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IT VALUE LED CHANGE

WHITE PAPER
BY OWEN MCCALL
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IT Value Led Change

Organisations invest in technology with an expectation that it will add value to their organisation. End of story, or at least it should be. The reality however is that more often than not our technology investments do not deliver on these expectations. Most technology projects fail to deliver value.[1] The research is very clear on our lack of ability as an industry to deliver value. There are many examples of this research. Here are some of my "favourites":

- Mckinsey report that 70 % of change programmes fail to deliver.
- The Standish Group, in their aptly named Chaos report, state that only 29% of software development projects are successful. The remaining 71% being troubled or considered an outright failure. To make matters worse, the larger and presumably more important a project the lower the chances that it will succeed, with these so called "grand" projects succeeding less than 10% of the time.
- Recently Forbes reported that when it comes to digital transformation, the change programme of our time, 84% of these programmes have failed to deliver to date.
- One of the most staggering findings comes from a joint study between McKinsey and Oxford University of mega projects, that is projects with a budget above $10 million. They found that "17 percent of IT projects go so bad that they can threaten the very existence of the company."

Compare the McKinsey / Oxford 17% threatening bankruptcy with Standish's 10% success for grand projects and you might conclude that large scale IT projects are more likely to cause you to flirt with bankruptcy than to be successful. It may not be true but the comparison makes you pause and reflect.

One final report finding. In a local New Zealand study on project management KPMG found that less than 20% of organisations claimed to be consistently delivering the planned value of their projects. It all paints a pretty bleak picture of our ability to deliver value from technology enabled change. That's not the end of the story however.

1 - What is value? In this paper I define value as getting what you paid for, or perhaps getting a little bit more than what you paid for! Usually this means business outcome such as increased revenue, lower costs, improved risk management. For more information on my view of the key sources of value **click here**.

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Delivering on the promises we make, on time, on budget, delivering the agreed business benefits from individual projects is what I consider to be entry level performance.

What many organisations really want is improved organisational performance or better yet some form of sustainable competitive advantage. That's the promise of transformation and with good reason. There is a significant body of research that shows that organisations that get it right significantly outperform their competitors.

- An Accenture study of European manufacturing and distribution companies 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.
  - the top 18% of these firms with the best portfolio management practices have higher profitability.
  - 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.
- “The Digital Advantage,” a joint research effort between Cap Gemini and MIT’s Centre for Digital Business, found that the top 25% most digitally mature organisations had:
  - 26% higher profitability than the industry average.
  - 9% higher sales vs assets and effort employed than industry average.
  - They also found that the 25% least digitally mature had 24% lower margin and 4% less sales than the industry average.

These value relationships can be generalised into a graph that shows increasing value with improvements in digital maturity, which is simply another way of depicting the value we should expect to derive from technology enabled innovation and change.

