The Infonomics *Letter*
Plain Language about Digital Leadership and Governance of Information Technology

January 2013 Edition

Digital Leadership

Hello and welcome to The Infonomics Letter on Digital Leadership and Governance of IT for January 2013.

Well the world didn't end in December as some had predicted – at least, not for all of us. But for HMV, an iconic brand known throughout the United Kingdom and some other parts of the world, the story is not so good. HMV succumbed to the changing times, unable to sustain itself in a changing market – a market that has seen new competitors and new forms of competition. HMV certainly isn't the first – indeed it has a companion in the near simultaneous announcement that the UK arm of Blockbuster Video is also in trouble – and it won't be the last. But there are some aspects of HMV's failure that resonate, for here is a business which had plenty of early warning, yet its leaders chose to reject the warnings, rather than act on them. The same thing happened to the Fairfax publishing group in Australia. In HMV's case, an insider's blog reveals that it was the CEO who rejected the warning. In the Fairfax case, it was the board of directors. In both, the failure to recognise the warning signs and take action was, fairly clearly, a failure at the top – a failure of Digital Leadership.

Contrast this with what we have seen at CommBank (Commonwealth Bank). Over several years, that bank has undergone a total renewal of its business engine – the IT systems that manage its customer accounts, the systems that manage its assets and the systems that deliver its products and services to the market. On the back of the overhaul, CommBank has launched aggressive market campaigns trumpeting its superior capabilities. CommBank has transformed itself into a lean, mean competitor in the Digital Era, and its customers and staff can feel the difference. And while CommBank's CIO has been prominently visible throughout the transformation, those with a keen eye have seen that the CEOs – first Sir Ralph Norris and now, Ian Narev – have been deeply involved in orchestrating the transformation. These two bankers have shown by their actions and in their words their understanding that leading organisations in the digital era focus on information technology as a core resource and enabler of business capability, and not something that should be isolated. They have given us an outstanding illustration of Digital Leadership.

So Digital Leadership is now a core theme for Infonomics. Digital Leadership embraces Governance of IT. It is time for governing bodies, executive teams and owners in all enterprises to come to grips with Digital Leadership. This month begin exploring aspects of Digital Leadership. We will continue to develop this theme in coming months.

Until next month – enjoy!
Mark Toomey 29 January 2013

Double Elephant Sale

Thanks to those who seized the opportunity to share Waltzing with the Elephant with a colleague during December. Thanks also to those who have continued to invest after the sale ended.

I've been delighted to receive two endorsements of the book recently. One buyer said: *"I'd like to pass on my thanks and appreciation for what I consider to be the most relevant, thoughtful, insightful and useful read that I have had regarding ICT".*

Another consultant says: *"… a number of the strategies covered corporate IT governance and I used a couple of quotations from your book (attributed and with your permission) as well as basing the strategies on ISO 38500".*

What is particularly encouraging here is not just the positive feedback, but the fact that both book-buyers are finding ways to apply it to real world situations and improve governance of IT in their clients. That says to me that the book is achieving one of its primary goals – to be a practical help to organisations that want to have better control over, and greater success with their investments in IT-enabled change.

Dare I suggest that reading Waltzing with the Elephant might be one way to help build Digital Leadership Skills? Top

Strategic Demand Management – an Investigation

Igor Aguilar Alonso is a reader of The Infonomics Letter, based in Spain. He is working with Professor Jose Carrillo Verdun at Universidad Politécnica de Madrid on research into "IT strategic demand management in organizations". They are seeking as many responses as possible, from a global audience, to a survey they have prepared.

The survey is available until 28 February 2013, and can be completed in either English or Spanish. Go to http://itdemandmanagemet.blogspot.com.es/ to read the preamble and access the survey. Top

Learning Opportunities

Sometimes plans do not work out as intended. For reasons far beyond my modest span of control, the Australian Computer Society's Education Across the Nation program has been deferred. The events previously advertised for February and March 2013 won't be happening. A new plan is being developed, which I hope will see an upgraded EdXN series kick off early in the second half of the year. Opportunities that are being considered include a greater reach for the events, an integral opportunity to add training to the initial briefing, and improved sponsorship for the events. It's likely that my topic will also be revised: the new proposition is that I will talk about – yes, you have it – Digital Leadership.

