FROM PROBLEM TO VALUE · PART 1 OF 4

TRANSFORMATION RESEARCH PAPER 17 MIN READ

Value starts with the problem: the first link in the value chain of change

Most of the value a change programme will ever create, or lose, is decided before anyone writes a business case, by how well the problem is defined. Part 1 of From Problem to Value, a four-part research series on how organisations create value.



Mayank Paliwal
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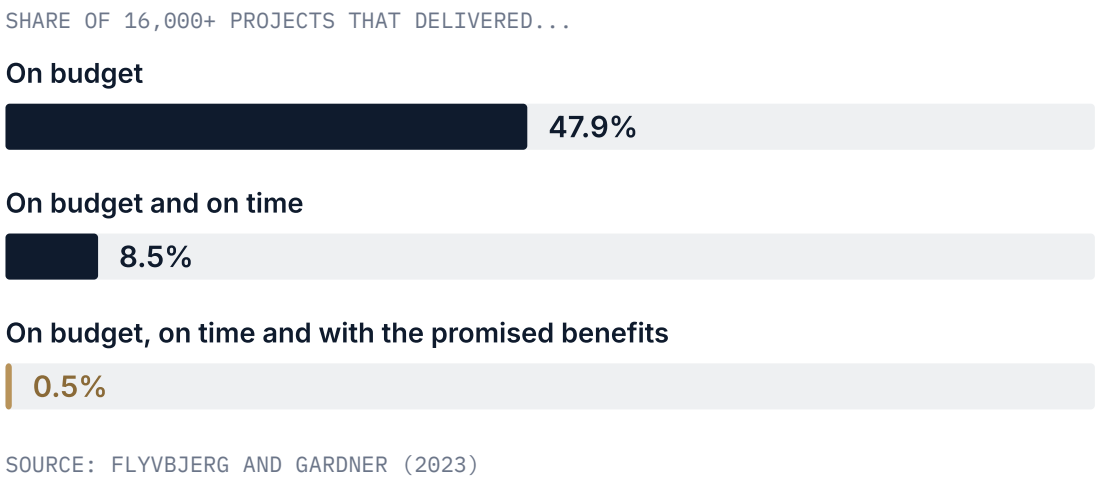
RESEARCH SERIES · FROM PROBLEM TO VALUE

This is part 1 of 4. **1. Value starts with the problem** · 2. The value case · 3. Delivering for value · 4. Realising value

Organisations spend a great deal of effort on the back end of change. They train project managers, buy portfolio tools, build benefits trackers and run post-implementation reviews. Far less effort goes into the front end, the few weeks in which a leadership team decides what problem it is actually trying to solve.

That imbalance is expensive, and the evidence on large projects is sobering. In a study of more than 5,400 IT projects, McKinsey and the University of Oxford found that large IT projects ran, on average, 45% over budget and 7% over time, while delivering 56% less value than predicted (Bloch, Blumberg and Laartz,

2012). Flyvbjerg and Gardner's database of more than 16,000 projects of all kinds is starker still: only 8.5% came in on both cost and time, and just 0.5% delivered on cost, time and benefits (Flyvbjerg and Gardner, 2023).



Fewer than one project in a hundred delivers on cost, time and benefits together. Most of the gap is lost value, not lost money. Source: Flyvbjerg and Gardner (2023).

There are many reasons for that gap, and the later papers in this series deal with them. But a surprising share of lost value can be traced back to the very beginning, to a problem that was framed too narrowly, framed as a solution, or not framed at all.

> *In my experience the most expensive mistake in a change programme is delivering the wrong thing well.*

Peter Drucker made the same point sixty years ago: "There is surely nothing quite so useless as doing with great efficiency what should not be done at all" (Drucker, 1963). This paper is about making sure the right thing is being done before anyone starts doing it efficiently.

What I mean by value

"Value" is one of the most used and least defined words in business. Before following it from problem to realisation, it helps to be precise.

Strategy research draws a useful distinction between *use value* and *exchange value* (Bowman and Ambrosini, 2000). Use value is the specific quality of a new product, service or way of working as perceived by the people who use it: the customer who gets a faster mortgage offer, the colleague who no longer rekeys data. Exchange value is the money that changes hands, or the cost that is saved, when that use value is realised. Lepak, Smith and Taylor (2007) add that value creation depends on how much value is subjectively realised by a target user, and that the people who create value are not always the people who capture it.

