

Bulletin

IT/Business Alignment: Is It an Option or Is It Mandatory?

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IDC Opinion

The ideal business exists to succeed. It relishes change and thrives on the challenge of dealing with a volatile economy, the impact of emerging technologies, and the need to execute with perfection. In this “e”-positive organization information technology stimulates new organizational opportunities and cultures; at the same time it makes these new opportunities and cultures possible. In this world, is IT/Business Alignment an option, or is it mandatory?

We all agree the IT plan must be integrated with the needs and direction of the organization. The question is how? What does it mean to IT to align with business plans? Can we verify that process? How can we judge the credibility of IT initiatives that compete for scarce resources? As it was in the past, focusing on individual IT projects is easier than looking at their cumulative impact. Now that IT is so intertwined with business operations, a more disciplined approach to aligning the two strategies is essential. Taking just this one step will increase the odds of an organization achieving value from IT. IT/Business Alignment is no longer an option!

Introduction

“In papers at professional societies and in articles in professional journals, ADP [Automatic Data Processing] technical people have criticized corporate general management for an alleged lack of intelligent interest in ADP. For their part, general management people have severely criticized the technicians in ADP for not understanding the business, for not being profit-oriented, and for not being as interested in solving basic business problems as in solving technical problems. ... However valid both of these criticisms may have been, there is evidence that the gap between the two groups is now narrowing.”

This document provides the introductory context for IDC’s 2002 IT/Business Alignment Program. In the ensuing eighteen documents we will discuss and debate the necessities and complexities associated with combining what might be considered “two solitudes.”

The need for IT folks to understand business and business folks to understand IT has been a topic of discussion for many years, but as long as computing was focused on back office applications this need was easily ignored. The lack of mutual understanding was probably felt more deeply by IT executives particularly when they were faced with pressure to reduce IT resources, deliver faster at lower cost, decentralize, centralize and then outsource. All of this as the organization was becoming increasingly dependent on information technology.

The good news is that most companies now consider IT to be an essential ingredient of business success. In a recent IDC study, when asked whether senior business executives had a vision for the role of IT in enabling business strategies respondents gave every indication that the importance of IT in enabling business strategies was recognized (Figure 1).

The bad news for many of the respondents is a vision that appears to be unfinished. Fifteen per cent of the respondents indicated no real recognition of IT as a strategic enabler. This leads us to believe that, although the strategic divide between IT and non-IT has narrowed somewhat, it still exists to create problems for many individuals and for many companies. This is cause for concern because most of today’s leading corporations are technology-intensive and many are technology based (even technology dependent).

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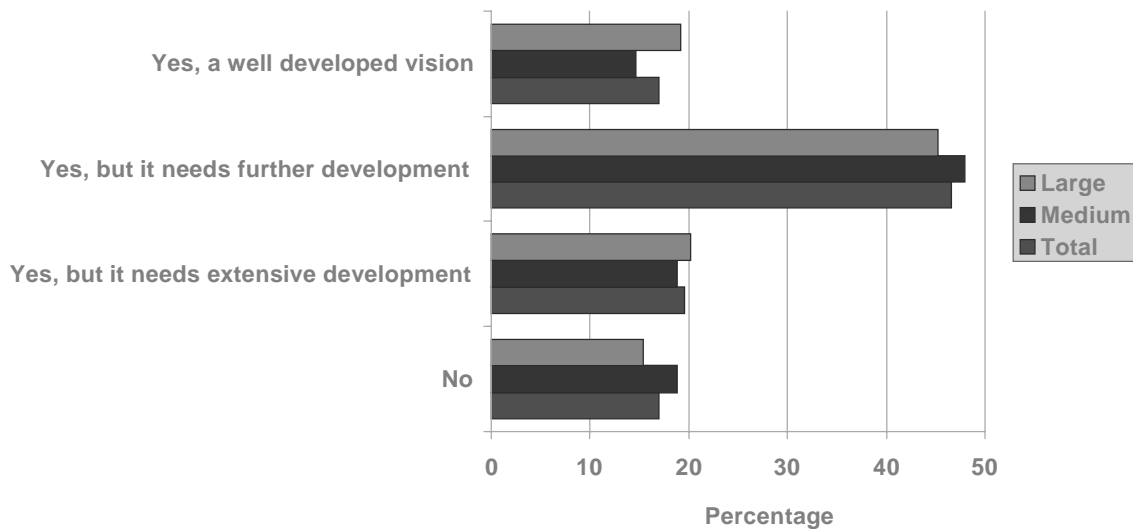
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Figure 1
IT As a Strategic Enabler

Do senior business executives at your company have a vision for the role of IT in enabling business strategies?