At this stage, there are no confirmed plans for education events in any other locations. If you'd like to help arrange one, please do contact me. Top

Digital Leadership and Corporate Governance

During December, Nick Malik, an Enterprise Strategy Architect at Microsoft in Seattle opened a discussion on LinkedIn, where he asked: *"Is strategic planning actually part of corporate governance"?*

The conversation has been one of the more intense and prolific that I have seen. At the time of writing, it has attracted 381 posts and has drawn input from more than two dozen contributors. An unknown number of people are also monitoring the conversation. A parallel conversation on the Australian Institute of Company Directors LinkedIn forum asked" *"What are the critical success factors for strategy".*

Strategy and strategic planning are most certainly part of corporate governance. When we look at the role and nature of strategy today, it becomes apparent that Digital Leadership should also be a key matter for corporate governance and strategy attention. It is becoming increasingly clear that the successful businesses of the future are the ones which clearly define their IT-enabled future as a core element of business strategy, just as it is becoming clear that the organisations which are struggling today have at least ignored, if not entirely excluded the role of IT as a key business enabler from their strategic thinking.

In this article, we begin by positioning digital leadership as an essential element of every organisation's business strategy. Then, we link this to corporate governance by exploring the some fundamental aspects of corporate governance and the logic which places development of strategy as a key aspect of corporate governance.

Digital Leadership in Business Strategy

Today in the still early stage of what we might call the Digital Era, one of the significant critical factors in business strategy is how it positions the organisation to exploit advancing use and capability of IT, and to survive when other organisations are using IT to disrupt the market. To understand how important proper strategic positioning of information technology as part of business strategy can be, it is instructive to look at examples where organisations have failed to do so, not by omission, but by deliberate, if seriously misguided choice.

Consider what's happened to HMV, the iconic UK music retailer, and take a look at this report on The Economist. The same thing has happened, according to The Economist, to the UK arm of Blockbuster video. Closer to home we've seen Borders books disappear in a very similar manner.

The story of HMV is further documented in a blog post by Phillip Beeching. He describes how the Managing Director of HMV became angry at the suggestion that the company's "three greatest threats were online retailers, downloadable music and supermarkets discounting loss leader product", saying "I have never heard such rubbish".

There is a similar story told by Eric Beecher on Business Spectator, of how directors at Fairfax, a once great Australian newspaper and publishing empire which is now worth around 15% of its peak value instructed management to never again talk about the potential for the Internet to take away the advertising revenue on which news publishers rely.

What has been the common critical factor in of these events? It's simple – their business has been damaged or destroyed by other organisations which saw an opportunity to redefine the market through the effective and innovative use of information technology. They had ample opportunity and direct input that told them how they needed to prepare for new IT-enabled competition and protect their market position, but they did not do so.

In this Digital Era, it is no longer sufficient for IT to be aligned to business strategy. The much bigger issue is that business leaders, in formulating their strategy, need to be aware of how they might use the emerging capabilities in information technology to create new and compelling competitive advantage, and they need to consider how their known and unknown competitors might independently use IT to change the market and the rules.

The bottom line message is stark: information technology is now a significant business strategy issue, and those who develop business strategy must learn how to think about the role and use of IT. That doesn't mean they need to build it, any more than somebody planning an adventure in an all-terrain vehicle needs to know how to design and build a diesel engine.

Learning from positive cases

When exploring the characteristics of winners in the emerging Digital Era, one may well encounter suggestions that IT leadership is key – and organisations like Travelocity, Expedia, Orbitz, Webjet, Wotif, Amazon, Seek, RealEstate, CarsGuide and AirBnB are cited as shining examples of this. But looking closely at such organisaitons reveals that the people who launched these digital era leading businesses might have been technology literate, but they were much more – they were business leaders and innovators who understood how to exploit the capabilities of contemporary information technology. They understood how to define and execute Digital

Era Strategy. They exercised Digital Leadership and harnessed the talents of technology specialists working with business innovators to build, deploy and grow market-changing business capability.

