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Optimizing business outcomes and budgets for digital demand

Most companies are wasting money on IT – but not for the reason they think!

Produced in association with

Kantor Consulting Group, Inc

Introduction

We've worked with Executives and IT leaders for over 30 years, and the single most common complaint we hear from them is their profound frustration with the lack of results and transparency from their never-ending IT investments.

One private equity firm Managing Partner told us, "I'm not getting the ROI I need from the IT groups at any of my companies." When we asked him what the actual ROI was, he said, "Frankly, I can't even tell you!"

To add further complexity, the demand for digital products and services has made it increasingly difficult for organizations to make ongoing investments and balance the need for innovation with optimization.

In plain speak, this means that many organizations lack the know-how and the skills in-house to adapt to the urgent demands placed upon them by their customers and the market.

Digital Business

Digitalize physical assets, data and business processes

IT Cost Optimization

Drive IT cost reduction while maximizing business value

Business Cost Optimization

Digitalize and optimize business process using IT

Source: Gartner (March 2016)

Digital demands an urgent response

The latest data, combined from global enterprises, big consulting and research firms, makes the case that companies need to urgently act to address the digital disruption of their business and their related skills gaps. The data shows that 70% of digital business initiatives are likely to fail to deliver business growth, due to lack of business process and product innovation, as well as poor organizational adaptability.

To take it one step further, 45% of executives believe that the leading barrier to successful implementation is a lack of change management skills. This includes people across the organization from senior management to those in the trenches.

A different mindset around the IT budget

The IT budget exists and is a multi-faceted investment portfolio that attempts to cover an array of categories. That is both the challenge and the opportunity. The challenge is learning how to optimize the budget so we can prioritize and increase its value. The opportunity is to begin by carving it into investment categories that represent the outcomes we are trying to get to.

Some of these business change investments have large technology components, and some have small ones. If we don't know which investment category they fall into and we don't manage them as the business changes that they are, we waste a valuable percentage of the money invested in the related IT portion of these efforts.

Poor governance and legacy product management processes to align business and IT initiatives, coupled with insufficient leadership engagement across the organization, are the main reason most companies are wasting money on IT.

This results in ongoing frustration for the business and technology leaders, and disappointing ROI for investors and executives. We mistake this as a problem with our CIO and his or her IT organization. But it's more often a problem with the way we view, plan and manage our business change initiatives with IT components, and within the IT budget itself.

> *To stop wasting money on IT, realize that there is no such thing as a technology investment! There are business change investments that have technology components.*

Bob Kantor | Kantor Consulting Group, Inc

Methodologies and frameworks are not the answer

The last decade has demonstrated that the need for newer practices is real and continuing to grow. We have seen this especially as it relates to defining what digital means for each industry. The common pitfall that IT leaders fall into is the adoption of a methodology or framework as a means to an end.

This has been evident with the industry-wide move towards agile practices and methodologies. While the implementation of such frameworks, i.e. Scrum, Kanban, SAFe, etc., has been helpful at the IT layer, it has done very little to help global enterprises solve the business and organizational change challenges they face daily.

As much as we want 'Enterprise Agile' to be the answer for transforming the organization, the most it will do is transform a technology group or team. But it will not address the reality that business agility is more than a methodology, framework or set of ceremonies. It is a true shift in how we think, act and ultimately align business stakeholders and customers to a much wider degree.

The organizational-wide agility that companies seek is found through the implementation of differing techniques from several schools of modern thought (agile, lean, design thinking) coupled with learning by doing.

To compete effectively in a digital economy, the learning and the change have to stick and not be subject to the nuances of a tool or methodology. You need to optimize for demand and supply while balancing the pressures of aligning the entire organization with the needs of your customer.

ORGANIZATION MACRO ENVIRONMENT
Leaders, Executives, Middle Managers, PMO
Create the environment, structures and policies for the work and flow of ideas
Removes impediments and blockers from the flow of value
Sets top-level direction and vision
Communicates priorities and allocates resources
Serves the team

ORGANIZATION MICRO ENVIRONMENT
Product Managers/Owners, Architects, Delivery Leads, Team Members
Executes the workflow and brings ideas to market
Decides on the team level workflow
Does the best with the resources available
Decides how the work is best delivered
Delights the customer

IDEA → RECORD → REVEAL → REFINE → REALISE → RELEASE → MARKET

Business engagement and the Product Manager

How do we bridge this challenge? First let's think about the fact that every business today either has a significant portion of their revenue and profit generated by digital products and services or is moving in that direction. If not, then they will struggle to remain competitive. The common denominator is the role of the Product Manager.