N= 200

Source: IDC, 2002

Earlier studies conducted by Raymond Papp and Jerry Luftman suggest that “The primary problem is lack of affiliation. Business and IT seem to be going in different directions with poor communication and interaction between them.”ⁱⁱⁱ

The reality is that many executives underestimate the need to align IT and business across the full extent of business strategy and operations. Even with extensive exposure to persuasive arguments supporting the exploitation of technology, they still haven’t fully recognized the role that IT can play in meeting strategic objectives.

What do we mean by IT/Business Alignment?

It is important to get past the semantics. When interpreted literally, align is to “put in a straight line or bring into line”, or in a political sense “to align with” is to bring (oneself) into agreement or alliance with (a cause, policy, etc.). This might suggest that it is enough for IT and non-IT functions to merely co-exist and that’s definitely not the case.

A better term for the overall objective might be IT/Business Integration because this more accurately represents the goal of combining the parts into a whole. Unfortunately, the word “integration” has almost become synonymous with “making technologies work together” and this is only one aspect of alignment. Also, the suggestion that IT should be integrated with

(or into) business could be interpreted as a recommendation that IT be subsumed by the non-IT world.

Therefore, IT/Business Alignment is the term used by IDC (and many others) to represent the process and goal of achieving competitive advantage through developing and sustaining a symbiotic relationship between IT and Business.

When we talk about “IT” in the context of alignment with “business” it is the combined force of people, processes and technologies that represent the Information Technology function. An individual with the title Chief Information Officer, Vice President Information Technology, Chief Technology Officer, or something similar usually manages these assets. This person may report directly to the President or CEO, but in other cases reports to the VP of Finance or other senior executive.

When we use the word “business” in the context of its alignment with IT, it represents the people, processes and technologies that are not directly managed by the same person who is responsible for the IT assets.

Why Is IT/Business Alignment Important?

In a business world that is characterized by alliances, mergers and acquisitions followed by cost cutting, downsizing and outsourcing success is a moving target. It is clear that staying ahead of the pack requires an organization to continue to change at a steadily increasing pace. Luftman and Brier remind us “For most organizations, the main contribution that IT can make to a business strategy is to provide a distinctive competency in the marketplace.”ⁱⁱⁱ This is the stuff of competitive advantage!

Alignment grows in significance as organizations make every effort to make sense of rapidly shifting business priorities, changing business models and evolving technologies. Rationalization of IT’s role and position in the overall business model and operations is critical for the development of a synergistic IT and business strategy. This will ensure that investment in technology and its subsequent application are focused on areas of competitive importance to the organization. The ultimate objective is an organization that uses all of its resources wisely and to maximum benefit.

What Facilitates, What Impedes IT/Business Alignment?

Many facilitators and impediments to IT/Business Alignment are known and much anecdotal evidence of their existence has been documented.^{iv} The research conducted by Luftman and Brier^v indicated the following enablers and inhibitors, in rank order:

Enablers

Senior executive support for IT
IT involved in strategy development
IT understands the business
Business/IT partnership

Inhibitors

IT/business lack close relationships
IT does not prioritize well
IT fails to meet its commitments
IT does not understand business

Well-prioritized IT projects
IT demonstrates leadership

Senior executives do not support IT
IT management lacks leadership

IDC's initial investigation of the extent to which IT/Business Alignment is in place supports these findings. Attendees at a recent conference hosted by IDC^{vi} suggested the following enablers and inhibitors:

Enablers

Intent and desire to collaborate
Common performance measures
Shared view of changes needed
Well-prioritized IT projects
Well-articulated strategy/vision

Inhibitors

Challenge of resource constraints
Poorly defined measures
Decisions based on internal politics
Business unit won't/can't prioritize
Strategy/vision not well articulated

IT/Business Alignment Key Success Drivers

In an effort to simplify the process of increasing the level to which these two interdependent streams move in lockstep, IDC has defined the factors that make the most significant contributions to IT/Business Alignment. These factors form the foundation of a model that describes the four stages of maturity an organization can expect to experience as it moves towards best-known practice in IT/Business Alignment. IDC's Maturity Model is organized around six Key Success Drivers; the significance of each of these is described in the following paragraphs.

