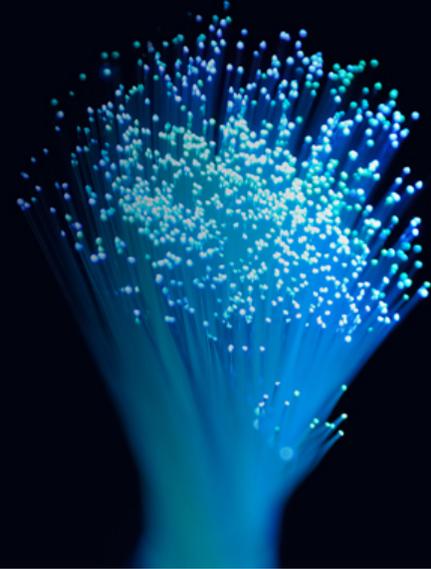# Modern delivery podcast

Part of KPMG's Future of IT podcast series

Episode transcript

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Steve Bates:

Thank you all for joining us today. I am your host, Steve Bates, for KPMG's Future of IT podcast. We're focused on how digital transformation and emerging business models are reshaping the role of the CIO, and the future of the IT function. KPMG's Future of IT program is founded upon our latest market research, which includes the KPMG CEO Outlook Survey and the Harvey Nash / KPMG CIO Survey, which is the largest CIO survey of its type with over 4000 participants from around the world. And of course, KPMG professionals work with analysts and do extensive executive interviews.

Today we're going to be discussing modern delivery's role in creating a market speed organization. In this year's CIO Survey, the research tells us that the majority of the organizations that are digitally enabled are reporting higher revenue and profitability growth in the last year. It's showing us how technology is becoming the very oxygen which allows a business to breathe and run at market speed. The vast majority of organizations that KPMG professionals spoke with are focused on transformations with the very top leaders personally engaged and leading the charge, which is great news. The interesting finding from our survey is that over 80 percent of the executives that are driving digital transformation lack the confidence that their organization can both design and implement a new operating model and ways of working in the future.

So I'm joined today by two of my colleagues, Mike Wolf, who's a managing director and the lead of KPMG's Modern Delivery Practice in

the US firm, and William Koot, who's a partner in KPMG's Netherlands firm and a leader in the digital and agile ways of working. So gentlemen, thanks for joining me. I want to get started with you, Mike. Throughout this series we're exploring the global forces that are fundamentally rewriting the IT operating model, and the nature of how technology products and services are actually being developed. So talk to our listeners about how and why companies that you're working with today are trying to run at market speed. What are the problems that they're trying to address?

Michael Wolf: I think that the customers that I'm working with are really concentrating on how they can get value out to their customers, their employees, faster with more quality, less risk, etc. And in good part because they've seen things like the cloud and micro services as kind of pushing that envelope as to how they could get the efficiencies out, but they're not quite getting them. And many of them have gone through these multiple on-ramps into how to start with things like Agile, and DevOps, and seeing it as a bit of a way to get that value out faster. To move beyond some of their legacy debt, whether it be technology or organizational debt.

Steve Bates: And William, we certainly know that this isn't just a U.S. phenomenon. We're seeing this happen all over the world. How have you seen the market shift in Europe over the last 24 months?

William Koot: I would say that in Europe, this already started I think three or four years ago. One of the big companies who's done a lot of marketing on this topic, I would say, is a big regulated bank. What we've seen there is that they investigated what startup and internet companies are doing, and how do they organize their business? And they use examples of Spotify, and Zappos, companies like that, on how did they become cheaper, faster and make their employees happier?

They came up with the idea, it's all about bringing more self-steering to the company. Give your people more entrepreneurship, more responsibility to make their own decisions. What KPMG professionals have seen in Europe is that if a big regulated bank can do that, all other companies are saying, "If they do it, why can't we do it, too?"

Michael Wolf: The interesting point you bring up there is that these are not new phenomenon. We're at a tipping point of where the industry is finally realizing that these methods are effective, and you can see them being realized. And now's the tipping point where the enterprises are realizing that they, too, can deploy 46 times faster. Or this year the big change in some of the statistics have a mean time to restore services of 1000 times higher than they would have previously. Now all of a sudden, the technology has shifted, the organization has shifted, and this is really the time where these things are going to start to pick up.

Steve Bates: So I hear you both talking a lot about removing friction, empowering employees, getting better collaboration. This is a shift from the traditional IT operating model. But in modern delivery, my understanding, it's the

linkage of engineering, testing, operations, while taking a large amount of automation throughout the value chain. But I know a lot of organizations, Mike, are struggling to scale this and move beyond just the basic concept. Is it more than just adopting Agile and tools? Can you talk to us a little about that?

