Addendum

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The IT System That Couldn't Deliver

by Byron Reimus

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CASE STUDY

Lenox's IT system is in trouble. Who will fix it, and how?

The IT System That Couldn't Deliver

by Byron Reimus

"Distribution is the name of the game," Lenox CEO and president James Bennett told the insurance company's newly hired chief information officer, Diana Sullivan, three years ago. Sullivan recalled the details of that first extended conversation with Bennett as though it were yesterday.

"We depend heavily on independent agents to sell our policies," Bennett had said. "As long as they have the option of offering our competitors' products, we have to give agents the right tools to get the kind of fast, reliable information they need to close a sale in our favor. Think distribution. It's that simple."

But it hadn't been that simple. In her three years at Lenox Insurance Company, Sullivan had fulfilled to the letter the role of CIO that Bennett had described. Bennett had confided in her: "Computers have never been one of our strengths. We know we have some catching up to do." Sullivan was proud of how she had helped Lenox catch up – by updating key applications, bringing in new technologies, and reorganizing and streamlining the information services organization.

Most important, she had led the development of Lifexpress, a sophisticated computer-aided system that enabled the company's more than 10,000 agents nationwide to conduct business with their customers and prospects in ways that had seemed next to impossible just a few years earlier. Lifexpress let an agent, using a laptop computer, develop a thorough financial profile of a customer, identify and explore Lenox's most appropriate policies, conduct an initial actuarial analysis, compare in detail how Lenox stacked up against competitors' ratings and performance, and generate all the necessary paperwork on-site to consummate a sale. A process that had taken anywhere from four to six weeks could now be completed in a few days or, in some instances, a matter of hours.

Lifexpress was not having the market impact that Lenox execs had hoped for.

Within the last few weeks, however, as Lenox's IS staff finished rolling out the system, Sullivan began to realize that her role wasn't as clear as she had thought it was after that first conversation with Bennett. She was no longer certain which accomplishments mattered. In the time it had taken Lenox to deliver Lifexpress, two competitors had launched similar systems, and Lenox's executives were growing concerned that the multimillion-dollar project would not have the impact in the marketplace that they had hoped for. To Sullivan's distress, her boss, Clay Fontana, Lenox's chief financial officer, was clearly trying to hold her accountable for more than the creation and implementation of the system – he was putting her on the hook for the results of the system, too.

Sullivan stood at her office window, looking out over Fairfield's sprawling west side, wondering how she could begin to separate what she was responsible for from what she wasn't. A veteran information-technology executive with more than 20 years of experience, Sullivan had been recruited by Lenox from a major competitor, in no small measure because of her understanding of the insurance business, excellent track record in information services, and strong leadership abilities. Bennett and Fontana had made it clear at the time that they wanted her to conceive a technology vision for Lenox.

With Lifexpress, she thought she had met their expectations. Within her first few months at Lenox, Sullivan had moved quickly to organize a team to evaluate how technology could be better deployed to support the company's field force. The team of more than a dozen key executives included Fontana as well as several people from information services, field operations, marketing, and sales. She had also retained some consultants from an information technology firm, who were highly regarded for their work with companies in the insurance field, to bring outside expertise and perspective to the process.

In short order, Sullivan had articulated a vision of how the company could use technology to meet the challenges that Bennett had described, and she had persuaded the company's management committee to invest in Lifexpress. She had delivered the system on time and on budget, and had met all the specifications that Bennett and the other senior managers had agreed to. After a relatively smooth testing phase,

the companywide implementation, although slightly behind schedule, was finally picking up steam. The first agents to use the system had offered mostly positive feedback about its hardware configuration and software.

But apparently Fontana wasn't seeing any of that. At their last few weekly half-hour meetings, Fontana had become impatient with Sullivan whenever she had tried to distinguish between what she could control and what she couldn't. And that morning's meeting had deeply unsettled her – in part because Bennett had joined the discussion and seemed to side with the CFO.

Sullivan turned away from the window and sat down at her desk. She opened a file of notes she kept of her meetings with Fontana and reread what she had written about that morning's discussion.

