



## IT Greatness Vs. IT Risk

While a new *Harvard Business Review* research article warns of the financial perils of big IT projects, business technology leaders must keep their eyes squarely on the upside.

By Rob Preston, [InformationWeek](#)

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As we prepare to celebrate the nation's top business technology innovators and risk takers in our annual [InformationWeek 500 ranking](#), an interesting new *Harvard Business Review* [article](#) is taking a different tack, warning executives about the financial perils of very ambitious IT projects.

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The *HBR* article focuses on those unwieldy, budget-busting IT projects that can cost CIOs and CEOs their jobs--and do worse. "It will be no surprise if a large, established company fails in the coming years because of an out-of-control IT project," authors Bent Flyvbjerg and Alexander Budzier write. "In fact, the data suggests that one or more will."

The authors reach that grim conclusion, they say, after conducting "the largest global study ever of IT change initiatives," poring over the budgets, actual costs, and results of 1,471 IT projects with an average tab of \$167 million. The average cost overrun of those projects: 27%.

But more alarming, they say, is their finding that one in six of those projects incurred an average cost overrun of a whopping 200%. That is, the biggest IT projects tend to run over budget, and a significant percentage of them run *way* over budget.

Furthermore, almost 70% of those biggest budget-busters also overrun their schedules, at a time when business technology executives see speed to market as their No. 1 priority, according to our InformationWeek 500 research.

The *HBR* researchers argue that the biggest IT debacles typically occur at companies under financial duress. Their case in point is Kmart, which filed for bankruptcy protection in 2002 after two of its IT projects, costing a combined \$2 billion, "went off the rails." But Kmart was losing to Wal-Mart and Target well before those IT projects went awry, and it only makes sense that the poorest-run companies also lack strong technology leadership. And could it be that the most troubled companies are the ones most likely to blame their problems on misguided IT?

Another premise of the study seems tenuous--that IT projects "are now so big, and they touch so many aspects of an organization, that they pose a singular new risk." Yet many of the examples the *HBR* researchers cite are

years, even decades old. (Do we need to be reminded, again, that Hershey's flawed supply chain management system messed up one of its Halloween seasons in the mid-1990s?) In fact, big-bang IT initiatives were far more common in the '90s and early 2000s than they are today, when they're more likely to be parsed into digestible chunks than rammed down the throats of multiple departments all at once.

It's not that big IT projects touch so many aspects of a company; it's that you just can't improve any processes without IT being integrally involved. Most companies don't set out to do an IT project. They set out to fix distribution or hiring or pricing, and they can't move that needle without better IT.

While [mega-ERP and other IT project disasters](#) can and do still occur, IT governance and risk mitigation practices have come a long way since the dot-com bust and the most recent recession. Meantime, technology models like agile development and software as a service emphasize smaller-scale rollouts and smaller up-front financial commitments, while big services contracts are more likely than ever to be tied to performance and outcomes so that vendors share in the risk and reward.

An *HBR* finding that jibes with our InformationWeek 500 research is the need for companies to tightly integrate product development and IT. While our IW 500 relates success stories such as PACCAR and Vail Resorts, *HBR* calls out a product development disaster, Airbus's tech-intensive A380 airliner, which met with massive cost and schedule overruns because engineers and managers weren't on the same page with IT experts.

But at a time when IT organizations must complete the transition from support shops to drivers of growth and opportunity, companies must push the tech envelope rather than scale back their ambitions. Yes, do the due diligence to avoid the massive screw-up, but don't let the prospect of failure paralyze your resolve to innovate with technology at the core.

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