

## BUSINESS & IT ALIGNMENT:

# Then & Now, A Striking Improvement

BY DUTCH HOLLAND AND GARY SKARKE

Business and IT have developed a much more productive working relationship over the past seven years. The December 2001 issue of *Strategic Finance* let readers in on the big secret—Unrealized Business Value (UNBV)—in its cover story, “Is your IT system VESTed?” According to the article, “UNBV represents a huge shortfall in the value of massive IT investments that were not ‘VESTed,’ that is, did not hit corporate bottom lines.” The reason was the lack of business and IT alignment.

**Table 1: Roles of the “Chief” Level Executives**

|            | THEN   | NOW  |
|------------|--|--|
| <b>CEO</b> | ◆ Maintain an expenditure perspective<br>◆ Be the watchdog           | ◆ Maintain an investment perspective<br>◆ Be the advocate                                    |
| <b>COO</b> | ◆ Protect operations at all costs<br>◆ Participate in the IT program | ◆ Enhance business and manage risks to operations<br>◆ Lead the business improvement program |
| <b>CFO</b> | ◆ Analyze and status expenditures<br>◆ Audit program management      | ◆ Analyze investment progress<br>◆ Coach program manager                                     |
| <b>CIO</b> | ◆ Ensure technology integrity<br>◆ Lead the entire program           | ◆ Ensure technology integrity<br>◆ Lead the technical project                                |

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Although misalignment hasn’t vanished from the business world, companies have learned many lessons and applied them over this seven-year interim. One solution the article pointed to was “Initiatives must be envisioned as business projects enabled by IT (BPITs) and not exclusively as IT projects.” The article explained that this solution puts the entire executive suite of C-level officers into play as BPIT leaders and uses operations integration to fully vest the initial economic investment, which is similar to individuals vesting their retirement plans.

To personalize the evolution of corporate thinking about business-IT alignment, consider these then/now scenarios (see Table 1 for the roles of the executives). Executives have moved from a negative mind-set toward big system expenditures to seeing IT as a major investment in the business. This is no different from generating revenue from a new industrial plant that just started production.

**Then: A Typical Company Scenario Seven Years Ago**

**CEO:** Okay...glad you’re all here. I just wanted to touch base about the board meeting tomorrow. As you know, we have to put the NewWare software on the table since it’s an expenditure of more than \$25 million. I’ll introduce the subject. Who will be up first?

**CFO:** I guess I will. I have the project expenditures down on a single sheet of paper. Nothing really special here...95% of the dollars are going to the software vendor and the systems integrator. Charlie, you might want to comment here.

**CIO (Charlie):** I can say a few words about how we got the software price down to a reasonable level. We also beat up the system integrator and got some deep discounts on their labor rates.

**CEO:** All right. Is that okay with you? Anything else we

need to add? Karen, what about you?

**COO (Karen):** We’re okay in operations. This software is supposed to get us reduced cycle time in manufacturing our key product line. You’re not going to mess anything up, are you Charlie?

**CIO (Charlie):** (frowns)

**CEO:** Sounds like we’re ready. Next subject.

**Now: A Successful Company Scenario**

**CEO:** Okay...glad you’re all here. I just wanted to touch base about the board meeting tomorrow. As you know, we have to put the cycle-time initiative on the table since the total investment will exceed \$25 million. I’ll introduce the subject. Who will be up first?

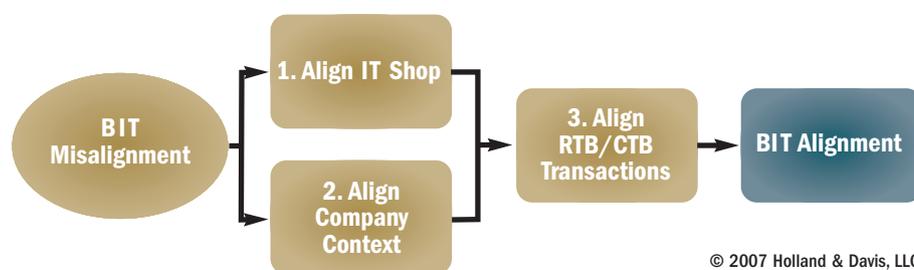
**COO:** I should go first. Last year we decided that our most critical business issue in manufacturing was lowering cycle time on our key product line. I think we have a real opportunity to get our time down by more than 25%, which should allow us to capture some sales we’re missing now.

I have one of my key guys assigned as the program manager on the cycle-time initiative. He’s working to make sure that our processes and employees are ready to change. And he’s working with Charlie (CIO) to make sure that the software we selected will be ready on time.

