Published in Directors Monthly, April 2007

By Robert Balon

Reprinted from *Directors Monthly* with permission of the author and publisher:
National Association of Corporate Directors (NACD)
1133 21st Street, NW, Suite 700,
Washington, D.C. 20036
202-775-0509
www.nacdonline.org

Most corporate initiatives fail—a fact supported by countless studies, published research articles, and legendary horror stories. Boards of directors are asked to approve strategic, expensive projects that promise to transform the business. Yet managing risk in terms of financial exposure and business disruption is challenging. As critical initiatives unfold, directors must minimize exposure by staying apprised of progress and knowing where to focus their attention—but without getting into all the details. This is a difficult balance to achieve.

There are many types of initiatives, such as mergers and acquisitions, enterprise software integration, restructuring, business process reengineering, Six Sigma, and Sarbanes-Oxley compliance, just to name a few. Since many corporate initiatives involve new computer systems (and the large budgets they tend to consume), information technology (IT) projects will be the focus of this article. However, the underlying concepts apply to virtually any major project.

Although no two initiatives are identical, and their objectives, characteristics, and budgets vary greatly, they tend to have certain things in common:

- Jobs are at stake.
- New technology is often deployed.
- Success depends on how quickly people adopt new ways of doing things.

Many initiatives fail—and many fail after several years and spiraling costs. Furthermore, most initiatives fail for the same reasons. While poor project management, lack of sponsorship, or unclear requirements are often cited as the culprits, many large initiatives still fail even when none of these conditions exists. Why?

Director Summary

The author suggests that all major projects – and specifically IT initiatives – benefit from oversight and independent governance, just as businesses do. He discusses how directors can minimize the risks by staying apprised of the project's progress and knowing where to focus their attention, and he offers advice on how directors can avoid common pitfalls.

Changing Behaviors

Most critical initiatives (especially IT projects) require some degree of business transformation. Success relies on improving how work gets done. Yet projects tend to minimize or ignore this concept.

Technology vendors imply that their best practices and solutions address the work that takes place up to and after anyone touches a single key on a computer. Of course, no software program can know how work really gets done in each business. In the end, the success of multi-million dollar investments in software, customization, and integration hinge on successful adoption by employees at the operational level, such as plant managers, customer service agents, personal bankers, or accounts receivable clerks.

New computer systems are often used to perform once familiar and still essential tasks. However, mission-critical, bet-the-company, bet-your-career, best practices projects cannot succeed until behaviors change across a broad segment of the employee population.

Project teams tend to focus on technical details at the expense of understanding how people will truly perform their jobs in a new environment. Competent project managers can respond to questions regarding how budgets are tracking, how requirements are documented, or how many lines of software code are developed. These metrics can be meaningful, but by no means do they paint a complete picture of the overall health of a major initiative. Almost without exception, business process, policy, and organizational impacts are ignored.

Too often, corporate directors and executives receive updates in the form of budget snapshots and accomplishments to date, but are unable to clearly see the factors that influence success. Directors should also ask questions about such factors as:

- Strategic Objectives: After this initiative, what will we be able to do that we cannot do today? How will this differentiate us?
- Business Results: How do we measure success? How is the realization of benefits aligned with the rate of spending?

Lessons from Corporate Governance

Recent concerns over corporate integrity have greatly increased the focus on oversight and governance. Corporations with independent boards of directors and solid accounting disciplines leave little to chance when it comes to understanding the health of their business. Similarly, leading organizations are now applying these principles to major corporate initiatives—which, like businesses, exist to generate profits and should be managed to drive value. With financial exposure and risk of failure, companies are scrutinizing expensive, complex initiatives more diligently than ever before. Major projects benefit from oversight and independent governance, just as businesses do.

Most companies would not think of funding capital expenditures, buying another company, or investing in a new product line without first understanding the financial justification and business implications, then tracking and adjusting progress using various performance indicators. Major projects are no different.