She had entered Fontana's office just before 10, a couple of minutes early. He had frowned as she updated him on how the plans were proceeding for training Lenox's agents to use the new system.

"We're not moving fast enough," he had said when she was finished. "I don't need to remind you that National Life's implementation is now running ahead of ours. More than half of their agents are trained and on-line even though their rollout began months after ours."

"We've been through this before," Sullivan had replied patiently. "A large percentage of National Life's agents are younger and more technology savvy. Even though we're behind schedule, I am confident that we will get on track before the year is out. The response has been excellent from those on-line so far. We just have more of a learning curve with our agents. We knew that going in. The training is taking longer than we expected. That's all."

"It could also have something to do with the fact that their system is reportedly more user-friendly than ours," Fontana had said. Before Sullivan could answer, he had added, "I'm just as concerned that so far only about 40% of our product line is on the system. Your people tell me that Manchester Mutual has already managed to put all of its insurance products, plus a good chunk of securities offerings, into its system. I don't need to spell out for you what that means its agents can do in terms of cross selling. Where are we on all this?"

"Where we were last week," Sullivan had said. "We're still waiting for the disability people to provide the data so that we can do the inputting and testing. With all due respect, Clay, that's really not an IS issue. Also, remember that we agreed not to put Lenox's mutual funds on the system until we had worked out all the bugs.

"As far as Manchester Mutual is concerned," she had added, "the fact is that we currently offer more than twice as many products as it does – or as most of our other competitors do, for that matter. We're behind in part because we don't have a clear product strategy. Our tendency has been to jump on the proverbial bandwagon every time a competitor comes out with a new product. One result is that we have so many offerings, it's hard for an agent to keep track of them. A system like Lifexpress can't be expected to serve as a framework for our products in the absence of a strategy that links them together. That's not an IS issue."

"It's your system, Diana," Fontana had said. "You know what the bottom line is. We made this tremendous investment based on your recommendations. You predicted that Lifexpress would improve productivity and help the sales force close on more new policies."

"What concerns me at this stage," Sullivan had told him, "is that we are focusing too much on what competitors are doing and not enough on leading the way. In the process, we're failing to acknowledge how far we've come. Lifexpress has met its implementation schedule and come in on budget. We have met all the system requirements that were identified early on. We're a bit behind on training, to be sure. But we need more leadership to carry our original vision to fruition."

It had been at around that point in their conversation that Bennett had happened to walk by Fontana's office. "Jim," Fontana had called out to the CEO. "Could you visit with us for a few minutes? Diana and I are in the midst of a discussion about Lifexpress, and I want her to hear some of what you shared with me yesterday."

"I think we should schedule a meeting with the management committee on this," Bennett had offered, without looking at either executive. "Diana should do an update of where things stand. Suffice it to say that I don't believe we are where we need or expected to be with the kind of investment we have made.

"I spoke to one of National Life's general agents the other day," Bennett had continued, "and he told me they were closing deals on most policies in less than half the time it's apparently taking us. They began their rollout more than six months after we launched Lifexpress, and look at how much of National's field force is on their system. They can't sign up agents fast enough for training. Can someone explain to me why that's not happening here?"

Bennett hadn't waited for a response from either executive. Addressing Sullivan directly for the first time, he had added, "We have to figure out how to get this thing fixed and back on track fast. We're losing a lot of momentum. I don't think you have kept us sufficiently informed. Please schedule a time for us to meet, and let's put together a presentation as soon as possible for the management committee."

> "It's your system, Diana. We based this investment on your recommendation."

Byron Reimus is a Boston-based writer and consultant on workplace communication issues.

Even before the chief executive had walked out of the office, Fontana had been quick to jump in.

"I don't think I have anything to add to what Jim said. My advice is get your ducks in a row. Let's schedule a time next week for an hour so that we can plot out your presentation. We have a lot of bases to cover. I'm concerned about backsliding. More important, we may be losing sight of what the original requirements were. Let's think about that before we go any further."

Get my ducks in a row, Sullivan thought, looking up from her computer. What on earth was that supposed to mean?

