Delivering benefits from investments in change:

Winning hearts and minds

March 2011

FOREWORD

I am delighted to introduce the first in a series of four thought leadership reports challenging organisations to move from a culture of delivery to one of also creating sustainable value from investment in change. In the last ten years, we have seen considerable investment in change across all sectors including retail, capital infrastructure, financial services and government: 'the good times'. The next five years are likely be very different with significant constraints on project/programme funding and greater stakeholder expectations that we can deliver 'more for less'. The delivery agenda needs to respond to this critical challenge and move towards greater partnership - working across the organization to achieve benefits-driven change. I continually receive this important feedback from senior executives. The required focus is unlikely to be achieved through the project and programme management profession alone and is highly dependent on cultural change and the embedding of greater capability across the organization. These important issues go right to the heart of professionalism.

Together the four reports will provide a valuable challenge for any organization to consider how to maximize the benefits of its investment in change. This first report discusses the importance of achieving the cultural change necessary to create the environment for sustainable benefits realization, particularly focusing on how to win hearts and minds. The other three reports will examine how to plan and implement this cultural shift, by making the relevant changes to create effective governance, roles and responsibilities, process and support structures, along with a strong focus on building organisational capability.

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EXECUTIVE SUMMARY

Organisations, both public and private, are making increasingly significant, high profile and complex investments involving the acquisition, creation, or enhancement of assets that provide capabilities, which, properly managed and utilised, have the potential to create and sustain business value. Yet, in all too many cases, these investments fail to fully realise their expected benefits.

Most organisations continue to believe that all they have to do is create the capability and benefits will automatically flow. If value is to be created and sustained, benefits need to be actively managed through the whole investment lifecycle. From describing & selecting the investment, through programme scoping and design, delivery of the programme[1] to create the capability and execution of the business changes required to utilise that capability, and the operation and eventual retirement of the resulting assets.

This requires an effective approach to governance that promotes and supports a culture of value, such that the organisation has:

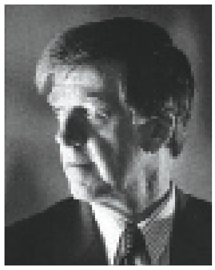
1. A shared understanding what constitutes value for the organisation;
2. Clearly defined roles, responsibilities and accountabilities;
3. Processes and practices around value management, with active benefits and change management; and
4. Relevant metrics.

The core of any investment designed to deliver benefits is delivering organisational and people change. Unfortunately, our understanding of how to manage change has not kept pace with the rate of change.

Many organisations have experienced change programmes that were unsuccessful - the underlying cause often being the failure to persuade groups and individuals to change their behaviour.

Moving from a delivery centric culture to one that is value centric

is a business imperative, one which is itself a major change programme that will take time to plan and implement, and also for the benefits to be achieved. It is time to move beyond words and place an emphasis on action. This will require strong leadership, and engagement and involvement at every level of the organisation.



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[1] In the context of this report we use the term programme to mean a group of related projects, which may include related business as usual activities, that together achieve a beneficial change of a strategic nature for an organisation. and the term project to mean a unique, transient endeavour undertaken to achieve a desired outcome

THE NEED FOR A CULTURE OF VALUE

"Leaders work on the culture of the organisation, creating it or changing it. Managers work within the culture of the organisation."[2]

Today, organisations in the public and private sectors are making increasingly significant, high profile and complex investments. These investments involve the acquisition, creation, or enhancement of *assets* that provide *capabilities*, which if properly managed and utilised, have the *potential* to create and sustain business value. Yet, in all too many, often highly visible and well-publicised cases, these investments fail to fully realise their expected benefits and, in many cases, have actually eroded or destroyed business value. Why is this so?

"Benefits don't just happen and they rarely happen according to plan."[3]

When investing in new or improved capabilities, many organisations display a naïve view of how benefits are generated – one of "build it and they will come"- i.e. all they have to do is create the capability and benefits will automatically start to flow. Sadly this is rarely challenged by vendors all too eager to land a contract to deliver said capability!

