## A New Approach

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

Once again, I've skipped a month. While I could blame a technology failure, there has been a fair bit of good old-fashioned writer's block as well. I have ideas, but by the time it comes to write about them, it gets rather difficult. So I conclude it's really a case of time for a new approach. This will be the last edition of The Infonomics Letter in its present form and somewhat of a transition to the new shape.

In future, there will be more frequent and topical, but smaller Infonomics Letters. They will remain free to receive and share, though probably now with embedded sponsorship.

Complementing The Infonomics Letter will be a new product, tentatively called The Infonomics Report, for which readers will be asked to pay a modest per-edition fee. The first of these is under development, and will focus on building further understanding of Digital Leadership.

For this month, the focus is on Capability Stripping – something I mentioned back in July.

I also take the opportunity to introduce the valuable research work and governance insights of Elizabeth Valentine.

And as always, there's an update on where I'll be speaking in the coming month.

Please enjoy exploring the discussion, and keep sending thoughts on Digital Leadership to mtoomey@infonomics.com.au.

Kind regards,
Mark Toomey                    30 September 2013

## Capability Stripping

As a result of my ongoing investigations into Digital Leadership, I've become increasingly concerned by a paradox I'm calling capability stripping. In the simplest terms, capability stripping happens when organisations strip out capabilities that they actually do need, rendering themselves less able to function effectively and compete effectively in the market.

Quite frankly, I think capability stripping is an immensely destructive practice wrought by managers who don't understand the first thing about long term sustainable performance. The ongoing practice of relentless outsourcing, downsizing and flattening of organisations frequently goes much too far, and strips essential capability from the organisation.

My partner, Leonie, recalls with much sadness the demise of the building services firm in which she established her engineering career. Gardner and Naylor was a long-established, well known and highly regarded firm in its field – its name associated with many new and established commercial buildings in Melbourne. But as the owners retired and investors took ownership, the new regime sought to improve the performance of the company, and introduced a new management team. The new managers were professionals – they all had their MBAs and because of this, they knew far better than the old guard how to run a successful engineering services firm. One of their first priorities was to eliminate unnecessary personnel. On paper, this seemed sensible – there were several people who didn't seem to have a clearly defined place in the organisation chart, or a clearly defined and (shudder) assessable position description. Out the door they went – of course with handsome redundancy payments recognising the many years they had spent with the company. It was only when they were gone that their roles became clear. These people were the company's living corporate memory – its sages and trouble-shooters who could spot a problem well before it became serious, step into the breech whenever a critical skill was not available, and generally rescue things that inevitably go wrong when you are just one company in many collaborating on a construction site and not in absolute control of everything. The MBAs had stripped a critical capability from the company, and history apparently draws a straight and direct line from that action to the demise of the company.

This is of course but one example. After the "tech-wreck", where billions of dollars of speculator investments evaporated in the NASDAQ crash, many companies stopped investing in IT. Of course, in Australia the temptation for management to shut down IT investment was exacerbated by the immense cost of the just-completed (and extremely successful) transition to a broad-based goods and services tax (or value added tax), which required extensive modification to many systems. It seemed like many top executives had concluded that their companies would never again spend any money on new IT capability, and they offloaded IT experts in droves. Consultants and contractors had an extremely difficult time as work dried up, while many long term employees were handed handsome redundancy cheques. The interesting thing there was of course that many of them were relatively near the end of a long and prosperous career. Already well-heeled on the back of a lifetime of above average remuneration and (for the wise anyway) a substantial retirement savings fund, many of them took the payout as the trigger for a major lifestyle change. While still relatively young and active, some replaced their 12 hour a day high intensity IT jobs with relaxed but active small businesses in lawn mowing and garden

maintenance. Here in Australia, there is a very well-known mowing and maintenance franchise known as "Jim's". All these ex IT experts pushing lawnmowers represented to me what I called "Jim Syndrome" – the condition that develops in an organisation when everybody who knows how the technology works has gone away, and those who are left are clueless about how to fix problems, let alone how to make change happen. It didn't take many years before some organisations found themselves in so much trouble that they were forced to lure these "Jims" back from retirement. I heard of more than one case of the million dollar "come back bonus".

