real world CASE 1

How to Win Friends and Influence Business People: Quantify IT Risks and Value

CIO Tim Schaefer thinks words do matter.

He looked at the words IT used inside Northwestern Mutual Life, and felt they sent exactly the wrong message about IT's role in meeting business goals. So, over the last 18 months, these words are out: IT costs, internal customers, IT leaders, Alignment, IT systems, and "IT and the business." In are these: IT investments, external customers, business leaders, integration, service levels, IT assets, and "our business."

"We came to realize we ourselves were building the wall. We were distinguishing ourselves from the rest of the company," says Schaefer. "We were somehow different. We had all this special knowledge. So this whole concept of black box, and the gap in the relationship, we came to realize was of our own doing." As part of a broader change of IT strategy and culture, Schaefer has asked the top 150 leaders in IT to commit to being business leaders, not IT leaders.

Symbolic, semantics, and a whole lot of hoo-hah? Sure—if IT continued to behave exactly the same way it always has. At Northwestern Mutual, a life insurance and investment company with more than $155 billion in assets, IT has not. IT started by working very hard to put a real value on IT assets. Although the process is ongoing, Schaefer says the company now knows it has IT assets worth "somewhere north of $3 billion." It can talk about service levels in terms business units care about—that causing problems in the underwriting process costs $11,000 an hour in lost productivity, and problems that keep the field force from using their client management tools costs $25,000 an hour.

Schaefer's goal is to get IT systems to be viewed as a business asset, with a value every bit as real as the buildings and land the company owns. Getting there requires a portfolio approach to all of its IT assets. That's not a project portfolio approach many IT teams have, but an investment portfolio with the same type of processes the company uses to manage holdings in stocks, bonds, real estate, or private equity. Instead of considering whether to buy, hold, or sell assets, though, the IT asset portfolio assesses IT systems and applications through a framework called TIME: Tolerate, Invest, Migrate, or Eliminate.

Putting a value on an IT asset isn't easy. Northwestern Mutual's IT team does so by working hand-in-hand with the business units that rely on them. How many more employees would it take to process claims if the software system used for that didn't exist? What's the replacement cost? What's the cost per hour to the business if it goes down? Getting an asset value is only the first step, though. All these factors go into whether and how to invest more into that asset. "If we don't do the right things with these $3 billion worth of assets, we're not going to optimize the value," Schaefer says.

This asset-and-investment philosophy drives what IT projects the company puts money behind. Lots of companies have a technology strategy committee that helps guide IT spending, and Northwestern Mutual Life does too. "We're transitioning them into an investment management board," Schaefer says. Northwestern Mutual Life has a number of boards to guide its investment into financial asset classes on behalf of policyholders—boards that set broad strategy for where the best opportunities are for return in those categories. Discussions in the technology strategy committee are moving to that same thinking.

From that process, they've targeted specific high-return investment opportunities for technology. For example, technology that reduces barriers of time and space is on that list. Northwestern Mutual's network includes more than 7,000 financial representatives, and those in the Western U.S. states cover massive territory. Yet they're obligated to meet with clients regularly, to make sure they're recommending suitable investments. A video link that lets a Colorado-based representative do live meeting conversations with his three clients in Wyoming in a half-day instead of three days on the road offers a measurable value. There's another word that matters to Schaefer, which fits this financial discussion: partner. Of course, IT wants to be considered a partner with business units on projects, but it has a clear definition for that: IT shares the business risk and benefits, including financial, from IT investments. "We should feel as bad when they aren't meeting their objectives as they do," he says.

Conventional wisdom, decades worth of IT project failures, and less-than-desirable outcomes tell us that every tech-related investment—from a massive SAP ERP rollout to a small CRM deployment—comes with some amount of risk. In fact, according to Forrester Research VP and

principal analyst Chip Gliedman, "of all investments within an organization, investment in IT is generally assumed to have the most risk associated with it. Yet, it is surprising that IT investment has traditionally received the least amount of attention when it comes to risk management."

