Avoiding the Digital Transformation #fail

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Digital
Strength
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I.   About the Digital Strength Program

In this digital age, the pace of change is increasing exponentially and every organization faces existential threats from new and existing competitors. The Digital Strength program is crafted to give everyone within an organization – from the C-Suite to the production line – an understanding of what digital transformation means within a global context, and guidance to achieve the digital transformation journey in your own organization.

We will cover an explanation of what digital transformation involves, the roles and responsibilities around digital transformation, as well as the cultural aspects of a digital change. Over the course of the program we will detail tips and tricks, potential barriers, clues into the ideation approach, and how to move towards seeing digital as an ongoing process.

By the end of the program, participants will be fully conversant about digital transformation, and will be armed to be the change agents within their own organization to implement digital broadly.

No matter whether you are just beginning the journey of transformation or are well on your way, the guidance in this program will be useful to you. Early adopters, those mid-way on the transformation journey or those yet to begin will all find something of value from this program.

Welcome to the future!

II.   Introduction

History has a habit of repeating itself, but in this course we'll show how an organization can learn from past mistakes (both its own and those of others) to avoid common traps and pitfalls involved with digital transformation.

We'll take a close look at some of the more epic digital transformation failures. In doing so we'll identify common themes and problems that have hampered efforts across the globe.

After you finish your journey through the Digital Strength program, refer back to these examples to see how best-practices and prudent approaches would have resulted in better outcomes.

III.   Kiwibank Misses the Chance to Really Enable Transformation

Kiwibank is a retail bank in New Zealand. It is the only large-scale bank still owned domestically in New Zealand. As such, Kiwibank prides itself on delivering a more relevant product and service mix to its customers.

The world of banking, however, is in the midst of very turbulent times. New approaches towards payments (from specialist vendors such as Paypal and platforms such as Android and the social networks) mean that banks need to look to digital innovation to help compete. While traditional banking has always been a highly regulated industry, that very protection has also been a barrier to innovation. The situation is changing though, and banks are looking to digital solutions as non-negotiable requirements.

Most existing banks have a core banking system that is delivered in a fairly monolithic way. This approach stems from a focus on robustness and compliance, and business systems and processes that are very static. Fast forward to today, and banks have to provide high levels of agility to meet industry and customer demands.

To this end, Kiwi bank embarked on a project entitled CoreMod. This project would see SAP power its day-to-day banking functionality. Kiwibank originally forecasted back in 2014 that it would spend around $100 million on CoreMod over "three to four years."

Two years later, Kiwibank advised its majority owner that the project would need an extra two years and $40 million in investment (a roughly 50% time overrun and 40% cost overrun). Anecdotal evidence suggests that almost five years into a project, most high-caliber staff have given up and left. This was due to the mess of politics, poor technology systems, and processes. The project, while not quite orphaned, is close to that.

The fascinating thing in this situation (aside from the technology choices) is that people blindly followed a path which had been proven time and time again to be wrong. As is often the case in these situations, the organization became defensive. A Kiwibank spokesperson suggested that the criticism of the earlier technology decisions was unfair.[1]

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1   https://www.stuff.co.nz/business/industries/94561512/Kiwibank-IT-blow-out-could-exceed-40m

> "Right from the word 'go' we had people saying we had chosen the wrong system, and a lot of that was vested interest."

Reports now suggest that Kiwibank's project may extend to 2020. Many would suggest even that is optimistic. But beyond the (admittedly abysmal) time and cost overruns, it is important to examine the fundamental decisions that led to this situation.

Kiwibank's approach was to leverage a big monolithic system that was not all that different from the technology banks used decades ago.

Whereas other banks saw value in agility and velocity, Kiwibank's perspective was one of risk-mitigation and strict process. Ironically, this rigid focus actually led to outcomes very different from what the bank hoped for.

As Paul Brock, who heads up Kiwibank, commented:

> "This is a significant and complex change programme which is taking longer than anticipated and will involve a higher level of investment and operating risk over the next two to three years."

So much potential, and so little value actually realized. If you're looking for a perfect example of digital transformation gone wrong, this is it.

As a postscript, and to create some positive learnings from this case study, I'm reminded of a conversation I had with another Australian bank, Westpac. The CIO of the organization reflected on his own digital transformations at the organizations he's worked within. Oliver's view was that banks have two options:

1. They can replace their core systems internally, thereby creating new legacy systems that only the bank understands.

2. They can outsource this work to a vendor and create a future that largely rests in those vendors hands.

As he sees it, it's better to build an organization that can contemplate good customer outcomes, and then create modular, componentized technology solutions. Olivier's mantra is to create nothing that is so monolithic that parts cannot be replaced in isolation.

If you want to create an organization that culturally epitomizes agility and flexibility, you better leverage tools that look like that also. The takeaway here is that, while it's impossible to say that for every situation a monolithic system is bad, if the technology you use has a multi-year implementation plan, chances are you're not on the right side of history.

