

EPISODE 5

## Establishing Transformation Value

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It's Rob Llewellyn here and welcome to episode five of transformation management. Thank you so much for joining me today. As always, I'm going to do my best to help you get better equipped to manage and lead transformation.

Value management and benefit realisation are not new concepts, but with a clear focus on digital technology delivering business value, the need to manage value and benefit realisation is greater than ever.

While many in your company might be excited by the perceived value of innovative digital solutions, others such as the CFO and business leaders need to stay focused on business value that can be measured. Sweeping statements of digital transformation and nebulous notions of new value won't be enough to satisfy leaders who need to report numbers to their Boards.

It's well known that the best performing companies outperform others when they focus on achieving the expected value from transformation initiatives. And as you scale up your digital transformation, value management will become an increasingly integral part of the journey.

Measuring value helps position digital transformation leaders as business value creators in the eyes of the CFO and other business leaders.

Intel was one of the early adopters of value management and their IT Finance team - which managed the process - consisted of seven financial analysts and one manager for the IT project portfolio, and it devoted 20% of its time helping business sponsors and project managers estimate, track, and document project benefits.

The role of that team throughout this process was to provide business sponsors with methodologies for value measurement and then ensure that the measurements are actually undertaken. Intel made it clear that actual measurement work is the responsibility of the relevant business sponsor.

All project proposals first underwent a baseline evaluation of current business performance. Project sponsors were then involved in creating a "metrics plan" outlining which value dials will be tracked, how and when measurements are taken, and who is responsible for conducting measurements. The baseline estimates and business case assumptions for all projects were also recorded in what Intel called "the Business Value Tracker".

Results were then measured by the business sponsor at each stage gate during the development phase, and at regular intervals after deployment, for five years after the initial capital investment.

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These measurements were used to update business cases and were also rolled up into quarterly and annual reports of the aggregate benefits realised.

Before these results were reported to the executive team, the project sponsor performed a “gut check” to certify that the claims made of value delivered were accurate and didn't include value that actually stemmed from external factors, such as a strong sales team performance or a competitor's mistake.

You might be surprised to hear that what I've just described was happening at Intel since 2005 or even earlier - and it was led by their CIO. But almost two decades on, many companies still don't have any value management processes.

Take a look at Intel's 2017 IT Annual Performance Report and you'll see their CIO focus on how innovation and digital transformation is generating business value. I've included a link to that report in the show-notes.

So how do you manage value?

Well as with all functions critical to transformation - such as innovation, strategy and programme management - value management requires a process and structure. And a simple process for value management could involve:

1. First: Value Identification
2. Next: Planning Benefits Realisation
3. Executing the Benefits Plan and Evaluating Results
4. And forth Establishing Potential for Further Improvements

You need to start by identifying the value drivers that your transformation initiative can contribute to, then determine the current status of the value driver. Only by doing this will you know how your transformation is impacting the business.

Establish KPIs, benchmark them, then define the value potential. When your transformation is in-flight, forecast the benefits for next two to three years, and begin to report return-on-investment as soon as you can.

With the right transformation choices and some basic value management, you can be sure to whet the appetite of not only the workforce in general, but also that of executives.

In a digital world where data-points are increasing, it would be ironic if digital leaders couldn't capture and cultivate data to demonstrate business value.

For example, if you needed to prove the quantitative impact of a new app on the business, you might need to capture the data relating to customer behaviour to identify how, when, and where the app influences customers at each step of their journey.

Next - in the example of the app - you would illustrate how your app has increased customer engagement and satisfaction, and how it also might have led to improvements in operational efficiencies.

On the surface these outcomes may seem qualitative, but by putting to work your new-found data, you'll be able to articulate measurable business outcomes that have significant meaning

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to the likes of the CFO and CEO. As a result, you'll win the confidence of executives and so increase the odds of securing approval of funding for more ambitious initiatives, when you're ready to scale up your digital transformation.

I don't have time in this short podcast to go deeper into each area, so I'm going to taking a closer look at the first step in the process, which is Value identification.

Remember that how well your business cases are prepared and presented will determine the fate of your digital use cases. So after your innovation and digital use case process, you need to create and get approval of a business case.

Those business cases that are approved can enter the transformation portfolio. And those that don't can be kept for consideration at a later date.

By building solid business cases, you'll improve your ability to calculate the return on investment, Analyse risks and opportunities, gain support from others, and increase the odds of getting approval to proceed with the transformation initiative.

So let's look at the key components of a business case.

### **Executive Summary**

The purpose of an Executive Summary is to get the attention of your audience by telling the story of your business case. You can do this by briefly stating the challenge or opportunity, describing how you plan to address it, which might include options. Then communicate what the return on investment might be if this business case is approved.