During the 1990's, outsourcing became one of the major management dogmas. If it wasn't core business, it should be outsourced, and many organisations somehow formed the view that IT was not core business. I'm not sure how they did that, for in most cases, if one turned the IT off for even a few minutes, the business would start to get very sick. If IT was not core business, it was certainly core **TO** business, and knowledge of the IT was probably rather important when it came to being able to sustain, let alone improve the business.

National Australia Bank gave its customers a very good example of what happens through capability stripping when it outsourced operation of its accounting systems. Interestingly, most banks call the accounting systems "core systems", because they are deeply focused on the core business of banking – keeping track of the customer accounts. There's a comprehensive discussion of that story in the November/December 2010 edition of The Infonomics Letter, titled "The red-faced bank". Simply put, something went wrong with the outsourced systems – something that was in fact quite common due to the age and design of the systems in question. The old hands knew what to do, and had well-developed, robust procedures for handling it. The outsourced operator had no knowledge and no procedures. Critical capability had been stripped!

There is an emerging new trend for companies that had outsourced to reverse the move and bring IT back in house. Companies as large as General Motors have realised the importance of IT (can you imagine buying a new car that does not have any on-board intelligence), and have realised that in-house IT is immensely more flexible and agile than the typical outsourced alternative. Yet we still hear of companies outsourcing, or just shedding personnel who are perceived to be superfluous, and some of the scenarios that we read about are enough to make one cringe in fear of what will happen when something goes wrong.

Now, we seem to be on the emergent end of yet another excuse for capability stripping. The emergence of "the cloud" means that "we no longer need all those expensive, complicated IT specialists – we can just access everything we need from the internet". Oh dear! Really? If that's true, we'd better check that the pigs are fuelled as well, because they are about to fly!

I get the impression that the pervasiveness of consumer-level information technology (smartphones, tablets) and the ubiquity of service available on the internet is contributing to a view that experts are no longer required. It's easy for the uninformed today to form the view that IT is simple and no longer needs people with deep expertise. Why would one need any more a "systems programmer" who keeps a large central computer alive and well, when it's so easy to update the Phone from the app-store? Why do we need all those people in application support when it's so easy to change some parameter settings in the online service? Well, maybe it's because there is no app-store for those big old machines. Maybe it's because, even though they have more compute power than Apollo 11, no iPhone or Android has ever been asked to take on the "heavy lifting" of information processing for a major business. Maybe it's because the systems those specialists maintain still have no online equivalents (and, because of their extent of specialisation, never will have). Perhaps it's because although they are still critical to business, we haven't spent any money on upgrading and preserving their functionality for too many years!

But it's not just the specialist programmers, and it's not just the heavy lifting. Reality is that information technology today is woven into the DNA of business at many levels – from the very physical foundations of infrastructure, to the very tenuous filaments of software logic and design that enables data to be captured, stored, analysed and presented – that enables business process to be designed and deployed on a reliable basis. It's the skills of people who know how the business systems are designed and constructed that we should worry about – because these are the skills that organisations have been consciously and subconsciously stripping for years. There are numerous cases of systems replacement and upgrade projects that have encountered terrible difficulty because there are no people around who know how the old systems work – or the business rules that they contain.

The way that technology is woven into the DNA of business is not going to diminish. Quite the opposite. Savvy consumers are driving the agenda. Competitors are driving the agenda. Suppliers are driving the agenda. At every turn, business is more dependent on technology than it ever was in the past, and the dependence is getting deeper, and more complex.