**CIO:** And I’ve appointed our strongest project manager on the technical side to make sure that we get NewWare ready and tested on time for Karen’s (COO) cycle-time launch.

**CFO:** Financial numbers are ready to go. On one page I have essentials of the business case for this investment, as well as cash outlays for getting the business ready for the change and numbers for the software and systems integration.

**Figure 1: Business-IT Alignment**



**COO:** Let me wrap up with my commercial....Down with cycle time!

**CEO:** Sounds like we're ready. Next subject.

In the wake of today's revised mind-set about the business and technology environment, American business is using IT well. According to the September 2007 edition of the *International Labor Organization Report*, IT is driving the U.S. to win the highest worker productivity award globally for the fifth consecutive year. Further, IT will continue to be a major source of corporate innovation and worker productivity for the foreseeable future.

Meanwhile, two key developments have emerged. First, the problem of getting value from new IT—caused by a lack of business-IT alignment—has been named as the CIO's greatest concern, according to the January 2007 issue of *CIO* magazine. The second development, however, is of overriding importance on a highly positive note: Three solutions for better connecting business and IT are emerging from studies of business IT successes over the past few years.

At the same time, businesses have yet to erase one negative. As software automates larger and larger chunks of a company's business, it's supposedly becoming ever easier to implement and use. In fact, the opposite is true. With software involved in so many business functions, management and users throughout a company must make more accommodations, not fewer, to sync up with the latest generation of user-friendly, labor-saving applications.

### KEY SUCCESS FACTORS

By the time most companies work through several technical implementations, user-preparation exercises, and, finally, software installation, they are worn out, willing to settle and move on. Not so fast. Three solutions include aligning the IT department, executive roles and the company context, and methods for automating business innovations. Let's look at each.

### Align the IT Department

Many key success factors for IT alignment are largely inside the IT department already and within IT's control. With that understanding, one of the most important lessons learned is that for IT to be genuinely aligned with the business side, it needs to take definite actions (see Figure 1). To take an important step toward business-IT alignment, a company can assess, design, and implement changes at the IT foundation level.

Above all, aligning IT and business isn't a matter of aligning business and IT goals but, rather, aligning business processes with IT applications, the IT processes, and supporting architecture. Accordingly, one piece of this four-part umbrella is strategic planning for business-IT alignment. The place to start IT strategic planning is to study the documentation of the business's work-process architecture.

The second part is IT structural alignment, with an equally clear theme. To have full alignment with the business, IT departments can change the way they're structured and resourced to complement the organization's structure. Companies must structure IT organizations so that they can provide both Run the Business (RTB) and Change the Business (CTB) services to business units. Actions to accomplish these goals include assessing the current structure and implementing necessary structural changes to align with the business.

A return to the old-fashioned IT organization chart has recently emerged. It's composed of three primary functions: operations, application development, and business analysis, the newly returned "lost sheep" of the org chart. Companies removed business analysis about a decade ago in a cost-cutting drive, and they shifted to the client-server environment. In turn, the new IT organization era is expressing itself with much stronger processes and resources under business analysis that can connect with business-side projects to increase the level

of business success.

The third aspect of alignment is IT-process alignment. One key ingredient missing in IT departments is their own work-process architecture and the habit of thinking process. When most IT professionals do think architecture, system architecture is what inevitably comes to mind. In fact, another architecture is key to keeping IT work focused—the architecture of the work processes inside IT and how well these processes allow service of the business customer.

To be successful in today's business world, IT organizations must think and manage by process. IT departments must identify processes, assign owners to each process, and enhance those processes to meet business requirements. Actions to accomplish these goals include process assessment, process enhancement, and process implementation.

The fourth aspect of alignment inside IT is talent management whereby IT talent must match the relationship and competence requirements of the business. To get the right people on the IT bus, IT departments need to include competency assessment, design and implementation of recruiting, selection, training, evaluation, and compensation processes.

A more anecdotal explanation is that companies may want to reposition some of their IT talent. The IT department's core has traditionally been software development, the area where IT careers are made. In contrast, IT customer interfacing is usually populated by those more skilled on the service side than highly technically versed. In reality, strong IT talent is needed in both places to serve the business well.

### **Align Executive Roles and the Company Context**

Business-IT alignment is only as good as the degree of alignment and cooperation among C-level executives. In other words, IT projects that enable business improvements don't occur in a vacuum. Instead, they occur inside a company context that has grown up over time as companies learned to work with and around IT. In many companies, the way of working with IT isn't the same and isn't as effective as their way of working with production assets like plants and equipment.