IV. The Beeb Gets it Wrong – Failures in the BBC Transformation

The BBC (or British Broadcasting Corporation) is the UK's public service broadcaster. It's headquartered at Broadcasting House in London. The BBC is the world's oldest national broadcasting organization, and the largest broadcaster in the world by number of employees. As the only single, central broadcasting agency in the world, the BBC has built massive respect as a credible and professional organization over its almost 100-year history.

But time waits for no one and the BBC undertook a digital transformation journey intended to "improve production efficiency by enabling staff to develop, create, share and manage video and audio content and programming on their desktop."

Dubbed the Digital Media Initiative (DMI), this project aimed to change the way that BBC makes content for its audiences. It intended to improve production efficiency by enabling staff to develop, create, share, and manage video and audio content and programming on their desktop.

The BBC made the decision to build the technology in-house, determining that the technology required to deliver what they wanted was not yet commercially available. Alas the organization seemed to view this as a technology project and not an organizational one. DMI was cancelled, resulting in the write-down of £100 million worth of assets and the suspension of its chief technology officer, John Linwood.

It is telling to look into the report[2] that was commissioned to investigate what went wrong with the project.

The report heavily criticized BBC for organizational weakness in project management and reporting, yet PwC honed in on the lack of focus in the project.

This audit highlighted that the BBC assumed digital transformation was all about technology whilst failing to realise that a cultural, behavioral, and capability transformation was also required.

A key finding, which directly relates to the leadership and organizational change issues we raised in the last Digital Strength course, was that BBC's program lacked an executive steering board. In this way, the organization failed to effectively lead the progress of DMI against agreed quality, time, and cost metrics.

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2 downloads.bbc.co.uk/bbctrust/assets/files/pdf/review_report.../dmi/pwc_dmi.pdf > that PrivewaterhouseCoopers (PwC)

TOO MUCH FOCUS ON TECH, NOT ENOUGH ON BUSINESS CHANGE

The PwC review found that the priorities of the BBC project were aggressively focused on technology build, rather than enabling a business-wide change that transformation really required.

As PwC stated in their report:

> "DMI reporting focused on technology risks and issues rather than the ability of DMI to drive operational change to business practices in the BBC."

INSUFFICIENT QUALITY ASSURANCE

Surprisingly (given the somewhat formal culture within the BBC), the PwC report found that the project's quality assurance was set at the absolute bare minimum. Other than quarterly reporting, other assurance activities were ad-hoc in nature and concentrated on answering specific questions at a point in time.

What's more, once the initial budget was approved, leadership had a largely "hands off" view of the project.

As PwC states in its high-level view of the failings of the DMI:

> "In summary, the complexities and a series of missed milestones, combined with weaknesses in DMI governance, risk management and reporting arrangements meant that it took longer than we would have expected for the BBC to reach executive agreement on the future for DMI."

POSTSCRIPT – IT'S THE LEARNINGS THAT COUNT

Learning from past mistakes is incredibly valuable, and it is good to see that the BBC admits it made mistakes with the DMI. It's vocalized its desire to handle future projects differently. The new way of running these projects at the BBC looks like a copybook adoption of the advice we've already given in the Digital Strength course.

Specific actions include:

- Strengthening the executive board in recognition of the critical role that leadership plays in successful digital transformation projects

- The overall number of boards in the BBC will be reduced, to be replaced with appropriately mandated senior individuals who will be "empowered" to take decisions and be held accountable to those

- A more robust reporting structure covering all major projects will be provided monthly to the board by the BBC's Project Management Office

- A comprehensive update on all major projects will be submitted every quarter to the BBC Trust

The key takeaways from the BBC case study are all about culture. Fail to look at the cultural implications of digital from the outset and you set yourself a potentially insurmountable hurdle. Since it is people, after all, that will be engaging with the product of your digital journey, you better make certain that you include people at all stages of the process.

But if the BBC and Kiwibank, two organizations that use technology as a fundamental part of their business get this stuff so wrong, what hope is there for businesses where technology is a less central player? What happens in agriculture, manufacturing and heavy industry when organizations try and go digital?

V. Design Needs to Happen Across the Business – Levi Strauss Misses a Beat

Since 1873, Levi Strauss has been one of the best-known apparel labels on the planet. Eponymously named after the famed immigrant, Levi's was created in 1873 after Strauss emigrated to the US as part of the California Gold Rush. Around 1872, Strauss received a letter from one of his customers, Jacob Davis, a Reno, Nevada tailor. In his letter, Davis disclosed the unique way he made pants for his customers, through the use of rivets at points of strain to make them last longer. Davis wanted to patent this new idea, but needed a business partner to get the idea off the ground. Levi was enthusiastic about the idea. The patent was granted to Jacob Davis and Levi Strauss & Company on May 20, 1873. Blue jeans were born.