Even when we look at the feasibility today of building a business that only uses IT systems that are accessed via the internet (software-as-a-service, cloud storage, cloud infrastructure and so on), the need for significant capability (expertise and know-how) will soon become apparent. A hallmark of many internet-

based services it that they are flexible – they can be used in many ways.  So which way does your company use them?  Who decided to use them in that way, and why?  What will happen if you change the way you use them?  How does what you do on system A from supplier X interact with what you do on system B from supplier Y?  What will happen if supplier X changes system A, and supplier Y doesn't make a complementary change to system B?   And when you decide (or are forced) to replace system A with system R in five years' time, who will know how your organisation went about making it all work, so that the transition can happen smoothly again?

There are many capabilities associated with the way that most organisations use and depend on information technology.  Some of these become obsolete when your organisation retires old infrastructure and business applications.  But even as those old skills become redundant, need arises for new capabilities.  As organisations become more and more dependent on web-based technology so too will their need grow for specialists in at least two broad areas.  First will be the skills to understand and develop the business model that exploits diverse technology opportunities.  In this we see the emergence of the technology-business hybrid – people who have a deep understanding of technology capability and business design, who can design, implement and maintain new ways for business to operate.  Second will be closer to the old breed of technology specialist – people who can go beyond just managing your organisation's relationship with each and every critical supplier, to understanding and managing the complexities of how your organisation depends on those suppliers.

Where can we get these new skills?   Fortunately, many of them already exist today, because the demand for them is going to become immense as the dependence of business on technology becomes deeper and better understood.  The skills lie in technologists who have until now worked with old-generation technologies.  The technologies may be obsolete but the people – well they can learn new tricks building on their past experience.  The skills of yesterday's business analysts and technology architects have a shorter but still significant journey as they become tomorrow's business architects and business system planners.

And the knowledge that these people already hold – it may be immensely valuable, because sometimes it really is important to know not just how things worked, but what lessons were learned "in the old days".

None of this discussion should be taken as saying that responsibility for planning, building and running the future IT-enabled enterprise can't be assigned to business people who have no IT background.  But to get the design of an IT-enabled business right demands skill in both realms – business AND IT.  Over

time, people will become more hybrid in this regard – business people will learn more about deploying and managing effective technology, and technology people will learn more about planning and building business – but that's a transition that will take time and will require specific attention.

Meanwhile, it's important that organisations are careful to avoid unintentional or inappropriate capability stripping.  There are some questions to ask about workforce plans as they relate to your organisation's dependence on IT.  Some of these may help:

- What capabilities does your organisation need to have, and which ones are you short on today?
- Whenever you contemplate a change in personnel structures, such as downsizing and outsourcing, what capabilities are going to be compromised as a result, and can your organisation survive if things go wrong and those capabilities are not there?
- What plans do you have to maintain and grow essential capability?
- Are your capability development plans generating sufficient "hybrids" – people who have strong understanding of both business and technology?

## A New Connection and Resource

Earlier in 2013, I was fortunate to begin a dialogue via LinkedIn groups with Elizabeth Valentine.

With a background in executive management including time as CEO of two national skills councils and as a practicing company director, Elizabeth is currently hard at work on research for her PhD.  Her topic is "Board competencies for effective enterprise business technology governance".

Elizabeth is a highly productive researcher, who is making significant use of modern technologies – especially social media – in support of her work.  In addition to being often at the centre of debate on a number of LinkedIn groups, Elizabeth is regularly publishing new insights on her blog site at www.enterprisegovernance.com.au.  Articles available on the site include:

- Boards and technology: is scrutiny of director's technology competence getting closer?
- The majority agree: boards need technology-savvy directors
- IT risk can strike like a nuclear explosion
- The call for technology-savvy directors gets louder
- Are boards flying blind on enterprise governance?
- Is your board digital savvy or clueless?
- Staying ahead
- Reducing technology risk.

I think Elizabeth's site is a great new resource in a field where there is too little valuable information and perspective. I thoroughly recommend it!

# The Infonomics Letter Evolves

The first Infonomics Letter was published in August 2005, following release of AS 8015 on governance of IT and after a series of engagements that showed how the standard could make a real difference to the success of investments in IT.  I was excited by the prospects of a new world in which good governance of IT resulted in a much higher proportion of investments in IT delivering real value, and fewer cases of business disruption caused by IT failure.  The early Infonomics Letters well received, but required an enormous effort that proved unsustainable.  The last in the first series was delivered in August 2006.