### **Business Need**

The purpose of a Business Need section is two-fold ...

#### **1. Opportunity Statement**

Here your goal is to establish a sense of urgency for the opportunity or solution, describe why you're proposing the initiative and what the business need is. Share the information from the digital use case which articulates why the company needs to do this now, and what the consequences might be if it doesn't. Describe your understanding of the underlying issue using data and analysis. If those reviewing the business case don't understand or agree with your description of the opportunity or problem, your business case will begin to lose credibility at this early stage in the document.

#### **2. Strategy Statement**

The second part of the Business Need section is addressed in a strategy statement. Which is to Explain how the initiative supports the company's strategic objectives. You should be very well prepared to articulate this clearly.

### **Project or Programme Overview**

Next the Project or Programme Overview section should Help your stakeholders understand the value proposition and scope of the initiate you are proposing. You do this by providing a high-level description of the current situation, the value proposition ad the solution that will realise that new value. All of this can be pulled from the digital use case.

**Schedule**

The purpose of the Schedule section is to present a high-level plan for implementing the project or programme. At a minimum, this should include the key milestones along a timeline. If the benefits of the initiative are released over time, show this on the timeline too. It helps emphasise the benefits and not just the time and effort required to realise them.

**Team**

The Team section should illustrate the team required to make the project or programme a success. List the core team members required, along with the total number of full-time employees required along with their functions. Name the key subject matter experts required. You'll sometimes find that different business cases will be competing for the same experts.

**Resources**

A section on Other Resources should show the additional resources the initiative would need, such as office space, technology, and facilities, etc.

**Impact**

The purpose on the Impact section is to Highlight the benefits of the project or programme. You'll have already addressed benefits in the digital use case so you can use that information. Remember to include strategic, management, operational and functional or support benefits. Each of these will resonate different with various stakeholders. Include both tangible and intangible benefits and confirm the data upon which your numbers have been based. Your stakeholders need to be made to feel they can trust what you are telling them.

**Risks**

The purpose of the Risks section is self-explanatory. No transformation initiative comes without risk and it's important that you show your stakeholders that you have carefully considered what they might be, and how you might mitigate them. This doesn't need to go into project level detail. Simply keep the list of risks and mitigation plans at a level which is appropriate for your stakeholders who will be reviewing the business case.

You should include risks relating to costs and schedule, but also to capabilities, culture, technology, scope, quality. and anything else included in the six THRIVE principles.

**Financials**

You need to present the Financials, and the purpose of this should be to articulate the cost of the planned return on investment. You should include the total costs and benefits of your project and break down the costs into specific areas. This is simply to help your stakeholder get a feel for how you arrived at the total cost, which will help make them feel more comfortable, because they understand more.

Use whatever ROI approach your stakeholders are familiar with in the company, but you can also include your own if you feel it adds value to your business case.

**Approval**

The approval section of the business case should be used as a record of who approved the business case. This might not seem important right now, but months down the line when issues arise, the sight of a key stakeholder's signature could come in very handy!

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I've included a link to a workbook in the show-notes, which you can download and use as a guide to creating your own transformation business case. Remember that every organisation has their own preferences, so be sure to accommodate those needs.

From a value management perspective, the business case is just the beginning and you need people with the right skills to manage value all along the transformation journey.

The irony in many firms is that they devote a lot of time effort and heated debate to time, cost and quality, but there's often little if any attention paid to value or business benefits. When transformation is done to create value - which it should be - it's irresponsible to neglect the concept of value management.

And remember that value is not always about financials. Intangible assets such as brands, customer relationships, intellectual property and human capital have become significant value drivers in business. But traditional Finance metrics are not cut out to measure these.

Leading Finance executives suggest the need to identify new KPIs to accommodate the intangibles. This is particularly important when considering the fact that on the S&P 500, intangibles now make up more than 80% of corporate valuations. These new KPIs can then help transformation leaders understand how to measure the potential intangible outcomes of digital business transformation.

So while there are Financial Benefits, remember to also consider:

Quantifiable Benefits - where there's sufficient evidence to forecast how much improvement / value should be derived from the transformation.

Measurable Benefits - where an aspect of performance is currently being measured, and it will be possible to measure how much performance will improve.

Observable Benefits - where by using a set of criteria, specific individuals or groups will decide, based on their judgement and experience, to what extent the benefit has been realised.

So you can see that there's a lot to do in value management. It's a transformation management discipline in its own right, but one that is often neglected.

I appreciate you listening, and here's a quote to finish off the day from Warren Buffet.

"Price is what you pay. Value is what you get."

What's the price of your transformation?

And what process will you use to manage and show executives the value the company get from that transformation?

I hope you enjoyed this episode. Thanks for listening - Take care and I'll catch you in the next episode of transformation management. Bye.