Fast forward to today and Levi Strauss is a global business that encompasses not only its own brand, but also other apparel brands it has acquired. As you can imagine, manufacturing, marketing, and selling apparel across the globe is a very complex situation. And so Levi Strauss naturally relies on technology to manage operations across over 110 countries.

Executives at the company decided[3] that their plan would be to migrate to a single monolithic IT system. Recognizing that they needed external help, Levi's hired a team of consultants to lead the effort.

The company, however, had a problem. Its IT system was antiquated and largely a conglomeration of standalone systems that were country-specific. While this approach might have worked historically, in today's high-paced and hyper-connected environment, the key to improved efficiency and hence profitability was seen in operational consistency. In Levi Strauss' case this called for a centralized IT system.

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The project was modest in scope, with a relatively tight budget of less than $5 million. But, as is often the case with IT systems that have far-reaching tentacles, the impacts of the project were far greater than could have been imagined. One customer required that the new system interface with its own supply chain management system – a requirement which, seemingly small, created hurdles.

Levi Strauss also hadn't implemented sufficient procedures for financial reporting and internal controls. This resulted in the company actually having to restate quarterly and annual results.

When the switchover to the new system occurred, Levi's was unable to fill orders and had to close its three U.S. distribution centers for a week. This less than $5 million IT project, which was instigated for logical reasons, ended up costing the company close to $200 million and forced the resignation of its CIO, David Bergen.

There seems to be some common threads among all of these case-studies: insufficient oversight, siloed thinking, lack of cross-organizational buy-in, and limited appreciation for the ongoing beneficial effects of change. Levi's missteps should inform other organizations as they embark or continue on their own digital transformation journey.

VI.   Common Pitfalls of Technology Projects Run in Isolation

In a Harvard Business Review article[4] reflecting on the risks and rewards of IT projects, the authors take a long hard look at digital projects undertaken before the term "digital transformation" even entered the common lexicon. The authors give example after example of how relatively small IT projects can have huge organization-wide impacts. While all covering the same theme, it is worth reinforcing the common traits of the examples below, taken from the HBR report.

Examples of digital transformation failures span industries, span the globe, and span types of organizations. What they all have in common, however, is that they regard transformation as a siloed process that is largely disconnected from the broader organization.

As we have detailed across the Digital Strength program, digital transformation is a case of using technology to create change across the organization en masse – to forget this is to risk the sort of negative impacts that we have seen from all these case studies.

• Some of the pitfalls of tech projects are old ones. For example, more than a decade ago Hershey's shift to a new order-taking and fulfillment system prevented the company from shipping $100 million worth of candy in time for Halloween, causing an 18.6% drop in quarterly earnings. Our research suggests that such problems are now occurring systematically.

• Kmart was already losing its competitive position to Walmart and Target when it began a $1.4 billion IT modernization project in 2000. By 2001 it had realized that the new system was so highly customized that maintenance would be prohibitively expensive. So it launched a $600 million project to update its supply chain management software. That effort went off the rails in 2002, and the two projects contributed to Kmart's decision to file for bankruptcy that year. The company later merged with Sears Holdings, shedding more than 600 stores and 67,000 employees.

• Other countries, too, have seen companies fail as the result of flawed technology projects. In 2006, for instance, Auto Windscreens was the second-largest automobile glass company in the UK, with 1,100 employees and £63 million in revenue. Unsatisfied with its financial IT system, the company migrated its order management and started to implement a new ERP system. In the fourth quarter of 2010, a combination of falling sales, inventory management problems, and spending on the IT project forced it into bankruptcy. Just a few years earlier the German company Toll Collect—a consortium of DaimlerChrysler, Deutsche Telekom, and Cofiroute of France—suffered its own debacle while implementing technology designed to help collect tolls from heavy trucks on German roadways. The developers struggled to combine the different software systems, and in the end the project cost the government more than $10 billion in lost revenue, according to one estimate. "Toll Collect" became a popular byword among Germans for the woes of their economy.

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4 https://hbr.org/2011/09/why-your-it-project-may-be-riskier-than-you-think

VII.   About HelloSign

HelloSign is powering the future of intelligent business. The company's software platform — which includes eSignature, digital workflow and electronic fax solutions — converts process to revenue for over 60,000 companies around the world with HelloSign, HelloFax and HelloWorks.

VIII.   About Ben Kepes

Ben Kepes is a business leader, a technology evangelist, an entrepreneur, and a commentator. Ben covers the convergence of business and technology. His areas of interest extend to leadership development, startup activity, digital transformation, and enterprise software, as well as articulating technology simply for everyday users.

He is a globally recognized subject matter expert with an extensive following across multiple channels. His commentary has been published on Information Week, Computer World, Forbes, Wired, ReadWriteWeb, GigaOm, The Guardian and a wide variety of publications – both print and online.

Ben's insight into the business of technology, and the technology of business has helped organizations large and small, buy-side and sell-side, to navigate a challenging path to a successful future.

Ben is passionate about technology as an enabler and enjoys exploring that theme in various settings.

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