Publication of ISO 38500 re-ignited my enthusiasm and the second series of Infonomics Letters broke cover in September 2008.  At the time, I was writing "Waltzing with the Elephant", and I had no shortage of material with which to populate a regular journal.  At the same time, IT failures were continuing.  Arguably, the impact and the spectacle of the failures were both increasing, as organisations become ever more dependent on IT while the expectations of IT became also ever more intense.  But again, compiling a worthy journal takes time and in the past year, the time available has been eroded by other activities – not the least of which is managing a mailing list that has grown from four hundred for the first edition to somewhat around 3000 today.

There's also the financial equation – The Infonomics Letter demands time and generates cost – and the rewards are intangible.  Unfortunately, an international reputation as expert and thought leader doesn't pay the rent.

So, through September 2013, I've come to the conclusion that a new model is needed.  This is the last edition of The Infonomics Letter as a monthly tome.  But, it's not disappearing – just changing shape.

The Infonomics Letter in future will be smaller, lighter and more frequent.  It will continue to be independent and forthright.  It will look a little more like a blog, and will be written a little more "off the cuff".  When something strikes me as interesting and worth putting out there, I'll post a new Infonomics Letter.  Rarely will they be more than a page long, and rarely will they cover more than one topic.  But they are going to be more frequent – more like one a week on random days, rather than one a month or more.

From time to time, there will be a topic that deserves more intensive treatment.  It could be a reprise of insight into a major failure from which we can learn more about governance, or new thinking on Digital Leadership (which is the focus for my current research).  These will move to a new product, which I will tentatively call "The Infonomics Report".

The Infonomics Report won't be a free publication.  Whenever a new Infonomics Report is published, there will be a summary provided in an Infonomics Letter, and people who are interested will be invited to purchase a downloadable copy.  It won't be expensive, and it is hoped that there will be enough who are willing to pay a modest price to justify the research that will underpin the reports.

I don't know yet whether there will continue to be Spanish editions of The Infonomics Letter and The Infonomics Report.  That depends on conversations I am yet to have with Carlos Francavilla in Argentina and Juan Pardo in Spain – these are the gentlemen who have contributed immensely with their translation efforts in recent years.  On the other hand, I hope that The Infonomics Letter may grow to additional languages, and I am most keen to hear from anybody who would consider assisting in this regard.

I sincerely hope that everybody maintains the past strong interest in my work, and that the new form of The Infonomics Letter continues to find favour.

# Sponsorship Opportunities

The Infonomics Letter reaches a mailing list of around 3,000 people, in 57 nations.  Many readers routinely pass it on to their colleagues.

Published on a mostly-monthly basis since October 2008, The Infonomics Letter makes an important contribution to the global need for developing and enhancing skills for digital leadership and governance of information technology.

Written in plain English (and then translated into non-technical Spanish by people whose native language is Spanish), The Infonomics Letter is designed for use by business leaders at company director and executive levels, as well as by technology executives and anybody else who is interested in driving real value from innovative and effective use of IT.

From October 2013, The Infonomics Letter takes on new shape, with more frequent single-topic blog entries replacing the prior multi-topic monthly mailout.  In its new form, The Infonomics Letter will be open to selected sponsorship.  Promotional material will be subject to guidelines that are soon to be defined.  If you would like to be considered as a sponsor for The Infonomics Letter, please contact mtoomey@infonomics.com.au.

# On the circuit

At this stage, I have two speaking commitments in October:

- Melbourne, October 15th: IPAA ICT Communities of Practice Forum - "ICT Game Changers" panel discussion, moderated by Jane Treadwell and featuring Grantly Mailes.  In this session, we're talking about issues and challenges surrounding the Victorian Government ICT Strategy.
- Canberra, October 30th: ACS Canberra Branch Conference. I'll be sharing thoughts on Digital Leadership.