15.571 Generating Business Value from Information Technology
Spring 2009

IT and Business Change Management

Dr. Cyrus (Chuck) F. Gibson

Senior Lecturer
Center for Information Systems Research (CISR)
MIT Sloan School of Management

This research was made possible by the support of CISR sponsors and patrons.

IT-Business Change Management Concepts and Guide

I. Research and scope

II. Exercise: What is critical to success in a project?

III. Forces to be managed to change behavior

IV. Diagnostic decision tree

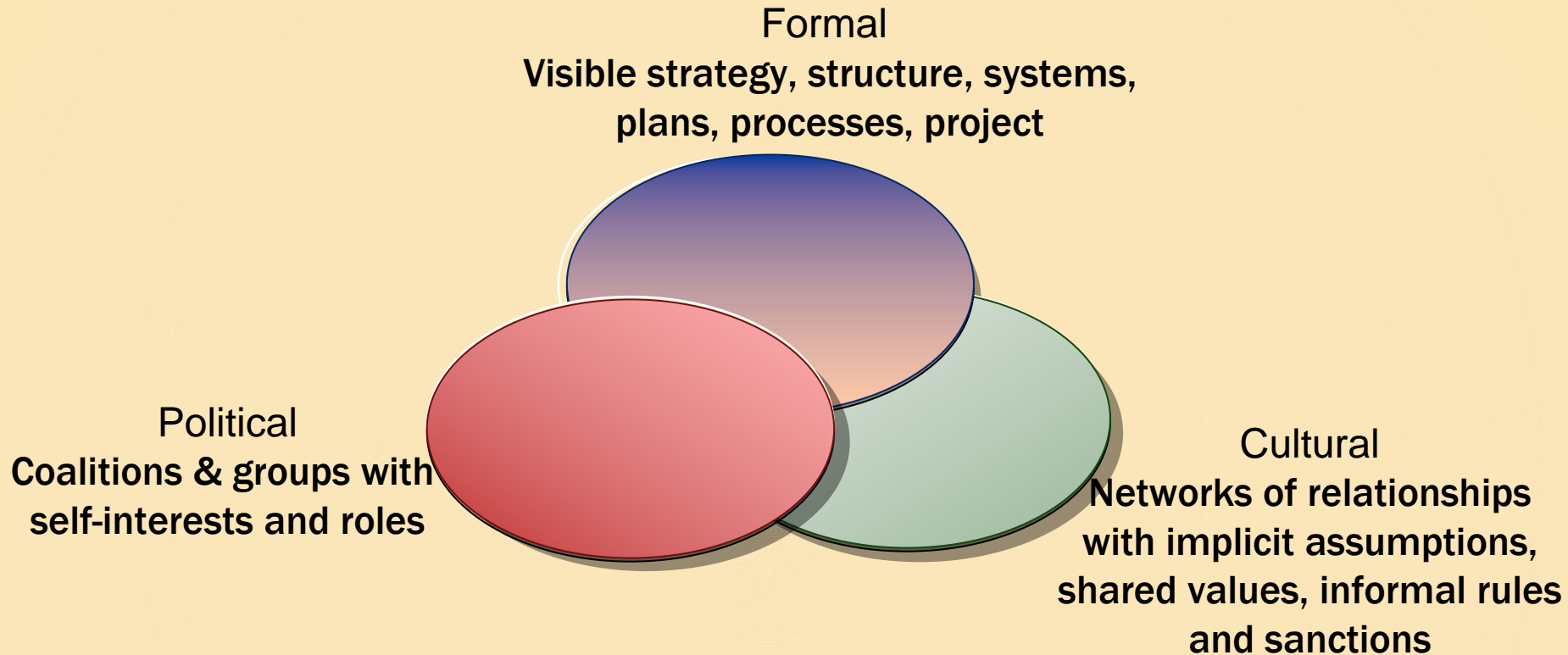Appendix: Project forces and leadership risk assessment

- Fourteen case studies on change in the implementation of systems, and change in IT capability, 1970–2008.
  - Aetna, ACE Project at US Customs & Immigration, Allstate Claims, Amerix, "Cellucorp," Cybex, Direct Energy, Dow Corning, First National City Bank, Gemstar-TV Guide, Lifeline Systems, "Regional Bank," Southwest Airlines

- Survey research and publications
  - New Risks for MIS Managers, 1982; Pressure Testing and Changing the IT Organization, 2002; IT Enabled Business Change, 2004; CISR Sponsors' Issues Interviews, 2007–present