For directors, staying apprised of major projects and their key risk factors is not just a good idea, but also generates several additional benefits:

- Objective, healthy scrutiny of major projects elevates the odds of success. Project teams respond well when they know they must answer to routine, regular checkpoints reinforced by the board.
- Periodic updates make it easier for senior leadership to understand and address the inevitable risks that arise.
- By understanding what's going on, directors are better equipped to manage the exposure of costly projects.
- Board-level visibility promotes good project discipline.

Five Pitfalls to Avoid

Business users are the first, last, and most important element of any major initiative, especially initiatives that involve technology. It is imperative that the users embrace a new way of doing things. They must understand how to perform their new jobs, but there is no time for each individual to make it up as they go along. Interaction with a new system or a new way of doing things must be in the context of all other responsibilities. Many corporate initiatives fail, not from a lack of sponsorship or project management rigor, but because technical details are overemphasized at the expense of business essentials.

Five subtle, yet enduring, pitfalls must not be overlooked. Directors can promote success by probing and encouraging their companies to watch for these symptoms on major IT projects:

- **Strategic business requirements are lost amid volumes of extensive documentation.**
  Strategic projects should prioritize, and never lose sight of, the most important requirements and objectives. Collaborating with customers and stakeholders to determine priorities can identify the best areas of focus. Progress should be measured relative to these strategic objectives.

- **Costly technology investments are made without early and adequate validation.**
  Many technology projects discover monumental integration challenges or incompatibilities only after considerable dollars and time are spent. Prototyping or proof-of-concept activities should occur before making significant technology investments.

- **Employees are trained to use a new system, but not how to use the new system to do their old jobs.**
  Technology projects often end up training users how to use new computer screens, but not how to actually perform their jobs. In fact, users spend an average of 40 percent to 60 percent of their work time on activities that have nothing to do with new computer systems. Failure to consider the entire job is a recipe for disaster.

- **Business leaders love the idea of new tools, but lose sight of the key information used to make decisions and manage operations when trying to implement the new technology.**
  Mapping and understanding the relationships between strategic objectives, business metrics, processes, and new computer systems minimizes surprises.

- **Poor communication results in frequent, yet avoidable surprises that compromise focus.** Routine, candid project updates for various audiences drive desired behavior and outcomes. Securing objective visibility to progress and risks for the board and stakeholders minimizes surprises. It also compels action. Knowing they will be asked to communicate progress, project teams subconsciously get into the habit of getting things done. Weekly technical status meetings may be more appropriate for project teams, while strategic quarterly updates to the board can be useful if timed with key milestones.

Minimizing Surprises

Corporate directors and executives are increasingly scrutinizing the rationale and progress of major projects. Some are turning to outside experts who are highly skilled in independently assessing the risk and progress of major projects. Like an insurance policy, a routine project health assessment avoids unpleasant surprises and is a useful tool in managing risk across the enterprise.

Directors can further head off surprises by routinely communicating and working with executive management, and asking questions such as:

- What will happen if we don't fund this project?
- What are the major milestones, and how is progress tracking?
- What happens if our next milestone is delayed?
- What are the relationships among progress, budget consumption, and the realization of benefits?
- Where is the biggest exposure to the business?
- What's the worst thing that can go wrong?
- What are our worst-case budget estimates?
- What gives us confidence that the project will deliver the results we expect?
- How can we validate these results before spending most of our budget?

Perspective

Objective visibility to the real progress and danger zones of our transformation initiative allowed our board and executive team to be more effective in ensuring a successful outcome.

— Irwin Z. Robinson

Chairman of the Board, National Music Publishers' Association;
Board Member, American Society of Composers, Authors & Publishers;
Chairman & CEO, The Famous Music Publishing Companies,
music publishing division of Viacom, Inc.

Major corporate initiatives are businesses unto themselves. Much like the companies they strive to improve, major projects require collaboration, diligent oversight, and a pragmatic path toward return on investment. Challenges are unavoidable, but ensuring visibility and timely responsiveness to threats before they become big problems greatly improves the likelihood of success. Applying the principles of corporate governance can minimize surprises and ensure results.

Robert Balon is a founding partner of Clerestory Consulting LLC. He works with executives and boards of directors to objectively assess the health of critical initiatives. He may be reached at rbalon@clstory.com.