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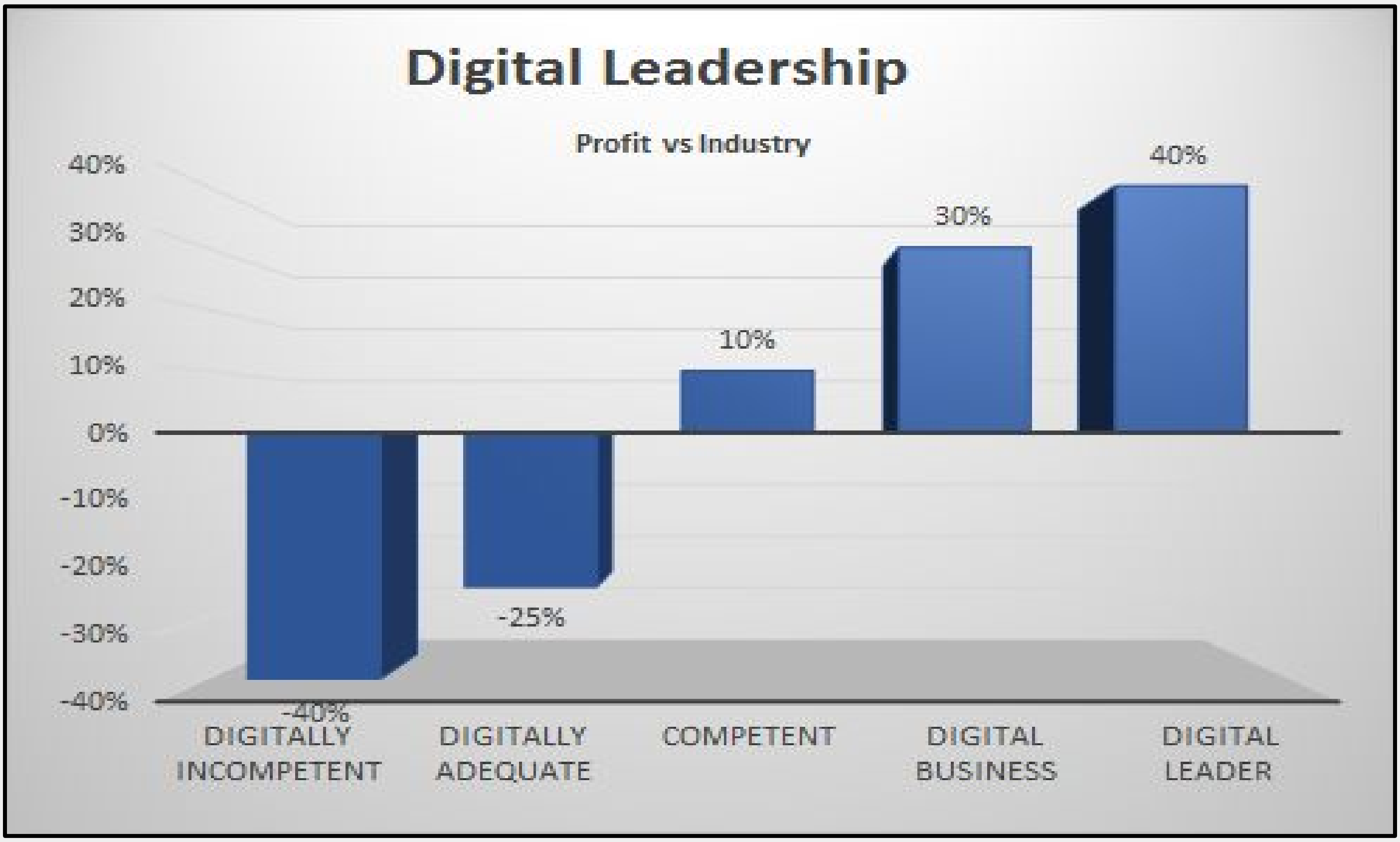


When you combine all of the findings above the research is quite sobering. 71% of projects are troubled or fail, only 20% of organisations are consistently realising value from their projects and the top 25% are significantly outperforming the rest, then the implication is that the prize for getting change and innovation consistently "right" is substantial. But we don't, and I wonder why? [2]

The best explanation I can come up with is that our conventional thinking about innovation and change is flawed and when your basic thinking is flawed then the execution that follows will always be unpredictable. As Einstein said, “If facts conflict with a theory, either the theory must be changed or the facts.” With this in mind let's explore some of our conventional thinking about change and innovation.

[2] - Here is one such musing - **Persistent Problems and Conventional Thinking**

IT Value Led Change - The Myths

The myth of the **Eureka moment**. We have a whole language that describes where we believe ideas occur. The eureka moment, a stroke of genius, an epiphany, a breakthrough in thinking.[3] This is not typically how ideas happen. Rather ideas tend to emerge through interactions between people. These interactions build on themselves in unexpected ways and evolve and develop. This myth is so persuasive that we not only believe it but we report new ideas this way. I do this myself. When I am stuck on a particularly difficult problem I will often go for a walk. I reckon I get all of my best ideas while walking. It doesn't work everytime but I often come back with that great idea and think of it as a moment of inspiration. It really isn't. Rather, Johnson describes this as being more like building a jigsaw puzzle where the moment of clarity is simply putting the last piece in place. Ideas occur through interactions, they grow and evolve. As Johnson says, ideas are more normally a slow evolving hunch than an epiphany.

[3] If you'd like to learn more about this then an easy way to start is to watch Steven Johnson's TED Talk "Where Good Ideas Come From."

IT Value Led Change - The Myths

The myth of the eureka moment leads directly to the myth of the **BIG IDEA**. That innovation will occur if we could only figure out what that one big idea is. The big idea or the silver bullet that changes everything. Very seldom does innovation work that way. Consider this from Clayton Christensen, where he references studies by Amar Bhide, "93% of companies that succeed, succeed with a different strategy than the one they started with." He reports that having money left over after the first strategy fails is more important than a great strategy.

> "When it comes to innovation and change in organisations these myths are so prevalent that nearly all our change efforts are based on them."

When it comes to innovation and change in organisations these myths are so prevalent that nearly all of our change efforts are based on them. They underpin the view that we can and need to transform. As businessdictionary.com states "transformation implies a basic change of character and little or no resemblance with the past configuration or structure." A one off change to an organisation, that is considered to be stable and not subject to change.

