THE BIG PICTURE:
Why the Financial Sector Needs an Integrated Approach to IT Project Management

IT expenditure has become a significant component of general and administrative expenses for financial companies. According to Gartner, global IT spending is projected[1] to exceed $5 trillion in 2024, with financial services accounting for a sizable portion of the figure.

Despite this investment reflecting the importance of IT to innovation, efficiency and compliance in the financial industry, IT projects are often not integrated as a fundamental part of the business strategy. Due to this approach, projects often fall short of expectations, leading to wasted resources and missed opportunities. Understanding the root causes of these failures and implementing effective management strategies can significantly enhance the success rates of these initiatives. This article explores the common pitfalls in managing IT projects within the financial sector and proposes solutions to ensure their successful execution in alignment with the bigger picture.

A DISCONNECT BETWEEN IT AND BUSINESS

IT projects are often treated as isolated initiatives rather than essential components of business operations. A lack of collaboration between the IT department and other business units during the requirement definition phase is a primary reason for the failure of IT projects. In many cases, insufficient engagement from the business side may be a contributing factor towards missed deadlines and milestones in IT projects, yet the responsibility often falls solely to the IT unit. As a result, IT departments start writing the requirements independently, without significant input from the business side. This approach leads to projects that do not align with business needs and objectives, setting them up for failure from the outset.

A TALE OF TWO (OR MORE) SPEEDS

Another version of this challenge arises in projects that involve more than one business or function. For a number of reasons, including uncoordinated timing and/or resources, internal competition and lack of communication, one party may start work without the other, leading to duplication at the level of the IT or service provider and unnecessary complexity (at best). There is also the potential for different solutions being implemented for each party, resulting in interface requirements and more complexity. Clearly, the more parties (businesses, functions) to the project, the greater the risk of a multi-speed project.

LAYERS OF COMPLEXITY

Companies may try to address the issue of different speeds by putting in place strict governance around IT projects. However, if governance is too strict or impractical, it may prompt individual business units to develop their own patchwork solutions that fall outside the technical mandate of the IT department, resulting in additional complications at a later stage. For instance, one large international bank ended up with client data in more than a 100 different front-office applications. Another example is a financial institution developing a separate online banking platform to roll out certain services to the market quickly, without first ensuring it can be integrated smoothly into its own IT systems.

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[1] https://www.gartner.com/en/newsroom/press-releases/2024-04-16-gartner-forecast-worldwide-it-spending-to-grow-8-percent-in-2024

NARROW FOCUS

Another critical factor in IT projects within the financial sector is ensuring that regulatory input is integrated with the firm's overall strategy and business objectives. Ensuring compliance with regulatory requirements is absolutely essential. However, focusing solely on ticking the necessary boxes without addressing broader business needs can limit the project's scope to merely meeting these requirements, rather than delivering true value.

INEFFECTUAL BUSINESS UNIT ENGAGEMENT

Lack of comprehensive input from business units into IT projects at the initial stages can lead to misaligned objectives and requirements, creating problems at a later stage. As an example, a large European bank faced significant challenges when it attempted to integrate its IT systems with that of another brand it had acquired several years prior, nearly risking a failure of the deal, despite substantial investments in the process at a later stage.

Effective IT projects require the active involvement of both the front and middle office. However, the middle office is often overlooked in IT projects, even though the front office alone may be unable to provide comprehensive knowledge of the entire end-to-end process. The middle office plays a crucial role in operational efficiency and risk management, offering valuable insights into the processes and data necessary for successful project implementation.

Solutions for Success

Within the financial industry, companies that prioritize communication between business and IT are the most successful in their IT project and change management. Based on our extensive experience in the industry, we recommend the following as key areas to keep in mind for successful project implementation.

Project Readiness: Ensure that the organization's culture is ready for a large and complex IT project. IT projects are culture-change accelerators rather than enablers.

Business Involvement: Ensure that both front and middle office units are actively involved in the project from the beginning. This requires clear communication of the project's aim as well as importance and its impact on business operations.

Top-Down Approach: Senior management must prioritize IT projects and enforce the collaboration between IT and business units. This includes setting clear objectives and expectations for all stakeholders.

Integrated Teams: Form project teams that include members from both IT and business units. These teams should work together to define requirements, develop solutions and ensure alignment with business objectives.

Industry Expertise: Leverage not just internal talent, but the experience of consultants and external managers where required. Consider not only the degree of expertise needed, but also the optimal business level at which to bring in consultants. By working across the overall business, rather than purely within IT, they can achieve comprehensive results that align with broader corporate strategy. Alvarez & Marsal (A&M), with its deep industry expertise and a wide network of resources, can provide valuable insights and guidance to ensure project success.

Regulatory and Business Balance: While regulatory compliance is essential, projects should also focus on delivering business value.

LOOKING AHEAD

In the coming months and years, the evolution of data-driven business and increased adoption of artificial intelligence and cloud migration will likely propel IT and other business units to work more closely . While the new tools of innovation may help speed up processes, AI- and cloud-based projects will require new levels of cooperation and awareness about responsible practices from all parties involved in the project.

In conclusion, managing IT projects in the financial industry requires a holistic approach that integrates IT and business objectives. By prioritizing collaboration, leveraging industry expertise and ensuring that the overall strategy goes beyond mere regulatory compliance to deliver business value, financial institutions can enhance the success rates of their IT initiatives.

How A&M Can Help

For successful implementation, projects need input from individuals with industry experience across the entire value chain. This includes both IT and business expertise. A&M offers an ideal platform for this integrated approach, combining experienced consultants with senior managers who have a deep understanding of why projects fail and how to address these challenges. Digitizing banking processes, getting an internal audit department ready for digitization, getting an insurance IT department ready for further development across the firm are just some examples of how A&M can deliver real and lasting value for clients. We offer the expertise and guidance necessary to deliver successful IT projects, always ensuring that projects align with business needs and create lasting value.

ABOUT ALVAREZ & MARSAL

Companies, investors, and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 9,000 people providing services across six continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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