A company's CEO, COO, CFO, and CIO must be of one voice, or there will be misalignment from the beginning. Executive-savvy senior-level professionals can help IT receive the right top management support at the right level and at the right time while ensuring that the user organizations do their parts, too.

Throughout the alignment process, C-level manage-

ment must remember a dictum that drives this entire paradigm shift: In the business world, change is now the rule, not the exception. Therefore, goes sage advice, management "better get real good at change...including the IT part."

**A Four-Part Approach.** Executives should follow a four-part approach to prepare the organization for IT alignment. First, they must be ready and willing, not reluctant, to host business innovations that use IT. They must hold managers accountable for business innovation and its implementation, including preparing their personnel to begin work at system go live. Executives must also assess the innovation environment as well as develop and execute specific plans for building an organization-wide foundation to support business innovation.

The second part is to assign C-level roles for IT alignment around a business innovation. Pragmatically, aligning business and IT is both a contact sport and a team sport. And the organization's C-level executives must each play a specific role in both IT strategy and business innovation. Actions to accomplish these goals include developing executive roles with respect to IT alignment and arm-in-arm work with executives to prepare them to act out those roles.

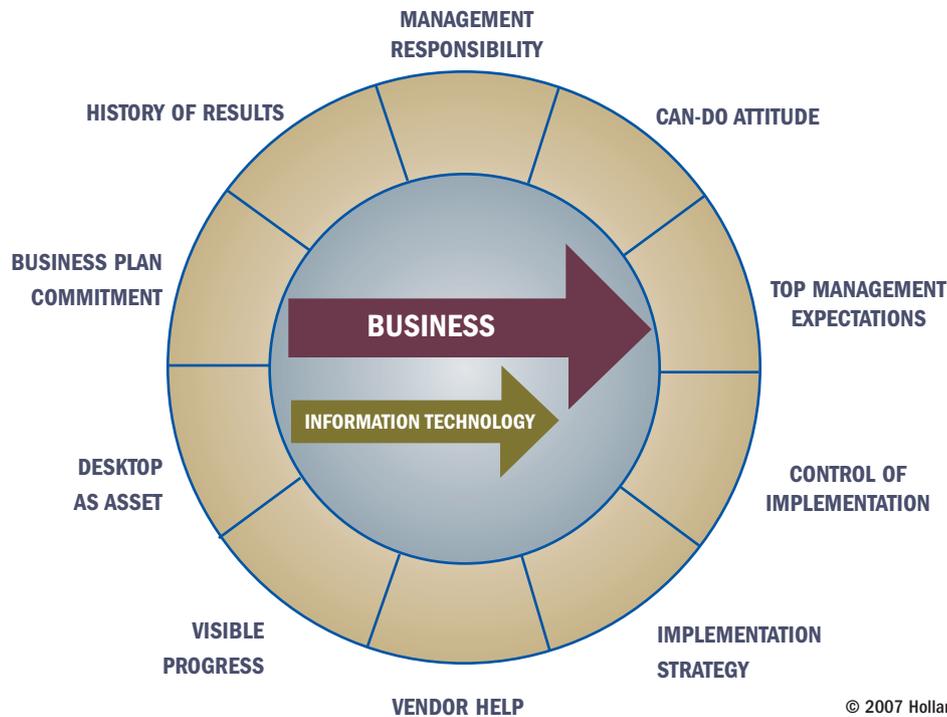
The third part is to actively prepare executives for leadership in business innovation. Business-IT alignment at the level of a business innovation requires both the commitment and action of C-level executives. Actions to accomplish these goals include developing executive scripts to use in providing the level and kind of leadership required for the innovation initiative. The objective is to prepare senior executives so they are at the right place at the right time and using the right script to be true innovation leaders.

Finally, executives advocating business-IT alignment initiatives are a necessity. Conflicts inevitably will occur in the course of a business innovation project. Project team members must be willing to take project issues to the C-level, if necessary, to get a speedy decision and ensure that the cards are on the table.

**Making Alignment Happen.** The organizational context for business-IT alignment has several dimensions to make alignment happen (see Figure 2):

- *Make a business plan commitment around a new BPIT.* In other words, the strategy is similar to a company building the capacity of a new factory into its business plan. Companies with successful business-IT alignment are willing to put planned results of innovation projects into their business plan for the future. What typically happens with IT investments is that only the associated

**Figure 2: Context Factors Affect Business-IT Alignment**



cost is built into the business plan—nothing on the revenue side is. By not putting in the business results they anticipate from IT-enabled projects, management is flatly stating that no actual bankable results are expected. Instead, companies view IT-enabled projects as a tool not associated with tangible business results.

