

“Pulling in the same direction”

How effective Business IT Alignment can deliver strategic advantage *May '08*



Especially companies spending less on IT than their peer group seem to achieve a strong alignment of business and IT. Furthermore, these well aligned companies typically outperform their competitors in adopting innovative business strategies and models. To explore the reasons behind this observations, Arthur D. Little investigated the levers that drive a company's alignment of business priorities and IT systems. From our findings we developed a model that allows to assess a company's current alignment status in order to identify and address fields for improvement.

For years now, organizational IT departments have been under pressure. In fact, it has become almost traditional to assume that they are too slow, too expensive or, even worse, that they fail to deliver appropriate IT solutions aligned to specification. Furthermore, for many business executives, who find it difficult to understand the IT cost-benefit ratio, IT remains a black hole, absorbing investment but with little to show for it.

Companies that align IT structure with business strategy have been shown to be more nimble in responding to market changes and more confident in pursuing new business strategies. Yet a high level of Business IT Alignment is not necessarily a product of large IT budgets. More important is a commitment to focus IT spending on strategically and commercially important areas. The holy grail of IT must be to ensure a perfect alignment of business priorities and IT systems – or an exact fit between IT demand and IT supply. Arthur D. Little has developed a model to measure

EXECUTIVES' PERCEPTIONS OF ALIGNMENT

In a cross-industry survey conducted by Arthur D. Little, 45% of business executives who were asked said that their company's IT spending had not resulted in an effective alignment of business and IT. 60% thought that their company's IT expenditure was not sufficiently target-oriented and although most business executives claimed their company funded the right projects, the majority of these failed during implementation and struggled to deliver the desired value. Only

one in ten companies claimed its business and IT were fully aligned.

It is clear then that in most companies there is a huge unmet demand for more effective and efficient IT. But while business executives might conclude that investment in IT should be increased, our survey showed that there is no direct link between Business IT Alignment and IT spending. 88% of those companies spending less on IT than the middle quantile in their industry claimed to achieve a high level of Business IT Alignment. By contrast, of those spending more than the average, only 40% claimed high Business IT Alignment (figure 1). We conclude that high Business IT Alignment, providing maximum support to the business, does not need be expensive or subject to the omnipresent threat of cost cutting.

Our experience shows that companies with high Business IT Alignment are confident in adopting innovative business strategies and models before competitors, showing that well-aligned IT can deliver strategic advantage for the business.

TYPICAL CHALLENGES

The results of the survey suggest a number of key questions: Why do companies have such difficulty in aligning IT and business? How can these difficulties be addressed? Why do they so often fail in execution? What levers can be used to improve Business IT Alignment?

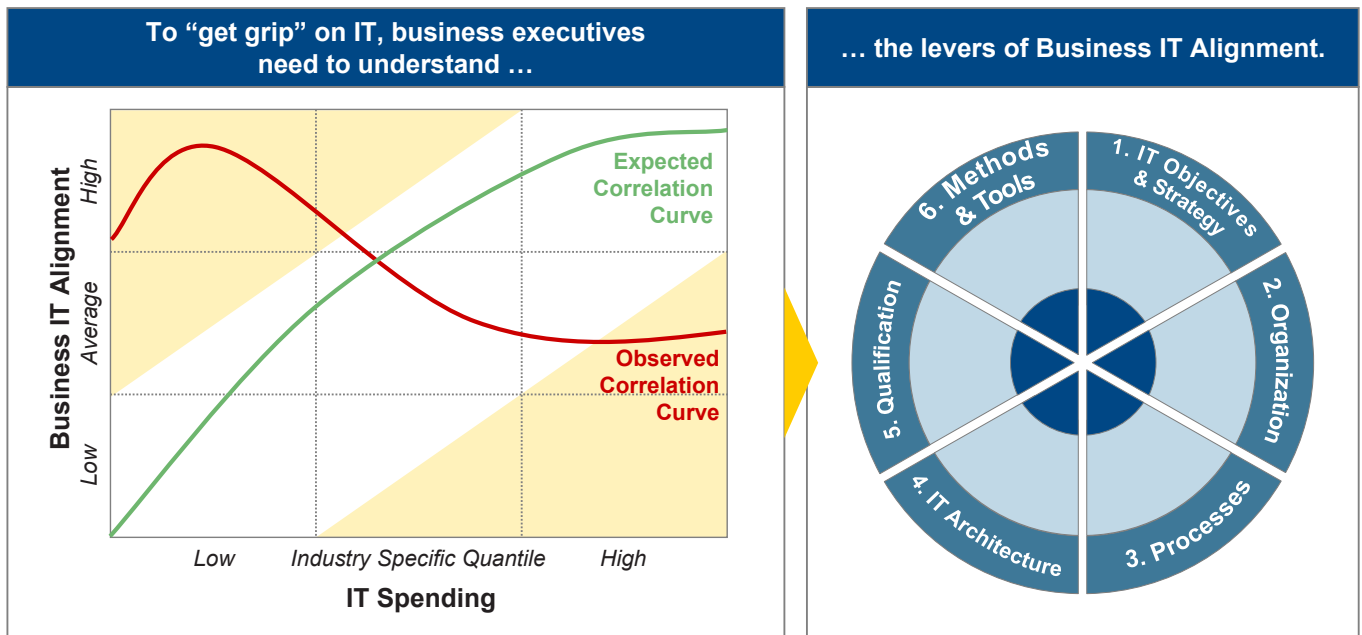


Figure 1: Correlation between IT spending and business/IT alignment

The following example, from a large financial services company, illustrates a number of observations, mainly weaknesses, clustered in six areas, each of which can be used as a lever to improve alignment:

- **IT Objectives & Strategy:** Company’s business executives perceive no value from established IT strategy. Insufficient communication between business and IT means most effort is bound to nice-to-have projects rather than strategically important ones.
- **Organization:** Due to the CIO’s strong and established company-wide position, the IT department has become “built to people” instead of “built to functions”. This makes it difficult for the business to accomplish real business-driven change in the IT landscape.
- **Processes:** Since there are no process owners responsible for continuous business process optimization, the company lacks a reliable business process architecture from which to derive an adequate IT architecture. As a result, IT rules business – and not vice versa.
- **IT Architecture:** The company’s IT architecture cannot be systematically derived from process or business requirements and so corresponds only randomly to global business objectives and strategy. Business and IT are only loosely aligned.
- **People:** The company had pursued an opportunistic rather than a tactical sourcing strategy and, as a result, core IT competencies were supplied largely by external service providers. Thus, the company began to insource business critical functions.
- **Methods & Tools:** The company does not make consistent use of established methods and tools frameworks (CobiT, ITIL, etc.). Where methods and tools are applied, they usually prove to be inadequate for the company’s size and situation.

When assessing a company’s current Business IT Alignment status, each of the six categories outlined above needs to be considered. An initial assessment will provide decision-makers with an indication as to

which fields are most in need of improvement. Then, if required, a deep analysis can be undertaken to explore the potential for improvement and the action required more thoroughly.

KEY PRINCIPLES

Our experience shows that successful companies manage all of these categories effectively, giving them a significant advantage and enabling them to outperform their competitors. The following paragraphs (and figure 2) identify some of the major points to be considered by businesses aiming to improve Business IT Alignment:

1. IT Objectives & Strategy

To ensure IT strategy is derived from business strategy, both business and IT top management should be involved in setting IT strategy. This will also help to ensure that the business has realistic expectations of IT. As any changes to business strategy usually result in the initiation, cancellation or delay of IT projects, the IT project portfolio has to be actively managed. The key is to focus resources on strategically and commercially important projects and to make sure that the project objectives are achievable.

2. Organization

In an ideal environment, a company’s organizational structure reflects its business strategy and processes. This means structures and processes should develop continuously to support the effective implementation of the business strategy. Depending on the business model, the industry and product diversity, the structure of the IT department may be centralized, hybrid or decentralized. In this context, IT coordinators assigned

to each business unit are especially useful. In any case, an organization structure with clearly defined roles and responsibilities and clear governance and reporting structures is essential.

3. Processes

The trend towards the commoditization of non-core business processes that represent a pure cost, as distinct from value-creating core capabilities, continues. Simple rules for core business process capabilities are: to spend budget wisely on business and IT, to innovate, to lead selectively and to invest in innovation and process excellence – and not technology per se. By contrast, rules for non-core business processes are: to aim to reduce business process costs, to take advantage of industrialization to spend less on IT, to scale, to outsource, to follow innovation and to focus on eliminating vulnerabilities rather than seizing opportunities.

Beyond business processes, well-defined inter-organizational processes, such as budgeting, demand management or prioritization, allow companies to limit their IT spending on a yearly basis and to prioritize and implement appropriate measures successfully within restricted resources. Some examples for intra-organizational processes, run in the IT department only, are the service management processes according to ITIL or CobiT as well as the company’s IT Strategy process. The latter can be split into the following sub-phases: vision & mission, IT business impact, IT audit, IT architecture, innovation management, IT capability management, strategy communication and indication.

4. IT Architecture

The IT architecture reflects a company’s progress in having successfully implemented business processes

and underlying requirements. Although of high strategic importance, IT architecture is for most business executives the least transparent aspect of IT. To address this, the application and technology landscape should be documented by the IT department and discussed openly with line management.

Improved transparency allows the business and the IT department to identify areas for improvement and to consider the cost-benefit ratio of applications and the actual business benefit they deliver. Once areas for improvement are identified, the target architecture can be defined. Based on a gap-fit analysis, the main measures can be identified and prioritized according to their economic impact, strategic importance and ease of implementation. These steps followed, the current architecture can be successively developed to the target architecture.

5. People

Having the right people is key. The IT department needs to be aware of the company’s core processes and develop its people accordingly. It also requires a structured way to foster knowledge transfer and retention within the company. Usually, outsourcing IT services is perceived to offer the potential for savings. This may be true for commodity-type IT services, but it is strategically important to prevent critical processes and certain key support activities from being outsourced. For activities related to the business’s core competencies in particular, talent needs to be attracted, developed and retained within the company.

