



Beyond Alignment:

Converging IT with the Business



The most successful businesses use technology to *shape* strategic choices, not just enable them. At these companies, business and IT have *converged* to become one and the same.



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It might sound like a pipe dream.

After all, according to research recently conducted at the Massachusetts Institute of Technology Sloan School of Management*, the lack of IT-business alignment is pervasive. At nearly three-quarters of the companies surveyed, spending on IT was in line with industry averages — but it wasn't well-aligned to business objectives. So, despite their average levels of IT spending, these companies posted compound annual sales-growth rates over three years that were 2 percent *below* industry averages.

If that were the end of the story, the prescription for this widespread problem would be fairly straightforward: Get IT aligned with business objectives and we can all go home.

But wait — the story isn't over. The same research* reveals that aligning IT and business objectives can and does backfire: At 11 percent of the companies studied, efforts were made to align IT projects with business objectives, and along the way these firms spent substantially more than average on IT (13 percent more). However, they failed to get a payoff. Instead, these firms' sales compound annual growth rates over three years were 14 percent below industry averages.

Yet few, if any, believe that IT, which is now a fundamental part of virtually all business activities, need not be aligned with business objectives. So what's going on here?

18%

of respondents to the MIT Sloan School survey believe that their company's IT spending is highly aligned with business priorities.

(Avoiding the Alignment Trap in IT, David Shpilberg, Steve Berez, Rudy Puryear and Sachin Shah, MIT Sloan Management Review, September 2007)



On the Nature of Alignment...and What's Being Aligned

The authors of the MIT/Sloan study define IT-business alignment as "the degree to which the IT group understands the priorities of the business and expends its resources, pursues projects, and provides information consistent with them."^{**}

Thus, business leads and IT follows. And much of the (now needless?) complexity in technology infrastructure, systems and applications may mirror the (now needless?) complexity in the business itself. Arguably, though, such complexity is inevitable: Initiatives coming from various business units proliferate, and each must be supported by IT, which must also support older legacy processes. This leads to complexity creep that classic principles of alignment do not address.

That's why the BTM Institute, a nonprofit, multidisciplinary research think tank, uses a maturity hierarchy to describe successive stages of IT-business relatedness. At the lowest point in the BTM Institute's business technology management

hierarchy is alignment, which is about keeping up with what the business wants to accomplish.

Next comes synchronization, in which IT is able to influence how the business operates. At the top of the BTM Institute hierarchy is convergence: "when business and technology activities are intertwined, and the leadership teams operate almost interchangeably."^{***} In a converged organization, IT and business objectives are the same; IT and business vocabulary are identical.

85%

of respondents to the MIT Sloan School survey believe that their company's IT capabilities are not highly effective.

[*Avoiding the Alignment Trap in IT*, David Shpilberg, Steve Berez, Rudy Puryear and Sachin Shah, MIT Sloan Management Review, September 2007]

15%

of respondents to the MIT Sloan School survey believe that their company's IT capability is highly effective.

[*Avoiding the Alignment Trap in IT*, David Shpilberg, Steve Berez, Rudy Puryear and Sachin Shah, MIT Sloan Management Review, September 2007]

The Payoffs of Convergence

Becoming "more converged" pays off. The BTM Institute reports^{**} better revenue growth for "more converged" organizations between 2002 and 2006 relative to their industry groups — 12 percent annual revenue growth vs. 4 percent for their industry groups — as well as improved net margins of 36 percent average annual earnings per share vs. 7 percent for their industry groups.

These more-converged enterprises also delivered consistently greater returns than their competitors:

- 6 percent higher EBITD (earnings before interest, tax, and depreciation) margins than those of their industry groups
- 4 percent average higher return on equity
- 8 percent average higher return on assets
- 14 percent higher return on investments

"The convergence of the business and technology sides of an organization into an integrated, 'whole-brained' enterprise provides the connections among innovation, resilience and agility," write the authors of *Business Technology Convergence Index*. "This organizational maturity supports innovative thinking through carefully designed processes, rewarding measured risk taking, and providing information architectures that serve as a knowledge base for building and testing opportunity scenarios. Convergence provides the enterprise with the platform to thrive on marketplace change rather than just react to keep pace."

of respondents to the MIT Sloan School survey believe that their company's IT capabilities are neither highly aligned nor highly effective.

[*Avoiding the Alignment Trap in IT*, David Shpilberg, Steve Berez, Rudy Puryear and Sachin Shah, MIT Sloan Management Review, September 2007]

74%

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10 CONVERGENCE BEST PRACTICES

Simplify IT operations.

It's easier to deliver IT projects on time, on budget and with the required functionality when costs related to keeping the lights on are better controlled, so more time and resources can be devoted to creating a highly effective IT operation. This means:

- > Standardizing wherever possible.
- > Committing to an enterprisewide architecture/infrastructure that's consolidated in just a few locations.
- > Resisting pressure to support siloed business operations and initiatives.
- > Eliminating redundant applications and tools.
- > Establishing performance and security metrics and management capabilities so systems run smoothly and reliably.
- > Outsourcing those activities that are low in added value and which are well understood by IT staff.

Anticipate complexity creep.

Simplicity is hard to achieve and, arguably, decays into complexity without intervention. One way to spot complexity creep: when costs associated with "keeping the lights on" start climbing relative to product development.



Know the business's priorities.

IT will never intertwine with the business if IT managers do not understand the organization's strategic priorities. Once IT understands these priorities, it's possible to provide the business with the right information at the right time and place.

Focus on governance.

It's important to enforce consistent, managed processes for making enterprisewide decisions. These processes must ensure that business management is involved in technology decision-making, that risks are assessed and understood, that the effects of change are well managed.