- Consulting studies
  - "Insurance Operations," US Postal Service, "Grain Division," "Operations Consulting Firm," "Chemical Specialty Business ERP," "University Systems Change," "Telco," "Big Bank"
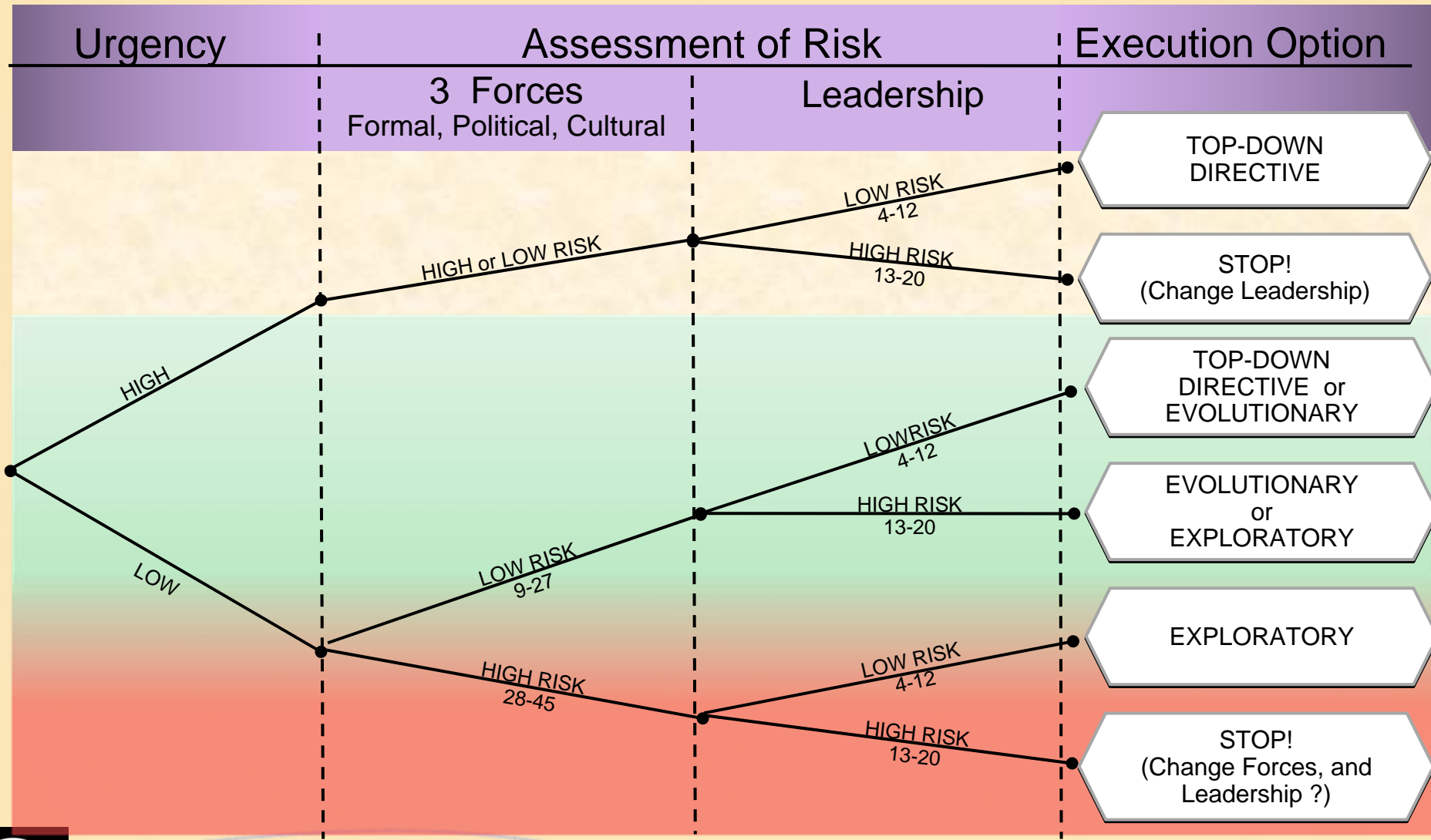
What makes for success or failure of an IT-business change effort?

(Name 2 to 4 things from your experience, observations, studies)

Formal
Visible strategy, structure, systems, plans, processes, project

Political
Coalitions & groups with self-interests and roles

Cultural
Networks of relationships with implicit assumptions, shared values, informal rules and sanctions

IV. Diagnostic decision tree

Conclusions and Implications

1. IT in relation to business change: can follow, parallel, or lead.

2. The technology *may* be critical. Human behavior change is *always* critical.

3. IT projects should always be *business* projects. Getting business value requires business responsibility and leadership for change.