HR Organization and Management

Hiring and retaining critical talent is one of the top two critical issues confronting the global business community. To be competitive in the 21st century, firms must be able to effectively attract and retain the employees they need to accomplish business objectives. The alternative is, simply, to fail.

The ability to articulate the skills and competences required is essential and cannot be accomplished without significant collaboration between IT and non-IT managers. It is critical that all new hires be aware of the need to participate in an "enterprise community," one that transcends departmental and functional boundaries. At the same time, it is important for the organization to facilitate career advancement for both generalists and specialists. This is not a simple matter.

Leadership and its effect on organizational culture(s) is a topic worthy of discussion in the context of leveraging information technology's strategic potential. "C"-level executives set the tone for the rest of the organization. It is fair to say the learned behaviors from which culture emanates often originate with these people.

By its very definition, there are at least two forces (and potentially two cultures) involved in aligning IT with business. The CIO of Brinker International (which owns and operates a network of restaurants including Chili's Grill & Bar) was quoted as saying

earlier this year, "...solid IT-business alignment has as much to do with the versatility of its IS executives as it does with other executives taking IT seriously." (Pender, 2001)

The reference to versatility is key. There is a universal need for executives to combine the expertise appropriate for a specific role with analytical and human skills and the ability to think conceptually. It is this ability to "see the big picture" that will support the collaborative effort needed to capitalize on the opportunities offered by binding the strategic intent of the organization to the opportunities offered by information technology.

Innovation and Renewal

Innovation and renewal are fundamental contributors to the health of any organization. Andrew Grove, Intel's chairman, suggests that there is "at least one point in the history of any company when you have to change dramatically to rise to the next performance level. Miss the moment, and you start to decline."^{vii}

It is difficult to imagine how an organization can develop and sustain a place at the head of the competitive charge without capitalizing on technology. It is of course equally difficult to imagine how this can be done without a complete and total commitment to a single business strategy.

In the context of IT/Business Alignment, the benefits to be gained from process of innovation and the act of renewal face both in and out. Innovation in how the forces of IT and Business are combined, and subsequently leveraged, will generate immense value for the organization. Alternatively, innovation and renewal in the company's products and services will require Business and IT to work together in ways that, in the past, would have been inconceivable.

Developing new ideas is not something that is restricted to the R&D group; everyone should be encouraged to play. Also, innovation and renewal should not be left to chance, nor should they only happen on occasion. The organization that continues to learn, that capitalizes on its experiences and that encourages its entire workforce to think of ways to improve the operation or reconfigure the business won't be a follower for long.

Perpetuating an exclusive, hierarchical or traditional silo attitude to creativity, or even tolerating a continuation of an "us and them" between IT and the rest of the organization is folly. It will present an enormous barrier to the design, development and implementation of new ways of doing business and potentially, new businesses to be doing!

IT/Business Partnership

Unpredictable change is an unavoidable characteristic of doing business in today's evolving economy. There is little room for error and much opportunity to benefit from mistakes made by others. However, if there is friction in the internal processes or relationships there is little likelihood of an organization being sufficiently

perceptive or agile to capitalize on what could otherwise be a significant business advantage. IT and non-IT business units must think and act as one or be weakened by their division.

Charles Wang suggests that success requires maximum cooperation and understanding between IT and non-IT executives, and further that they should answer the following questions together:

- Does this activity have value?
- How does it affect our clients and what they are asking us to do for them?
- Why are we doing it?
- If we stop doing it, what will happen?
- Should we be doing something else instead?^{viii}

There is an important addition to this list of questions: If the activity has value could it be done better (more effectively, more efficiently, produce more value) if we were to work together more closely?

In response to the need for cross-enterprise collaboration, in recent years federalism has slowly but surely found its way into a significant number of organizations; federations are tight-loose organizations. The center reserves the right to make some decisions, usually how to spend new money and where and when to place new people. This allows them to shape the long-term strategy and influence its execution through key executives.^{ix}

In the federal organization model, the role of the center is to make decisions in consultation with, and on behalf of, those who lead the parts—the strategic business units, departments and divisions. The CEO and other “C”-level executives behave as partners in a long-term commitment to the well being of the organization and thereby of each other and their employees. In this arrangement the need to understand the overall purpose of the organization, the business it is in and how it pursues its objectives isn’t difficult, because the members of the federation are involved in setting the rules. The final decision may be made at the center, but certainly representatives of all of the parts participate in the process.