Aspects of Digital Era Strategy

Thinking about how your business should harness and respond to the competitive risk and opportunity arising through Information Technology is not the only critical success factor for business strategy, but is surely now is one with significant importance. And when it comes to thinking about IT in a strategic context, it's not just about the technology. It's about the entire behaviour of the organisation. Three things that must be kept in mind when developing business strategy for the Digital Era are:

- The capability and potential of IT is evolving at such a relentless pace that learning about digitally enabled business environments and digitally enabled customers must be a continuous activity, especially considering that external entities are themselves using information technology to change the rules and the world, without our permission, and whether we like it or not!
- Organisations that are using information technology to change the rules of their market, and yours, have a vision that is manifestly different to those which are struggling. The vision is likely to be evolving rapidly, and without exception, has exploitation of the capability of information technology is a centre-stage aspect of the future.
- Starting with your current reality – which we will refer to as "NOW" is critical, but NOW must include an understanding of what is possible as well as what is in place today. NOW includes the immense untapped potential of information technology not just as a means of automating existing business models, but as a doorway to potentially radical new business models in the future. It includes all the capabilities and resources you have (or don't have) at your disposal and the information your organisation has collected, even if it has not been used effectively. It includes capabilities you can acquire in the marketplace, and your capacity to develop new capabilities as well as your capability to adapt and change your business model and your organisation's behaviour.

Players in Digital Era Strategy

We often see commentary that encourages the CIO to step up and become a leader of business by positioning the digital agenda required for the future. It seems to be a belief of these commentators that only a CIO understands the digital opportunity. There are some problems with that notion – first and foremost the reality that few CIOs have the breadth and depth of business experience that enables them to really conceive a workable business strategy. Then there is the competitive element – where a CIO muscling into the business strategy landscape may be seen as disenfranchising those who should otherwise develop and deliver the strategy.

Business strategy is not the province of any particular stovepipe or pillar in the organisation. Business strategy must address the wider perspective of marshalling and developing the organisation's resources, which includes information technology as much as it includes financial, human and intellectual property resources. It's unlikely that any CIO or other IT supplier has the span of coverage to deal with all these elements. It's much more appropriate for the lead IT role to become just another member of or contributor to a strategy team, seeding relevant information to complement the existing and growing knowledge about IT held by other business leaders.

And those business leaders must step up and adapt to the reality that IT has become a core business issue that they must consider as they develop plans. If they don't, they will be superseded by others who are more adaptable. In the worst cases, their demise will be associated with the failure of their business, as is happening now to the leaders at HMV.

Accepting that business leadership is responsible and accountable for determining the strategic positioning of IT doesn't mean that the organisation's IT leaders don't have a role in strategy. The IT leaders should be helping the business leaders to identify and understand opportunity, implications and constraints arising from the organisation's use of IT and the use of IT that occurs in its ecosystem. And while this is a responsibility of the IT function, it must also be a responsibility of the overall business leadership, because we can't reasonably expect the IT leaders to know everything about everything, or to be the sole source of new ideas!

To help focus the discussion of IT in a business context, I recommend that boards ask management three questions about strategy. In as up-to-date terms as possible, they are:

1. What developments in the capability and use of information technology are critical to our strategic future, and how are we responding to them?
2. What demand does our strategy create for new information technology enabled capability, and how will we bring that to reality?
3. What limitations are imposed on our strategy by the constraints of the information technology currently used by our organisation and in our ecosystem?

There is an issue at present because many business leaders seem to have little idea of how to factor information technology into their planning – but we won't solve that issue by expecting the CIO to fill the gap. We can only do it by increasing the skill of the business leaders so that they know how to listen to and think about the information they should be getting on the potential of IT from the CIO and from the market in general. Business leaders should be monitoring the activities and innovation across a broad market landscape and building an understanding not just of how others innovate, but of the potential for such innovations to be appropriated into their own organisation's plans.

