



# **Business Driven IT for the Business**

## **Speakers Notes**

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# **1 Business Driven IT**

## **1.1 Slide 1 – Opening Slide**

Mr / Madam Chairman, Ladies and Gentlemen: Good morning/ Good evening. Today / tonight we do something important. Today / tonight we take the proven management principles from every other area of business endeavour and apply them to IT. We do this not because we can standardise the role of knowledge workers to lower costs, guarantee service delivery, create market dominance and return shareholder value. We do this because it is about making our life less stressful and our work environment better.

Now Ladies and Gentlemen, please feel free to ask questions and comment as we go through. There will be time for questions at the end as well.

## **1.2 Slide 2 – Necessary Evil**

Make no mistake about this, Ladies and Gentlemen: IT has provided us with staggering gains in performance and productivity. IT has substantially lowered costs and significantly improved customer service.

As business, as a society and as individuals, we have all benefited from IT. So much so, that for many of us, IT is now an essential component of our lives.



IT is now so ubiquitous that we only focus on it when it does not work. A lot of highly skilled and highly motivated people work very hard in IT to give us all the benefits we enjoy.

Now, when the PC first came out, it just appeared on the desk in the office. At break neck speed we adopted the ATM, the VCR and the DVD player. We demand and take medical advances in IT for granted. We take PDAs into work to make us more efficient and we now use our I-pods for all sorts of things.

Our personal adoption of IT leads that by business.

It is in business IT, particularly in the area of information management and work-flow, where the brand of “Failed Implementations, Money Wasted, Poor Service and Disastrous Out-sourcing” is the face of IT.

Yes, it is better now than it was 5-years ago but still, something like 65% of all IT projects fail to deliver the required outcomes. We still appear to be spending more and more on IT for less and less gain.

We in the business have become disenfranchised from IT. We are becoming increasingly frustrated, if not cynical with IT. We have been sold the panacea and the silver bullet and we have been burnt by IT. IT people lack credibility.



Indeed, companies have out-sourced IT in the belief that things could not get any worse - only for them to become worse.

Ladies and Gentlemen: We know this. We experience this everyday. What it means for us is:

- Frustration in our jobs.
- Increased hidden costs.
- Failure to guarantee service delivery.
- Loss of market share.

Now, let us be crystal clear about this. Most of the failings in IT are not the fault of IT. The actual IT, the actual hardware and the software basically works. It is the way that we have implemented, managed and operated our IT that is the issue.

### **1.3 Slide 3 – Realise True Cost**

Let's consider increasing hidden costs. I'm going to take the all too common example of re-keying between systems.

In this example, we assume an average wage of \$40,000 per annum and a cost to the business of \$50 per day for overheads for 240 working days.



If an organisation employs 5 people to re-key between systems, the cost is around \$260,000 per annum.

For 20 people, it is over a \$1million.

Other losses include error propagation from re-keying, cost of issuing refunds, brand damage and more.

This is just one example of business inefficiency, the duplication of effort and the failure to guarantee service delivery that comes from our IT implementations.

For those of you who are wondering, buy two screens to allow for effective copying and pasting between applications!

## **1.4 Slide 4 – Failure to Guarantee Service**

Ladies and Gentlemen: if you lift the lid on an organisation this is what you often see:

The customer approaches an organisation, often to go into a world of hold. The first customer service representative needs a Ph.D. in information management to service the customer. They often draw in co-workers to find an answer as they query disparate silos.

If motivated enough, the customer will try again and probably ends up with another representative where they go through the whole process



again; getting shunted from department to department and no one takes responsibility or ownership!

If you look under the lid, you will see a high cost, high risk operation that does not guarantee service delivery.

In essence, we do not know what our knowledge workers make, at what cost, in what time frame, to what quality by how many.

Is it any wonder that our IT and many of our IT projects fail to deliver.

## **1.5 Slide 5 - Mumbo Jet**

Knowledge workers often produce the mumbo jet instead of the jumbo jet.

Ladies and Gentlemen: Please close your eyes for a moment and imagine.

I want you to contrast the highly structured manufacturing assembly line, with that of the knowledge worker.

The knowledge worker assembly line is characterised by:

- A failure to guarantee service delivery.
- Knowledge workers needing Ph.D.s in how to get information and how to use it.
- Having knowledge workers going to the parts, collecting them one at a time and creating multiple instances of parts that are not required.

Everybody, please open your eyes.