Michael Wolf: You bring up a great point of what these stages that we like to think about of things like islands of automation. Groups which have spun up the automation component and are being effective in their small domain. Or in the agile space we'll talk about these garage teams that are working together but are not having systemic change. I think that what we're seeing now is this acceptance, and this realization that all of these elements are not isolated efforts. But they're actually part of a whole, which is shifting the whole organization forward.

As was brought up earlier, you look at things like the Spotify model, which turns an operating model on its head from hierarchical silo-driven into much more of a product based, small-teams based, scenario of how they can produce that value faster.

One of my clients today is a large utility company who's talking about how they can use DevOps alongside their risk and internal audit group to shift left all of those processes, while still keeping the stability and quality. Because after all, that's an organization that literally keeps the lights on.

Steve Bates: William, you've worked for a long time helping organizations through agile ways of working, becoming more lean and efficient. Are you seeing organizations scale this beyond IT?

William Koot: What you see normally that it starts with IT functions or marketing. They started to become agile, but there was always a feeling that the business was not sufficiently in control. And what you see now is that those combination of factors is happening, that the business wants to get control over IT or wants to be more involved in IT, and the CIOs use Agile to give more control to the business. So what KPMG professionals see in Europe is that IT and business are integrated, that there is a product owner who is responsible for let's say the change, or for the whole IT process. But that product owner is not somebody from IT; it's a business function.

And so you see people from marketing, sales, back office, and IT, integrated in one team and also located at the same place, and working closely together. And that's something which is rather new. You see especially banks are doing that. And that's really thrilling to see how that works out currently.

Steve Bates: That's a major shift in culture as well. You know I think one of the big promises of modern delivery is that integration between business acumen and technical acumen all focused on a very specific customer outcome. So we're seeing a reduction in IT for IT projects and more of the funding

of the product as less of the project. And the business being completely onboard, and invested, and participating in it, rather than just generating some front end requirements and throwing them over the wall in hope that they get done. And modern delivery really brings those things together.

Mike, I think the promise that we're hearing about modern delivery, it seems to lie though at the very heart of the successful digital strategy. This is a large scale, disruptive transformation. But what are the kinds of benefits and improvements that organizations that are doing this are seeing in the market?

Michael Wolf: You pointed a great point earlier on from our Harvey Nash Survey. It said 61 percent of organizations which are effective at using digital technologies and modern delivery methods are seeing higher revenue growth and profitability. And some are even exceeding say the 70 percent mark. Now the interesting point of that, is that's 61 percent of organizations which are effective at it.

When you see the ones that are excelling, they're the ones that can actually respond to the failures faster. They're the ones who can actually take advantage of the market because all of these tedium that was in the system before, that was eating up all the value, they're really working out of it. And to your point about being able to bring the business together, breaking down those silos so they can figure out what is the right thing to solve - using data to drive out those answers, and using automation to get it out to people faster so they can improve and evolve, and improve and evolve.

The biggest debt, the biggest rock that they have to push is actually on that organizational debt, or operating model debt. And how they can kind of get the work through the system faster and better, with more quality. And that's kind of I believe going into the future it's going to be the big modern delivery shift. As we use tooling to remove some of the inefficiencies, everyone's going to realize that tooling wasn't the only problem. That was our easy problem to solve. The hard one is all these things to left hand side that hinder the work from getting done.

Steve Bates: William, what are some of the benefits that you've seen organizations realize about adopting modern delivery?

William Koot: What we see is that it's going faster and more aligned with the business. Those are of course the first things you notice. KPMG member firms see organizations also to be cheaper, and we see organizations already have a cost reduction of the change process of between 15 and 30 percent, which is really enormous. But that's also because we are making less errors. We are adapting faster, etc. And probably one of the additional benefits are that employees are happier because they are more in control. And you see that it's really for recruitment purposes, we see a lot of organizations in the war on talent and Agile is one of the advantages some organizations have above others. Because people want to,

especially young graduates, want to work and have more control of what they are doing. And they love the way Agile works out in their world. So happier employees is one of the additional benefits that we see currently in Agile organizations.

Michael Wolf: Speed is definitely one of them, as well as the happiness of employees. A lot of that happiness of employees comes out of the ability to innovate faster and feel like you're producing. One of the intangibles that companies struggle with is the cost of failure versus the value of innovation. Intangibles is a thing that enables you to experiment more, and do so with safety using things like arrow budgets and other things to really quantify what that looks like to take advantage of the market and make something faster and better.