Two practical consequences follow for anyone running change:

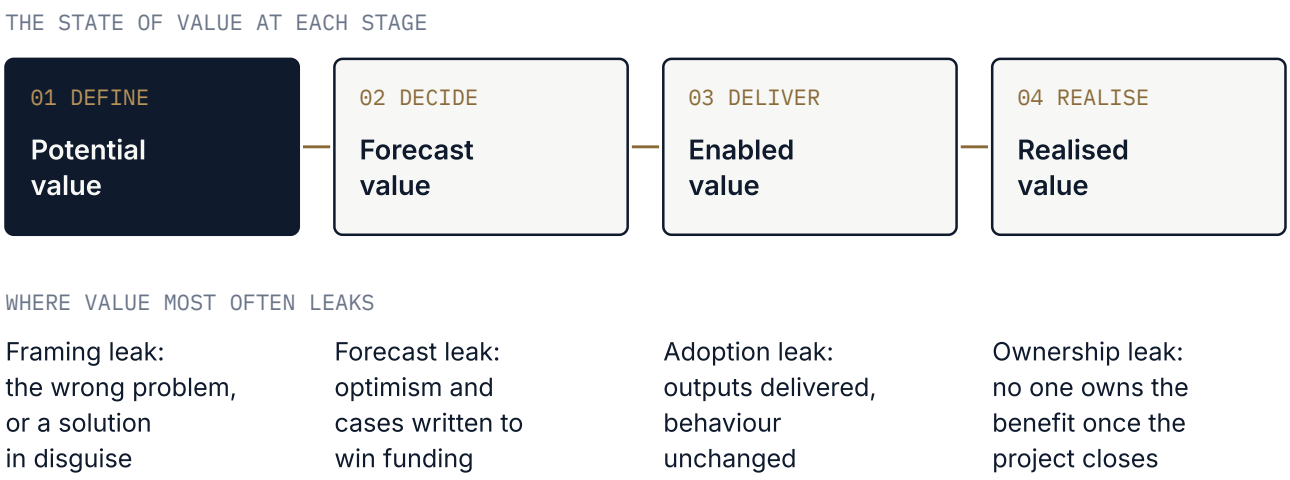
- Value is judged by someone. A benefit only exists if a stakeholder sees it as an improvement. That is why the UK government's programme management guidance defines a benefit as a measurable improvement resulting from an outcome that one or more stakeholders perceive as an advantage (AXELOS, 2020). If nobody can name the stakeholder, there is no benefit.
- Value can leak between the person who creates it and the person who captures it. A new process may save the operations team two hours a day, but unless that time is redeployed to something the organisation values, no exchange value is ever realised. I come back to this in part 4.

Brandenburger and Stuart (1996) offer a simple way to picture total value created: the gap between what a customer is willing to pay and the supplier's opportunity cost. Internal change works the same way. A programme creates value when the improvement it produces is worth more to its stakeholders than

the resources it consumes. Every link in the chain either widens that gap or narrows it.

The value chain of change

Porter (1985) taught a generation of strategists to see a firm as a chain of activities, each of which adds value or adds cost. The same lens works for a change programme. Value does not arrive in one step at go-live. It moves through a sequence of states, and at each handover some of it can be lost.



