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DELIVERING VALUE FROM IT

INTRODUCING THE IT HIERARCHY OF NEEDS AND
THE IT VALUE CHAIN

WHITE PAPER
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JULY 2016



Delivering value from IT

Organisations invest in technology because they believe it will make their business better at what they do. We now have a substantial body of research that shows that organisations who have world class IT teams have better margins and higher growth than their industry peers. Some examples of this research include:

- An Accenture study of European manufacturing and distribution companies where they found that high performing IT organisations spend 15% - 20% less than their peers, while still being able to invest more in IT enabled innovation, driving more value, higher earnings and growth.
- In their book, IT Savvy, Peter Weill and Jeanne Ross report on MIT's Centre for Information Systems Research (CISR) where they have found that the most "IT Savvy" firms are 20% more profitable. In addition they discovered:
 - the top 18% of firms with the best portfolio management practices have higher profitability.
 - firms that are above average on IT savvy and IT spending have margins that are 20% higher than industry average vs those lower in both, whose margins are 32% lower than industry average.

And it's not just about the results for their organisations. Without exception the CIO's of these high performing firms are more influential in their organisation and are seen as strategic business leaders.

In these circumstances perhaps the only real question worth asking is how do you create a high performing IT team?

The answer is deceptively simple.

You add value when you fulfil your organisation's needs and expectations from the use of technology. Doing this, however, is far from easy. There are a number of significant challenges that need to be met before IT's true potential can be fulfilled.



Delivering value from IT

Challenge 1. Rising user expectations. Today's users, particularly the emerging leaders, are much more demanding about what they expect from their technology tools. They are comfortable using technology in all aspects of their lives and they just expect technology to work and work the way they want it to. Their expectations are set by their consumer experiences and they don't understand why corporate technology is so difficult to use when they know what's possible.

Challenge 2. Power is shifting. Technology prices continue to tumble at a rate that is unlike any other product in history. The widespread availability of comparatively cheap, easy to buy "as a service" offerings makes technology more available than ever and our new sophisticated users are happy to just buy what they need when they need it. Furthermore organisations are letting them because too many IT departments are seen as expensive, unresponsive and out of touch.

Challenge 3. Unprecedented change. As much change as we have seen in the technology industry historically, there is a very real expectation that we haven't seen anything yet compared to what's to come. While there are many different descriptions and acronyms out there, every analyst in the industry agrees that social, mobile, analytics and cloud (or SMAC for us acronym lovers) is a game changer for organisations.

Challenge 4. We have a rich heritage. If rising expectations, power shifts and unprecedented change aren't challenging enough, organisations, who have been around for a while, have significant legacy investments in technology that need to be managed. Let's face it, with the benefit of 20/20 hindsight these historic investments, while well intentioned, are often uncoordinated, complex and consume all of our money and resources to maintain, leaving precious little resource to support us to evolve and improve.



What is the IT Hierarchy of Needs?



