

The Truths About IT Costs

by Susan Cramm

Information technology budgets can seem so complicated, so essential to core operations, and so integral to key change efforts that they often remain remarkably impervious to cutbacks, even in economic downturns. Nevertheless, they do need to be rigorously scrutinized, because waste is built into them.

In general, companies overspend on IT because they are unwilling to say no to front-line managers. Instead, executives – and their IT and division leaders – need to face some truths about what drives up IT costs. I have identified seven such truths from my 30 years of experience in IT, through interviews I conducted at six companies, and by analyzing the points of view expressed in “Does IT Matter? An HBR Debate” (web exclusive, June 2003).

Managing these truths is tricky. IT can’t do it alone, because simply saying no to business partners harms relationships with them. Your IT people need support from above. The only path to real progress involves requiring senior IT and division leaders to examine how – not whether – the seven truths apply to your organization and to confront them head-on.

The discipline you develop now will pay off in a big way later. A downturn may prompt you to start managing IT more deliberately, but making better investments and leveraging invested capital never goes out of style.

1 Enhancements often don’t deliver results commensurate with their costs.

- Establish a fixed budget for IT enhancements for each function or division, in line with the goals they are expected to achieve.
- Do not extend funds. When they run out, they run out.

2 Projects are often too big and take too long, partly because unnecessary functionality is built into applications.

- Require leaders to commit to delivering measurable value for application functions before granting them project approval and before allowing them to maintain funding at each stage.
- Tie executive compensation to realization of value.

3 Previously purchased applications and infrastructure technology are often underutilized.

- Use what you have before investing in new technology.
- Require IT to counterbalance the added cost of new infrastructure investments with sensible reductions in the cost of maintaining the basics.

4 Project failure rates are too high.

- Minimize the duration of project stages. (Limiting scope makes projects less risky and more likely to succeed. That, in turn, increases buy-in for subsequent stages.)
- Establish “kill switch” rules for projects (for example, “Kill project if initial budget has been modified twice and beta deployment still has not occurred”).

5 Tech teams do not have sufficient incentive to achieve high quality, and quality is often not measured.

- Make sure development and applications support teams are accountable for the operational costs associated with defects, including emergency change requests and help desk calls.

6 Managers don’t know enough about the systems that support their areas.

- Follow Intuit’s lead and charge units for “helpless” help desk calls.

7 IT is too risk averse: “No one ever got fired for buying IBM or Microsoft.”

- Require IT to examine the costs and benefits of extending refresh cycles, delaying upgrades, discontinuing maintenance agreements, and using open source platforms and applications.

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Innovation Lessons from Genes

by Todd Golub

You’ve been diagnosed with “incurable” leukemia. Is it a death sentence? Maybe not, our research at the Broad Institute suggests, because a heart attack treatment or some other unexpected drug might someday save your life. We reached this conclusion by looking at how drugs interact with the genes in diseased cells – a pattern-identification method that offers hints about innovation practices in general.

Physicians have always classified diseases by their symptoms. But by deciphering the genetic code within diseased cells, researchers are finding that genes for dissimilar diseases – say, leukemia and heart disease – may share the same basic roots. We have developed a “connectivity map,” which characterizes drugs according to the genes they activate rather than the diseases they treat. To identify the common genetic roots in diseased cells, we look at which genes are turned on or off by which drugs in each cell type and then match the gene-activation signature against a database of thousands of others. Finally, we run a program that seeks matches between the signatures of diseased cell types and those of various drugs. If a match is found, we hypothesize that the drug might qualify as a possible treatment for that disease – even if there was no prior reason to suspect a connection. One such drug is now in clinical trials for the treatment of relapsed leukemia.

Just as we are seeking new cures by searching for unexpected commonalities among cells, firms may discover better approaches to business problems by uncovering new relationships among wildly different products or solutions. Our map’s potential should remind even skeptics of the value of seeking fresh, unbiased ways of looking at old data, projects, and even strategies.

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