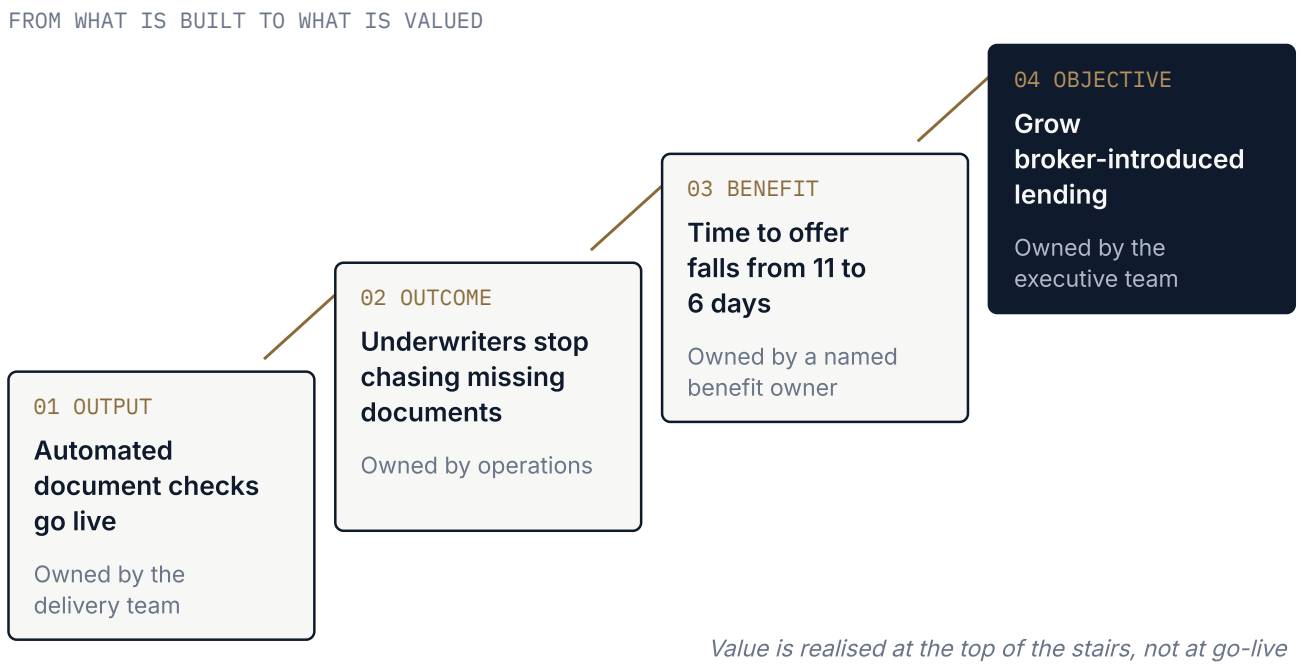
The value chain of change. Value moves from potential to forecast, enabled and finally realised. Each handover has a characteristic leak. This series takes each link in turn.

The four stages are:

- Define. A problem or opportunity is recognised and framed. At this point value is only *potential*: the size of the prize if the problem were solved.
- Decide. Options are compared and one is funded. Value becomes *forecast*: a number in a business case that someone is prepared to be held to.

- Deliver. The new capability is built and put into use. Value becomes *enabled*: the organisation can now do something it could not do before.
- Realise. People change how they work, and the improvement shows up in measures that matter. Value becomes *realised*, and if it is embedded, *sustained*.

This distinction between outputs, outcomes and benefits is well established in the project and benefits literature (Ward and Daniel, 2012; Zwikael and Smyrk, 2012; AXELOS, 2020). A project produces outputs. Outputs, when used, produce outcomes. Outcomes, when they are valued by someone, produce benefits. The chain matters because the links are owned by different people, measured at different times and governed in different forums, and the gaps between them are where value disappears.



Outputs, outcomes, benefits and objectives, using the mortgage example that runs through this series. Each step has a different owner, which is why value so often stalls between them.

The first gap opens before the business case is even drafted.

Why problem definition fails

If problem definition matters so much, why is it done so poorly? Research and experience point to four recurring causes.