If value is to be created and sustained, benefits need to be *actively managed* through the whole investment lifecycle. From describing & selecting the investment, through programme scoping and design, delivery of the programme to create the capability and execution of the business changes required to utilise that capability, and the operation and eventual retirement of the resulting assets. Unfortunately, this is rarely the case. A study[4] by Cranfield found that less than 30 percent of the largest UK companies actually have a formal benefits management process. Similarly, a study by the APM revealed that only 38% of the surveyed organisations had a formal/structured benefits management approach.[5] It is hardly surprising therefore, that many boards are left rather uncertain of the value that their internal investments will add or are actually adding to their organisations.

So what is 'value'?

Value is certainly in the eye of the beholder and a fundamental problem is that many organisations have a limited understanding of what "value" means *to them*, and therefore how to create it. Strategies to create and sustain value are often poorly defined and even more poorly communicated. A 2008 Harvard Business Review article[6] suggests that most executives cannot articulate the basic elements of strategy of their business - objective, scope and advantage - in a simple statement of 35 words or less - and that if they can't, neither can anyone else.

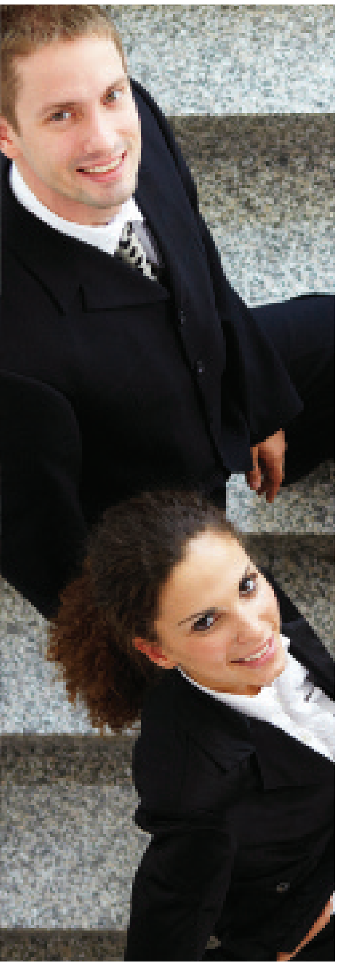
[2] Edgar H. Shein, "Organizational Culture" in J. Thomas Wren, ed. The Leader's Companion

[3] The Information Paradox, John Thorp & Fujitsu, 1998 & 2003, McGraw-Hill, Canada

[4] Delivering Value from Information Systems and Technology Investments: Learning from success, Prof. John Ward, Cranfield School of Management, U.K., 2006

[5] Change for the Better. A study on benefits management across the UK. An APM study supported by Deloitte, summarising findings from a survey of 650 respondents. March 2009.

[6] Collis, D,J., & Rukstad, M.G. (2008). Can You Say What Your Strategy Is? Harvard Business Review, 86(4), 82-90



The importance of business engagement

Where there is awareness of a problem, it is generally seen as a *delivery* problem, and the responsibility to fix it is abdicated by the "business" to the delivery function - the team or "factory" tasked with creating the capability (e.g. the IT function in the case of a technical capability). However, if the business continues to focus on the philosophy of "build it and they will come", and the factory remains focused on excellence simply in *delivery* of the capability, realising true value from those investments will remain a challenge.

Value does not come from having the capabilities, it comes from how organisations manage and utilise those capabilities. This may involve re-thinking the nature of the business model, business processes, people skills and competencies, behaviours, reward systems, organisation structure, physical facilities, etc.

Even if the delivery function had the ability to do this, they rarely if ever have the span of control or authority to implement all the necessary changes – this is where they will need the active support of the investment sponsor, who must be more than a 'token' sponsor. Someone empowered to authorise the changes required who is also committed to, and accountable for, ensuring that the benefits of the investment are fully realised.