## 1.6 Slide 6 – Apply to All Areas

Ladies and Gentlemen:

- It is time to make the jumbo jet.
- It is time to standardise the roles of knowledge workers.
- It is time IT became the knowledge worker assembly line.
- It is time to apply the proven business principles from every other area of business endeavour and bring them to IT.



## **2 Aligning IT to Business**

### **2.1 Slide 7 – Introductory Slide**

Ladies and Gentlemen: Getting the IT we want and need is about taking the proven business principles from other areas of business and bringing them to IT.

It is about defining what it is we make, to what cost, in what timeframe, to what quality and then defining the assembly line we need to deliver it.

### **2.2 Slide 8 – Role of IT in Shareholder Value**

Let us start by addressing shareholder value.

Six major factors impact upon shareholder value: External, People, Process, Strategy, IT and Data.

- External – Not much we can really do there.
- People - Our performance is geared to the operation of our IT.
- Process - By definition, IT is integral to our processes.
- Strategy - Business strategy drives IT strategy but we need to understand what IT can do for us. IT strategy can NOT be left in the hands of IT and it can NOT be left in the hands of an out-sourcer.
- IT - We have the IT operation itself which needs to be a customer service driven operation that guarantees service delivery.



- Data - Our data are now effectively IT dependent.

Ladies and Gentlemen: IT plays a dominant role in returning shareholder value. IT is not an adjunct to business. IT is business. Why then do we leave it to IT and out-sourcers?

## **2.3 Slide 9 – Boardroom Balance**

Shareholder value starts in the boardroom.

- We need Directors (executive or non-executive) that are properly accountable for both IT and information management and work-flow. Their bonuses and their jobs are tied directly to the performance of IT.
- Just like every other area of business activity, the performance of IT should appear in annual reports.
- We need to move away from the bulk of the IT spend being for hardware and software to the bulk of the IT spend being for business integration, cultural change, strategy etc.
- When a decision is made to buy IT, the cost of business integration needs to be in the business case.
- Like the construction of a building, IT gets bonuses for delivery ahead of schedule and penalties for late delivery and under performance.



## 2.4 Slide 10 – Customer Driven IT

IT exists to service our business needs and IT should be customer service driven!

We make IT customer service driven as follows:

*First: Give the customer what they want.* If our customers do not buy our products we go bankrupt. We make IT accountable in the same way.

One way to do this, is to set IT up on a cost recovery basis to drive the necessary cultural change.

- Cost recovery makes IT service driven as well as imposing a discipline upon us in the lines of business.
- IT gets a proportion of its budget from core funding for strategic initiatives and other activities that it can not charge for, e.g. standards.
- The rest of the funding comes from the business. No service, no funding.
- If in-house IT can not deliver, the business is then free to source services as needed.
- IT can bid for capital expenditure like anyother areas of the business.



- Any profits made by IT are either ploughed back into IT and/or returned to its shareholders – the business.
- Just as we do for billing and legal services, we can set IT up as a Pty. Ltd.

*Second: Supplier Delivery.* If a supplier does not deliver, we find another one. The same applies to IT.

*Third: Priority setting.* We know that our customers set our priorities. We the customers of IT, set the priorities of IT. Having a response back from IT saying “we’ll get back to you in two weeks with a priority” is NOT acceptable.

*Fourth: Performance.* When a building is delivered to specification, to quality, and ahead of schedule, we give them a bonus. When they are late, they get penalised. The same applies to IT.

Before moving on, I want to quickly mention Shadow IT. Shadow IT is the duplication of IT systems and solutions. Shadow IT probably doubles or



trebles the IT spend of an organisation. Shadow IT mainly happens because the principle IT does not deliver.

We do NOT have shadow buildings. We do NOT have shadow engineering solutions. Therefore we should give bonuses for the elimination of shadow IT and loose bonuses for the proliferation of shadow IT.

## **2.5 Slide 11 – Transforming IT**

Ladies and Gentlemen: Let us get down to the mechanics of how we get to turn our IT into a customer service driven entity.

- We need a real mandate from management and management accountability.
- Stabilisation projects may be required – this is where we stop new development and just consolidate current operations.
- We need better reporting within IT and between business and IT - If necessary, IT staff work in the office and they meet people face to face. IT comes out from behind the email and Web forms and yes, if required, we implement detailed timesheeting.
- We address documentation – From a risk perspective, a productivity view and a business continuity vantage, we need to have our systems, policies and procedures etc. properly documented, maintained and the knowledge shared!