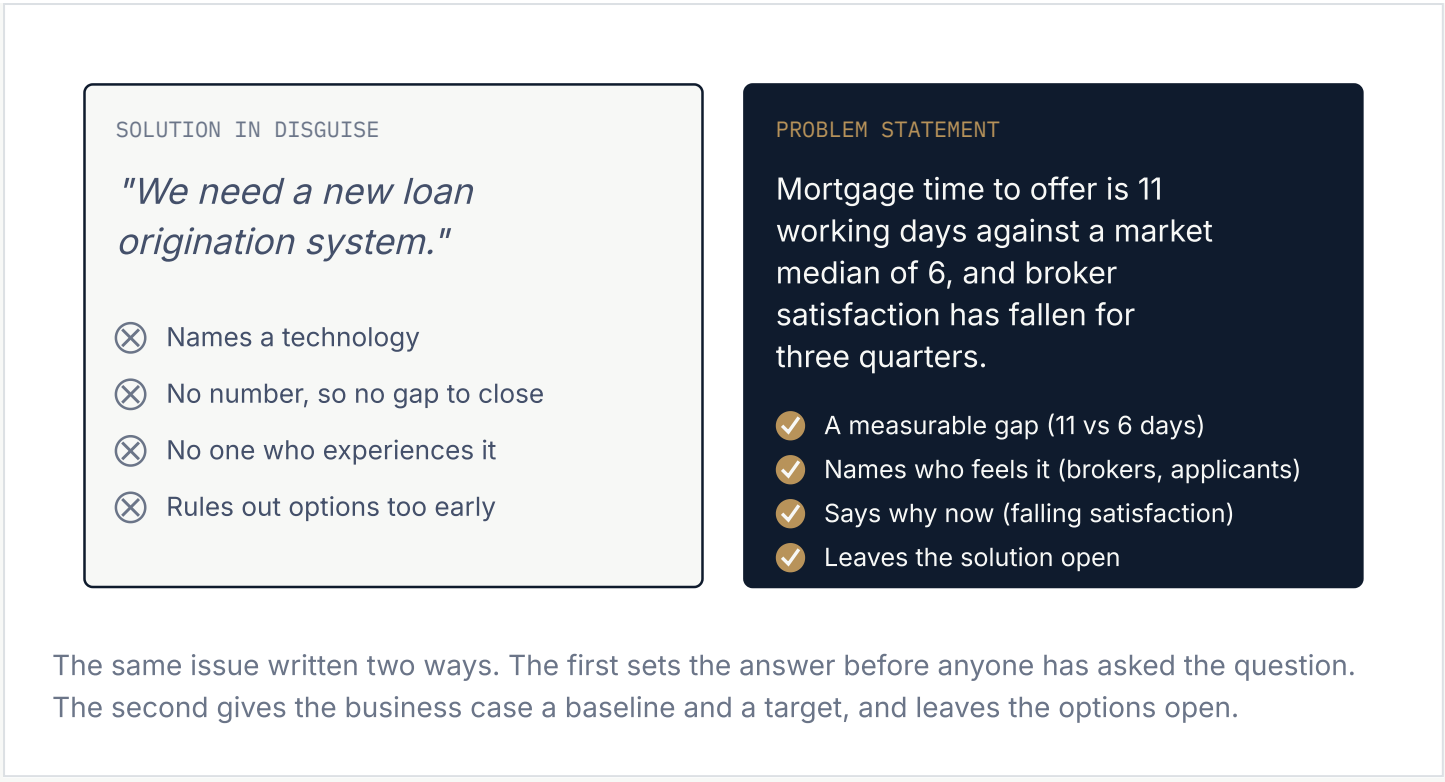
The urge to solve

Wedell-Wedellsborg (2017) surveyed 106 senior executives across 91 companies in 17 countries. Eighty-five per cent agreed or strongly agreed that their organisations were bad at diagnosing problems, and 87% agreed that this carried significant costs. The pressure to show action is a large part of the reason. In most organisations, proposing a solution looks decisive. Asking what the problem really is can look like delay.

Nutt's long-running study of strategic decisions found that about half of the decisions he examined failed, and that the tactics most associated with failure were those that cut short the search for understanding, such as imposing an idea early and then building the case for it (Nutt, 1999). The idea arrives first and the problem is written backwards to fit it.

Solutions in disguise

The commonest form of this is the problem statement that already contains the answer. "We need a new CRM." "We need to move to the cloud." "We need a digital front door." Each sounds like a problem but is really a conclusion, and it closes off the options before anyone has looked at them. I wrote about this in more detail in Most problem statements are solutions in disguise.



The same issue written two ways. The first sets the answer before anyone has asked the question. The second gives the business case a baseline and a target, and leaves the options open.

Seeing only what is in front of us

Kahneman (2011) describes a tendency he calls WYSIATI: what you see is all there is. People build the most coherent story they can from the information in front of them, and rarely ask what information is missing. In a change context, this means the problem is often defined by whichever function noticed it first. Operations frames it as a process problem, technology as a systems problem, HR as a skills problem. Each is partly right and none is complete.

