

Risk Issues IT Managers Should Consider and Their Financial Impacts on Projects

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We live in a world of risk...



Financial



Country



Financial



Operational



Financial



Black Swan



Operational + Financial



Financial + Market



Operational



Operational



Financial



Country

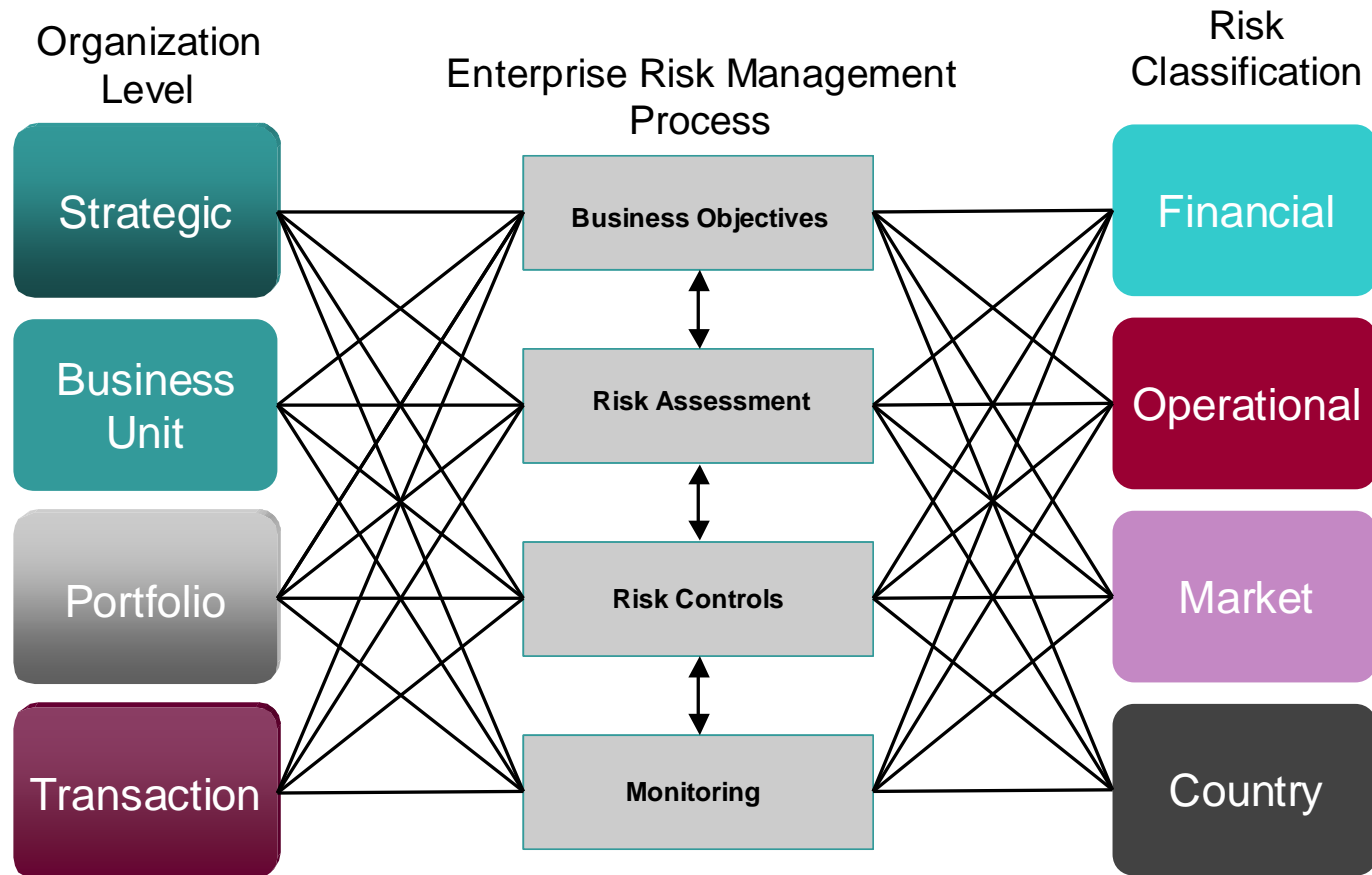


Financial



Operational + Financial

General ERM Framework



ERM is a disciplined understanding of a firm's risks and how those risks interact with business objectives