Those responsible for building the interface between business and IT need to be able to speak both languages – business and IT. Only then can smooth

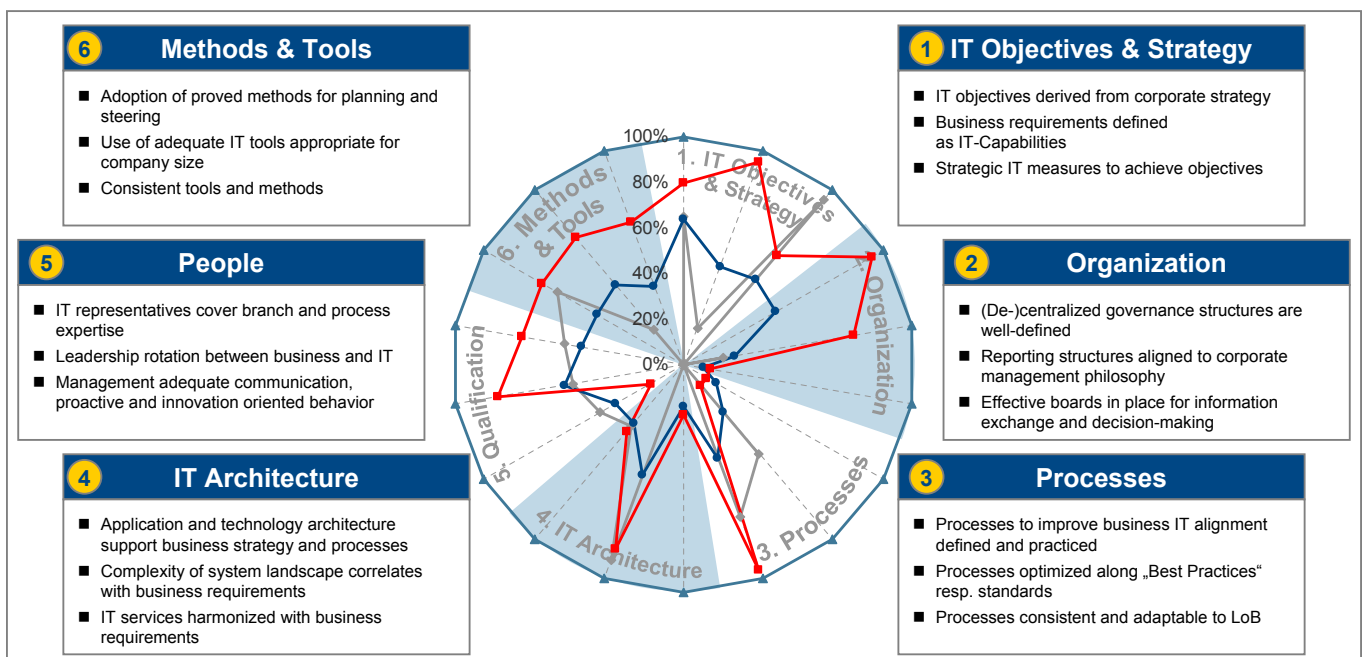


Figure 2: Key principles of Business IT Alignment

communication, with less misunderstanding, be achieved. A policy of rotating leaders between business and IT can strengthen the bonds between these two spheres and help to establish a common language.

6. Methods and Tools

Adopting proven methodologies and tools is recommended for most companies. Once a company has reached a certain size, appropriate support tools are needed to plan, steer and communicate projects. To avoid the common mistake of applying the wrong tools or too many tools, a regular review of the portfolio should take place. This provides an opportunity to appraise legacy systems and to ensure that tools in use are appropriate for the company's current size and for purpose. Our experience shows that it is far more efficient to use fewer tools but to ensure they are deployed consistently on a company-wide basis. This approach reduces complexity and costs while delivering comparable benefits. A communication plan should inform designated as well as potential users about the portfolio of tools available and ensure they receive training if necessary.

Arthur D. Little's Value Proposition

Business IT Alignment has become a common area of focus for organizations striving to achieve incremental competitive advantage. But most companies lack the methodology, experience or perspective to undertake the required self-assessment and to developing an action plan. What's more, as we have seen, there is no reliable correlation between IT spending and Business IT Alignment. Targeting available resources appropriately is more effective than simply increasing IT budgets.

The Arthur D. Little maturity model has helped a large number of companies across all industries to assess and improve their Business IT Alignment by following this successful approach:

- Assess the current Business IT Alignment based on a structured IT audit
- Identify the pain points and develop a shared vision and ambition
- Develop a target scenario taking into consideration the six levers and best practice
- Define and prioritize actions with a realistic timeframe and measurable targets
- Establish and continuously improve the alignment process within the organization

By better aligning business and IT, companies have been able to gain a significant competitive advantage, especially by being able to react to market changes more quickly. From Arthur D. Little's viewpoint, these companies also tend to be quite innovative, since IT acts as an enabler rather than just a cost center. Small wonder then that IT Business Alignment is rated among the top three items on the CIO's agenda.

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