Some problems resist definition

Finally, some problems are hard to pin down however careful you are. Rittel and Webber (1973) called these *wicked problems*: problems with no definitive formulation, where every attempt to solve one changes the problem itself, and where there is no clear point at which the problem is solved. Large transformations often have wicked features. Customer expectations move, competitors respond, and the organisation learns as it goes. That does not excuse a vague problem statement. It means the statement should be treated as a hypothesis to test and revise as you learn.

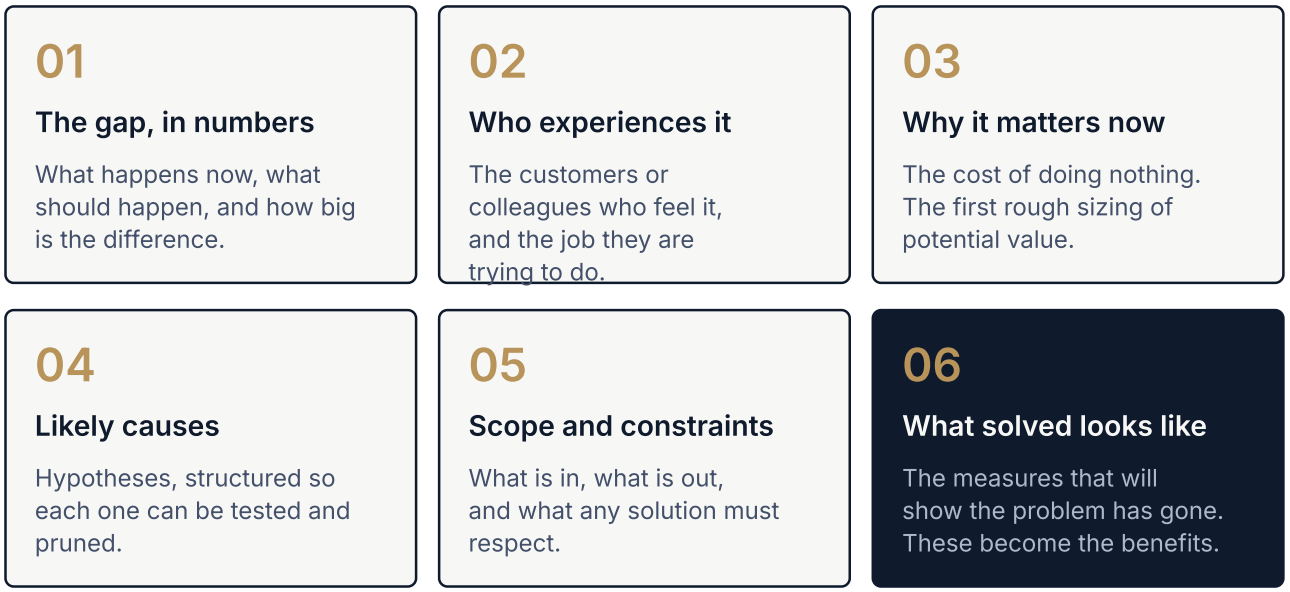
What a good problem definition contains

Good strategy, Rumelt (2011) argues, starts with a diagnosis: an explanation of the nature of the challenge that simplifies a complex reality by identifying which aspects of the situation are critical. Bad strategy skips the diagnosis and goes straight to goals and actions. The same is true of change.

Drawing on that idea and on the practice literature, a problem definition that will hold up through the rest of the value chain usually has six parts:

- The gap, in measurable terms. What is happening now, what should be happening, and how big is the difference? “Mortgage time to offer is 11 working days against a market median of 6, and broker satisfaction has fallen for three quarters” is a problem. “Our mortgage process is slow” is a complaint.
- Who experiences it. Which customers, colleagues or stakeholders feel the gap, and what job are they trying to get done? Christensen et al. (2016) argue that innovation fails when it focuses on customer attributes rather than the progress a customer is trying to make in a given circumstance. The same lens stops internal programmes from solving problems nobody has.
- Why it matters now. What happens if nothing is done? This is where potential value is first sized, even roughly. It also answers the question every sponsor will be asked: why this, and why now?
- The likely causes, structured. A set of hypotheses about what is driving the gap, organised so that they can be tested. More on this below.
- What is in and out of scope. Explicit boundaries, including the constraints the solution must respect.
- What it would mean to have solved it. The measures that would tell you the problem has gone away. These become the backbone of the benefits case

later. If you cannot say what solved looks like, you cannot forecast value, and you certainly cannot realise it.