And as we have seen in the cases of HMV and Fairfax, there is a deeper issue where, even when people with relevant knowledge and expertise can position it effectively, if those at the top won't accept the advice, the result can be catastrophic.

It would seem that there is a critical need now for the governing bodies of many organisations to rethink their perspective on the importance of information technology and to ensure that their management teams have the capability to effectively incorporate digital opportunity and risk into strategy proposals.

Delivering Digital Era Strategy

Strategy must include more than merely setting of objectives. Strategy that does not consider execution is nothing more than a vague dream. Equally, execution of strategy without constant monitoring is like setting out on a journey blindfolded. Even if you had brilliant foresight, circumstances change and what may have been good strategy can quickly become disaster. In this sense, strategy is no different to major projects: just because the plan says so doesn't mean that it is – you have to check and adjust. Dare we call this "strategic management"? Should strategic management not be part of an ongoing conversation between the executive and governing body?

Strategy formulation must include come consideration of "do-ability" and practicality. Some may have seen a recent story of a petition to the US Government for construction of a Star Wars "Death Star". Part of the rejection of that petition was a clear statement that building a death star is not possible with the entire world's current resources and technology – so a death star certainly won't be in the US Government's strategy in the foreseeable future.

Ultimately, delivering strategy depends on additional levels of planning, and at each level, there needs to be validation that assumptions from the higher level remain valid. The execution aspects of strategy should be further developed (by management of course) at the next and subsequent levels of planning, and the feasibility should be reassessed at each stage. So too should performance. It is entirely possible that everything can seem to be going well at the low levels of detail, even while the strategy is coming apart at the seams. Think of going on a road trip as an analogy – we're complying with all laws, there's plenty of fuel in the tank, the driver is alert and the music is fine – but we've made a wrong turn and won't get to the intended destination!

The key point for the governing body here is that requiring management to consider digital risk and opportunity in strategy is only the first step. Once the strategy is established, it becomes vital that delivery and changing circumstances are diligently monitored and that adjustments are made as necessary, rather than at the end of an arbitrary period of time.

Corporate Governance in the Digital Era

Many guides to corporate governance, including AS 8000 and the AS 8015 and ISO 38500 standards on governance of IT have as part of their foundation the "Cadbury Definition" of corporate governance, which is enshrined in the "Report of the Committee on the Financial Aspects of Corporate Governance" prepared for the UK Government in 1992. The committee chair was Sir Adrian Cadbury. This report has become the foundation stone for the UK Corporate Law, and has greatly influenced subsequent corporate law development in many jurisdictions. The definition says that Corporate Governance is the system by which the corporation is directed and controlled.

There are three key words in this definition – *system*, *direct* and *control*. Some exploration of the first two is essential to positioning corporate governance in respect of digital strategy.

It's important to note that the Cadbury definition does not mandate any particular structure or process model for corporate governance. While the report does contain a lot of guidance on these matters, there is a fundamental expectation that the SYSTEM will vary from organisation to organisation, depending on many circumstances, including nation of domicile, scale, industry and so on. Immediately we have an advantage – the definition doesn't care if the governing body is all executive, all non-executive, a mix of the two, unitary or multi-layered. It doesn't care who performs most of the tasks required to plan, build and run the organisation. These are merely attributes of the system for the organisation, where some attributes may be prescribed by law and regulation.

One fundamental constant in corporate governance is that the power and authority for a corporation is initially vested in the governing body (which in some jurisdictions may actually be made up of multiple layers). The governing body is responsible and accountable for the organisation's activities, performance and conformance to applicable requirements. However, in a majority of non-trivial organisations, much of the responsibility is then delegated to managers. Managers are, in effect, tasked to establish systems of management that carry out the direction provided by the governing body, and provide the governing body with the information and any other resources needed to fulfil its obligations. The governing body is responsible not so much for doing the necessary tasks, but for ensuring that they are all done to an acceptable standard.