HBR's cases present common managerial dilemmas and offer concrete solutions from experts. As written, they are hypothetical, and the names used are fictitious. We invite you to write to Case Suggestions, Harvard Business Review, *60 Harvard Way, Boston, MA 02163, and describe the issues you would like to see addressed.*

Who Is Responsible for Assuring Technology Success at Lenox?

Five commentators offer advice on how to manage IT for business results.

JAMES K. SIMS *is president and CEO of Cambridge Technology Partners, a systems integration and management-consulting company in Cambridge, Massachusetts.* **THORNTON MAY** *is vice president of research and education at Cambridge Technology Partners.*

Lenox's Lifexpress system is in trouble, but the crisis is just a symptom of a larger problem. The company's managers do not fully understand how to use information technology to create value. To ensure that their problems with Lifexpress will not recur, James Bennett, Clay Fontana, and Diana Sullivan must correct four mistakes they made in how they decide on, manage, and fund information technology investments.

Bennett must set a new agenda for IT investments.

The mistakes Lenox's managers made are quite common. From the in-depth discussions we have conducted with more than 100 CIOs of large and midsize organizations in a variety of industries, it is clear that most companies feel they are not getting full value from their information technology investments. We believe the following four technology blind spots that have been highlighted in this case are key reasons for those poor returns:

Inadequate Vision and Leadership. Bennett and Fontana delegated the "vision thing" to the newly hired CIO. Vision simply can't be delegated (or outsourced, for that matter). Vision has to be shared by the company's managers, believed in, and acted on.

No Business Accountability. Working solo, Sullivan couldn't possibly make Lifexpress successful with agents and customers. Only business managers who are held responsible for delivering business results can do that.

Slow Implementation. Sullivan was off the planet if she thought a three-year project was acceptable. In our experience, applications that directly affect revenue and competitive position should be built in a year or less. Taking longer increases the risk that the company will not get full value for its investment.

Insufficient Funding for IT. Lenox was clearly playing catch-up. But in several industries today, the introduction of new technology to improve relationships with customers or to develop new products is accelerating so rapidly that it becomes more and more difficult for companies like Lenox to expect to be able to come from behind.

Certainly, Lenox's management team needs to move quickly to fix Lifexpress. But we would like to focus on what Lenox has to do to ensure that it does a better job with future IT investments.

First, Bennett must step into the vision vacuum. He should call his direct reports into a closed-door meeting and put some stakes in the ground. Bennett needs to make it clear to them that technology plays a major role in the company's ability to compete and that Lenox is unacceptably behind its competitors in the application of technology. He must also require his managers to make time for a discovery process that will yield a shared vision of technology's role in the business. At that meeting, he should announce

PORTRAITS BY CHUCK MORRIS

that for the next 18 months he will tie executives' and middle managers' bonuses to behaviors that further the new vision.

That will get his managers' attention. In the months ahead, Bennett should make his managers understand that *they* are responsible for using technology to deliver value – and that not having a "feel" for IT will become a significant career liability. We know of CEOs who require high-profile business executives to rotate through the information technology organization at some point in their careers.

Of course, Lenox's managers will need help in understanding how to create value with IT. Sullivan, working with the executive vice president of human resources, should reach out to the academic community and to operators of world-class technology trade shows to sculpt appropriately priced make-us-smart-about-making-money-with-technology curricula for Lenox's managers. In the meantime, Bennett and Fontana, with Sullivan's help, need to devote time to considering how technology will shape competition in their industry.

In addition to establishing vision and accountability at this meeting, Bennett must take steps to speed the delivery of systems. He should review all IT proposals with an eye on the clock. How much time will it take to reach a consensus on functions, finalize design, complete development, and deploy such systems? How much time will senior management need to make such initiatives successful? Bennett should also expect Fontana to create monitoring systems to track the time dimensions Bennett deems critical.

Sullivan can help by publishing something we've seen in use at a few innovative companies–a weekly postdeployment assimilation map (PDAM). These maps resemble ones used by the Centers for Disease Control; they track the spread of new behaviors the technology is meant to instill. Such a map would identify high-risk, low-risk, and no-risk business units. Bennett should put pressure on units struggling to assimilate the technology.