This supports the view that cross-fertilization and partnership aren’t really “IT versus non-IT” issues. It is something that crosses all lines. The key issue for the IT executive is that in order to get an initial invitation to sit at the table (and furthermore to continue receiving invitations) he or she must speak the same language as everyone else who is in attendance.

IT/Business Architectures

Architecture concerns itself with the relationships between business design and the infrastructure needed to enable that design. It is a blueprint that establishes standards and policies. It is a carefully orchestrated planning and execution framework that is dependent

on consideration of all the components and the interrelationships and interdependencies for its success.

According to Webster's Collegiate Dictionary architecture is a "...formation or construction as [or as if as] the result of conscious act and ... a unifying or coherent form or structure." This definition is appropriate for understanding and building the architecture needed to enhance competitive ability. The architectures must be sufficiently flexible that they can be adjusted and adapted to meet changing requirements, for example: new customers, new products, and new markets.

It is important to keep an eye on the "big picture," to ensure that systems advance strategic goals rather than undermine them. The challenge is to stay abreast of the different life cycles of an organization's business and supporting processes and technologies while avoiding the possibility of everything becoming obsolete at the same time. A carefully designed architecture will adapt itself to the changing demands of the business environment and of the organization that implements it.

An organization needs to specify, develop, maintain and evolve its business processes, associated automated and manual systems and the resources used by these processes. The IT/Business Architectures provide structure and coordination around the concepts, principles and guidelines of conducting business in a way that sustains survival. They jointly represent a key link or bridge between strategy and execution.

They evolve over time, ensuring that the underpinnings of the organization are never static, but contribute in a coordinated way to the organization's ability to respond to changing business environments and needs. In this way, the IT/Business Architectures ensure that every initiative that is undertaken reinforces and supports the organization's business purpose.

We have established that business and IT must be considered as interdependent entities; one cannot succeed without the other. Similarly, it is more beneficial for all business units to behave as members of a cohesive organization than as disjointed family units that merely share a parent. This cohesion can produce significant benefit for the organization if a "blueprint" that outlines the direction and priorities of IT is developed to support it. This "blueprint" will demonstrate the linkage to business goals and indicate how technologies, processes and resources will be used to achieve them. In essence, the IT/Business Architectures provide a framework for:

- Identifying and specifying business requirements and business rules
- Designing and engineering automated and manual processes
- Identifying resource (capabilities, equipment, supplies, facilities) needs
- Specifying, developing and acquiring the needed resources.

Without complete commitment to IT/Business Alignment it is unlikely that these issues can be addressed effectively, leaving the organization in the vulnerable position of trying to move forward without the benefit of a stable foundation.

Operational Excellence

Capitalizing on “e” requires extraordinary execution. Focus must be on cost/quality/cycle time, speed and efficiency. Operational excellence is essential for reducing processing costs and improving efficiency. However, the effort to simultaneously transform (changing the organization’s function and structure) and reform (improving the things you already do) can become overly complex because of the potentially conflicting agendas. Because they are both critical, a framework for achieving these two objectives is essential.

Everyone is trying to do more with less, but the IT Department has a particularly difficult problem to deal with. Dependence on technology brings with it the challenge of keeping up with the demand for the development of new applications; ensuring that mission critical applications are available on a 7 x 24 basis; and upgrading and maintaining systems on an ongoing basis. All of this in a climate of constraint. Added to this is the difficulty of finding and hiring highly qualified technical people who, by the way, also need to have business flair.

Many organizations have adopted standards such as the Software Process Capability Maturity Model, created by the Software Engineering Institute (SEI) at Carnegie Mellon University. This model assesses a programming team’s ability to produce predictable, reliable software. The SPCMM complements the Maturity Models developed by IDC to help organizations assess where they are situated on the journey towards achieving best-known practice in specific key business imperatives.

