Scenario:

Caroline Weese checked her makeup and then glanced at her watch for the tenth time. Almost 10:45. Showtime. As North American Financial's (NAF) first female CIO, she knew she had to be better than good when she met with the company's senior executives for the first time to justify her IT budget. They had shown their faith in her three months ago by giving her this position, when NAF's long-serving senior vice president of IT had had to retire early due to ill health. But women were just beginning to crack the "glass ceiling" at the bank, and she knew there was a lot more riding on this presentation than just this budget.

That said, the budget situation wasn't great. As she well knew from her earlier experience in more subordinate roles, the CIO had the unenviable task of justifying the company's $500M budget to a group of executives who only saw the expense of IT, not its value. This was especially frustrating because NAF's IT management was excellent, when looked at by any standard. NAF's IT group consisted of almost 7,000 professionals who followed all the recommended standards, such as CMM, CMMI, ISO9001, and ITIL, to ensure that its IT processes were efficient, cost effective, and on par with, if not higher than, industry standards. It had been certified at a minimum Level 3 CMMI and was an industry leader in delivering projects on time, on budget, and in scope. But in the past few years, NAF executives had implemented rigorous cost containment measures for IT, leaving the CIO to struggle to be all things to all people.

They want innovation, they need reliability and stability, and we're required by law to meet ever more stringent government regulations, but they're still nickel-and-diming us, Caroline thought indignantly. She envied the bank's business units that could clearly show profit-and-loss statements, and their ability to make strategic decisions about what to do with the excess capital they often had. In her world, business strategies changed regularly and thus IT's goals had to as well. But strategies were not linked to budgets, which were typically set six to nine months in advance. As a result, IT was always struggling to keep up and find the resources to be flexible.

She squared her shoulders, took a deep breath, pasted a smile on her face, and pushed open the door to the executive conference room to face her colleagues and her future. The room was full of "suits"—a few females here and there, but mostly tough, middle aged males who expected answers and action. Following a few pleasantries about how she was adjusting to her new role, they got down to business. "The thing we're most concerned about, Caroline," said Bill Harris, NAF's CEO, "is we simply don't see where we're getting value from our IT investments. There's no proof in the bottom line." Matt Harper, NAF's CFO added, "Every year we approve hundreds of millions of dollars for IT projects, which are supposedly based on sound cost–benefit analyses, but the benefits never materialize." Heads around the room began nodding.

Caroline's mind was whirling. What did they really want from her? Pulling her thoughts together quickly, she responded. "If you're looking for IT to tell you which projects will deliver the most business value, or if you want me to monitor the business units after the projects they asked for are implemented to see if they are delivering value, you're asking me to do something that's well beyond IT's scope of expertise. We're not the experts in your business case, and it shouldn't be up to us to monitor how you use the technology we give you. I'll take full responsibility for the quality of our work, its timely delivery, and its cost, but we really have to work together to ensure we're investing in the right projects and delivering benefits."

"What do you recommend then?" asked Sam Patel, head of Retail Banking. "I think we need an IT Investment Committee that I would co-lead jointly with you, Matt," Caroline said while looking pointedly at the CFO. "We need a strong partnership to explore what can be done and who should be responsible for doing it. Finance is the only place where all the money comes together in this organization. Although I have to pull together an IT budget every year, it's really contingent on what each business unit wants to spend. We don't really have an enterprise IT budgeting process that looks across our business silos to see if what we're spending is good for NAF as a whole." Matt looked thoughtful. "You could be on to something here, Caroline. Let's see if we can figure this out together."

The rest of the meeting passed in a blur, and before Caroline knew it, she and Matt were trying to identify who they should assign to help them look at their IT investment challenges. These were significant. First, there was inconsistent alignment of the total IT development budget with enterprise strategies. "We have enterprise strategies but no way of linking them to enterprise spending," Caroline pointed out. IT budgets were allocated according to the size of the business unit. Smaller lines of business had smaller IT budgets than larger ones. "For some small business units like ours, government mandatory projects eat up our entire IT budget," complained Cathy Benson, senior vice president of Business Banking Product Management. This made it extremely difficult to allocate IT resources strategically—say, for example, to grow a smaller business unit into a larger one.

Second, project approvals were made by business units without addressing cross-unit synergies. Looking at the projects IT had underway revealed that the company had eighteen separate projects in different parts of the business to comply with anti–money laundering regulations. "We've got to be reinventing the wheel with some of these," complained Ian Ha, senior director of NAF's Risk and Compliance department. Third, although business cases were required for all major projects, their formats were inconsistent, and the data provided to justify the costs lacked rigor. "There seems to be a lot of gaming going on here," observed Michael Cranston, director of Financial Strategy. "A lot of these numbers don't make sense. How come we've never asked the business sponsors of these projects to take ownership for the business benefits they claim when they ask for the money in the first place?"