- We apply and enforce standard development principles, standard project management and standard change management procedures.
- Cultural change and re-skilling of both the business and IT on new operations and procedures is required.
- A customer service ethos and customer management framework is instilled.
- And better communication is required, including IT selling itself to the business and having IT staff sit with business people.

## **2.6 Slide 12 – IT Sell to Business**

Fundamental to addressing the situation is having IT sell itself to us.

Construction companies sell to us what they do. Engineering companies sell to us what they do and so it should be with IT.

IT needs to sell “What IT can do for the business”. When we sell, we establish the customer need, we sell the customer on the features and benefits, we create a desire and then we deliver.

IT needs to educate the business so that the business can come back with a vision like “in 5-years we want all transactions to go through without any



manual intervention and we want to do it from any device anywhere anytime”.

We may not achieve this goal but we have a vision that both the business and IT can work too. We can now plan, design and manage the risk.

IT needs to sell “What IT does for the business”. IT needs to sell the services it provides so that the business understands what IT does. We in the business often have little or no idea of what IT actually does nor the complexities involved.

Just as we educate our customers, we need IT to educate us.

- IT should be putting a marketing brochure and newsletter etc. on every ones desk.
- IT should be putting on road shows, presentations, open days and breakfasts. IT needs to invite the business to these and IT should be professionally marketed.
- IT needs to be running competitions and giving away I-pods for the best ideas and best innovations.



## **3 Business Driven Solutions**

### **3.1 Slide 13 – Introductory Slide**

Ladies and Gentlemen: it is time to design and manage the knowledge worker assembly line.

### **3.2 Slide 14 - Designing Assembly Line**

Let us be clear about this, IT is the assembly line for knowledge workers.

Whether it is insurance policies, superannuation payments or property sales, given that we know what we make, there is no reason why we can NOT design the assembly line we need and then standardise it.

As a business, we need to own and to be able to define and to operate the assembly line. Ford, Toyota, Nokia, Walmart and L.G. etc. would never consider do anything else. Why should IT and the knowledge worker assembly line be any different?

Henry Ford transformed the manufacturing by applying a set of proven principles and it became the industry standard. Henry Ford had two advantages: he had the money and he did not listen to all of the experts telling him what he could NOT do. Now we may not have Henry Ford's money but we certainly poses the other attribute!



### 3.3 Slide 15 – Market Forces Drive Design

Just as market forces drive the design of a bridge, market forces drive IT solution design.

- In an emerging market, whether it is size, share or offering, there are few standards. The market is highly dynamic. Solutions need to be rapidly developed and to be able to grow quickly to support product diversification.
- As the market matures and diversifies, specialist needs arise and standards start to develop. Change becomes less prevalent and the focus moves to assured delivery and scalable growth.
- In highly mature markets, standards dominate, e.g. ATMs or air crafts. Government compliance is stringent and only a few players can effectively compete. Utility infrastructure is the order of the day.

Ladies and Gentlemen: One size does NOT fit all! Trying to have solution design and enterprise architecture that is one size fits all is doomed to fail!

Remember different areas of our business are at different levels in the market and in IT expertise.



### **3.4 Slide 16 – Market Forces in Design**

Market forces also set the model for IT operation and business optimisation.

If we look at the top performers in a market and/or an organisation we can see what they do, how they do it, and how their businesses are designed.

We then set ourselves the goal of achieving that level of performance and operation and implement what they have. We then progressively go for the next level and the next level of operation until we are the top performer.

This model not only provides a clear path for IT migration and solution upgrades, but is a model for business optimisation.

### **3.5 Slide 17 – Rigorous Design and Engineering**

When we design a house or a building we go through a rigorous design and engineering process. The same applies to IT.

Engineers and architects use a rigorous design and engineering process because they are putting in place a strategic solution that is intended to last and to reliably perform.

In reality, IT solutions last many years and are a strategic business investment. Once SAP is rolled out in an organisation, it becomes the incumbent. Yes we may upgrade SAP and we may be frustrated with SAP but seldom does SAP get replaced.



IT solutions need to go through the same rigorous, engineering and design process that we apply to buildings, assembly lines, product design and more.

We design a building in response to market forces, government legislation, customer demand and costs. The same applies for IT.

