reasons, is it crucial that the business case be "right."

Exhibit 1.2 illustrates several examples where business case problems were the unexpected root cause of IT program difficulties.

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 program 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-enabled investment opportunity. The purpose of a business case is to guide management in making the investment decision, from a business value point of view. A business case primarily consists of cost and benefit calculations, assumptions, rationale, evidence, and support—all recapped into a narrative "value story."*

Perceived Problem	Cost Overrun	Delivery Delay	Worker Productivity Shortfalls	Missing Key Functionality	Mid-Program Cancellation
Assumed Cause	Poor cost control	Mismanaged tasks	Inadequate and/or improper user training	Lack of program team resources to implement	Program management problems
Actual Contributing Cause	Erroneous cost estimates	Program scope creep	Lack of user motivation to make the system successful	No value analysis of dropped features	Newly involved executives lack awareness of program's business value
Root Cause Related to the Business Case	**Undetected omissions in the business case**	**Fuzzy program boundaries in the business case**	**No personal value for workers in the business case**	**Lack of post-funding use of the business case**	**Lack of post-funding use of the business case**

EXHIBIT 1.2 Business Case–Based Causes of IT Program Problems

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.

Spotting Business Case Defects

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

TERMINOLOGY CONFUSION: WHEN YOUR ROI IS NOT MY ROI The confusion over return on investment begins with the excessive variety of meanings used for the term *ROI*. In the pantheon of abused phrases, ROI stands tall.

EXHIBIT 1.3 Multiple Meanings for the Term "ROI"

When someone mentions "ROI," she or he could actually mean . . .
. . . **a formula called:**
Return on Investment (ROI) (which different people may calculate in different ways*)
. . . **or a document, which someone else might call a:**
• Business case
• Cost-benefit justification
• Benefit analysis
• Benefits realization
• ROI analysis
• Value analysis
. . . **or a process, which someone else might call:**
• Value management
• Benefits determination

*The Glossary shows the formula mostly commonly used for return on investment. However, there are many variations of this formula.

Try asking half a dozen program stakeholders for their definition of ROI. If two or more answers are the same, that is rare.

Exhibit 1.3 lists a few examples of the different meanings of ROI.

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

CONTENT DEFECTS: CURVE BALLS FROM EVERYWHERE Many business case curve balls are traceable to flaws in the document's content. Overlooked costs and benefits, misdirected payoffs, and misunderstood enterprise issues are but a few. Exhibit 1.4 outlines common failures of this type, with cross-references to chapters discussing their detection and resolution.

ROLE MYOPIA: BEWARE THE ONE-TRICK PONY A good business case is more than a free pass through the Program Funding Police. Once a program has

EXHIBIT 1.4 Examples of Common Business Case Errors

Missed Benefits and Costs

ROI-Related Problem	Example of Error	Cause of Problem	Consequences of Error	Details
Overlooked key benefits	*"Improved quality of decision-making due to better data not included."*	Lack of understanding by business case creators of the area being automated.	Understated program value. Risk of funding rejection.	Chapter 10
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.	Chapters 10–11
Lack of use of intangible benefits	*"Only hard money tangibles will be used in this program justification."*	Lack of awareness of the central role in intangibles in informed decisions.	Important decision factors unaddressed.	Chapter 14
Inability to quantify important benefits	*"Biggest value, better worker morale, not computed."*	No training on converting intangibles to tangibles.	Understated program value. Risk of funding rejection.	Chapter 14

Weak Link to Strategic Issues

No linkage to enterprise vision-value-goals	*"Strategic goal of better market share not included."*	Lack of awareness by business case creators.	Understated program value. Risk of funding rejection.	Chapter 10
Business risks inadequately identified	*"Risks of investment are outside scope of analysis."*	Lack of management directives; low business knowledge.	Program shortfalls—no risk reduction plans.	Chapter 10
Assumes better data is a direct business benefit	*"The primary value of the program is better data integration."*	Business case creators lack insights into how data helps business success.	Understated program value. Risk of funding rejection.	Chapter 10