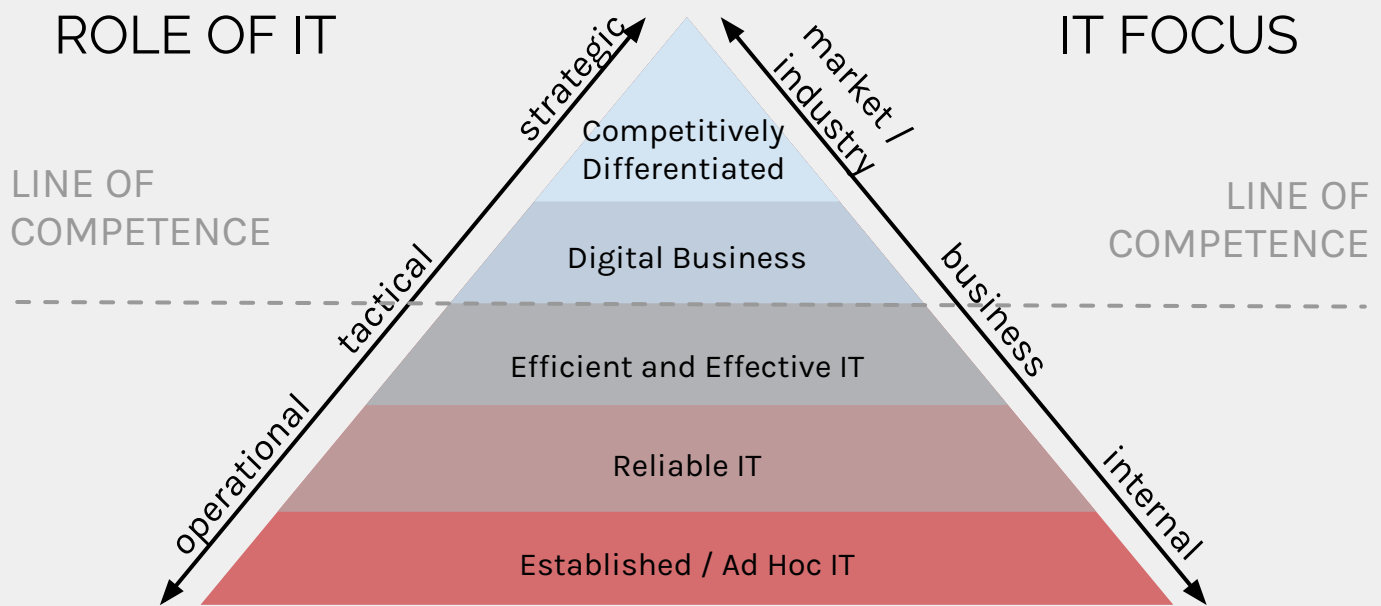
Every CIO I have met wants to add value, they want to build a high performing IT team but they are so busy with day to day urgent issues they have no time. Besides, even if they do have time they are not sure how to make it happen, because while the industry is fantastic at creating IT enabled visions of the future it is very short on describing how to make these visions a reality.

The IT Hierarchy of Needs provides a basis for understanding what needs to occur in order for you to be able to deliver business model innovation and differentiation for your organisation. Further it explains what you need to focus on today to meet today's needs and provides an explanation as to why we do or do not have influence as a department or as a CIO within our organisation.

Technology delivers value to the enterprise in a number of different ways. As a CIO you need to begin your journey by delivering on the most basic needs first. As you deliver on the most basic needs you not only contribute that value to your organisation, you also build your and your team's credibility and influence to contribute at the next level of value.



The IT Hierarchy of Needs



THE IT HIERARCHY OF NEEDS

So what are the levels in the IT Hierarchy of Needs?

Reliable IT. Employees use technology to make their daily jobs easier to do, however if your systems are not available when they should be then work stops. So while Established / Ad Hoc IT is the lowest level of the hierarchy, the first value stream for the CIO to deliver then is reliable systems so work doesn't stop. In reality this isn't so much about delivering value as it is about the removal of an irritant and destroyer of value and influence.



The IT Hierarchy of Needs

Efficient and Effective IT. Like it or not organisations run to the heartbeat of money. It doesn't matter whether you are a for profit, a not for profit or a government department, it is money that makes organisations run.

If you want to be influential you need to be able to demonstrate that you are an effective manager of money. If you are seen as a person who is careless with money your influence will be diminished and people will wonder if you understand the basics of business and management.

Digital Business and enabling the current business. This is where value creation and influence really starts. This value stream is about making the business as a whole more efficient and effective at what they do. IT contributes to this by fulfilling the four jobs of technology.

These four jobs are simplify work through process automation, improve decision making through the use of information, support customer and team engagement through data supported social interaction and finally real time monitoring, leading to automated sensor based “detect and act solutions. CIOs who can successfully deliver change programmes, that optimise their organisation, are very powerful and influential indeed.

You can find out more about the [Four Jobs of Technology](#) in this blog.

Competitive Differentiation - create new value. We hear a lot these days about new and disruptive business models and more often than not the new business models are made possible by innovative uses of existing or new technology. Whether it is the creation of new products and services, the ability to access new markets or customers or simply a much cheaper way to serve an existing need. This is perhaps best described as the CIO alchemist, creating value when none previously existed.



