3 Strikes and You are Out, IT Executive

On September 1, 2001, Jerry Rubin's column in the Toronto newspaper, The Globe and Mail, asked "How long will market continue to pay high tech multiples?" He argued that the overvalued price/earnings multiples of the major North American technology vendors reflected a past per-evaluation of future earnings. Rubin goes on to argue that it is not likely that technology sales in North America will rebound to the past levels which justified this. He concludes that in fact the price/earnings ratios of technology stocks are still high, compared to what they should be.

Two quotes from Rubin's column point to a more fundamentally disturbing implication of his accurate analysis.

> "… IT spending grew at a real average rate of almost 20 per cent over over the past 5 years, five times that of rest of the US economy."
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> "Beyond a potential double-digit decline this year, IT spending may be hard pressed to grow at even a fraction of the last decade's torrid pace".

What justified the action of the in-house IT managers who drove this past growth? Did they produce the kind of return on investment that you would expect a business person to produce on 1o years of double digit spending growth? The reality is they did not.

If they did produce double digit return on investment, you would expect their CEO bosses and outside shareholders to continue to feel good about future high level of IT expenditures. In fact, the reverse is true.

Many CEOs feel burned by the need to spend scare investment dollars on Y2K. Few, if any, IT organizations produced significant secondary benefits from their Y2K efforts. In fact, many simply "fixed" poor applications so that they would continue to run poorly after December 31st, 1999.

The dot.com bust did very little to reassure CEOs and shareholders about the capability of their IT management teams The stewards of IT in most large corporations, the CIO and those who reported to the CIO, have created a huge credibility gap for themselves in the past decade.

In fact, the dramatic dive in the value of IT technology stocks reflects the marketplace's awareness that something is seriously wrong with the IT management community. To paraphrase former US President Clinton, they have had their 3 strikes and they are now out.

Strike One: A Decade of Double Digit Spending with less than Single Digit ROI

After a decade of double digit spending, the business press is still regularly reports that more than 50% of IT projects run over budget and time, and often fail to deliver anything of real business value. Senior IT managers just have not solved this problem.

Strike Two: The Y2K Bug

Hugh amounts of money were spent on the "Y2K" bug. December 31st, 1999 turned out to be a relatively peaceful night. Many argue that this represented one of the great success of IT endor and in-house management. In fact, it is one of their great failures. Appropriate foresight and proper planning would have avoided the problem in the first place.

Strike Three: The dot.com bust

The Internet was going to change the world. Any dot.com was guaranteed to make money forever. Any company that did not turn itself into a dot.com was doomed to disappear. In fact, neither happened.

The Internet will dramatically reduce the cost of moving information from place to place. Its long term contribution will be to reduce operational unit costs for those firms wise enough to use it to do so. The normal force of competition in the marketplace will eliminate those who do not. That is a very different reality from what was touted by IT vendors, in-house IT management and the broker community in the last 2 years.

How does the current generation of IT managers, in both the vendors and inside technology purchasing organizations, recover from being "out"?

They don't.

The stock market is correctly dealing with the current generation of managers in the technology vendors. Those firms which survive till 2010 will be those who truly deliver value to their clients. The "sell them even if they don't know how to use our stuff to produce ROI" generation of technology marketing executive will disappear forever in the next year or so.

In-house IT managers will learn to do business differently, or disappear. Future IT spending will be subjected to the most investment intense scrutiny by inside management teams. IT executives who can't do EVA (earned value analysis) will not survive. They will no longer be able to claim that it is up to the line executives to understand IT so that they can build and achieve the business case. They will have to understand their business well enough to that they can work with line executives to exploit technology for ROIs which exceed those possible by alternative investments. Most of the current generation of IT leaders simply will not be capable of doing so. They are too technology centric.

All of this means a huge paradigm shift in our understanding of IT and its appropriate level of contribution to our business endeavours. Those in-house and vendor IT executives who lead this shift will prosper. Those who do not will be fondly remembered as having been part of the now defunct 20th century.