- Legislative changes are often slow but regularly have a significant impact, e.g. SOX. Building and engineering design tells us how we can integrate compliance into IT design for the benefit of all.
- Some operations are very market driven and are highly dynamic. These systems require a rapid response capability. Those that are less market driven may not need such a fast response.
- Our customers needs are highly dynamic. We add new customers to systems regularly and fast updates are a prerequisite. Fast responses to orders and billing may also be needed.
- With suppliers, we often having standing orders in place and long term contracts. We do not add new suppliers as often as we do new customers. So our needs differ.



By looking at the areas of business operation (go ask the guys at the coal face) we can define standard recipes and flows of information across organisations and develop solutions accordingly.

Ladies and Gentlemen: The building industry can do it. The mobile phone manufacturers can do it. The car manufacturers can do it. If we want to, we can do it for IT too!



## **4 Out-sourcing & Off-Shoring**

### **4.1 Slide 18 – Introductory Slide**

Ladies and Gentlemen: Out-sourcing is here. Out-sourcing is part of business and can provide us with many advantages and efficiencies, particularly in the out-sourcing of non-core competencies.

As well as the successes with out-sourcing, we have all heard of the horror stories, particularly with regards to IT out-sourcing. Whether it is the government contracts (both state and federal) or Commonwealth Bank with EDS, many of us have either had or have heard of frustrations with out-sourcers.

Now, let us be crystal clear about this. Issues and failures with IT out-sourcing are not an IT issue. They are as ever, a business management issue.

### **4.2 Slide 19 – Hollywood Film Model**

Before I move on, I want to take a quick detour to look at some business trends and how the role of the knowledge worker is changing. This will then tie back into what we say with both out-sourcing and off-shoring.

There are currently two major and seemingly unstoppable forces driving business, that of globalisation and that of IT. These two forces are presently acting in unison to drive major societal and business change.



At the end of the 19<sup>th</sup> century, the use of assembly line transformed manufacturing. The shift was from labour intensive cottage industries to mass production. In the process, the skilled trades changed. It allowed the semi-skilled worker to make complex items to a highly quality and allowed them to acquire wealth.

As the assembly line became more sophisticated, less semi-skilled workers were required. Many were forced to re-skill and for those that remained, their role changed from production to value-added problem solving when the machines went wrong. We have seen similar trends in agriculture and mining.

Knowledge workers are now going through this same change. As more and more routine operations are now be done by computers, the role of the knowledge worker changes, e.g. check-in attendants process large groups but individuals self-help themselves. Again, we see routine production skills replaced by problem solving skills.

Concurrent to the changes in routine processing, is the availability of overseas resources to compete for the more advanced routine knowledge worker operations.

To remain competitive, we skill up. Highly skilled, highly motivated problem solvers do high-value business optimisation and business growth activities.



We will move from routine to operation to collaborative teams working on a project by project basis

Ladies and Gentlemen: These trends are driving business towards the Hollywood film model of operation. In Hollywood, core competencies such as research, strategy, design and problem resolution are kept in-house and teams of the best people are assembled to deliver the movie. After completion of the movie, the teams move on and may never work with the same people again.

More and more, this is how we will work in the future. Just as lighting crews work on any movie, network design crews design networks for any business. We may not like working in this way but that's the trend. Now, If only management and HR could keep up with us!

The Hollywood film model is what out-sourcing and off-shoring should be about.

### **4.3 Slide 21 - Organising Out-sourcing**

Let us start with first principles. IT is the assembly line for knowledge workers. As a business, we need to own and to be able to define and to operate the assembly line. Ford, Toyota, Nokia and L.G. etc. would never consider do anything else.



Why?; Because this is their core competency and their assembly line is their core business.

- Ford does not interrupt the operation of its assembly line by out-sourcing parts of it. Ford ensures the integrity of its assembly line.
- Ford does not neglect the quality of hand-off along its assembly line. Ford goes out of its way to assure the quality of hand-off because Ford knows that this is pivotal to product quality.
- Ford does not abdicate its responsibility when the assembly line does not deliver. Ford takes ownership and responsibility for it.
- Ford does not give away strategy.
- Ford does not surrender product creation and the ability to design its assembly line. Ford keeps problem resolution in-house.

The same principles apply to IT!

Ladies and Gentlemen: You know that if you loose ownership you loose control. So why do we loose control of IT in out-sourcing agreements?

Why is the passing of a problem to someone who has not been commissioned to fix it, going to result in the problem being fixed? It is NOT.



Just passing over non-performing IT to an out-sourcer means you lose control of non-performing IT and your costs escalate!