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EXHIBIT 1.4 Examples of Common Business Case Errors *(Continued)*

ROI-Related Problem	Example of Error	Cause of Problem	Consequences of Error	Details
Weakened Credibility				
Nonverifiable references to support claims	*"According to industry experts, 20% can be saved."*	No "credibility" guidelines for business case creators.	Erroneous payoffs accepted at face value; valid payoffs rejected.	Chapter 11
Lack of evidence and support of calculations	*"Annual $1 million savings in data entry time."*	Lack of knowledge of how to develop credible evidence.	Erroneous payoffs accepted at face value; valid payoffs rejected.	Chapter 11
Inappropriate degrees of precision	*"This program will save $1,232,657.74 annually."*	No understanding of realistic levels of precision.	Loss of business case credibility.	Chapter 11
Low Audience Appeal				
Concerns of all key decision influencers not addressed	*Financial systems justification overlooks impacts on nonfinancial users.*	Lack of awareness of all decision influencers, such as HR, field management, etc.	Risk of funding rejection; implementation resistance.	Chapter 10
Excessive length, no executive summary	*50-page business case with no summaries.*	No management guidelines on content, format, size	Erroneous conclusions due to hasty skimming by decision makers.	Chapter 12
Economic Logic Issues				
No cost avoidance analysis	*"Excludes $2,000,000 savings from future hiring."*	Valid cost avoidance savings are not carefully justified.	Risk of funding rejection.	Chapter 11
Incremental labor savings are rejected	*"Excludes $2 million savings cut in labor for transaction processing."*	Management disallowed labor savings based on one-hour reduction per person (i.e., lack of immediate headcount reduction).	Valid savings ignored due to not considering cost avoidance of future hiring.	Chapter 11

received investment go-ahead, the business case's purpose should change from being the value forecaster to the value enabler. This new purpose requires the business case to star as management's value insurance policy throughout the program's lifetime.

Eight Ways Good Business Cases Shape Program Success

Exhibit 1.5 profiles the multiple, important roles that a business case plays during a program's lifetime.

EXHIBIT 1.5 Eight Roles of a Business Case During a Program's Lifetime

During Funding

Role #1: "Money Magnet": A business case's most common role: Get the financial support for the program 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 program justification loop. The business case becomes a crowd-pleaser by explaining how the new system overcomes pressing problems they care about. Benefits are explained in end-user language, devoid of executive-ese (e.g., not "enhance our firm's competitive advantage," but rather "you will receive fewer irate customer calls").

Role #3: "Accountability Agent": Value results are solely dependent upon the willingness and ability of myriad stakeholders to make often far-reaching changes in processes, procedures, policies, and organizations. The business case provides the agreed-upon benefit targets for measuring and tracking their success.

Role #4: "Gyroscope": Gyroscopes stabilize ships during stormy seas and guide them to safe harbor. A business case plays a similar role when program scope extensions threaten to add extra time and effort. By highlighting the value of the program's original boundaries, the business case keeps the program focused on the original plan and thus staying the course towards an on-time/on-budget/on-value arrival at the planned destination.

Role #5: "Team Cheerleader": Like our bodies, programs have biorhythms. The program team's "high" during early stages typically plummets as midprogram challenges surface. Unexpected obstacles, schedule slippages, and unwelcome overtime drain energy from the team. The business case's cheerleader role keeps teams motivated by emphasizing their crucial role in making program payoffs a reality.

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EXHIBIT 1.5 (Continued)

Role #6: "Designer's Best Friend": The key value expectations defined by the business case are a crucial input to the work of process designers and system configurers. By "designing to value," these experts can be assured that their creative work is appreciated as a crucial driver of the solution's ROI success.

Role #7: "Executive Reminder": Programs need continuous executive support. Original sponsors often become distracted with other tasks, or replaced by less-committed managers. Sooner or later someone with authority will ask "Why are we spending all this money and time on this program? 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 program is so vitally important to business success.

During a System's Operational Lifetime

Role #8: "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.

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

As with any search for a solution to an important business challenge, finding the real root cause of the problem is a vital first step. The next chapter begins that inquiry.