Lenox should also explore new models for funding IT investments. We are aware of some progressive CFOs who fund projects the way investment bankers do: business managers compete for IT capital, and funding goes to those projects that will generate the highest payback. At other companies, CIOs have stopped using calendar-year budgets, finding them too slow and inflexible. Instead, they set aside funds to sustain their companies' underlying technology infrastructures and opportunistically fund new projects as they come up. At those companies, the entire management team regularly reviews the status of projects, very much in the way that fund managers review portfolio performance at large mutual-fund organizations. Also, twice a year, Bennett should convene summits of smart technology people (such as bright CIOs from noncompeting companies, clever industry analysts and journalists, benchmarking consultants, and topflight academics) to audit how big a bang Lenox is getting for its buck.

If Lenox doesn't address its underlying approach to managing technology, it had better learn to live with disappointment. There is little chance that it will be able to do the digital heavy lifting required of high-performing financial-services companies. If change does not occur at Lenox, we predict Sullivan will leave the organization (perhaps of her own volition) and that there will be a revolving door at its CIO's office for some time to come. In our view, rapid CIO turnover is a sure sign that a company isn't managing its technology effectively.

Sullivan was off the planet if she thought a three-year project was acceptable.

RICHARD NOLAN *is the M.B.A. Class of 1942 Professor of Business Administration at the Harvard Business School in Boston, Massachusetts.*

Lenox needed to deliver a system in months, not years.

This is an absolute disaster. Lenox's managers act as if they have all the time in the world to develop systems for their business. In a world where competition moves swiftly, and the needs of customers change rapidly, it just doesn't make sense to spend two to three years developing a system before it is even rolled out to the field. Worse, Lenox has nothing of strategic value to show for its efforts.

Companies today must be proactive in finding out what their competition is up to and what customers need, and they must be able to act on that information quickly. In other words, they must be able to sense and respond. More than that, they must sense and respond on a continual basis and, increasingly, be able to make their decisions in real time – the pace of computers and telecommunications.

Lenox has been moving at a more traditional, slower pace. The management team's "cycle speed" for decision making is the annual budget. That is, managers decide on an issue once, establish goals, and then set out to accomplish those goals. They do not continually and dynamically

reevaluate decisions. If the company had been operating in real time, rather than on a budget-planning cycle, its managers would have cobbled together a prototype quickly and put it in the field, tested response to it, reevaluated assumptions, set new targets, redeployed resources, and tried again. Lenox might have had a system up in months rather than in years – a system that through continual reevaluation was better tuned to deliver the value that the company's managers wanted.

Lenox's senior managers should never have fully delegated the development of a strategic information-technology system to their CIO. Sullivan should not have let this happen, either. She is a traditional CIO who asked senior managers what to do and then designed and delivered a system aimed at that defined target. But she did not understand the strategic context for the project and brought in something inappropriate. I don't have a lot of faith in her.

Today's more-effective CIOs take responsibility for the results of IT investments, in partnership with senior management. Together, they monitor the real-time systems they are putting into place and make changes as necessary. In this way, systems can be more tightly linked to the company's strategy. In fact, some recent IT-outsourcing agreements reflect such partnerships, too. In these innovative agreements, the outsourcing vendor takes an equity stake in the customer's business. That is the ultimate incentive and reward for delivering IT systems that yield strategic business results.

But what should Lenox do now?

Nothing would be gained by a witch-hunt. If anyone should be fired, it should be all the chiefs – the CEO, the CFO, and the CIO – because they are equally responsible for this disaster. The real solution to the dilemma will begin when the CEO, the CFO, and the CIO recognize that they have placed their company in strategic jeopardy. They need a shared understanding of the urgency of their situation.

However, I would drop the CFO from the team. Fontana doesn't really understand what's going on, and he's looking for scapegoats. In fact, he is a dysfunctional filter between the CEO and the CIO.