On the surface, the deliberate effort of restructuring, reengineering, and improving efficiency may appear to be at odds with the goal of aggressively carving out a competitive edge, it is important to continue the improvement effort but not to the exclusion of other, more strategic initiatives. The big benefits derive from removing the friction from processes, systems and structures. Only then can an organization achieve the excellent execution needed to drive maximum value out of every asset.

ROI Strategy and Management

Every organization must have the ability to drive sustained corporate value through any one or all of its key initiatives and also be willing and able to measure this success. This requires commitment across all functions and business units and acceptance of a common set of metrics and valuation processes. There is keen interest in where IT dollars are going – and formal payback measures for technology-enabled initiatives are now commonplace. If an accurate picture is to be developed and someone made

accountable for managing to projections it is imperative that both IT and non-IT business managers act as one.

Perhaps the most critical aspect of managing IT today is the concept of aligning IT strategy to business strategy: IT decisions are becoming harder and harder to isolate within the scope of strategic decision making. Because the decision is now one of business success (sometimes survival), this internal alignment of business goals and IT investments accelerates decisions related to IT investments.

The road to higher levels of IT leverage begins with a strong link between IT spending and business strategy. Because IT is so critical to business outcomes today, you may ask, Which comes first: the business strategy or the IT strategy? Many new industries have been, and many more will be, created and transformed by technological advancements. In this case, the technology decision drives the alignment. Alternatively, in the case of organizations employing technology to improve business processes, such as in the area of customer relationships, for example, strategic requirements drive the alignment.

Paul Strassman in his book *The Squandered Computer*^x suggests that the process of linking IT with business plans includes adopting the language used with financial matters. In so doing, he defines the alignment as the capacity to demonstrate a positive relationship between IT and the accepted financial measures of performance. IDC agrees with this concept. However, you should pay attention to the word accepted. IDC believes that accepted financial measures and performance measurement systems are being reinvented to include assets previously difficult to measure (e.g., relationship and knowledge assets, intellectual capital) and that in the near future, more CEOs, senior executives and shareholders will evaluate companies on both their tangible and intangible abilities.^{xi}

What Characteristics Does an Organization Display as It Moves towards Alignment?

Organizations are in constant motion – pulled by the environment, pushed by internal forces, prodded and poked by past events. Inside the organization, the various business units are also moving, not always in lockstep with each other, nor with the organization as a whole. As an organization moves towards increasing the level of alignment between IT and business, it is unlikely that all groups will achieve the same level of maturity at the same time.

To maximize the potential for the change to produce positive results, it is important to recognize the transformational stages, key interdependencies and interrelationships and the impact they could have independently or in combination on eventual outcomes. It is also important to quickly recognize where you are, what the next stage might look like, how big the gap is between current and next and also between current and desired. This last point is critical, too often we assume that the next stage is the ultimate, i.e., desired

stage and most times this is not true; there are multiple stages involved in the change process.^{xii}

IDC has defined four stages of development or levels of maturity that an organization can expect to experience during its journey to best-known practice in IT/Business Alignment. The following paragraphs describe these four stages at the highest level. It should be noted that a similar model of four stages of change could be expected for each of the Key Success Drivers described earlier in this paper.

Maturity Level One: “Uneasy Alliance”

In this stage, there is a fundamental disconnect between the technology executive and the rest of corporate management. IT responds to business demands with little understanding of how the technology can contribute to value. IT is viewed primarily as something to make the company more efficient. Business units have little understanding of technology and prefer to hold the IT organization accountable for the success and/or failure of any IT-related project.

Maturity Level Two: “Supplier/Consumer Relationship”

If IT has a strategic plan it is developed in response to the corporate strategy. IT is probably viewed as a cost center and there is little appreciation for the value that IT contributes to corporate success. In this stage, IT is still not viewed as a strategic tool and IT executives are unlikely to be involved in developing corporate strategy.

Maturity Level Three: “Co-dependence/Grudging Respect”

In this stage, the business is dependent on IT and there are early signs of recognition that it is a strategic tool. CIOs are becoming more knowledgeable about cross-functional business processes because of ERP, CRM, etc. The Internet and interest in ebusiness forces some level of IT/Business alignment. CEO's begin to recognize that IT is a competitive tool.

Maturity Level Four: “United we succeed, divided we fail”

In this stage, IT and business are inextricably entwined. Business executives have less time to prove they can deliver. Business cannot continue without IT and IT has little real value if it is not to support the corporate strategy. There is only a single strategy and it incorporates both IT and business. Whether the business is a pure play Internet company, or a “bricks 'n clicks” company, IT and business move in lockstep.