4. Leadership of change requires:

   a. Understanding and assessment of the context (esp. crisis vs not) and the three forces that influence behavior

   b. Contingent execution: using the change strategy to fit the context and forces (top-down directive, evolutionary, exploratory, or stop to mitigate)

4. Major change is a journey with unanticipated obstacles and opportunities – regularly assess, periodically alter strategies or leaders

5. *Will you be a leader of change? How will you use IT?*

Score each item as a risk to the success of the next phase of your project.
from 1 (low risk) to 5 (high risk)

Formal Forces

1. *Size and complexity* of the project compared to others the organization has done.
    (e.g., cost, technology, number of stakeholders, new working relationships
    required)   ____

2. *Change in stakeholder behavior* required.
    (e.g., new skills, new knowledge, new practices)   ____

3. *Change in business and organization* required.
    (e.g., business process change, new role & reporting, new incentives and
    rewards)   ____

                                           Total formal risk score (3–15)   ____

MITSloan
MANAGEMENT

Cultural Forces

1. *Communication and understanding* of the project for relevant stakeholders at this point.   _____

2. *Emotional commitment* of the stakeholders (i.e., are they eager for it, indifferent toward it, waiting to see what happens, likely to resist passively, likely to sabotage?).   _____

3. *Sustainability* of work behavior changes made or upcoming (i.e., energy, commitment among stakeholders to continuing the changes).   _____

Total cultural risk score (3-15) _____

Political Forces

1. Existence of potential winners and losers as a result of the project. (i.e., will departments or coalitions gain or lose power and influence?)

_____

2. Exercise of influence to enable or to impede the project by departments, coalitions, or relationships toward project success.

_____

3. Alignment, coordination, and adaptability of IT with business on the project (e.g., Is the project team responsive and effective to unexpected glitches?)   _____

Total political risk score (3-15)   _____

Total forces risk scores (formal+cultural+political) (9-45) _____

Leadership

1. Understanding, and commitment of responsible leaders o the formal project plan

    _____

2. Respect and trust of leaders by the stakeholders In the culture

    _____

3. Ability of leaders to achieve compromise, alignment of political factions

    _____

4. Interpersonal influence and adaptability of leaders to the unexpected

    _____

Total leadership risk score (4–20) _____

Supplementary Slides

MITSloan
MANAGEMENT

Successful IT-business change requires:

- Assessing *a priori* the impact on the organization

- Designing the project plan and strategy of change to fit the degree of impact (risk of failure)

- Mitigating risk by changing structures, incentives, processes as well as skills

- Reviewing and adjusting the project

- Thinking of the project as organizational learning and work behavior change

- Leading (vs. managing)

I. IT historically has been very "blue" compared to the business

  – **'Regional Bank': two views of decision making for new branches**

II. IT and projects often require more "red", power, than IT has

  – **Dow Corning's SAP implementation: showdown in the CEO's office**

  – **Current CIO survey: "We still don't have a seat at the table…"**

III. IT professionals are often seen as aliens; IT projects increasingly require a change in the "green", culture

  – **First National City Bank: back office reengineering blowup**

MITSloan
MANAGEMENT

I.   Company
   • One of the largest health insurers
   • 1990's: losing market share, customers, and $

II. Situation 2001
   • Problems: external relationships, operations, organization, strategy; "the culture had lost pride"

III. Actions taken
   • New CEO, COO, CIO, etc.
   • CEO, Dr. Jack Rowe, related each company problem to IT
   • Change management leadership: COO knowledgeable and involved in IT; the EMIS message
   • Projects and IT fixes: Architecture transformation project, long term; IT capability fix through co-sourcing; software "make-buy" decisions on business growth
   • Business execs made responsible for IT projects

Results
- Dramatic business turnaround
- Continuing long-term IT investments in "architecture project"
- Self-diagnostic web application success
- Business fully responsible for IT projects– new governance

	2001	2003	2005	2006
Revenue ($b)	25.2	18.0	22.5	25.1
Net Earnings ($b)	(.3)	.9	1.6	1.7
Stock Price	8.4	16.2	47.2	43.2

I. **Company and situation – late 1990's**

$65B, world's largest food co, P&L responsibility in 80 geographic markets, 14 account for 73% of revenue

- Highly decentralized operations, strong culture, sense of success
  - Trailed peers in profitability; an analyst: "Nestlé could increase EBIT by 39% if sales and admin overheads matched industry averages"
  - IT projects to control administrative costs had failed
  - 1997: Peter Brabeck new CEO

II. **Action taken: big IT-business project**

- 2000 Brabeck introduces GLOBE: for efficiency in administrative & logistical operations, and agility w/ customers & suppliers; project objectives:
  - Business process best practices across company
  - Data standardization
  - Common systems: SAP ERP single instance (largest in history)
  - Brabeck asks Chris Johnson, 39, market head Taiwan, to head GLOBE; reports to Brabeck, and is on Exec Committee

III. 2001: Globe Day meeting of regional market heads in home office

How would you expect the market heads to react to the GLOBE project, on a scale from 1 (very positive) to 10 (very negative)? Why?

