# Newsletter

# Post GFC—Some Interesting Trends

Possibly as a result of the GFC (Global Financial Crisis, or maybe the Global Failure to Capitalise on opportunities) we have seen some interesting trends over this year. In particular, many organisations have continued moving towards a selective sourcing, multi-supplier outsourcing model, and re-insourcing those services which they consider are strategic. In addition, many organisations have in fact found that it's actually cheaper to provide many services internally rather than use a third party. In some cases the selective sourcing is spread across multiple suppliers while in others it is given to one or two suppliers.

Two other significant trends which we have observed as part of the general trend to accountability of service provision are:

- the commoditisation of services, and

- the "projectisation of work".

With regards commoditisation, organisations are considering more and more that the basic IT services are commodities – any reasonably competent supplier should be able to provide them. They are separately identifying services that support the technology infrastructure (hardware, communications and some basic PC software) from services that enable or support business processes (applications support, electronic supply chains, knowledge management etc). The two types of services are perceived by them as having different value propositions. The price of these commoditised services is thus being forced down, making it very difficult for some suppliers to continue offering these services.

With regards the "projectisation of work", we are seeing more organisations parceling work into projects and then outsourcing either all or portions of that project. Some of these projects can be quite extensive, costing several millions of dollars and taking 2 to 3 years or more to complete. Many of these projects entail some element of application development, customisation or implementation. They usually have components of infrastructure refresh and support but that is often not the main objective of the project.

Having survived the GFC, many organisations are now gearing up to restart projects that were put on hold over the last 12 months due to the GFC. These include such projects as IT infrastructure refresh, deploying new desktops, notebooks and upgraded software across the enterprise. The release of Windows 7 in late October was well timed for many organisations, who are using this as the catalyst for their refresh projects. Smart organisations are also using the last quarter of 2009 to get ready for the expected recovery in 2010, upgrading their back office and front office systems, and taking advantage of the latest technology.

This flood of projects is all well and good for business, but there are many dangers lying just below the surface. In the rush to get the projects underway, many organisations are forgetting the basic, fundamental rules of project management.

Project-based work demands specific management processes (time, reporting, resource usage etc) and requires specialised systems to monitor and manage the project throughout the project life-cycle. Whereas outsourcing is a delivery of service to a defined level of quality and consistency over a period of time, project-based work is much more dynamic in that work performed differs according to the project stage. This dynamic nature demands that staff understand how to work in and manage project teams.

In addition, it should be remembered that each project must have a business focus not an IT focus (see the article in our June 2009 Newsletter "*There's no such thing as an IT Project*"). Also, and even more importantly, each project involves change as well as (hopefully) achieving some form of improvement for the organisation (see the article in our September 2009 Newsletter "*Improvement Management or Change Management*"). The improvements must be measurable as well as achievable, and the change managed at all levels within the organisation.

The big danger we see looming is that too many organisations will focus on the technical management of these projects rather than the business management (i.e. project, improvement and change), and thus add to the unfortunate statistic: that less than 30% of projects are successful.

## In This Issue . . .

# Service Management versus Service Delivery

At 9.03am on the morning of Sunday, the 11th October, IBM's Newton data centre in New Zealand experienced, in IBM's words, "a power failure which caused a disruption to its clients". A pretty common occurrence which, one would suppose would be mitigated through the use of some form of power backup generation. Problem was, it was the backup generator that failed – the prime power source had been taken off-line for "a scheduled maintenance check". That meant that some customer's servers couldn't work – not such a problem first thing on Sunday morning you would think – except when one of your customers is Air New Zealand and Sunday 11th October was the last day of school holidays!

Ouch!!! Just imagine it – families with fractious children trying to get onto flights and being delayed hours because Air New Zealand staff had to do everything manually. Not a pretty picture and Air New Zealand' chief executive was very blunt about his opinions of IT service providers who, in his opinion, were slow to react, unwilling to accept responsibility and to apologise for the mess that had resulted from their oversight. Air New Zealand's short haul group general manager Bruce Parton put the impact quite succinctly, "ten thousand plus customers affected on the last day of holidays, and millions of dollars of revenue not going through our online site" – the impact was not only material in terms of revenue, but emotional because of the timing and its particular affect on customers.

The blogs in the NZ press went into overtime – lots of individual opinions being proposed as to why this had happened and who was to blame, some blaming IBM whilst others blamed Air New Zealand for not paying enough for disaster recovery. No doubt the blame game will continue to be played out behind closed doors as IBM and one of their more high profile customers come to grips with what happened.

Our point on all of this is that failures in technology will and do happen. However, we have found when talking to our clients over the years that the issue is usually not the technology failure but how that failure is managed. This all gets back to Service Management, not Service Delivery. Using the Australian standard AS 8018.2, the Australian adoption of BS 15000 IT Service Management: Code of Practice for Service Management to look at what should have been done we can deduce the following:

Standard section 5.2 Service Continuity and availability management, sub-section 5.2.1 General:" *The service provider should plan for known data or user volume increases, expected peaks and troughs in workload and any other know future changes.*" OK, airlines are always busy but the last day of school holidays should have triggered some sort of awareness that this was going to be more than the normal Sunday volume for Air New Zealand with a commensurate increased risk to the client should something go wrong.