Let me explain what I mean by that because this case raises a serious structural question that CEOs should be alert to. In my experience, having the CIO report to the CFO is a legacy from the data-processing era of three decades ago. Few companies have rethought the reporting relationship since. Unfortunately, all too often, CFOs do not provide the strategic guidance that CIOs need – the kind of guidance they can get only from the CEO and other general managers. Also, many CFOs operate – as Fontana apparently does – much like an overly conservative, accounting-oriented filter between the CIO and other members of the senior management team. Keeping Fontana on the team may slow it down.

I would also consider replacing the CIO. Sullivan must immediately become a full partner in determining how Lenox will use technology to further the strategic goals of the business – and that means taking responsibility for the business results of system investments. If she does not, she cannot possibly contribute to the team.

After getting the team "right-headed," Lenox needs to benchmark to uncover the best-of-breed IT-enabled distribution systems. The company must invest resources to match its competitors quickly, or it will risk losing both customers and agents. But even if Lenox closes with its competitors, the company is not on safe ground. To be a winner in its industry, Lenox must begin to put into place the people and processes necessary to continuously sense and respond. Until it learns to run fast and run scared, Lenox will not be out of the woods.

ROBERT A. DISTEFANO *is senior vice president for information technology at the Vanguard Group in Valley Forge, Pennsylvania.*

The CFO doesn't understand what's going on; he's looking for scapegoats.

Sullivan failed to understand her role. She should have created the environment needed to make technology effective at Lenox.

Sullivan has not done her job. She was all too eager to accept the trust and confidence Bennett placed in her three years ago. Now, however, after failing to rise to the challenge, she wants to resort to an old functional excuse: "I built the system to specification, on time, and within budget, so I did my job." She doesn't grasp the nature and magnitude of her role.

Without question, Bennett isn't blameless. His strategy for pumping new life into the agent distribution channel was seriously flawed. He simplistically looked for a "silver bullet" application and a heroine to deliver it. After hiring a new CIO and giving the mission to her, Bennett disappeared. That sounds more like abdication than delegation to me. Also, he erroneously viewed the problem Lenox faced with its prod-

ucts and field agents as technological and seemingly bypassed or exonerated the company's business leaders. Finally, and significantly, Bennett parked Sullivan under the CFO. Now, don't get me wrong: CFOs are important people. Still, if Bennett had been genuinely passionate about distribution through technology, he absolutely needed to have Sullivan report directly to him.

Nevertheless, the case really is the story of Sullivan's failure. A CIO should create an environment in which technology-based change programs can be successfully implemented. Had Sullivan acted like a CIO, she would have recognized several early signals warning her that she wouldn't be able to do her job effectively, and she would have quickly offered Bennett and Fontana corrective options. (Although we don't see enough of Bennett to know him, good CEOs welcome challenges to their ideas, as long as they come after appropriate consideration and analysis.) Let's look more closely at those warning signals:

☐ Computers were not one of Lenox's strengths because its managers did not understand how technology could further their business goals. Organizations can't correct a situation like this simply by hiring a new CIO. Sullivan overestimated the impact she could have within such an organization. She should have worked to improve Lenox's competence in this area. She needed to show Lenox's business managers how other companies use technology and then guide them as they championed such projects within their own units.

☐ Sullivan organized a team to set the vision for the project, but she never secured the commitment of the sales, marketing, and field operations. She should have recognized that their active leadership was critical for successfully implementing this massive change initiative.

☐ Sullivan rightly complained about the lack of a product strategy but failed to insist that Lifexpress have a clear business purpose that was well grounded in corporate strategy. She should have realized that she could not provide a technology vision in the absence of a product/marketing/sales vision.

☐ Why was this a three-year project? A seasoned CIO quickly learns to control a project's scope and manage expectations. Lifexpress should have been designed to maximize the potential of Lenox's most profitable products. That would have allowed Lenox to roll out the system much sooner. Such a system also may have been less complex and therefore easier to teach to agents.

Is Sullivan doomed? Certainly not. She is obviously a bright woman with a good track record of delivering IT solutions. Nevertheless, she needs to understand that her role isn't merely to write programs on time and under budget. Big projects work best when there is a passionate business sponsor, when the business purpose is clear, when the users are an integral part of the concept and design phases, when managers rigorously apply the 80/20 rule to control project scope and adequately assess time to market, when teams build prototypes and adjust them before rolling out completed systems, and when the technical staff has the skills and motivation to deliver.

