

# The CFO's IT Dilemma

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## Abstract

Technology has been the cause of a huge boom in productivity in the workplace; but just as it has enabled us to achieve new heights, the complexity of IT has also increased dramatically. Tightly integrated into the very fibers of every organization, a failed IT project can bring down an entire organization with it. The ensuing complexity makes IT at times seem incomprehensible and uncontrollable, resulting in a “black box” for the CFO to manage. This creates the CFO’s IT Dilemma, where the CFO or other financially responsible officer, heavily reliant on IT to be able to drive growth and future success, and trying to manage the “black box”, is left to choose between: (1) limiting investment in technology and systems and constraining the business, or (2) continuing to invest, wondering if good money is being thrown after bad. Find out how recent developments in the software development field can empower CFOs to increase transparency, mitigate risks, and control technology expenditures and extricate themselves from this dilemma.

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Type in the phrase "Failed IT Project" into the Google search engine and you will get over 44 million hits including various sites that have been created just to list some of the most infamous disasters. Some projects were abandoned after hundreds of millions were spent. Others have led to lawsuits alleging fraud and breach of contract. The impact of a failed IT project is not just cost, but also reputation and market share.

While the headlines call out the biggest failures, the Google "hits" don't include the innumerable failures at smaller companies and start-ups. Here, the consequences may not be so public, but the overall impact to the organization can be more significant, at times fatal.

With failures being so dangerous to organizations, why has IT investment continued unabated? First and foremost, technology has proven to be a huge boon to business. Successful new businesses have been launched, driven primarily by the capabilities new technology has brought to bear. What would have taken us five days to accomplish now takes us one. Important processes that were once disregarded are now codified and woven into the organizational fabric.

However, even as technology has boosted our productivity into the stratosphere, it has also fettered our ability to adapt. A process change that used to be as easy as xeroxing a form may now require a month of coding, several weeks of testing and tens of thousands of dollars. In today's competitive environment, IT is inextricably tied to the success of any organization and enables us to carry out our strategic plans. The drawback of such integration is that the IT component of any initiative often carries the most risk, threatening entire strategies if not successful.

### Organizational Nimbleness

Over the next decade it is certain that your organization will experience Change, the lesser known brother of Death and Taxes. Something will happen to your organization that will force it to adapt, and technology will almost certainly have to be altered in order to support those changes. Few companies are prescient enough to predict the exact nature of change, but the management of every company should be putting itself in the best position to deal with the future. Faced with shifting business conditions, a CFO can either be ready and willing to adapt or choose to be caught sleeping at the wheel. When looking at all of the challenges that modern CFOs face with IT development, there is little evidence to suggest that traditional software development methodologies help the CFO to meet this challenge. They attempt 'big bang' type implementations, which often turn into a 'big bust'. Using a framework that is built for nimbleness will trump a framework that is built for a static environment. CFOs should champion nimbleness not just for the sake of a project, but for the sake of organizational success.

### The CFO's IT Dilemma and Salvation

If your experience with software development has been anything like hundreds of other CFOs, the mere mention of software development takes some wind out of your sails. Too many IT projects never have good news. The bad projects never fail fast enough and the good ones never seem to finish, or don't finish soon enough to make a difference. Your organization can have a good strategy, solid financial backing, and still fail because of IT.

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Few people besides CFOs truly appreciate the CFO's IT Dilemma -- where the CFO has seemingly no alternative but to rely on IT unless he/she is willing to choke off the vehicle that can drive growth and future success. Faced with that choice, investments are made yet IT's increasing complexity creates a "black box" for the CFO to try to manage. Dependent on a thing he cannot directly control, the CFO can be left holding the bag when failed projects hit the bottom line.

However, now there are ways to fight back. Recently, there have been some new software development techniques that have been developed in response to the charges against IT. One of these is a new software development approach that fundamentally changes the paradigm for building software and, as a fortuitous consequence, empowers CFOs to increase transparency, mitigate risks and better control technology expenditures. While there are many variations of this new methodology, the umbrella term for this approach is known as Agile.

### Agile in a Nutshell

The basic hallmarks of the Agile methodology, as compared to the traditional "waterfall" approach for system development, are as follows:

- **Iterative Design and Development:** Instead of working toward one "big-bang" shot at delivering the system, Agile builds the working software in 1-4 week increments to ensure that measurable progress is truly being met. Business customers can determine when functionality is sufficient to release the software for production.
- **Emphasis on working software over documentation:** Instead of focusing time and attention on documentation as a way to 'prove' the system will work, Agile puts the emphasis on developing testable, working code, with documentation only being created where truly needed.
- **Business/IT collaboration:** Instead of having a package of requirements 'thrown over the wall', Agile requires IT and the Business to collaborate and co-locate intensely throughout the process allowing for requirements to be dynamic and evolve over time.
- **Prioritization by the Customer:** Instead of having the IT development team set the priorities on which requirements to work on, Agile requires the business customer to determine the development prioritization and to ascertain whether certain requirements have sufficient business value to be developed.

