REAL WORLD CASE 4

Avon Products and Guardian Life Insurance: Successful Management of IT Projects

It's deja vu again at many companies when it comes to track records in using IT to help achieve business goals. Consider the following:

- At companies that aren't among the top 25 percent of IT users, three out of 10 IT projects fail on average.

- Less than 40 percent of IT managers say their staffs can react rapidly to changes in business goals or market conditions.

- Less than half of all companies bother to validate an IT project's business value after it has been completed.

Those are just a few of the findings from a survey of IT managers at about 2,000 companies, including more than 80 percent of the Fortune 1,000, released in June 2003 by the Hackett Group in Atlanta. However, top-tier IT leaders didn't reach the top of their professions by being softies.

Indeed, a vast majority of them regularly rely upon hard-dollar metrics to consistently demonstrate to top brass the business value IT investments are expected to yield. That's what sets them apart from so many of their colleagues. "Good business-case methodology leads to good project management, but it's amazing how many companies fall short here," says Stephen J. Andriole, a professor of business technolgy at Villanova University and consultant at Cutter Consortium. The lack of good project management at such companies may also lead to business units taking on IT development projects without the knowledge or oversight of a company's IT department. Business units may initiate such "rogue projects" because they see the IT department as too slow, or a source of too much red tape and extra costs.

Avon Products. "We apply all of the analytical rigor and financial ROI tools against each of our IT projects as well as other business projects," says Harriet Edelman, senior vice president and CIO at Avon Products Inc. (www.avon.com) in New York. Those tools include payback, NPV, and IRR calculations, as well as risk analyses on every investment, she says.

The $6 billion cosmetics giant also monitors each IT project to gauge its efficiency and effectiveness during the course of development and applies a red/yellow/green coding system to reflect the current health of a project, says Edelman. A monthly report about the status of projects that are valued at more than $250,000 and deal with important strategic content is presented to senior line managers, the CEO, and the chief operating officer. In addition, Avon uses an investment-tracking database for every IT project to monitor project costs on a rolling basis. The approach makes it easier for the company's IT and business managers to quickly determine whether a project should be accelerated, delayed, or canceled and assists the finance organization in forecasting requirements.

Guardian Life Insurance. Dennis S. Callahan sys he has "put a strong emphasis on governance" since becoming CIO at

The Guardian Life Insurance Company (www.glic.com) two years ago. Callahan has done so, in part, by applying NPV and IRR calulations to all IT projects with a five-year cash flow. "The potential fallout from inaction could result in loss of market share," says Callahan, who was promoted to executive vice president recently. So Guardian's approach to IT investments "is very hard-dollar-and-metrics-oriented, with a bias toward action," he says. Still, Callahan and his team do have a process for incorporating "soft" costs and benefits into their calculations. They do that, Callahan says, by encouraging their business peers "to discuss how an investment can impact market share and estimate how those numbers are going to change. Same thing with cost avoidance—if we invest in a project that's expected to help us avoid hiring 10 operations staffers to handle gowing business transaction volumes."

Callahan also keeps close tabs on capital spending throughout the course of a project. New York–based Guardian has a project management office that continually monitors the scope, time, and cost of each project valued at more than $100,000, according to Callahan. Guardian also has monthly reviews of variances of scope, time, and costs on all projects costing more than $100,000.

Using return-on-investment calculations to cost-justify and demonstrate the value of IT investments to senior management is only one of the techniques top IT leaders use to win project approvals, say Callahan and others. "We approach everything that we do in terms of payback." President and CEO Dennis Manning and other board members "really relate to that kind of justification," Callahan says. "So we turn that into hard-dollar returns and benefits for application development and infrastructure investment." "One of the biggest things we do in demonstrating value to the CEO and the board is showing that everything we do reflects the company's business strategy," says Rick Omartian, chief financial officer for Guardian's IT department.

Case Study Questions

1. What are several possible solutions to the failures in IT project management at many companies described at the start of this case? Defend your proposals.

2. What are several key ways that Avon and Guardian assure that their IT projects are completed succesfully and support the goals of the business?

3. If you were the manager of a business unit at Avon or Guardian, what are several other things you would like to see their IT groups do to assure the success of an IT project for your business unit? Defend your suggestions.

Source: Adapted from Thomas Hoffman, "How Will You Prove IT Value?" *Computerworld*, January 6, 2003, p. 26; Julia King, "Survey Shows Common IT Woes Persist," *Computerworld*, June 23, 2003, p. 21; and Gary Anthes, "Dealing with Rogue IT," *Computerworld*, September 1, 2003, pp. 27–28.