Six parts of a problem definition that holds up. The last one matters most for value: if you cannot say what solved looks like, you cannot forecast benefits, and you cannot realise them.

Checkland and Scholes (1990) offer a complementary test from soft systems thinking. Their CATWOE mnemonic (customers, actors, transformation, worldview, owners and environment) is a reminder that any definition of a problem embeds a worldview, and that different stakeholders may hold different and equally valid ones. Writing the worldview down makes disagreements visible early, when they are cheap to resolve.

Tools that sharpen the question

Three techniques do most of the work in practice.

Reframing

Wedell-Wedellsborg (2017) uses the example of a slow lift. Tenants complain that the lift in their office block is too slow. The obvious solutions are a faster motor or a new lift, both expensive. Reframing the problem as "the wait is annoying" opens up a cheaper answer: put mirrors next to the lift so people have something to look at. The lift is no faster, but the complaints fall.

Mirrors will not always beat motors. The lesson is that the first framing of a problem is rarely the only one, and that a few minutes spent asking "what else could the problem be?" can change the economics of the solution entirely. Practical prompts include looking outside the frame (what are we not seeing?), rethinking the goal (is this really what we want?) and examining bright spots (where is the problem already absent, and why?).

Asking why, and stopping at the right level

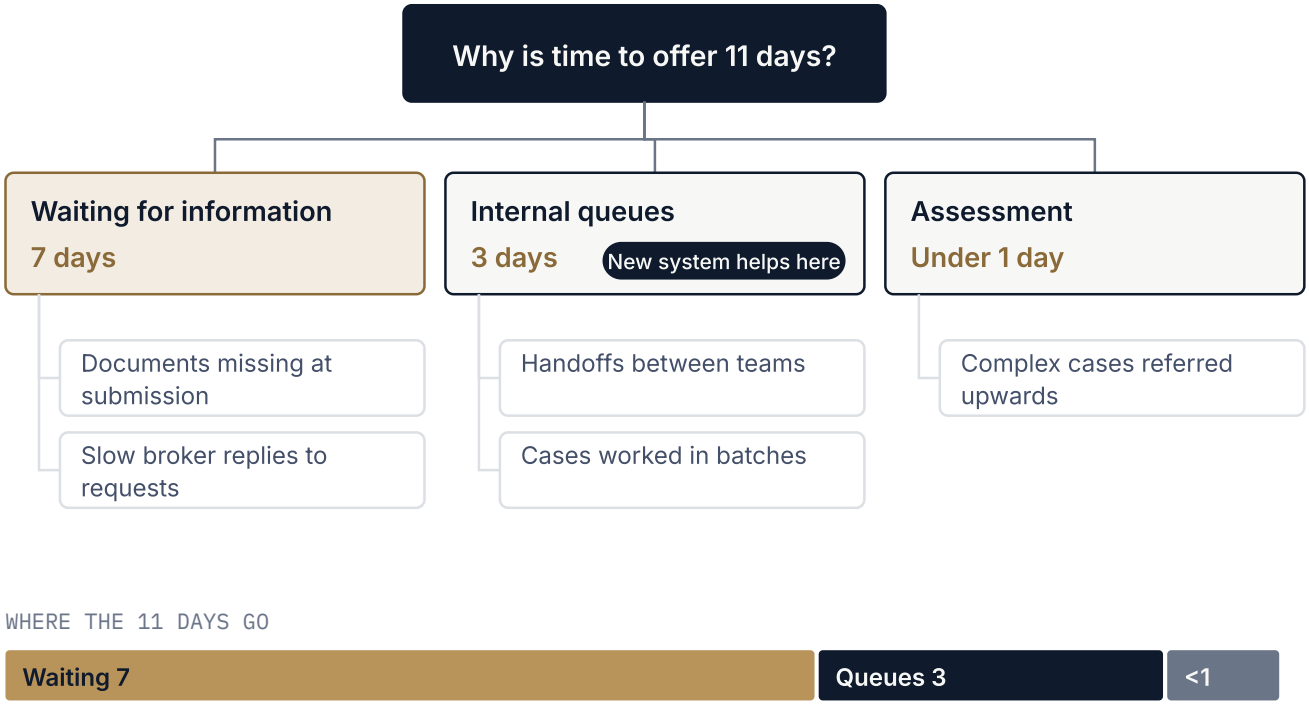
Ohno (1988), describing the Toyota Production System, popularised the practice of asking "why?" five times to move from a symptom to a root cause. The technique is useful, but it has a failure mode. Each "why" can take you further from anything the organisation can act on. The skill is to keep asking until you reach a cause that is both real and within your control, and then stop.