Since 2003, when the software and equipment components of the U.S. GDP took their largest fall in 15 years, most CEOs have viewed technology as a cost, not an investment. Although budgets have expanded during the past few years, the growth rates have been modest, and most of the money has gone toward fortifying financial systems, while front-office systems have ranked the lowest. Companies, having neglected the customer far too long in their technology investments, are likely to start feeling the effect as frustrated customers go elsewhere. Customers' frustration will grow all the more when they deal with clunky corporate systems after years of enjoying tremendous innovation in the consumer technology they use.

The contrast is a direct result of treating technology as a cost. This viewpoint has preserved an older set of technologies that weren't built for the Internet. Many large enterprises are now realizing that without investment in new systems, no new wave of productivity improvement is possible. How to manage this new wave of investment, and keep costs under control, however, is still baffling to even the best of them.

The process of risk measurement has been "confounding decision makers within IT for some time," Gliedman asserts. As a result, companies rely on weak qualitative analysis that only loosely ties to enterprise-application project outcomes, he says. Gliedman breaks down IT risk factors into two categories: implementation and impact risks. Implementation-based risks relate to areas such as project size ("the larger the project, the higher the level of uncertainty about the outcome") and the technology and vendor (will they both deliver on the intended benefits?). Impact-based risks include cultural, training, and managerial factors that can all significantly affect any project's outcome and benefits.

"While the risk analysis cannot on its own point to the best course of action, it can provide the additional shading to management so that the eventual decision is an informed one," Gliedman notes. "Likewise, expectations can be set properly, avoiding overly rosy ROI projections that will lead to inevitable disappointment."

Most IT departments today could use help in the ongoing struggle to align IT with the business, and vice versa. Business executives are frustrated by application uptime challenges and their significant costs to the company's bottom line, although IT isn't fully aware of that. The business side is also not at all excited about long-term enterprise projects. As a consequence of both, business executives are feeling animosity toward IT.

Providing more risk transparency to the Mahogany Row on all IT projects could be a huge win for IT departments right now.

One more thing about the words IT uses. Schaefer and his leadership team made a deliberate choice not to rename the IT department to become the business technology department, even though that's their mindset. They worried that a name change might sound superficial to the business units. Instead, they focused on how they talk about IT every day. The message alone doesn't mean a thing if the IT team doesn't act differently, by valuing IT assets and then optimizing them. But the message does matter, because it very likely reflects how IT thinks about its role in the business and how business units perceive IT. And it's critical to changing the culture of the organization.

Schaefer has an advantage in getting the company to think and talk about IT as a financial asset. Assets, investments, and returns are the natural language at Northwestern Mutual, as a financial services company. But it is not a stretch for nonfinancial IT organizations to embrace this framework and to put hard values on IT assets.

"Listen to the words you use," Schaefer advises.

SOURCE: Chris Murphy, "Global CIO: What's IT Worth? Northwestern Mutual Life CIO Knows," *InformationWeek*, March 8, 2010; Thomas Wailgum, "How to Win CFO Friends and Influence Business People: Quantify IT Investment Risk," *CIO.com*, April 22, 2009; and Bob Suh, "Gearing Up for Recession: Technology as an Investment, not a Cost," *Computerworld*, March 14, 2008.

CASE STUDY QUESTIONS

1. By changing the way his group talks about IT investments, CIO Tim Schaefer is trying to change the way the rest of the company sees IT. Why do you think this is necessary? What would be the prevailing mindset about IT in his company, such that he needs to do something about it? Provide some examples of how IT may be regarded in this organization.
2. Chip Gliedman of Forrester Research breaks down IT risks into implementation and impact considerations. Why do you think these are so difficult to manage? What makes IT investments different from investments in other areas of a company?
3. Do you agree with the notion that IT investments can be treated in the same manner as financial investments, and similarly quantified by putting a dollar value to them? Why or why not? Would your answer change depending on the type of IT investment under consideration?