

Boards have to be alert to the objectivity of all advisers and take steps such as those outlined above to ensure that they obtain the best objective and unconflicted advice possible. These measures are improving the independence of the board from management. In turn, these measures are constructive contributions to more effective board-management relations.

*[Editor's Note: For a report on a seminar sponsored by the Manitoba Chapter of the ICD on Conflict of Interest, readers are directed to page 28 of this newsletter.]*

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## The Role of the Board in Governing Information Technology Projects

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Success rates for information technology (IT) projects remain as dismal today as they were five and ten years ago. Because strategic IT projects increasingly underpin corporate transformation and continued competitive advantage, the significance of those IT project failures will inevitably reflect on the board's performance.

Recent research sponsored by the Australian Computer Society confirmed that less than 50 percent of IT projects in large, multi-project organizations are completed on time or within budget.<sup>1</sup> Success rates for smaller enterprises are likely similar, and, in all cases, the level of disappointment is probably under-reported.

This sad state remains unchanged despite the rapid growth of project offices, the uptake of project management methodologies and the emphasis placed on professional qualifications for project managers. No sector of the economy is immune from fiascos. Litigation is also on the rise, as clients sue vendors of IT systems over delivery delays or failures. Some 18 percent of IT disputes in Australia now end in litigation.<sup>2</sup>

### What are the causes of project failure?

The research suggests there are many. However, as identified by IT-Cortex,<sup>3</sup> the research frequently

confuses the undesirable outcomes with their root causes, implying that there are myriad, and therefore unpreventable, issues. Shareholders increasingly disagree with that assessment. Indeed, shareholders expect IT investments to produce dividends.

Proper governance of IT projects, by the board, can prevent wasted investment and operational impairment.

### What should the board do to ensure project success?

To answer, we start with a distinction between the role of a project manager and that of project governance. A project manager's role is to plan and monitor project activities, to manage project resources and outcomes, and to make regular status reports and recommendations to the stakeholders to facilitate the achievement of the desired project outcomes. Typically, the project manager is responsible to only one of the primary stakeholders, although the manager frequently also reports to a broadly constituted steering committee. It is an operational role.

Project governance, in contrast, is about ensuring that the project manager, and indeed the whole enterprise, has the resources, infrastructure, systems

1 [www.connectionresearch.com.au](http://www.connectionresearch.com.au)

2 Andrew Colley The Australian Oct. 9 2007.

3 [www.it-cortex.com](http://www.it-cortex.com)

and disciplines in place to ensure a high likelihood of project success. It is a strategic role, not only for the project's success, but more importantly for the delivery of the anticipated enterprise-wide benefits.

The roles are complementary. Those undertaking the governance role must assess the work and recommendations of the project manager and, if endorsed, ensure that those recommendations are fulfilled by the responsible parties.

### **Why are projects continuing to fail in fully meeting their objectives and what can boards do to enhance success rates?**

Without doubt, today's projects are more complicated than ever before. Many major systems projects are aimed at replacing a whole host of legacy systems, integrating previously stand-alone applications or trying to "bolt-on" new functionality to already complex suites of software. In addition, a primary priority is to get customer-facing applications web-enabled, while protecting the back-end data from exposure to unauthorized access. This is a rapidly evolving area in which opportunities and challenges are emerging almost daily. Project managers would benefit from the discipline and authority of the board in maintaining a strategic focus on business benefits and imperatives in this technology maelstrom.

The breadth of today's technology architectures also adds a level of complexity that did not exist a decade ago. This is an issue of underlying corporate infrastructure, essential to sustain every project ... and the organization's business continuity. The board must come to understand this issue and support the necessary investment in hard to find, and harder to sustain, resources required to manage it. Failure here will jeopardize more than any single project – it could sink the company.

Equally responsible for today's apparent project failures is the ever-changing business environment which can quickly make obsolete the futuristic goals spelled out in the project mandate. Most projects that have a duration greater than twelve months will inevitably face this challenge. This is why it is so critical to relate the project mandate to the



business's strategic plan and why the anticipated business outcomes of the project should be under constant focus. Controlling change, and, in particular, guarding against "scope creep", in complex projects is difficult. The board, with proper guidance as to consequences, can provide the sober assessment of which components are essential enhancements and which should be deferred.