The entire push towards digital is predicated on companies knowing their customers better than before, understanding the market dynamics faster, responding to change quicker and becoming a catalyst for change across the entire concept-to-market lifecycle.

Organizations that haven't looked at improving their approach to product management are losing ground to competitors who do. As Harvard Professor and Author of The Innovator's Dilemma, Clayton Christensen reports:

> *Over 60% of all new-product development efforts are scuttled before they ever reach the market. Of the 40% that do see the light of day, 40% fail to become profitable and are withdrawn from the market. By the time you add it all up, three-quarters of the money spent in product development investments results in products that do not succeed commercially.*
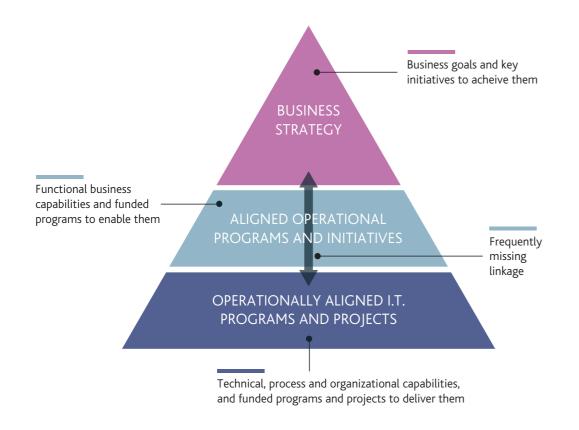
Clayton Christensen | Innovator's Dilemma

Moreover, a viable and modern product management process, especially for digital, requires seamless integration and collaboration between business and IT teams. As with business and IT alignment, this requires innovative business processes and leadership.

A simple alignment process

Our core belief and customer experience is that there are very few pure technology projects and many more business change initiatives. Optimizing business outcomes requires that the basic business change be fully addressed in every investment. This requires a direct linkage between initiatives and the firm's business drivers, and a high level of engagement with the business stakeholders, illustrated by the diagram below and the chart overleaf.

Business goals and key initiatives to achieve them

BUSINESS STRATEGY

Functional business capabilities and funded programs to enable them

ALIGNED OPERATIONAL PROGRAMS AND INITIATIVES

Frequently missing linkage

OPERATIONALLY ALIGNED I.T. PROGRAMS AND PROJECTS

Technical, process and organizational capabilities, and funded programs and projects to deliver them

The impact of engagement

One way to visualize the business importance and impact of optimizing both technology innovation and cross-organizational engagement is to consider the four possible outcomes in this chart.

Not only is business engagement necessary to achieve our desired results, without it we can have large negative impact on our essential operational processes.

In other words, innovative technology and product management processes are necessary, but not sufficient, to create sustainable competitive advantage in our market segments. Leaders in every organizational function need strong 'soft' skills to achieve the equally necessary cross-organizational engagement of their peers.

Yet all too often, our IT and our product leaders are functional subject matter experts (SMEs), whose soft skills are not nearly as strong as are their functional skills.

A surprisingly large gap in requisite leadership skills to enable IT executives to bridge this divide with their business colleagues has been identified in a study by the CIO Executive Council of IDG (see table below).

Business Engagement / **Technology Innovation**

| CONTINUOUS INCREMENTAL IMPROVEMENTS | "COLLABORATIVE I.T." FOR SUSTAINABLE COMPETITIVE ADVANTAGE |
| TREADING WATER | OPERATIONAL DISRUPTION |

From 198 CIO respondents to CIO Executive Council survey in early 2013

Talent management proficiencies for your senior team	Very important	vs.	Highly proficient
Team building and team leadership	73%		23%
Ability to lead/drive change	71%		17%
Communicate well with and influence business stakeholders	69%		18%
Developing people	67%		14%
Collaborating across organizational boundaries	65%		19%

Results from a recent study by the CIO Executive Council on "Building Your Feature State IT Leadership Team Today"

Seeing it through the lens of Bimodal and Technology Business Management

In the last few years, Gartner has observed how organizations are dealing with the challenge of moving to a digital space and effectively managing their legacy infrastructure and business models. This observation led to the term Bimodal, which they coined as a way to describe the existence of mode 1 and mode 2 as a collection of principles, capabilities, methods, behaviors and approaches that enable an organization to differentiate the normal from the abnormal, the evolution from the revolution, the continual improvement from the disruptive innovation — and manage them differently but coherently.