Sounds like a big idea to me!

In approximately 500 BC Heraclitus said "the only thing that is constant is change" and in 2017 our belief is that technology is causing our world to change faster today than it ever has and as much as we all seem to buy into this notion of change, when it suits us we still predominantly manage and fund change as one off. Our business as usual operations are funded on an ongoing basis. Yes we review these budgets periodically, usually annually, but the expectation is this funding is ongoing and we manage operations as if they will be ongoing.

IT Value Led Change - The Myths

When it comes to change we draw on one off funding and we manage the change as if it is a one off event. We scope change, we design change, we implement the change and then disband the team assuming the desired state has been achieved. As the research cited at the beginning of this paper shows, often the desired new state has not been achieved but we disband anyway.

> "Why, if we believe that change is constant, do we manage and fund change as a one off?"

Why, if we believe that change is constant, do we manage and fund change as a one off? It's because the notion of the big idea defined and implemented holds sway in our thinking over the notion that change is constant. Many of you may know that I am an accountant by training and I think my profession has an impact here. Accounting treats business as usual costs differently from asset purchases. In accounting terms fixed assets are one off purchases that are expected to provide benefits over multiple years.

IT system implementations are typically considered fixed assets, that is they are a one off purchase that are expected to provide benefits over multiple years. As a result we typically capitalise IT projects. Nearly every organisation I have worked in, or worked with, has an accounting based recording and budgeting process which reinforces this notion of change as a one off. This is a very useful concept for effective financial management, however it reinforces a view of change that ultimately is not helpful. As technology moves progressively towards more "as a service" arrangements this may change and not a moment too soon if it allows us to begin to manage the reality of change being a constant.

Thinking that change is a one off event, that is based on our ability to define and implement a big idea, begs the question where does the big idea come from? While never stated the conclusion of many executive teams is that the leaders are primarily responsible for the developing the big idea and implementing that big idea into the organisation. How do executive teams develop the big ideas? Usually through a combination of informal conversations between the inner core and at some form of strategy offsite that creates or updates the strategic plan and leads to the unveiling of next year's annual plan. Executives then work hard to implement these plans, plans that often come unstuck.

IT Value Led Change - The Myths

When CEOs are asked what are the largest impediments to change and innovation one answer that is always near the top is that workers resist the change.[4] Workers resisting change is accepted as truth in the business world. In response consultancies, academics and others have spent millions defining change management plans aimed directly at combating this resistance. While these methodologies have some significant differences to each other, virtually all of them are based on two key assumptions.

The first is that change needs to be imposed on teams from management. Almost every company has some kind of transformation going on. Digital transformation is the transformation of our time and most digital transformations are born in executive meetings and then the rest of the organisation is told that they need to change. We, the executive, have decided that what you the teams have been doing up to now is inadequate, or just plain wrong, and so you need to change if we are going to survive. I know, we never say it this bluntly. We dress it up in all sorts of logic and cautionary tales but let's be honest, it is the implicit message in nearly every change. People are not stupid, they can read between the lines.

[4] Here is an example of a **news media report** on one such survey recently conducted in NZ. This survey is not unique rather it is a reflection of similar global surveys.

IT Value Led Change - The Myths

When executives lament about resistance what they are really saying is "I wish they would just realise that I'm right and do what they are told." It betrays an industrial era management paradigm of the leaders think and the rest of you do what you are told like good little machines. The reality is most people don't resist change but they do resist being changed. We need to turn the change process around and stop imposing change.

The second assumption is that the best way to create change is through fear. When most people consider great leaders we think about people who inspire us, yet when most leaders instigate change they do it through fear. Disruption is coming! You need to change or else. Fear led change. Most change methods have as their first step the need to create urgency. One of the most powerful metaphors for creating urgency is the "burning platform". You need a burning platform for change. I don't know about you, but when I think about a burning platform I get a sense of urgency all right. I also get a sense of fear and a desire to act, to be anywhere but here. All I really want to do is get off and I don't care much how or to where. Not exactly a great start to the need for coherent directed action.

Add these together and what you have is fear based responses to externally imposed change. Is it really any surprise that you get resistance? It is leaders who impose change and manage change through fear that create resistance and if leaders want to unwind the resistance they need to look to themselves and their actions for the solution rather than playing victim and blaming everyone else.

"Most change efforts are based on fear."