Fourth, once a project was approved, everyone focused on on-time, on-budget delivery. No one ever asked whether a project was still necessary or was still on track to deliver the benefits anticipated. Do we ever stop projects once they've started or review the business case 'in-flight'? mused Matt. Finally, no one appeared to be accountable for delivering these benefits once an IT project was developed and implemented; rather, everyone just heaved a great sigh of relief and moved on to the next project.

Because the total IT budget for new development work was allocated by business unit, the result was a prioritization process that worked reasonably well at the business unit level but not for NAF as a whole. Enterprise executives created enterprise strategies, but they didn't get involved in implementing them in the business units, which left the business unit heads to prioritize initiatives within their own silo. In prioritization meetings, leaders would argue passionately for their own particular cause, focusing on their own needs, not on NAF's overall strategies. “We really need to align this process with our enterprise priorities,” said Caroline. Matt agreed. “There’s got to be a process to bring all our investment decisions for new projects together so we can compare them across business units and adjust our resourcing accordingly.”

Looking deeper into these matters revealed that there was more to IT spending than simply prioritizing projects, however. Almost 60 percent of the bank’s IT budget was spent not on strategic new development projects but on maintaining existing systems, interfaces, and data. Another 20 percent was work that had to be done to meet the demands of government legislation or the bank’s regulators. “How is this possible?” asked Sam. “No wonder we’re not getting much ‘bang for our buck,’” Caroline exclaimed. “Every time we develop or acquire a new system without getting rid of something else, we add to our ‘application clutter.’ When we continually add new systems while holding IT budgets and head counts relatively flat, more and more of our resources have to be devoted to supporting these systems.” New systems meant new interfaces between and among existing systems, additional data and dependencies, and increasing risk that something could go wrong. “We’ve tried to get the business units interested in sponsoring an initiative to reduce duplication and simplify our applications portfolio, but they’re not interested in what they call ‘IT housekeeping.’ They don’t see how dealing with this will help them in the long run. I guess we haven’t explained it to them very well.”

Brenda Liu, senior director of IT Infrastructure, added, “We also have to keep our IT environment up to date. Vendors are continually making upgrades to software, and there are also license fees to consider. And, as you know, we have to build in extra reliability and redundancy for our critical systems and data, as well as privacy protection for our banking customers. It’s an expensive process.” “I get all this,” said Cathy, “but why can’t you explain it to us properly? How can you just expect us to accept that 80 percent of your budget is a ‘black box’ that doesn’t need justification? Although every dime you spend may be critical to this company, the fact remains that IT’s lack of transparency is damaging its internal credibility with the business.”

Round and round the issues they went. Over the next two months, Caroline, Matt, and their team hammered away trying to solve them. Eventually, they came up with a set of five principles on which their new IT investment process would be based:

1. Alignment of the IT development portfolio with enterprise strategies.
2. Rigor and common standards around IT planning and business casing
3. Accountability in both business and IT for delivering value
4. Transparency at all levels and stages of development
5. Collaboration and cross-group synergies in all IT work.

In their team update to the bank’s executive committee, Caroline and Matt wrote, “Our vision is for a holistic view of our IT spending that will allow us to direct our resources where they will have the greatest impact. We propose to increase rigor and discipline in business casing and benefits tracking so NAF can invest with confidence in IT. The result will be strategic partnerships between IT and business units based on trust, leading us to surprise and delight our customers and employees and amaze our competitors.”

With the executive committee’s blessing, the IT Investment Office was created to design and implement a detailed investment optimization process that could be implemented throughout the bank in time for the next budget cycle. Cathy Benson was named its new director, reporting to Matt. Speaking to her staff after the announcement, Caroline stated, “I really believe that getting this work out of IT and into the business will be critical for this process. We need to make the decision-making process clearer and more collaborative. This will help us learn how to jointly make better decisions for the enterprise.”

With the hand-off from IT officially in place, Cathy and Matt knew they had to move quickly. “We’ve got three months before the next budget cycle begins,” said Matt. “You’ve got to make it real by then. I’ll back you all the way, but you’re going to have to find some way to deal with the business unit heads. They’re not going to like having their autonomy for decision-making taken away from them. And you have to remember they need some flexibility to do work that’s important to them.” Cathy nodded. She had already heard some of the negative rumors about the process and knew she was going to have to be tough if it was going to be successful and not torpedoed during its implementation.

Calling her project team together for its first meeting, she summarized their challenge. “We have to design and implement three interrelated practices: a thorough and rigorous method of project categorization and prioritization, comprehensive and holistic governance of IT spending and benefits delivery at all levels, and an annual IT planning process that provides transparency and accountability for all types of IT spending and which creates an integrated and strategically aligned development portfolio. Then we have to roll it out across the organization. The change management is going to be massive. Now, who has any ideas about what to do next?”