I'm certain Sullivan knows all this, at least retrospectively. At this point, she must do four things.

She must talk openly and candidly with Fontana and Bennett. Both executives must be at that meeting: she works for Fontana, but she has accepted Bennett's mission. This session is Sullivan's Olympic Games; it will make or break her. She needs to be at her best to convince the two executives that she knows what the problem is and can fix it. Sullivan must clearly describe the ingredients critical for a successful project and then fess up to her failure to recognize that those ingredients were missing.

She desperately needs to ally herself with the head of either the sales or field operation. Bennett *must* recognize that Sullivan needs business leadership and assign someone to work with her to see this through.

She must focus the project. With her new business sponsor, Sullivan must work to make the system support the products that have the greatest profit potential. By doing so, she'll not only design a system that can have impact but she'll also have started Lenox on the path to a clear product strategy.

She should work with a few talented agents and train them well. She then could make them role models for the rest by widely publicizing their successes.

Sullivan needs to help Lenox's leaders articulate their vision and show them the possibilities that technology offers. Above all else, she needs to understand that her role as a CIO today is to show Lenox's senior line managers how to use technology successfully to change their businesses.

JOHN KING *is president of King Information Group, an information-technology consulting company in Peachtree City, Georgia. King was previously the head of information technology for a major U.S. airline.*

Business managers, not the person charged with delivering the tools, should be held accountable for business results.

The situation Sullivan finds herself in should be familiar to many CIOs. It certainly is to me. I made a similar mistake once, so I know how easy it is for information technology

managers to fall into this trap. Sullivan has unwittingly managed to take on responsibility not only for what she can do (deliver systems) but also for what she can't possibly do (ensure that the new distribution system achieves the results Lenox's managers expect). Whether she and her organization can fix the problems they face is an open question.

Business managers, not technology managers, should take responsibility – and be held accountable – for achieving the financial and strategic goals of IT investments. The CIO should certainly be deeply involved with the management team in understanding the business and its problems, in educating the team on the effective use of information technology, and in creating and selling plans for new IT investments. The CIO must also be responsible for bringing the project in on time, on budget, and to specification. But only the business executive in charge of using the system has the influence, knowledge, and resources to ensure that the system is implemented effectively and delivers the expected results. Accountability belongs to the person who can deliver results, not the person who delivers the tools to achieve results.

Several years ago, when I was a CIO, I developed the concept for a marketing analysis system. I made the pitch for the system, took the lead in selling its merits to the organization, and developed it. Like Sullivan and many other CIOs, I saw an opportunity for the company and went for it. Good CIOs don't want to be merely computer operators and order takers (as in, "Tell me what you want, and I'll deliver it"). They want to be part of the business and push initiatives of their own. But in their eagerness to make things happen, they may lose sight of what they can and cannot accomplish inside an organization.

I ran into trouble getting the system accepted. I had no control over the employees who would use the system and could not influence their behavior. Pretty soon, all arrows were pointing at me. Fortunately, the head of marketing development took ownership of the system and resolved the problems. He saw the system's potential business value for the company.

The next time I pushed for a new system, I first sold it to the business-line executive who could make it work. Sullivan should have done the same. Only a business-line executive at Lenox could have made the implementation work and bring home the business results.

Frankly, I think accountability should be documented. The formal business case for any new system should clearly identify which business executive will be held accountable for it – for how and when money will be spent, for how results will be achieved, and for how success will be measured.

But that doesn't help Sullivan now. Her only recourse is to work very closely with the head of sales – although, given all that has gone on at Lenox, I suspect the sales organization will be unwilling at this point to assume responsibility for making the system work. It is unpopular with the CEO and the CFO, and behind competitors' efforts. That means the CIO must either influence field employees to use the system much more effectively or plead mistaken accountabilities to the CFO and the CEO. For Sullivan's sake, I hope she is good at influencing people.

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