

THE GROWING RISKS OF IT PROJECT CONFLICTS AND FAILURES

The need to manage risks more effectively in an age of technology consumerism

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The evolution of IT consumerism has contributed to an unprecedented rise in the rate of obsolescence of consumer technology products and in the way that technology is being utilized in the business and consumer marketplace. It has also led to significant increases in the risks associated with project conflicts and failures and in the need to control them.

The smartphone, a relatively new invention by most standards, saw over 290 million units shipped last year, and it is anticipated that this number will increase on average by over 20 percent annually in 2012 and 2013. This one development alone has had a marked impact on corporate technology investment decisions. The impact of this device in the social media world has also been far reaching. WikiLeaks, Twitter, and other online services have all impacted corporations and governments around the world to an extent beyond anything we have seen before. Consumers today have more information and technology options than ever before, a situation that demands a much better understanding of their needs on the part of those who seek to serve them.

In an effort to gain competitive advantage in the markets that they serve, organizations are increasingly integrating their suppliers and customers into their core decision and operational processes. For some organizations (e.g., Apple, Facebook, Google), successful collaborations and partnerships have provided a competitive edge in their industries.

Today's government and corporate leaders recognize that technology innovations implemented in the current economic climate must be built on robust and strong foundations in order to succeed. They must also be delivered quickly and efficiently, with a measurable ROI, taking into account the risks that may arise from disrupting existing legacy business models and the natural tendency to wait for clarity and stability. Technology development projects of today do not have the luxury of previous years, when it was anticipated that IT project failure rates would be well above other industry norms and, in some cases, accepted as a cost of doing business.

When technology projects are well executed, the results can be game-changing. For example, J.P. Morgan's software partnership with an external vendor led to significant advancements in the risk analysis and pricing of its global credit portfolio (for one diverse global portfolio, the time taken to make an end-of-day risk calculation went from 8 hours to 238 seconds). The competitive advantage of moving to near real time in the management of its global portfolios was significant and worthy of the industry accolades it received.

When projects are not well executed, their impacts are just as significant. For example, the U.K. government decided late last year to formally "dismantle" the National Program for IT (NPfIT), a project it once touted as "the largest civilian IT project ever," after experiencing nine years of "dubious results" and costs totalling £11.4 billion (\$18.2 billion). Suppliers such as Fujitsu Corp. and Computer Sciences Corporation (CSC) had to take write-offs (\$1.38 billion for the latter in December 2011) and experienced falling share prices, executive departures, and shareholder and business partner lawsuits.

As these examples illustrate, consumers and businesses expect new technology initiatives to meet their expectations, whether they are end users of a product or capital investors in the companies that provide them. When that does not occur, credibility issues arise for the organizations that have failed to deliver.

Enhanced corporate transparency and accountability by senior management to stakeholders (shareholders, regulators, fund managers, etc.) no longer allow technology initiatives to be pursued in isolation, since their impacts at times of failure can be far reaching in today's world. The challenge that today's leadership faces is the identification and mitigation of these risks—before they escalate.

Studies of IT projects, such as the Standish Study of 2004, have provided detailed data on the costs. This study determined that only 26 percent of IT projects were successfully delivered on time, on budget, and with all features and functions as originally planned. More recent studies have shown little improvement in such statistics.

Improving IT project outcomes has become a matter of priority for many organizations. Failure is not an option for today's business and technology executives, who sponsor a variety of technology investments with little tolerance for financial waste or lost productivity. The realities of our global economy no longer allow for technology projects that fail to achieve their stated objectives. While some organizations are looking at new software product offerings such as Software as a Service (SaaS) to resolve their issues, others have chosen instead to re-evaluate the alignment of their operational project practices to the needs of the various stakeholders involved. This process

has resulted in some organizations adopting new measurement metrics and project communication processes. A key change adopted by some has been the implementation of methodologies to deal more proactively with the chief culprits of project misses. Taking a page from the lessons learned in other industries, they have implemented various conflict management and/or alternative dispute resolution (ADR) processes to resolve issues sooner, enabling the collaborative nature of the business relationship to remain intact and to move forward.

The use of an independent ADR professional, ideally one with IT experience (e.g., a mediator chosen from a short list and financially compensated by all participants), allows the parties involved to present their views to an individual deemed to be truly independent of the parties involved. With the support of the mediator, a solution can be developed to resolve the conflict because the mediation is based on the interests of the parties and is not bound by the limitations that a decision based on legal rights might impose. There are no limitations on the creative aspects of a solution.

The "without prejudice" nature of the discussions ensures that confidential technology and business information remains private, whereas litigation provides limited confidentiality to protect trade secrets and other valuable information. Other forms of conflict and dispute resolution include proactive conflict management solutions such as project partnering facilitation, as well as more limited ADR solutions, such as binding and non-binding arbitration. These approaches are also being used for various aspects of a project to manage risks in a more timely, cost-effective and proactive manner.

From a business stakeholder perspective, the adoption of alternative dispute resolution practices presents a unique opportunity to manage a variety of risks associated with IT development projects. The established use of the process in the construction industry and elsewhere, coupled with the need to improve performance in the deployment of technology solutions, presents a strong incentive for organizations to consider how they may leverage this solution within their organizations to their competitive advantage.

Notable from an analyst and shareholder perspective are recent technology litigation decisions, such as the U.K. court award to BSkyB of £709 million (\$1.13 billion) based on its conclusion that Electronic Data Systems ("EDS," later acquired by HP) could not deliver a project within the timelines and price it had committed to. Also notable, as an indication of future risks that current technology project failures present, are the Ontario Teachers' Pension Plan shareholder class action lawsuit against CSC for allegedly "fraudulently concealing that it was incapable of delivering" on a 10-year £3.1 billion contract with the U.K. National Health Service (part of the NPfIT initiative noted above) and the recent decision by Marin County California to add RICO charges to a failed enterprise resource planning (ERP) system implementation that could potentially triple the \$35 million in damages it is currently seeking. These lawsuits have the potential to significantly increase the financial risks associated with project failures in the future.

The issue of how organizations will address the risks associated with the implementation and management of their technology initiatives in the future is likely to generate rapidly increasing interest among executives, technology users, and financial investors alike.

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