Effective governance

Whilst governance has lately come to prominence, traditional approaches to governance will not necessarily support the creation of value. Again, taking IT as just one example of a broader issue, research from UAMS[7] suggests that the focus of IT governance is on the more operational IT issues - the running of the 'factory' - with little appetite for addressing how the business should use the factory's 'output' to create and sustain value.

Effective governance is essential for achieving value from change, by establishing processes, structures, information and tools to set direction and ensure that change programmes are aligned to the strategy and that early decisions are taken to react to changes and keep the planned benefits on track.

Nowhere is ineffective governance more evident than in the abysmal quality of business cases. A 2006 Cranfield study[8] found that while 96% of respondents developed business cases for IT-enabled investments:

- 69% were not satisfied with the business case development process;
- 68% were not satisfied with the identification and structuring of benefits;
- 81% were not satisfied with the evaluation and review of results; and
- 38% admitted that benefits claims were exaggerated to get approval.

How effective can an organisation's governance be if the culture condones exaggerated benefits in business cases?

[7] Van Grembergen, W., De Haes, S., & Van Brempt, H (2008). Exploring the relationship between enterprise benefits and IT governance practices COBIT 4.1 and Val IT 2.0. Antwerp, Belgium: University of Antwerp Management School, ITAG Research Institute for the IT Governance Institute.

[8] Ward, John; 'Delivering Value From Information Systems and Technology Investments: Learning From Success', Forum (the monthly newsletter of Cranfield School of Management), August 200

Improving the aspects of governance that impede the delivery of value may in itself require a major change programme – the amount of change involved being dependent on the starting position and the desired state.

So what does *effective* governance look like? An approach to governance that *does* denote a culture of value is present is one which promotes and supports:

1. A shared understanding what constitutes value for the organisation, how value is created and sustained, and how different capabilities contribute, or can contribute to creating and sustaining value;
2. Clearly defined roles, responsibilities and accountabilities of the board, executive management, business unit and delivery function management in the realisation of benefits and business value from investments;
3. Implementing or improving governance processes and practices around value management, including business case development and use, investment evaluation and selection, programme and project execution, asset management, with active benefits and change management;
4. Relevant metrics integrated into the business which monitor the effectiveness of the governance approach and encourage continual improvement of the relevant processes and practices.

It's all about managing behavioural change

At its core, any investment designed to deliver benefits will need to deliver change - behavioural change. Unfortunately our understanding of how to manage change has not kept pace with the rate of change required. In 2003 the Richard Ivey School of Business examined emotions in the workplace and wrote:

"One of the more important reasons that change efforts fail, is that the idea that 'organizational change' is an illusion. Organizations do not change. It is the individuals in organizations that change their behaviours. Unless the need to change is perceived as an effort to create positive outcomes...individuals can be expected to resist the initiatives that are part of the overall change effort....Most individuals will consider changing their behaviours and routines if there is a clear, heartfelt reason for them to change."[9]

Many organisations have experienced change programmes that were unsuccessful - the underlying cause often being that they failed to persuade groups and individuals to change their behaviour because they failed to acknowledge and manage the "loss" which is what most people fear most of all from change - loss, real or perceived, of benefits, rights, privileges or freedoms. If the perceived gain outweighs the perceived loss, then people will far more easily change.

Once this is understood, we can create and maintain a dialogue between the 'business' owners and the 'factory', throughout the investment lifecycle, encouraging them to work as partners with a shared objective to deliver all the 'value' described in the business case. This will help to ensure that the people change elements required are considered from the beginning and adequately scoped into the programme plan.

[9] 'Engage the heart: Appealing to the emotions facilitates change'. By Gerard H. Seijts and Grace O'Farrell. Ivey Business Journal, Jan '03

COMMON PITFALLS TO AVOID

In order to create or move an organisation towards a culture of value, there are a number of common pitfalls to avoid, which are often evident as negative behaviours in organisations that have a typically poor track record of delivering value from any type of change programme.