Further actions taken, 2001–2002

- Johnson confronts the boss with time and budgets—gets extension and increase

- Johnson gets the 400 best people to work on the project

- Johnson partners with CIO

- Reporting relationship and responsiveness to Executive Board

- Pilot in next year by Lopez, Market Head Indonesia, is successful

- GLOBE Day 2002 with Market Heads sees volunteers for implementation

- Momentum builds, Brabeck and Executive Board provide full support

MITSloan MANAGEMENT

Project outcomes

- Promotions and rewards for Johnson, CIO, and team members

- Simultaneous standardization/centralization and more local autonomy/empowerment

- Latest reports: culture shows increased pride, and business is more responsive, agile

- Significant but indirect financial benefits, GLOBE seen as a competitive edge

	2000	2003	2006	2007
Revenue ($b)	48.6	65.5	78.7	89.9
EBIT ($b)	5.9	8.2	10.6	12.6
% of rev	12%	13%	14%	14%
Stock Price	231	249	354	462

Formal

Political

Cultural
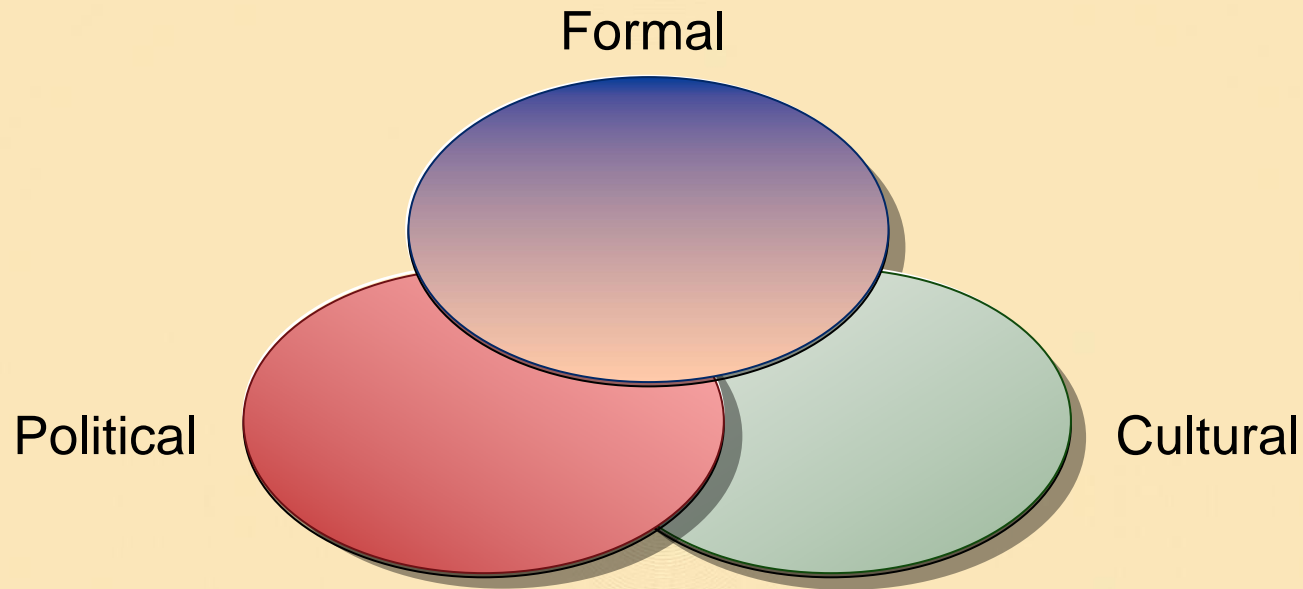
Four Propositions for Research and Practice

Sustained business or project success comes from the alignment of the three forces.

Transformational change begins with a misalignment of the forces.

Change management is the manipulation of the forces over time to achieve alignment.

Change leadership is influencing behavior of others toward "blue" objectives by altering and making use of the "red" and the "green."