

The end of the fairy tale

Full-cycle governance replaces the business case as proof of IT value, say Menno van Doorn and Henk Schimmel

Welcome to the information age where the challenge is to integrate the hitherto unprecedented flow of data. With countries boasting low labour costs taking the lead in both production, and, more recently, in services, we need more than ever to capitalise on our wealth of data. After the IT downturn we have a second chance to correct the mistakes we made during the dot.com and telecom boom. Since that party finished, the austere controllers have taken hold of IT once again- and rightly so.

However, we are slowly moving away from a cost-cutting regime towards a new orientation on value. To some this might seem like a completely new paradigm, but it is in fact nothing more than an attempt, at last, to get a sense up-front of what IT-related investments will bring to the company – an attempt to get shareholder value from IT.

In such a daunting task that has far-reaching consequences; pocket calculators will no doubt play a crucial role, especially in the fields of investment management and portfolio performance management. However, proposals in these areas should be checked against sound business cases and coherent structures at business, information, application and technology levels.

Ultimately, however, we should start acting on the insight that all



Menno van Doorn,
Manager Research
Institute for New
Technology, Sogeti
Netherlands

We should concede and practice in every little step we take that man is the measure

creation of wealth from information and technology depends on human beings¹. As long as we do not combine all these elements in our so-called IT governance, value estimates will result in fairy-tale management.

Paul Strassmann calculated the overall value of US companies and concluded that knowledge capital – generated by knowledge workers through information and technology – exceeds the value of traditional

corporate assets². Evidently, what one would like to achieve is to clearly define how, where and when this process of value creation from information and technology occurs within companies or even projects. Surprisingly though, most organisations do not seem to have this ambition. Although IT governance may be like “nailing jelly to the wall” with all its intangible and human implications, we should seriously try to come to grips with these matters. The situation we simply must escape – however dilemmatic – can best be explained with an anecdote:

“A policeman sees a man on his hands and knees under a lamppost, obviously searching for something. ‘What have you lost?’ he asks. ‘My keys’, the man replies. ‘Are you quite sure you dropped them here?’ the policeman tries.

‘No’, the man says, ‘I lost them over there,’ motioning towards the darkness. ‘Then why are you looking here?’ the bewildered policeman asks. ‘Because,’ the man continues steadily, ‘this is where the light is’³.”

Where information, technology and

people are concerned, our valuables may also be somewhere in the dark, but that does not discharge us from the obligation to try and shed light in the right places. We cannot walk away from the fact that in 2002 only one out of three IT projects succeeded. Human mistakes and misjudgements in the categories of leadership, skills, commitment, focus and complexity account for 90% of all problems⁴.

But in our ideal fantasy world Vulcans such as Mr. Spock usually

replace human beings. From the Nobel Prize-winning information sociologist Herbert Simon we should have known for decades that this does not hold true⁵. Instead of making brilliant systems for foolish people, we should work exactly the other way around. We simply are not that competent, we cannot predict very well, and choosing the best out of several alternative scenarios does not come easy either. “Bounded rationality” is the name Herbert Simon gave to this phenomenon. Yet Simon did not even include human emotions in his theory, a vast dark side that needs to be governed.

Humans like to talk about things they really know for sure: their IT spending for instance. What they cannot estimate are the ways in which people and organisations will respond. Management loves figures, not feelings. Reality, however, is more whimsical than analysts and business intelligence can account for despite many aids, such as process redesign and cost accounting. Too often reality is not to be found in business cases, which are flavoured with all kinds of fantasy factors⁶.

Instead of demonstrating the ancient Greek habit of hubris once more, when it comes to implementing information and technology with the obvious goal of bringing tangible value to the organisation, we should be more humble, conceding and practicing in every little step we take that man is the measure. Easier said than done? Not quite. We should simply strive for a ‘full-cycle’ governance of all IT-related issues. Through the budget cycles, of course, but also through decision mechanisms that involve stakeholders in the organisation – or the value chain for that matter – every time they should have a say.

Such a full-cycle IT governance could be based on Donald Marchand’s concept of information orientation⁷ or on value of information (VOI)⁸ as a new value approach that takes into consideration human emotions. A more active approach is portfolio management. Vodafone, for instance, has made very impressive progress with portfolio management in the Netherlands, and is now transferring this

success to its German region. The company started out by focusing on the value of IT and cutting all the unnecessary complexity that causes people to get stressed. This way Vodafone substantially improved its project success rate with a reduction of 35% in operational costs, freeing up time and money for real value-oriented programmes like Vodafone Live!

Management loves figures, not feelings



Henk Schimmel,
Founder of Selico

More than 20 years ago Tom de Marco⁹ introduced the estimating quality factor because of the incorrectness of real outcomes in software. Business cases, however, are merely a decision aid for project managers to justify investments and to convince executives. They can never act as scale models of the real world nor do they reflect the value that eventually should be added to the business. So, in a sense: forget the business case and build a case from your business instead. Follow and evaluate results. Eliminate the mendacious IT fairy tales we tend to convince ourselves with ■

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FOOTNOTES

¹ Bloem, J., Doorn, M. van (2004): ‘Realists at the wheel. Towards a performance-oriented governance of IT’.

² Strassmann, P.A. (1998): Database of 5,763 US firms.

³ This little anecdote one can also find in the book from Shoshana Zuboff and James Maxmin ‘The support economy’ p. 18.

⁴ The Standish Group via www.xp2003.org/conference/papres/Chapter30-Johnson.pdf.

⁵ Simon, H.A. (1979): ‘Rational decision making in business organisations’ www.nobel.se/economics/laureates/1978/simon-lecture.pdf.

⁶ Verhoef, C. (2003): ‘Quantifying the Value of IT-Investments’ www.cs.vu.nl/~x/qipm.html

⁷ Marchand, D. e.a. (2000): ‘Information Orientation: People Technology and the bottom line’.

⁸ Value of information is the philosophy behind the Value Of Investments (VOI™)-methodology, developed by Butler Group.

⁹ DeMarco, T. (1982): ‘Controlling Software Projects – Management, Measurement & Estimation’.