Rethink accountability.

Who — in IT, in the business — is watching the business as a whole, not just one business unit or another, one IT project or another? IT needs direction and input from the business — and the business needs direction and input from IT, shaped by focus not on business units but on the organization's core processes. IT steering committees need senior business executives — even the CEO or CFO — to get involved in IT spending decisions, which should be explicitly based on strategic priorities. Nor can accountability be achieved by fiat. Those responsible for outcomes must have the tools and authority needed to achieve those outcomes.

Bring IT to the business units.

IT people serving as liaisons with business units not only represent IT to the business, but also represent the business to IT. Much of innovation depends on those unpredictable moments of insight that depend on understanding the capabilities of technology as well as the needs and opportunities inherent in the business. Because this is so important, these relationship managers should be at a fairly high level in the organization.

Be careful with your metrics.

IT managers need to measure what they do in terms of the business and translate accordingly. For instance, discussions about packet loss will mean little, but conversations about getting customer information to call center staff faster will be understood by businesspeople.

Drive projects with multidisciplinary teams.

When IT works with key business elements to develop a project, collaboration can streamline the effort. But beware: This can also encourage silos operating outside of approved enterprise architecture. Drive projects with multidisciplinary teams. When IT works with key business elements to develop a project, collaboration can streamline the effort. But beware: This can also encourage silos operating outside of approved enterprise architecture.

Embrace grassroots technology use.

There's no stopping the likes of instant messaging, social networks and other Web 2.0 evolutions — these and other capabilities will find a way around banishments. Instead, control them by standardizing them and making them part of an enterprisewide infrastructure.

Expect to optimize continually.

Optimization is required not just when processes change, but when available information improves, when a new technology opens new opportunities, when organizational structures are altered, when risks are reassessed. Optimization never ends.

7%

of respondents to the MIT Sloan School survey believe that their company's IT capabilities are both highly aligned and highly effective.

[Avoiding the Alignment Trap in IT, David Shpilberg, Steve Berez, Rudy Puryear and Sachin Shah, MIT Sloan Management Review, September 2007]

35%

higher than average in three-year sales compound annual growth rate was reported by companies whose IT capabilities were both highly aligned and highly effective.

[Avoiding the Alignment Trap in IT, David Shpilberg, Steve Berez, Rudy Puryear and Sachin Shah, MIT Sloan Management Review, September 2007]

What are Converged Enterprises Doing Differently?

'Capability' in this context carries a quite specific meaning: a competency that's "ordered by repeatable processes, executed through appropriate organizational structures, and enabled by the right information and technology."** The BTM Institute study identified four management capabilities prevalent in "more converged" organizations:

- *Governance and organization:* Establishing what decisions should be made, the processes used to make them, who should make them. Among the types of governance needed: strategic and tactical, organization design and change management, communications strategy and management. The goal: networked governance.
- *Strategy and planning:* Laying out an integrated business-technology agenda. The goal: innovation and agility in key areas.

- *Strategic investment management*: Articulating business and technology management roles in decisions about assets and value rationalization. The goal: a performance-driven decision matrix for resource allocation.
- *Strategic enterprise architecture*: Linking/entwining technology and business processes. The goal: enterprisewide visibility, ability to execute a converged business model.

6%

lower than average in IT spending was reported by companies whose IT capabilities were both highly aligned and highly effective.

[Avoiding the Alignment Trap in IT, David Shpilberg, Steve Berez, Rudy Puryear and Sachin Shah, MIT Sloan Management Review, September 2007]

Getting There

There is, however, an important intermediate step on the path toward convergence, which those conducting the MIT/Sloan study picked up on after analyzing the 15 percent of companies in the study whose IT operations were deemed "highly effective."

Less than half of these companies — 7 percent of the total — performed as one would expect from "more converged" organizations: They were at once focused on matching up IT and business objectives *and* were highly effective at delivering IT projects on time and on budget. For this small group, the payoffs were the most impressive: IT spending was 6 percent lower than the industry average, and the compound annual growth rate for sales was an eye-popping 35 percent above industry norms over three years.

But the remaining 8 percent of those companies in the MIT/Sloan study give a hint of the path organizations need to follow to achieve convergence. This final 8 percent were comparatively unconcerned with IT-business alignment and instead focused on IT execution, with an emphasis on getting projects deployed on time and on budget. The result: IT spending was 15 percent below industry average and the three-year sales compound annual growth rate exceeded the industry average by 11 percent.

The lesson: It takes a highly effective IT organization to achieve convergence.

25+%

higher profits are garnered by firms with superior IT governance as compared to firms with poor IT governance, given the same strategic objectives.

[How Top Performers Manage IT Decision Rights for Superior Results, Peter Weill and Jeanne Ross, Harvard Business School Press, 2004]

This suggests that the business complexity reflected in IT operations must be, well, simplified. Hence, the first steps toward the IT-business convergence so rich in competitive promise must be taken in IT by IT: embracing companywide standards; eliminating legacy environments, layers of customization, and add-ons at every opportunity; and developing new enterprisewide solutions based on a simplified, standardized architecture.

38%

of senior managers know how IT is governed.

(IT Governance on One Page, Peter Weill and Jeanna Ross, MIT Sloan Center for Information Systems Research, November 2004)

**Avoiding the Alignment Trap in IT*, David Shpilberg, Steve Berez, Rudy Puryear and Sachin Shah, MIT Sloan Management Review, September 2007.

[\(http://sloanreview.mit.edu/smr/issue/2007/fall/02/\)](http://sloanreview.mit.edu/smr/issue/2007/fall/02/)

**Business Technology Convergence Index, BTM Institute, June 2007.

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