Conclusion

Technological advancements will continue to drive quantum leaps in business models and transform industries. However, IDC believes that the current gap between IT strategy and business strategy still presents the greatest quantum leap for most organizations. In the

short term, we expect to see a lot more transformation of business processes and fewer complete overhauls as a result of IT and business alignment. Navigation must begin with the corporate goals and objectives.

The authors of Net Ready suggest a critical competency of any company today is to be “business-smart in technology and technology-smart in business.”^{xiii} Over and above a steering committee, which deals with the process of alignment, there should be lively debates between senior and technical managers.

According to Bill Gates in *Business@The Speed of Thought*, CEOs themselves must view IT as a strategic resource to help the business generate revenue. The CEO needs to learn about technology and include the CIO in management deliberations. Gates reminds us, “If IT doesn’t ”get” the business issues, and the CEO does not integrate the CIO into important business decisions, then the fault is the CEO’s. If IT doesn’t ”get” the business issues, but the CEO does include the CIO in business strategy, then the fault is the CIO’s.”^{xiv}

We all agree the IT plan must be integrated with the needs and direction of the organization. The question is how? What does it mean to IT to align with business plans? Can we verify that process? How can we judge the credibility of IT initiatives that compete for scarce resources? As was very much the state of play in the past, focusing on individual IT projects is easier than looking at their cumulative impact. Now that IT is so intertwined with business operations, a more disciplined approach to aligning the two strategies is essential. Taking just this one step will increase the odds of an organization achieving value from IT.

IT/Business Alignment is no longer an option!

ⁱ The source of this optimistic commentary was Franklin M. Jarman, Chairman of Genesco Inc., in Nashville, Tennessee (Genesco is a retailer) who wrote “Organizing for Effective Computer Utilization” for the Automatic Data Processing Handbook, published by McGraw-Hill, Inc. in 1977.

ⁱⁱ Raymond Papp, Jerry Luftman, Business and IT in Harmony: Enablers and Inhibitors to Alignment. <http://hsb.Baylor.edu/ramsower/ais.ac.96/papers/PAPP.htm> accessed through: <http://www.itmweb.com/f072197.htm>. (31 August 2001), Inhibitors.

ⁱⁱⁱ Jerry Luftman, Tom Brier, “Achieving and Sustaining Business-IT Alignment.” California Management Review, Volume 42, Number 1, Fall 1999: 116.

^{iv} Charles B. Wang, Techno Vision. McGraw-Hill, Inc., 1994: 81-101. Eric Berkman, “Why We’re Still Talking About Alignment.” CIO Magazine, December 15, 2000/January 1, 2001. Michael J. Earl, David F. Feeny. “Is Your CIO Adding Value?” The McKinsey Quarterly, Number 2, 1995: 144-161.

^v Jerry Luftman, Tom Brier, “Achieving and Sustaining Business-IT Alignment.”

^{vi} eXecuting in the Evolving Economy. Conference, Toronto, Canada. IDC Canada, June 2001.

^{vii} Quoted by Carol J. Loomis in “Dinosaurs?” Fortune, 3 May 1993: 36-42.

^{viii} Charles B. Wang, Techno Vision: 62.

^{ix} Charles Handy, The Age of Unreason. Harvard Business School Press, Boston, MA, 1999: 117-140.

^x Paul Strassman, The Squandered Computer. The Information Economics Press, New Canaan, CT, 1997: 27-33.

^{xi} A companion IDC White Paper entitled What’s IT Worth to Corporate Success? and a complementary Continuous Intelligence Service IT Value, Metrics and Measurement, discuss these concepts further. Contact Margaret Tanaszi at mtanaszi@idccanada.com for more information.

^{xii} Jan Duffy. “Maturity Models--Blueprints for e-Volution...applying frameworks and models to the change process.” Strategy & Leadership. Submitted for publication in November/December 2001.

^{xiii} Amir Hartman, John Sifonis, John Kador. Net Ready: Strategies for Success in the E-economy. McGraw-Hill, New York, NY, 2000: 29.

^{xiv} Bill Gates. Business@The Speed of Thought. Warner Books, Inc., New York, NY, 1999: 325.

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