Systems theory helps us to understand corporate governance more fully. Consider finance. Part of the obligation for most governing bodies is to maintain proper accounts. In the system of governance for a very small entity, whether private or not-for-profit, this may well be done by a director (e.g. the treasurer of a small NFP), where in a larger organisation, this will be a key part of the CFO responsibility – formally delegated directly to the CFO or via the CEO.

Most governing bodies maintain a very clear governance instrument called the "Delegations Document" to establish absolute clarity on the nature of the delegation and the independent authority that has been granted – with matters outside this authority requiring referral to the governing body. Depending on scale and other factors, the CFO may then break down the overall management system for keeping accounts into subsystems – accounts receivable, accounts payable, general ledger, treasury, banking, petty cash and so on.

What we see here is that the part of system of corporate governance which deals with accounts becomes a management system that in turn devolves into multiple subsystems. The governing body sets the overall financial policies of the organisation, and then depends on the financial systems to provide it with the information required for oversight of financial performance. While the governing body may meet only periodically, the governance system (finance aspects) operates continuously, because it is manifest in the policies and management systems pertaining to finance.

Looking across the spectrum of governance, one can identify that, implicitly or explicitly, governing bodies either directly or through broad delegation to the CEO, put in place a diverse array of management systems that deal with the equally diverse responsibilities of the governing body. Other classic examples of this include HR, Legal, and, of course, the organisation's value chain.

There should be no doubt that the governing body is ultimately accountable for the performance and conformance of the organisation. Therefore there must be a full suite of necessary management systems subject to the governing body's oversight although the oversight may be structured to manage governing body workload and focus through tools such as delegations to management, committees and auditor functions.

Some people struggle to understand corporate governance as a system because it does not have a rigid framework or model that can be applied to every organisation. Corporate Governance is fluid, even within a single organisation. For example, a governing body may, on appointing a new CEO, tighten the limits on the CEO until the new incumbent's performance has been assessed. Such a change constitutes a subtle shift in the system for corporate governance. Other examples include forming a committee to apply more detailed scrutiny to an aspect of the organisation.

Notwithstanding, it is generally possible to formulate a clear and understandable picture of how any given organisation operates in terms of its corporate governance, and how it differs from other organisations. In many organisations, there may be value in building and maintaining a model of the overall system for corporate governance and management (a systems model, not an organisation chart), that helps everybody understand how things happen and how decisions are made.

Such a model should help organisations adapt themselves to the new approaches to planning, monitoring and decision-making that are essential in the Digital Era, and which are part of the governing body's responsibility for directing the organisation.

There are two key elements to directing: one focused on what the organisation will do; the other on how it will operate, or behave. These are usually manifest in the strategy and the policies of the organisation. The strategy should define the goals of the organisation, and broadly how they will be achieved. The policy should define how decisions are made on behalf of the governing body, together with the conduct of the organisation and its personnel. These elements must be part of the system of corporate governance because their absence makes it impossible to direct the organisation.

There is no prescription that strategy and policy must be prepared by the governing body. Indeed, while many governing bodies delegate most of the preparatory work on strategy and policy to management, the governing body may even (perhaps at considerable risk) delegate adoption of strategy and policy to management (typically the CEO).

In the negative examples mentioned earlier, we have seen one case where the CEO rejected the warning of IT-enabled threats and opportunities and one case where the board rejected the warning. In both, it seems that regardless of how much knowledge and capability the organisation had, the rejection at the top meant that the capabilities would not be exploited. These are clear cases of direction being given, where the direction, in hindsight, was manifestly wrong. It suggests that governing bodies, while they may not have the extensive knowledge required to directly set the digital aspects of strategy, must direct that management explore the issues and give significant attention to digital opportunity and risk in their proposals for sustaining and growing the business.

In short, the survival and prosperity of many organisations requires their governing bodies to ensure that they develop a mix of digital leadership capabilities at board and executive levels. Top