IT Value Led Change - The Myths

All of this leads to one last myth of change and that is the **myth of best practice**. This logically follows from all of the above. If innovation is one off and based upon our ability to implement the big idea then for many organisations (ably supported by their industry bodies and world class consultancies) the answer is industry best practice. If we could just get to industry best practice then we would be well on our way to nirvana. As a result many strategy documents and annual plans include initiatives aimed at implementing best practice. The problem is best practice is not implementable by most organisations as they haven't built the capabilities required. I like to illustrate this point with the question how do you get a fat man to run a marathon? [5]

A best practices approach to answering this question would be to research marathon running best practice and based on this develop a training programme to give to the fat man. If you did this one of two things would happen next. Either the fat man would laugh in your face and something like "don't be so freak'n stupid" (i.e. resist change) or they would try and implement it with likely disastrous results. Yet we do this all the time in organisational life. It makes you think about all those failed projects slightly differently doesn't it?

One final point. While value is the reason that we invest in technology, comparatively few organisations systematically define and measure value. The KPMG study mentioned earlier reported 46% of organisations have a formal benefits management process. This is self reported. In my experience the reality is some what lower than this. I often ask people if they have formal benefits management and yes many say they do. When you enquire with a little depth, however, this drops off very quickly. Most organisations require benefits to be identified in a business case however relatively few review their projects to determine if benefits promised were ever realised. Even less use benefits promised as the primary driver of design and virtually no one bothers to map how technology will impact business activities, or understand how these activity changes will change business process outcomes or how these different business process outcomes will deliver on the promised benefits. Yes we all "define" benefits in a business case, we need to to get approval, but for most that is where it stops.

[5] My original fat man and the marathon blog can be found **here**.

IT Value Led Change
The Solution

All of this leads me to conclude that our conventional wisdom as it relates to innovation and change is wrong and that if we are going to improve our success rates we need a new approach. An approach that turns the myths of change on their head. This is illustrated in the table below.

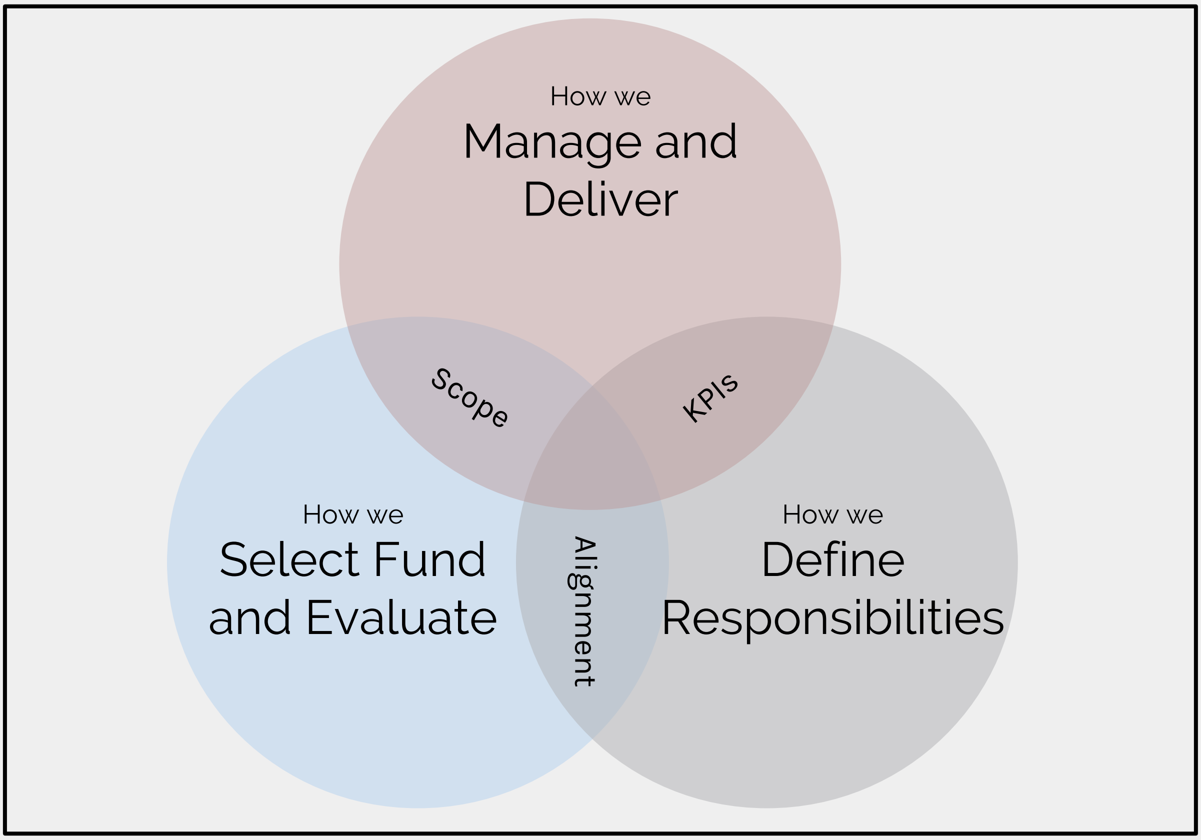
From this …..	To this …..
Change is one off and discrete • The BIG idea • Large and complex • Solution is known up front	**Change is iterative and continuous** • Learn and adapt • Small and simple • Solution emerges over time
Task and implementation centric • Technology implementation defines scope • Fund activity / project plan • Initiative ends on “go live”	**Value and outcome centric** • Benefits delivery defines scope • Fund benefits / ROI • Initiative ends on benefits realisation
Managing disruption • Fear based • Management imposed • Delivered to the team • Follows the competition	**Enabling purpose** • Purpose driven • Leader / vision inspired • Delivered by the team • Express your uniqueness / purpose