- *Move past history of failures.* Even companies successful in their use of IT have their share of projects that didn't fare as well as planned. Because these companies have earned their reputation for being consistently successful, they have learned to move quickly past the failures. In doing so, they have developed a positive history so that the business projects IT enables don't begin on a bad note.

- *Enroll business unit managers to take responsibility to thoroughly prepare their people.* While the software is being developed, managers must prepare their employees to use the new system or software in the work of the business unit. These proactive companies have gone beyond seeing new IT as a somewhat nebulous intrusion into their organization. Instead, they view an IT-enabled project with the same can-do attitude as with a more tangible new assembly line for products.

- *Show visible progress of the implementation process.* IT can show implementation progress by providing progres-

sive demos of system development or showing a prototype so that users aren't later blindsided. Business users can then see and build expectations of a scheduled go-live date.

- *Have top-to-bottom clarity about top management's expectations that the IT systems will be used 100% at go live.* Desktops are assets of the company, not private property of individuals. When new systems and applications show up on the desktop, they are to be used immediately upon go live, which is no different from building a physical factory that should be put to use when it's ready for occupancy.

- *Help from vendors.* Surprisingly, most companies score well in providing vendors to help with preparation, installation, configuration, and systems integration of new software. Typically, they haven't even held back on expenditures. Successful companies, however, have moved to the next level by also providing vendor technical assistance to get business users ready to go to work at go live.

- *Make the implementation strategy clear.* There are two basic strategies: First, the business improvement is a part of a business-wide change in the way things are done—e.g., deployment of a new trading system that requires all traders to go online simultaneously. Second, various units adopt the improvement at their own discretion. Clarity

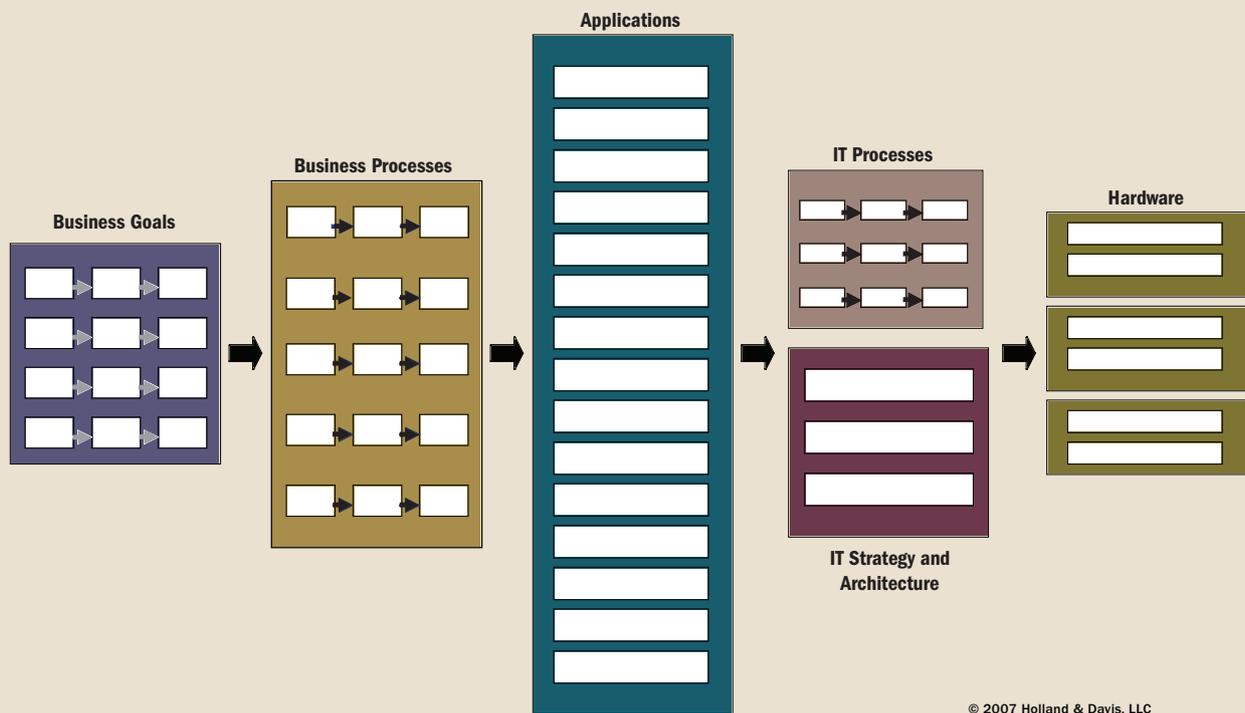
## Seeing the Alignment Pattern

A consultant/client exercise that has proven helpful in understanding the business-IT alignment involves mixing business and IT people into random teams. Each team is given various pieces of the strategic planning diagram (Figure 3) and asked to agree on how to arrange the blocks from left to right to express IT alignment.