William Koot: It also means that management or the board has to be aware that they give more responsibility to let's say lower management or the workforce. And that they trust that the workforce has more capabilities to see what's good for the client, for your customer then you can only do from a top down design principle. And that's what graduates are really loving because they are in contact with everybody and they are making new ideas, and their ideas are rewarded.

Michael Wolf: It's a system that fosters autonomy that everybody's striving for.

Steve Bates: I think a data point that's directly correlated with that from our CIO Survey is that two thirds of the CIOs that we spoke to are saying that this war for talent, the lack of skills, the cultural issues are holding back their strategies to actually enable the business to execute. So these are very relevant points that you both brought up. I think it's an important takeaway.

I think it's also clear that the CIO, clearly has a crucial role in championing modern delivery across the value chain. But what I'm hearing you say is it's extending beyond that IT function and spans into many senior leadership roles in the organization. William, who are some of the other executives that need to be deeply involved with making modern work outside of IT?

William Koot: I would say it always starts a little bit with the Chief Executive Officer, or the Chief Operation Officer. You see they have to work together to bring this forward. Because it's not only that IT is working differently, but also traditional processes like budgeting, and forecasting, and remuneration of people will become different in an agile organization. So you need sponsorship from the whole board. I believe they have to advocate a change like this. So what, in our experience, we see that the whole board is really thinking this through and making this transition.

Steve Bates: Mike, what are your thoughts?

Michael Koot: I think this is a great question. The shift that I've seen recently is that new C suites that you wouldn't have thought about in the context are now crucial. The CFO, because if you're going to change anything about how an organization acts in an agile way, you start with funding. And that really is a key role that is changing. How the CFO starts to fund, for example, quarterly. Maybe based off of OKRs or objective and key results, and how that drives dynamic investment where you can shift resources from product to product.

The other chief role that I'm seeing increasingly elevating in importance in this transformation is the CHRO. How does the shifting roles, responsibilities, and titles change the whole organization and how is HR a partner in causing those to happen?

Steve Bates: There's another set of roles I think that are increasingly important, but also creating confusion in the market, which is the Chief Digital Officer, the rise of the CTO, even other C level positions like the CMO, or the Chief Risk Officer, and many cases the COO. You're seeing a lot of organizations become a lot more tech savvy, and we used to say that IT had to learn the language of the business in order to partner with them. That's no longer the case. The business is learning the language of technology, and your ways of working, regardless if it's within the IT function or not, needs to reflect this modern delivery work stream.

How do organizations get started? William, why don't you lead us off?

William Koot: What you normally see is that it starts with some experimenting. And then what you see there, in the second phase boards take the decision on, okay let's broaden this agile way of working. And then it starts with scaling up those pilots really to what we call at scale, or an enterprise way of working. And then you see that you have to really change your governance, the way of working, your culture, and then you're really into a transition program. But that takes a while. We see that organizations, taking the journey takes something between I would say nine months and 12 months to really change their organization into a complete agile way of working. But it starts with the vision of let's say the CIO and the board.

Steve Bates: Mike, what is your advice to organizations on how to get started?

Michael Wolf: My advice honestly, would be to take this down and eat our own dog food in a way. And say, the best way to start is to start. One of the anti-patterns I've generally seen a lot of organizations take with this transformation is to believe that there's a start and there's an end. And in reality, doing this in a very agile, iterative fashion, this is about getting started, learning, evolving, doing this in a series of waves to progressively get to that mature state.

I had a customer very recently say, "Hey, could you just tell me what that ideal operative model states I should be in?" And the reality is, the only way to really start that is to iteratively begin the process of building out

that way of working, building off that operating model by doing the work, by doing the evaluation of what you're short points are. To do the value stream mapping to figure out where you are and where the road blocks are, and then to do a series of pilots to learn test and evolve.

Steve Bates: So in the end, all of this transformation is about interactions, it's about relationships between people and the work that they perform. It's going to be IT's job in the future to take away the complexity and the burden of technology, and make it accessible and empower the business and their teams to really get the most benefit out of it in an environment where experimentation is encouraged, where it's okay to make mistakes and learn from them, but that recognizing that while tech skills are important, it's really around creating value for a customer, or colleague, or even yourself. And we call that entire transformation decidedly human. And the thing that's important is that while a lot of this feels like technology, in the end it's about people and how we work together.

So gentlemen, this has been a great conversation today. I have learned a lot around modern delivery and how it's really keystone into making the future of IT work. And I'd like to thank Mike and William for joining me. And I'd like to encourage you to continue to listen to the Future of IT podcast series, and we'll convene with you next time. Thank you!