The IT Value Chain

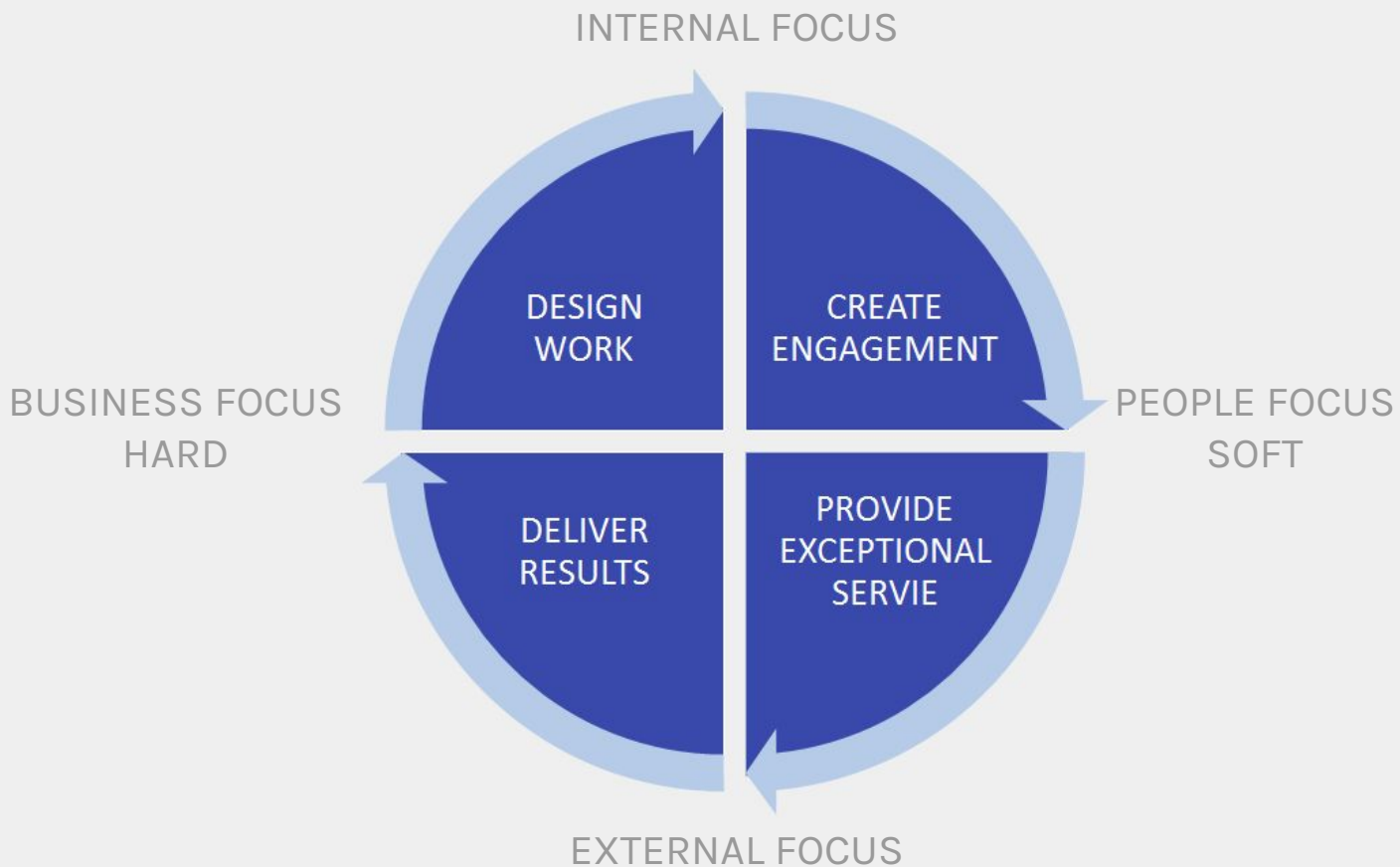


The IT Value Chain looks at the 4 core areas which an IT department needs to excel in to be successful. This is presented as a balanced scorecard first described by Kaplan and Norton. The IT Value Chain focuses management attention on the dynamics that create success for an IT organisation over the medium to long term. While specific KPIs (Key Performance Indicators) will change, the four core needs are ever present no matter what level you are at in the IT Hierarchy of Needs. The IT Value Chain is largely based upon the proposition put forward by Heskett et al in their groundbreaking article “Putting The Service Profit Chain To Work” Harvard Business Review (March-April 1994). The essence of the service profit chain is as follows:

“Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Value is created by satisfied, loyal, and productive employees. Employee satisfaction, in turn, results primarily from high-quality support services and policies that enable employees to deliver results to customers.” (p. 164, p. 165).



The IT Value Chain



So let's take a closer look at each area working backwards:

Produce results. This is why we are here and why organisations pay so much money for IT and IT professionals. The results that organisations want and expect us to deliver are the value streams that flow from satisfying the needs of the IT Hierarchy of Needs. Meet all of these needs and you will differentiate your organisation in its marketplace today and position it well to remain at the forefront in the future.



The IT Value Chain

Provide exceptional service. Yes, great companies provide products and services that are valued by their customers however, what differentiates great companies is that they have very high levels of customer advocacy. That is, people love them and their services so much so that they tell their friends and keep coming back for more. Better yet, advocates allow you to act up, to grow and take new ground. If you want to be influential you need to create advocates because advocates will allow you to act outside of your demonstrated competence.

Create engagement. Exceptional service is provided by team members who are highly engaged. Engaged employees provide better service because they care. Engaged employees also tend to be able to solve more difficult problems for their customers, which improves the customer experience even more. Employees become engaged when the organisation makes it easy for them to succeed rather than putting controls and processes in their way.

Design Work. Perhaps this is the real work of a CIO, to design a work environment that makes it easy for their team to succeed. Traditional organisations don't do this, rather they design their work environment to manage and control their team. Successful organisations design themselves in a way that enables their team to be successful in providing great customer service.

So, if you design your work environment to support your team to provide great customer service, and you lead to engage them, then you will create many customer advocates. Customer advocates will continue to do business with you and will tell their friends and colleagues how great you are.



Measurement and learning

Great, so the IT Hierarchy of Needs describes what we need to achieve in order to be able to deliver value through IT for our organisation and the IT Value Chain sets out how we need to go about meeting these needs.

To be successful, however, there are two more key things that you need to consider. They are measurement and learning.

The first is measurement.

It's all very well to know where you have to get to but if you don't know where you are, then it is difficult if not impossible to understand what you have to do now in order to progress towards your goal.

The only way to know where you are on your journey to world class is to consistently measure your current performance. To know if you are progressing in the right direction analyse trends in your measurement.

What should you measure? You should measure your performance in each quadrant of the IT Value Chain and use this information to assess what needs have been fulfilled and which are still outstanding. As mentioned above, the specific KPIs will change to reflect both what's important to your organisation and also where you are on your journey.

The second area you need to consider is learning.

Success is never achieved in a straight line. There are always setbacks and unexpected obstacles. Besides not everything you try will work and not all well intentioned advice will be suitable for your organisation.



Measurement and learning



So set your strategy to meet your organisation's needs and as you do, measure progress to see if what you are doing is working. If it is, keep doing it. Maybe consider refining your approach to make it even more effective. If it isn't working then you need to review why and change or refine what you're doing.



About the author

OWEN MCCALL

Owen is an experienced management consultant and CIO who is passionate about harnessing the power of technology to create value for businesses, communities, families and individuals.

Previously, Owen spent 18 years with Deloitte where he worked with clients from around the world to implement technologies that supported their business strategy. He also led Deloitte's outsourcing practice for Australia and New Zealand.

Owen then became the CIO of The Warehouse, where he was responsible for actually delivering value from IT.

These roles have given Owen a broad perspective of IT, its power and its challenges. He now operates as an independent consultant and advisor, guiding CIOs and senior executives on how to use technology in a way that adds real value to their organisation. He is a regular blogger and contributor to CIO and iStart publications and a sort after speaker across the technology industry.

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