Standard section 6.2 Business Relationship Management: "*The service provider should establish a relationship with their customer such that they would expect to be aware of business needs and major changes and be able to prepare to respond to that need.*" This is what we used to call Account Management, it's now called Relationship Management and most IT service vendors include an overhead charge in their outsourcing fees for this service. This service is rarely properly defined (if at all) and in many instances is just an excuse for trying to sell more service to the client after the initial contract has been signed. Had IBM been diligent in providing this service according to the spirit of the Standard, then we cannot imagine why they would carry out any maintenance (routine or otherwise) on such a critical day for one of their larger clients. They could have re-scheduled the maintenance as part of good risk management practices. Yes, the problem might just as well have happened later when they did carry out the scheduled maintenance but it would not have happened on the last day of school holidays and therefore would not have been the highly emotive and public problem that it was.

Our take on this much publicised outage was that although service delivery demonstrably failed, the major failing was further back in the supply chain – service management failed not only their customers but also their own service delivery staff. If they hadn't been doing maintenance at that particular time then they would not have to rely upon the back-up generator which failed, leading to a series of unforeseen problems that had to be resolved before IT services could be restored. Thousands of holidaying families could have got their families back in time for school / work without the unnecessary and frustrating delays caused by a failure of good risk management.

# Change Management & Comfort Zones

We were commenting to clients recently that it seemed to us that people were less tolerant of change in the business environment today than they were 10-15 years ago. There are some very good reasons for this, not least of which is that it seems that a larger percentage of the workforce has not only reached the edge of their comfort zone, but they are staying there longer. The traumatic effects of the GFC over the last year have also taken their toll on many people. When people are at the edge of their comfort zone it is very easy for even a very minor irritation to tip them into the uncomfortable zone.

In this zone people have to work hard to maintain equilibrium. They have to consciously address whatever it is

that has pulled them out of their comfort zone. All this takes energy and mental attention – attention that is diverted from their daily tasks. If there are a lot of issues demanding attention people will work long hours to try to "catch up". If they don't catch up and more issues arise, people can get caught in an activity spiral that leads to burn out.

So why are many people currently working at the edge of their comfort zones? There is probably a vast amount of research available on this subject, however, from what we can see its got a lot to do with the amount and pace of change. And we don't just mean work-place change.

# Change Management & Comfort Zones (cont.)

Many aspects of our society and the way we live, work and play are changing at phenomenal rates. Some examples immediately spring to mind such as the use of the internet by schools (Mums and Dads now have to keep up with their children). All this change has to be psychologically accommodated into our comfort zones.

Technology has, to a large extent, automated the routine tasks that allowed people to "switch off" and take time to order their thinking to address problems. Nowadays people working in the commercial world are expected to address complex tasks composed of an "unbroken string of tough decisions" (quote from James Carlopio). Some people thrive on this, others valiantly put in the long hours to catch up and get tired. Some people resent the imposition of yet more change and will seek, either actively or passively to avoid the change or, in extreme circumstances, to sabotage change activities.

Given that the world of technology has seen nothing but change for the past 30 years and we expect the pace of change to continue, there are some important lessons to learn from the growing change intolerance. Change management is not just about managing change once it has been approved. It is, most importantly, about managing the process whereby it is decided that change must occur.

***Change for the sake of change is not acceptable.***

Changing processes because someone else does it a different way (or some consultant tells you that you should) is also not acceptable without a great deal of initial cost/benefit analysis.

At a conference we attended earlier this year, one of the speakers was discussing the amount of change occurring today, and made an important comment concerning change. He said that the term Change Management should be renamed Improvement Management. As he rightly pointed out, we should only be changing something to improve it, not changing it just because we (or the consultants) want something different. In this way, everyone concerned with the change will be focused on ensuring the change does improve things rather than just focusing on the mechanics of the change itself.

If you do have to implement changes, remember that those people at the edges of their comfort zones (and there are more of them than you think) will need longer to assimilate the change. Change programs should either be implemented in small steps over longer periods or should be allocated sufficient resources (time and money) to ensure that staff quickly return to their comfort zones. This usually involves a lot of training and hand holding. Cost benefit analysis for potential changes should always include an allowance for staff adjustment and the initial impact of the change on productivity.

Finally we would leave you with a quote from a Financial Review article by Joel Garreau: "humans should not create something new unless they are reasonably certain something awful will not result."
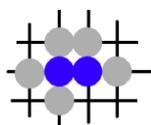
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## About us

Over the last 26 years we have been working with numerous organisations in a variety of industries, particularly banking, finance, mortgage broking and insurance, as well as mining & manufacturing. At the strategic, tactical and operational levels we have carried out a wide range of assignments with the top management & boards of organisations in Australia & New Zealand, as well as throughout Asia and the US.

Typical assignments have been in the areas of strategic planning, services management (including SLAs), outsourcing (for both organizations and IT vendors), project management and information technology. The assignment may be a simple review of existing strategy, structure and systems, an investigation of a specific problem (e.g. a project that appears to be in trouble), or could be pre-litigation forensic analysis of a failed project.

Our review & advisory assignments usually take no more than two to three weeks, and the primary outcome of the assignment is a report detailing the results of our review with a series of recommendations for resolving the situation at hand and / or recommendations for further action.

If you would like to find out more about our services, don't hesitate to contact us on any of the contacts below.

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## Comments / Feedback

This newsletter is being sent to you as part of our commitment to keep you informed of the on-going trends in the marketplace, particularly with respect to strategic planning, organisational reviews, IT outsourcing, services management or project management. We would appreciate your comments and / or feedback as to whether this newsletter is of interest, and whether you would like to be kept informed about future developments and trends in IT. Send your email to: information@farrell-associates.com.au

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