Regular and routine project prioritization, encompassing a complete review of all existing and proposed projects following the organization's strategic planning update, remains the most reliable governance tool to ensure that each project remain in harmony with evolving business needs. The art of project prioritization - for it is more art than science - is gaining popularity among large and sophisticated IT-dependent enterprises. Its outcomes can provide a valuable tool for the board's on-going governance deliberations.

Changing enterprise priorities can result in under-performance of individual projects. As project priorities change, key resources, including the project manager, are often re-assigned to other projects with no anticipation that the original project will falter. This is not a realistic expectation, even for organizations with disciplined methodologies, competent resource management and reliable project documentation. While we can no more indenture staff to a project than we can control changes in the broader competitive market, we can, and should, recognize that it is generally the human resources and the project plan, rather than the technology itself, which make or break IT projects. If the people change, so should the plan – period. The board should

4 [www.ondemandgk.com/content/docs/whitepapers/ChangeManagement.pdf](http://www.ondemandgk.com/content/docs/whitepapers/ChangeManagement.pdf)

5 MIS Quarterly Review June 2006.

6 [www.business.sfu.ca](http://www.business.sfu.ca) ...Parent/Reich, Building Better Boards

assure itself that a thorough review and necessary adjustment of the plan have accompanied any such change of key resources.

The unbridled optimism of many project managers can be a major contributor to project failure. Despite the overwhelming evidence to the contrary, many project managers believe that by working harder they can overcome impediments and make up lost time, or that good fortune will intervene at an appropriate juncture to save the day. The concept that a realistic plan is a precursor to good fortune seems somehow alien to their predisposition to relish new challenges. The board should temper misplaced optimism and mitigate project risk.

All of these issues, however, pale into insignificance compared to the root cause of a majority of IT project failures – abdication of project accountability within the business governance processes. Successful business projects, of IT or any other discipline, start with sound business decisions and are managed throughout with sound judgment, by the business leaders, on an on-going basis. Few business investments have as few progress approval and “stage-gate” reviews as those in IT. Few boards, for example, would delegate the acquisition of a new corporate headquarters to the real estate department with little more than a general outline of the vicinity and anticipated size. Specific location proposals would be debated, alternative developers would be soundly evaluated and committees would be formed to recommend on issues such as environmental sustainability and the tenor and overall message conveyed by the interior design. And, no doubt, everyone would voice an opinion about the architecture.

In contrast, a major IT system acquisition may merely require board endorsement of the selected supplier or the total budget allocation. There would typically be very little, if any, discussion about the breadth of scope of the solution, the relative merits of a phased implementation or board involvement in validating “stage gate” progress reviews. Neither would the board typically dwell on the percentage of the total budget that should be allocated to managing the changes within the business that the project demands. Change management is about ensuring that the business, and the people in it, will

be ready to fully deliver the benefits on which the system is premised. Michael Hammer, the “father” of re-engineering, suggests that one-third of project budgets be devoted to this critical area. The usual allowance for change management rarely exceeds ten percent, and is frequently the first element of the plan to be reduced when budget overruns or implementation delays occur.

Frequently, new systems are envisaged specifically to address enterprise-wide human resource deficiencies. Yet, little consideration is given to the additional burden on existing resources which their involvement in the project imposes on the business. Oversight of these critical issues is typically delegated to line management, the IT department, or even to the vendor. Each of these stakeholders has perfectly valid reasons to justify delays, budget overruns and poorly managed scope changes which are the symptoms, rather than the cause, of project failure. Without the board’s advocacy for the broader corporate perspective, narrower points of view can jeopardize the project and the essential business outcomes.

Perhaps this delegation, or abdication, of oversight of IT occurs because there are too few IT-savvy people on boards, or, more specifically, people with experience in sound IT project governance. However, beyond specific business expertise, the ability of an objective interested party to ask naïve questions, which prompt management to go beyond superficial answers, is one of the board’s greatest strengths. Yet, when the subject is IT, there seems to be a reluctance to suggest “the emperor has no clothes!” Or perhaps, as suggested by Huff, Maher and Munro, “boards have IT attention deficit”.

Until boards address this reluctance to monitor and challenge progress reports on major IT projects, there will continue to be significant failures, with often dramatic business, and board-level, consequences. As highlighted in *Building Better Boards: Governing IT Risk*, the board, and only the board, is responsible for IT governance.

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