These are significant changes for most organisations and it begs the question how do you do this?, or perhaps where do you start? In truth you could start anywhere. A change in any of the areas outlined previously is likely to generate incremental improvement, however if you are interested in accelerated change then start by reviewing your organisation’s operating model and how your operating model supports or hinders effective delivery of IT enabled change.

IT Value Led Change
The Solution

You start with the operating model because your operating model (what you do and how you do it) sets the environment in which all organisational activity occurs. Get the operating model right and you create an environment that makes it easy for your change initiatives to succeed. Get it wrong and your teams are constantly battling organisational barriers that are largely unexamined and unseen.

A high level view of an IT Operating model as it relates to innovation and change is depicted in the diagram below.



IT Value Led Change
The Solution

To improve the delivery of IT enabled change you need to consider all three of these dimensions and reconstruct your operating model based on the new rules of innovation and change. There is no one right answer on exactly how your operating model should look, as it needs to consider your organisation and your goals as much as it needs to consider the new rules of innovation. That said, the following questions may help you on your journey.

	Select, Fund & Evaluate	**Align Responsibilities**	**Manage & Deliver**
Iterative and Adaptive	Do we fund change as if it is one off or as continuous?	Are technology priorities determined by those charged with benefits delivery or imposed on the team?	Do we deliver change in a limited number of large projects or iteratively through relatively small ongoing changes?
Value Centric	Do we fund benefits (based upon an agreed ROI) or do we fund project tasks?	Are our KPIs focused on value delivery for all participants in change?	Are benefits / value central to everything we do including design and change prioritisation?
Purpose / Vision Led	Do our investment priorities flow from purpose / vision or from fear of disruption?	Is everyone incented to deliver purpose or are the incentives based on delivering tasks / projects?	Do delivery teams understand how they contribute to the organisations vision?

Today IT enabled change is more important than ever. Research over the past five years has demonstrated a strong relationship between digital leadership, profitability and growth. That is, organisations who consistently deliver value from technology outperform their peers. What's more, the gap between the best and the rest is growing as digital leaders press their advantage.

While the gap is widening the opportunity still exists to close the gap, to become a digital leader. To do this however, you need to let go of the myths of change and reorganise to reflect the realities of innovation and change. If this is something you are interested in then let's talk and explore what this means for you and how I may be able to contribute.

About The Author

OWEN MCCALL

It seems that everyone these days believes in the power of technology to transform. Believing in the power of IT to transform is one thing, actually making it happen however, is an entirely different matter. The road to fulfilling IT's potential to transform our organisations is more often a road to failure than it is a road to success. Just look at the statistics. Most pundits agree that 70+% of IT enabled change programmes fail.

As a lover of technology and a believer in technology's potential to transform, Owen finds statistics like this very frustrating. As a result he now dedicates his time to supporting organisations to implement better ways to deliver change and to fulfill on technology's transformative power.

Owen is a qualified accountant and was previously a partner in Deloitte Consulting where for several years he led Deloitte's Australasian outsourcing business before returning to New Zealand to take up the position of CIO of The Warehouse Group. In addition to running his practice Owen is a regular blogger and contributor to CIO and iStart publications and is sought after as both an event speaker and judge of industry awards including CIO 100 and the NZ Hi Tech Awards.

For more information visit owenmccall.com or contact Owen.

M +6421 350 750
E owen@owenmccall.com
W owenmccall.com
T @OwenMcCall

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M   +6421 350 750
E   owen@owenmccall.com
W owenmccall.com
T @OwenMcCall

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