1. The first of these is implementation 'by decree', without an adequately thought out plan and commensurate resources. There is all too often a tendency for executives to believe that once they say 'Make it so', it is done. However, as Larry Bossidy and Ram Charan suggest in *Execution, The Discipline of Getting things Done*[10], the role of the executive when saying 'Make it so' is to ensure that no-one leaves the room until everyone understands what 'it' is and, when they come back with a plan, they don't leave the room until the executive is confident that the plan has a good chance of delivering 'it'.

2. In other cases, organisations try to take on too much change in the first bite – this may result in inertia, because the overall task seems too great or no-one knows where to start, or if the time-frame is clearly unrealistic, there will be little motivation to commit to it. The opposite can also be true - doing too little or taking too long to do it may result in patience wearing thin and support for the changes diminishing to the point of backing off. Large change programmes such as this should be designed as a number of iterative improvements, focused initially on key "pain points" where early successes can be achieved. This is especially important in an organisation which practices progressive commitment of resources or a stage-gated funding process.

3. Some organisations fail to communicate where progress is being made. Success should be communicated, otherwise it can be very difficult to maintain the support of the Sponsor and funding body. Success should be expressed as progress towards the overall value expected from the investment and not simply as the number of milestones passed. Progress measures should typically include leading indicators - those metrics that show that the capability has been delivered and is starting to be used - and lag indicators - the metrics that quantify the end benefits being delivered. The importance of the leading indicators should not be underestimated, as they enable course corrections to be made as required, to keep the programme on track.

[10] Bossidy, L., & Charan, R. (2002). Execution: The Discipline of Getting Things Done. New York, NY: Crown Business

A CALL TO ACTION

After all is said and done, there is more said than done

It is time to move beyond words and place an emphasis on action—which will require strong leadership and engagement and involvement at every level of the organisation.

Changing an organisation's culture, from one that focuses on delivering a capability to time, cost and quality, to a culture that focuses on delivery of *value*, requires first and foremost strong leadership. It also requires effective management of the changes required, with the flexibility to change the journey and, possibly even the destination, as more information is known and/or internal or external circumstances change. This will not happen overnight.

While process-centric people may think it is possible to simply design a set of new processes and the changes will happen - this is not the case. It can take a number of years of concerted and fully supported effort to move a whole organisation from being delivery centric to being value centric.

A journey of iterative steps toward a culture of value will yield, for each individual, a discrete set of opportunities for learning that, taken together across an organisation of people, form the stepping stones toward cultural transformation and the achievement of real and sustainable change. As Sun Tzu says[11], "Every journey starts with the first step." We must take that first step - the journey won't be easy, but without it, obtaining real value from investments in change will remain elusive.

When there is understanding, and the desire and commitment to act, the next question usually is "OK, so what do we do now?" This is often quickly followed by "How do we make this stick?" and, sometime later by "Now how do we make this business as usual?" The next three thought leadership reports in this series will help you answer these questions.

[11] Tzu, S. The Art of War. U.S.A.: Oxford University Press

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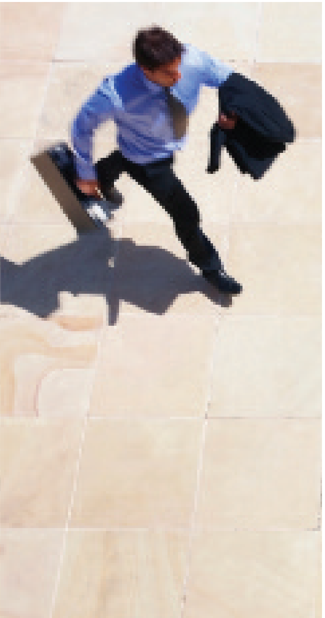

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