Generally, most teams get the starting point of business goals on the left, but from there it's anybody's guess as to how the teams will organize the boxes. This result occurs repeatedly despite having only experienced IT and business people play the game.

Ironically, the exercise only asks that the teams essentially look at the diagram in a careful way that makes business sense. After careful analysis, most do begin to see the pattern that must be there for business-IT alignment to occur.

**Figure 3: Strategic Planning Diagram**



from top management is critical because the implementation methods for the two implementation strategies are very different and counterintuitive.

- *Ensure business management takes ownership and control.* Since business innovation projects belong to business management, they need to own the implementation, and business management must insist that IT talk to the business side in business language, not IT language.

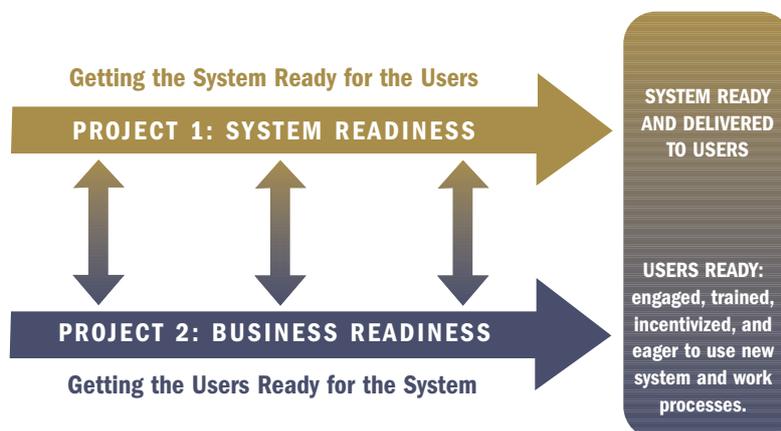
### Align Methods for Automating Business Innovations

A critical indicator of business-IT alignment is how well they work together on a single BPIT project. IT must

lead—not just follow—business innovation initiatives. This third solution captures lessons learned in five different parts of a business improvement. These include business innovation, software selection, business program management, business project management, and change engineering.

**The first part is business innovation.** Since change in business is no longer the exception but the rule, companies that want to stay competitive need a continuous string of innovations and an energetic innovation process. Innovations don't just happen. While developing innovative ideas is vital, it's just as important to think

**Figure 4: The Two Project Approach**



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about the way those ideas will be implemented.

The second part is software selection. A specific method should guide a company to select the right software to meet the business innovation's needs. Scenario-based selection techniques ensure companies compare vendors apples to apples, allowing the company to make the best choices of both software and vendors. Actions to accomplish these goals include use of a robust software-selection methodology and disciplined decision making unencumbered by legacy software or favorite vendors.

The third part is business program management. Every business innovation will have many moving parts, many of which might become projects. Additionally, every business improvement initiative must fit in with both the current business and other innovations and changes that are under way. Actions to accomplish these goals include business program management, program managers, program management methodologies, and both training and tools for robust program management at the scale fitting the organization's need.

The fourth part is business project management. Business innovations are totally dependent on effective project management. For successful business improvement, projects must come in on target, on time, and on budget. Actions to accomplish these goals include project management, methodologies, and both training and tools for the two essential kinds of projects key to business innovation.

Actually, two very different kinds of projects are required when implementing an IT-enabled business improvement (see Figure 4).

**1.** System Readiness Projects: An enormous amount of

technical work goes into getting new software applications ready for the business. This technical work of readying systems for the organization calls for experienced project managers.

**2.** Business Readiness Projects: Getting users ready to use the IT system calls for an equally enormous amount of work. It means aligning business processes, procedures, competencies, and reward systems so that the business will be ready to begin work with the new system when it goes live. This business-readiness work calls for systematic, robust project management as well.

**Fifth and final is change engineering.** By definition, innovations are changes in the ways a company is doing business. Companies should look at and work on innovations as engineering problems that apply proven bodies of knowledge to the changes so the business can operate in a new way. Actions include using personnel skilled at change management, training, and tools including communication, process definition, procedure writing, performance evaluation, and incentive systems.

## FUTURE THEN-AND-NOW SCENARIOS

When the next seven-year then and now is written, what should readers expect? Ideally, the current scenario will become what everyone is profitably doing with business and IT alignment to achieve unprecedented marketplace success. ■

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