Characteristics of Mode 1 and Mode 2

	MODE 1	MODE 2
Goal	Reliability	Agility
Value	Price to performance	Revenue, brand, customer experience
Approach	Waterfall vs. V-Modal	Agile, Kanban
Governance	Pain driven, approval based	Empirical, continuous, process based
Sourcing	Enterprise suppliers, long-term deals	Small, new vendors, shorter-term deals
Talent	Good for conventional processes and projects	Good for new and uncertain projects
Culture	IT-centric, removed from customer	Business-centric, close to customer
Cycle times	Long (months, years)	Short (days, weeks)

Source: Gartner – Driving Digital Business

A key characteristic of the Bimodal model involves how CIOs will reimagine their budgets. We touched on this briefly in a previous section. To take it further, the CIO has the opportunity to make a fundamental shift in how money flows to prioritize more effectively, and to move away from legacy funding models that don't address the needs of the business today.

The TBM Council takes a very similar approach as they work towards advancing the discipline of managing the business of IT. Technology Business Management (TBM) offers IT standards and practices to communicate the cost, quality, and value of IT investments to their business partners. In turn, IT is able to focus on driving innovation for their organization.

While there isn't a single answer or a 'boil the ocean' approach to changing the budget make-up, it is possible to do so and to begin quickly realizing benefits of making investments in the areas that we've discussed.

While these Bimodal and TBM approaches have the potential to improve the situation, we believe that the core issues we've laid out here still need to be addressed quickly.

In fact, in late 2015, Wall Street Journal summarized research carried out by Deloitte with over 1,200 senior IT executives that further confirms our assessments and assertions, with three overarching messages:

> *First, CIOs will need to step up or step aside. Business leaders are more dependent than ever on technology to drive growth and innovation, and less likely to wait patiently for CIOs to deliver needed capabilities. Savvy CIOs are actively rethinking their value propositions, delivery models, and commitments to the business. CIOs who fail to adjust will be left on the sidelines as other business leaders forge ahead to drive change through technology.*
>
> *Second, there is a long road ahead for CIOs to become influential business leaders. Our research highlights some significant competency gaps for CIOs. Ninety-one percent of CIOs surveyed acknowledge lacking at least one of the key skills they identified as critical to their success as a tech leader.*
>
> *Third, good relationships with stakeholders don't always translate into influence. Although a majority of CIOs report excellent or very good relationships with other business stakeholders, they also continually battle the perception that they are technology managers, and are relegated to the role of implementer in business strategy or M&A activities.*

Wall Street Journal | November 9, 2015

What does this mean to you?

Imagine the impact on your top and bottom line results if IT:

- Increased the delivery of your most valuable ideas into the market by 50%
- Supported business changes that drove compelling business outcomes
- Operated more as a product delivery acceleration and innovation group
- Regularly published leading vs. lagging indicators to deliver better results.

Those are some of the outcomes organizations have achieved by implementing the approaches discussed in this paper. These approaches include applying:

- Processes to improve IT program alignment with business drivers
- A modern and proven process for cross-functional product management
- Leadership enhancements to increase and sustain cross-organizational engagement.

Contact us to learn how we are helping organizations solve these critical challenges and accelerate their investments in IT and business processes, product and leadership initiatives. There is no obligation to talk with us.

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We are a digital business consultancy that helps organizations think new. Dream big. And most importantly, act different. We are privileged to work with some of the world's most iconic brands. We help organizations evolve and adapt to not just compete in this next generation of business but decisively win. We empower people to continuously deliver better products, services and customer experiences.

We equip people with the skills needed to drive more enduring and effective change. Helping them establish new models, new ways of working, and new growth channels. Embedding the capabilities that enable businesses to perform at their peak. Time and time again.

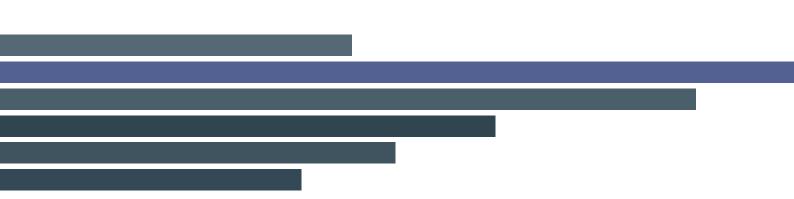**Kantor Consulting Group, Inc**

KCG is a business and IT advisory firm helping global and middle market companies build more effective governance processes and create more effective leaders. Our work is focused on improving business value delivery using simple approaches that we've successfully implemented with senior leaders in over 60 Fortune 1000 companies.

We help executives change how they lead in order to address urgent challenges that include disruptive business changes, project failure rates that hover at the 70% mark, and lack of staff engagement. We have a unique perspective on the complex issues that IT and business executives must together address today, connect with them quickly, and inspire them to embrace more effective leadership practices.

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