We need to distinguish between core and non-core competencies. Yes it maybe more effective to out-source non-core activities such as catering and cleaning for a bank but the ability to manufacture derivatives and futures trades is a core competency for a bank.

IT is the assembly line for knowledge workers and so, IT is a core competency that must be kept in-house.

We also need to know what we are out-sourcing. We need to know how the out-sourcing interrupts business operations. We need to know the quality of hand-off at points in the process, i.e. we need our standard recipes. Only when we have our standard recipes can we make an informed decision of what to out-source.

#### **4.4 Slide 22 - Organising Out-sourcing**

Many IT out-sourcing arrangements were made on the basis of cost.

Therefore, we should reward out-sourcers accordingly. Just as your sales team is paid by performance, pay the out-sourcer by cost savings realised



and penalise them for non-performance. If they are that good and that confident in their abilities, then this will not be an issue.

The true cost of out-sourcing needs to be taken into account. It is time to stop blaming IT and make the accountants accountable and responsible for the decisions they make. The fact that they did not understand what was being out-sourced is not an IT issue, it is a business issue.

I want you to consider the cost associated with:

- the lose / preservation of intellectual property
- the interruption of process
- provision of out of scope services – often a crippling cost in out-sourcing arrangements

Having an IT out-sourcer provide strategy, then tell you what you need, how much it will cost, deliver it, then QA the outcomes and operate it going forward is NOT good business. There is no brake in the cycle and this leads to out-sourcer dependency.

Once we loose the ability to problem solve, we are in trouble.

Once we loose the ability to take responsibility, we are in more trouble.



Once we expect someone else to fix the problem for us, we are not going to move forward. Ask any recovering alcoholic. Ask TNT about the out-sourcing of its administration to PWC.

Out-sourcer dependency is common, particularly in IT. We brake the dependency as follows:

- Take responsibility for our actions.
- Take strategy back in-house.
- Spin up new work without out-sourcers.
- Progressively skill-up in-house and take ownership.
- Trap intellectual property in-house.
- Reach the point that you no longer need the out-sourcer and brake the contract.

If you are an out-sourcer, I want you to remember one thing. Control creates alienation but the more you empower someone, the more reliant they become on you!



## 4.5 Slide 23 – Off-shoring Outcomes

Allied to out-sourcing is the trend of off-shoring, the moving of jobs overseas. The issue is NOT how we stop the trend but how we ride that trend and benefit from it.

Many of the traps seen in out-sourcing apply to off-shoring.

- Interrupting the knowledge worker assembly line – Similar to out-sourcing. Make sure you know what you off-shore, assure the quality of hand-off and guarantee service delivery.
- Risk – The risk needs to be managed properly and included in the cost justification, e.g. power outages. An out-break of avian bird flu is more likely to occur in India than in Australia or the USA. This means that trades could be ordered on the trading floor but no back office settlement occurs and you would need to fly bird flu kits from Sydney to India. If you out-source IT, then you will need to give bird flu kits to your out-sourcer! Just manage the risk.
- Loyalty – Similar to out-sourcer dependency is off-shorer dependency. Make sure that your offshore operation is set up as a branch office of your company and that they all of the staff have your company name tattooed on their foreheads. Their loyalty is to you and not some intermediary.



- Ownership - Loose ownership and you loose control. Avoid having the price jacked up on you and making you agree to perpetual blackmail because you no longer own nor have the expertise to fix the problem.
- Collaboration – Jobs that require extensive collaboration and interaction, e.g. requirements gathering, selling and contract negotiation need to take place at source. With off-shoring, you need to assess the extent of interaction required and the cost of poor communication.

Ladies and Gentlemen: Off-shoring is inevitable. Let us do it smartly.



## **5 Moving Forward**

### **5.1 Slide 24 – Introductory Slide**

Ladies and Gentlemen: We know the principles, we have the expertise, come let us together bring them to IT.

### **5.2 Slide 25 – Together we can Make Change**

- The same business principles that apply to every other area of business endeavour, apply to IT.
- The majority of the failings in IT are nothing to do with IT, they are business management issues. We need to address them as business issues if we are to lower cost and guarantee service delivery.
- IT is the assembly line for knowledge workers. Define what is we make and then define the assembly line and standardise.

### **5.3 Slide 26 – Henry Ford**

Ladies and Gentlemen: This talk is about you and your work environment.

What do you want to do?

### **5.4 Slide 27 - Questions**

Ladies and Gentlemen: Questions please.