The Agile approach conveys a host of benefits to system development projects and the CFO's who are dependent upon these projects. The focus is on creating a development framework that is both quick and nimble. Traditionally, software development has been about passively reacting to change, usually in an excessively bureaucratic way. Agile turns this on its head and is now an active agent in proactively adjusting to a moving target. As a result, Agile methodology provides the following business benefits:

- **Quicker Time to Value:** The iterative approach allows the system to be brought to market quicker and, concomitantly, value to be generated earlier.

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- Greater ROI: Ongoing cost and time projections are made based on actual burn rate and other project metrics, allowing investment decisions to be made to maximize return on investment.
- Reduced Project Risk through Greater Transparency: Agile enables users to actually see, interact, and give feedback as the system evolves. This allows sponsors to see and measure in greater clarity how the project is doing. Issues are visible earlier, allowing for immediate corrective action or, if needed, decisions regarding continued investment for projects on a failure path.
- Higher Quality Software: With the focus squarely on working, testable code, the system is tested early and often using automated testing tools. As a result, the quality of the software is typically much higher than traditional approaches.
- Attracting Customers and Investors: The ability to demonstrate working software early on can be beneficial towards enticing prospective customers to sign up, potentially as a pilot. Similarly for emerging companies, the system can also serve as demonstrable evidence of the reality of your new business concept, helping to attract potential new investors.

Paul Cusenza is CEO of Nodal Exchange, which launched in early 2009 as the first independent electronic commodities exchange dedicated to offering locational (nodal) forward trading products and services to participants in the organized North American power markets. Due to the criticality of getting to market quickly along with the “greenfield” environment of creating the unique systems, Nodal Exchange chose to utilize the Agile methodology for the development of its Market Operations System. According to Paul, “We were able to create a working system in less than a year that we successfully piloted in November 2008 in mock auctions with our prospective customers: over 50 trading participants representing 85% of the nodal power trading market. By integrating specialized Agile consultants into our development team, we were able to successfully apply the Agile approach and have clarity on budget, timing and functionality and were able to deliver on all three as planned. As a start-up, it was important to have the benefit of a team of experienced resources working seamlessly with our team. The Agile approach requires the business “users” who define functionality to work very closely and continually with the software developers; but when this happens, projects can be managed to successfully meet budget, timing and functionality goals.”

### In Search of A Better Way

An intuitive management response to failing projects is to increase external control of the process. This typically results in detailed up front plans and locking down inputs and outputs in an effort to “smooth-the-way”, avoid changes, and minimize the impact to expected outcomes. And often, the more out of control the project, or the more frequently it happens, the more rigid and controlling the response. Historical data has shown that increasing control in this way has little correlation to improving the success rate of projects, yet this intuitive pattern of response continues to repeat itself over and over.

Einstein said insanity is “doing the same thing over and over again and expecting a different result.” If, as historical data showed, the typical response of exerting more external control and preventing change did not produce different results, what would? From the early days of the “Agile Movement”, pioneers and thought leaders considered this question and sought a way to alter the pattern. Agile is based on the premise that business needs WILL change, so why not embrace it? Minimize the cost of change by inviting it in, rather than trying to control or eliminate it. Design processes and leverage tools and techniques that

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make it easier to deal with change when it happens rather than harder to deal with. Agile focuses on getting small things of value in the hands of the customer as soon as possible. In this way, value is realized along the way, valuable feedback is provided sooner rather than later, learnings are incorporated, and direction can change based on dynamic customer needs and priorities.

As with any advanced new methodology, reading a book and going through the steps does not guarantee success. If it were that easy, there would not be so many organizations still chasing Agile with only limited success. Yes, it is about creating, implementing, and/or following processes and techniques. Yes, it is about prioritization and workflow. Yes, it is about collaboration and consultation. But it is also about empowering people, treating each employee as a decision maker. It is learning to think a different way about solving the same old problems, and creating an environment where everyone feels safe to think that way. It is about creating the right culture. It is about turning around the antagonistic anti-change culture between IT and the Business Units and creating a culture where change can be embraced by both parties as a positive thing. It is at the very least, a transition, and quite possibly a transformation depending on the organization.

### The Empowered CFO

If you hear the word "IT" and think, 'bureaucratic uncontrollable mess', it's time to start regaining control over IT projects -- your financial performance depends on it. With Agile and Outsourcing, you have created frameworks which are the most likely to lead to success. Adaptable, effective, rigorous, and with lower risk, these tools are the key to improving your organizational immune system. You will have a much lower chance of having your projects be 'sick', and even when they do fall ill, they will be sick for a shorter amount of time, recover quicker, and experience less pain. As an empowered CFO, you can transform your IT group into the thriving value-adding asset that it can be.