Risks Impacting Technology Projects

- Risk that the technology project will not delivery economic value for the organization = **Financial Risk**

- Cost of capital increases
- Cost overrides
- New regulatory constraint
- Implementation delays
- M&A, Organizational Change



Risks Impacting Technology Projects

- The risk that revenue attributable to the project does not meet expectations = **Market Risk**

- Demand shift
- Increased competition
- Price compression
- Sales issues
- Macroeconomic changes



Risks Impacting Technology Projects

- The risk that the environment which the project is implemented is dysfunctional or lacks support = **Operational Risk**

- Inadequate training
- Issues with underlying infrastructure
- Unplanned technology obsolescence
- Fraud or other moral hazard



Risks Impacting Technology Projects

- The risk that offshore activities are disrupted = **Country Risk**

- Terrorism
- Nationalization of business
- Infrastructure problems
- Natural disasters
- Labor unrest and strikes



Controlling for Financial Risk

- Understand your firm's cost of capital
- Use an accepted measurement of value such as net present value or equivalent cash flows, time to payback ignores time value of money and incremental cash flows following defined payback period
- Introduce financial simulations into analytics on technology project cash flows
- Forecasted probabilities are subjective, but a view to historical outcomes and other projects can help
- Sensitivity analytics allow for controls on various risk variables

Controlling for Market Risk

- Identify revenue source that will benefit from technology, it might be indirect
- Analyze competitive environment
- Stability of demand for initiative underpinned by technology
- Macroeconomic environment, now and forecasted over the lifespan of the project
- If technology supports sales, train and communicate with sales channels

Controlling for Operational Risk

- Identify support needed for technology implementation
- Look for any moral hazards that might exist, even if very improbable
- Pay close attention to technology constituent training
- Assure underlying technology infrastructure will support new initiative

Controlling for Country Risk

- Offshore programming lowers project expense, but creates risk and variability
- Hedge country risk at project's outset
- Lock in programming expense
- Diversify offshore geographies
- Mix domestic and offshore programming work

Essential Guidance

- The current global economy presents technology and security initiatives with higher levels of financial, market and country risk
- Enterprise Risk Management
 - Every technology project should have a risk assessment and someone assigned to evaluate, quantify and track project risks
- Technology – Risk – Finance
 - Finance sees risk in technology projects, but Technology needs to see the financial variability influenced by risk in technology projects
- Risk Adjusted Projects
 - Testing a projects assumptions will give you a more robust view of project variability
- We have looked at four high level types of risk, there are many different types of risk, think about the specific risks associated with technology and how they could interact with one another

IDC Financial Insights Community

The screenshot shows the IDC Financial Insights Community website. At the top, there is a navigation bar with categories: Cross-Industry Home, Financial, Health, Retail, Manufacturing, Energy, and Government. A search bar is also present. Below the navigation bar is a header with the IDC logo and the tagline "Where Business and IT Professionals Connect". The main content area features a "Summary" section with links to "About", "Members (209)", and "Resources (5)". A "Recently Active Members" section displays a row of member profile pictures. Below this is a "FinTech Industry Perspectives Blog" section with a featured article titled "What is the next evolution of risk management?". The article text discusses a panel of experts and their focus on financial services practices. To the right of the main content, there are several promotional boxes: "Brought to you by: IDC Financial Insights", "Join our community", "Follow Us on Twitter", "Bookmark & Share" (with a social sharing button), and "Video Research Update" (with a video player thumbnail).

Community Goal:

- To create a forum for IT and business professionals to discuss technology issues within the context of their business

Features Include:

- Networking – Invite, Find and Interact with Analysts and Other Members
- Global Analyst Blogs and Videos
- Discussion Forums
- Live Chat
- Polls
- Events Calendar
- Resource Library/ Complimentary Research

<http://idc-insights-community.com/financial>

Contact/Questions

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