Issue trees

An issue tree breaks a problem into its component parts so that every possible cause sits somewhere on the tree, with no overlaps and no gaps. Minto (2009) formalised this as the MECE principle: mutually exclusive, collectively exhaustive. The value of an issue tree is less in the diagram than in the discipline. It forces the team to say which branches it believes matter, gather evidence against each one and prune the rest.

A worked example shows how this changes the conversation. Imagine a mid-sized UK lender whose leadership team believes it needs a new loan origination

system because time to offer is too long. An issue tree on “why is time to offer 11 days?” might split into three branches: time waiting for information from the customer or broker, time in internal queues, and time actually spent assessing the case. Two weeks of data might then show that assessment takes less than a day, that internal queues add three, and that the rest is spent chasing missing documents. A new system would address part of the second branch. A better broker checklist and an automated document check would address most of the third, at a fraction of the cost.



An issue tree for the mortgage example. Two weeks of data showed that most of the delay sat in the branch the proposed system barely touched. Figures are illustrative.

The issue tree did not reject the system. It put it in proportion. The Problem Statement and Issue Tree template on this site is built around this exercise.

Linking the problem to strategy

A well-defined problem is necessary but not sufficient. It also has to be a problem worth solving *for this organisation, now*. Porter (1996) argued that strategy is about choosing what not to do. A change portfolio that gives every well-defined problem equal weight ends up as a queue.

Two questions help here. First, does solving this problem move a number the board already cares about? If the answer requires a long chain of reasoning, the link is probably weak. Kaplan and Norton's strategy maps were designed to make these cause-and-effect links explicit, from learning and growth, through internal processes and the customer, to financial results (Kaplan and Norton, 2004). A problem that cannot be placed on the map deserves scrutiny.

Second, what would we stop doing to make room for it? I have argued before that a strategy on a page is only useful if it says no. The same applies to the problem portfolio. The Strategy on a Page template is a quick way to test whether a problem sits inside or outside the organisation's stated choices.

Signs the problem is not ready

Before moving to a business case, it is worth testing the problem definition against a short checklist. If any of these apply, the definition probably needs more work:

- The problem statement names a technology, supplier or organisational change.
- The gap is described in adjectives ("slow", "complex", "outdated") rather than numbers.
- Nobody outside the sponsoring function has been asked whether they recognise the problem.

- There is a single cause, and it happens to match the solution already in mind.
- No one can say what measure would show the problem had been solved.
- The definition has not changed since the first meeting. Real diagnosis almost always moves the question.

TRY THIS

Take the problem statement of one programme you are running or sponsoring. Rewrite it in one sentence that contains a number, names who experiences the problem and does not mention any solution. Then ask three people from different functions whether they recognise it. If they describe three different problems, that is your most valuable finding of the week.

What this means for the rest of the chain

Problem definition is the first link in the value chain, and it shapes every link after it. A sharp definition gives the business case its baseline and its measures. It gives delivery an outcome to aim at, so the team is doing more than working through a list of features. It also gives benefit owners something concrete to answer for.

A vague definition does the opposite. The business case fills the gap with optimism. Delivery fills it with scope. And benefits realisation, when it finally happens, has nothing to measure against.

In part 2, The value case, I look at the second link: how to turn a well-defined problem into a business case that forecasts value honestly, and why so many business cases are written to win funding rather than to predict results.

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Mayank Paliwal

Founder, InflexionIQ

Mayank works on business transformation, strategy and operating model design. He is an independent consultant and founder of InflexionIQ, previously at Deloitte, with a master's in Strategy & Innovation from Saïd Business School, University of Oxford.