IT Strategy and Business Strategy: A Path to Alignment

Presented by:
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Outcomes of Presentation

• An understanding of what alignment of IT strategy and business strategy means
• An understanding of the elements and steps involved in achieving alignment
Objective of Presentation

To present and discuss an approach to alignment of IT and business strategies, that addresses the following questions:

- What is alignment?
- Why does this subject matter?
- What are the essential elements involved, and the logical steps to developing them?
- How do you achieve an business transformation plan that delivers the alignment?
- What are the challenges and pitfalls to achieving success?
What is Strategy?

In *The Rise and Fall of Strategic Planning*, Henry Mintzberg identified the following aspects of strategy in the literature:

- **Directional**
  - A pattern of behaviour over time
  - An organization’s perspective on its business or its concept of it
  - A position, namely the determination of particular products in particular markets
  - A direction or guide going forward

- **Actionable**
  - A plan or course of action into the future
What is IT Strategy?

• Directional
  – A pattern of behaviour over time, expressed as principles, e.g. buy vs. build
  – An IT organization’s perspective on its “business”, expressed as policies, e.g. a Service Oriented Architecture approach, outsourcing of applications development
  – A position on particular products, expressed as standards - Linux but not Microsoft Windows, MySQL not Oracle
  – A direction or guide, expressed as defined target architectures

• Actionable
  – A course of action, expressed as a portfolio of planned projects to be executed
What does it mean to align IT strategy and business strategy?

• Alignment exists when:
  1. IT capabilities
     • support the business capabilities that are needed to execute the business strategy
     • have the flexibility to accommodate business strategy changes
  2. IT investments are justified by the business on the basis of benefits from the business transformations that they enable
  3. The directional aspects (principles, policies, standards and architectures) of IT strategy are driven by the business strategy

• The degree to which these occur depends on maturity of the organization in the practices involved.
Why does this subject matter?

CIOs ranked aligning IT and business goals as being No. 1 (for small and large companies) and No. 2 (for medium-size companies) in their list of top management priorities.

Forrester Research, April 2005

- Because failed IT investments come straight off the bottom line, without adding anything back.
- Because of lost opportunities to improve business positioning
- Because it can result in a major setback for the organization in terms of the capabilities it needs to compete.
Why - The UPS Story*

- UPS - founded in 1907, FedEx – in 1971
- By the mid-1980s, they were in fierce rivalry, and UPS was beginning to be seriously hurt from FedEx
- Their business strategy was to become a “business logistics partner” rather than a “courier”
- UPS learned that customers desired FedEx-style express and tracking services—and that required better information technology—needed logistics support for just-in-time and e-Commerce capabilities
- UPS embarked on a multi-billion dollar initiative to build comparable computer systems
- UPS chose a wiser approach. FedEx forced customers to adopt its proprietary software, while UPS designed logistical software that worked with any corporate system.
- In 2000, UPS revenues grew by 11% to $30 billion, while FedEx's revenues grew 8.8%, to $18 billion. But, UPS profits are $2.8 billion, while FedEx is just $0.7 billion.
- UPS was able to respond to market needs because IT is aligned with the business in much the same way as outlined in this presentation

* UPS vs. FedEx: Ground Wars, Business Week, May 21, 2001; IT Governance on One Page, Sloan, November 2004
What are the alignment elements and the logical steps to alignment?
Business Strategy - Directional

Business Environmental Scan

Strengths & Weaknesses Analysis

Transformation Ideas

Enterprise Business Strategy

“To Be” Products/Services

Business Architecture

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IT Strategy – Directional Functional Architectures

To Be” Products/Services

“To Be” Products/Services

Required
Capabilities

Conceptual

Business Architecture

Logical

Unconstrained Logical Applications Portfolio

Physical

IT Principles, Policies, & Standards + Current Applications

Target Applications

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Strategy Development - Actionable

Enterprise Business Strategy

+ Business Capability Gap Analysis

Target IT Architecture

+ IT Gap Analysis

IT and Business Projects

Transformation Initiatives

Costs & Benefits

Initiative Prioritization
Sample IT Strategy Principles

1. IT is business driven, i.e. IT organization, plans, architectures and solutions must support the organization’s business plans, strategies and operations
   • Business stewards will be identified for all IT assets, and they will make the business case for IT investments
   • Application systems will be designed to achieve maximum return on investment through flexibility and broad applicability
   • Information and application systems will be integrated to support new/improved operational business processes
   • IT solutions will be based on technology standards
   • The IT Human Resource strategy is to staff to support on-going operations, maintenance and minor enhancements and for project management and solutions design oversight on major IT implementations
   • For applications implementations, the preferred order of options are: Extend - Buy – Integrate – Build
   • Opportunities For Process Improvement will be Assessed As Part Of Every Project
   • Solution designs will optimize total life cycle costs
   • Implement with considerations for financial worth, risk and strategic alignment
   • Systems will have documented Service Level Standards
Logical Applications:

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**Applications Management**

**Hearings & Consultations Management**

**Compliance & Enforcement Management**

**Monitoring & Surveillance Analysis**

**Rules Management**
Unconstrained Applications Architecture
Current Applications Portfolio Assessment Framework

- **Technical Quality**
  - High 100
  - Low 0

- **Business Value**
  - High 100
  - Low 0

**CANDIDATES FOR: “Maintain”**
- “Maintain”
- Exploit, utilize, get the most value out of these systems
- Maintain and keep optimum

**CANDIDATES FOR: “Enhance business value”**
- “Enhance business value”
- Increase business value by enhancing to:
  - Turn vertical “silo” systems into horizontal enterprise systems
  - Support new uses or users
  - Retire replacement candidates

**CANDIDATES FOR: “Retire or Replace”**
- “Retire or Replace”
- Should be replaced if the replacement cost can be justified against the limited value added
- Replacement with COTS as a distinct project if cost justified

**CANDIDATES FOR: “Enhance technical quality”**
- “Enhance technical quality”
- Enhancements should take advantage of opportunities for “modernization” (improving technical quality)
How do you achieve an business transformation plan that delivers the alignment?
Critical Success Factors

IT/Business Collaboration

Business Driven IT Architecture

Portfolio Planning

Governance
The Maturity Curve

- **INITIAL**
  - Ad-hoc investment decisions driven by individual effort

- **REPEATABLE**
  - Basic Alignment Management processes installed, together with a commitment discipline

- **DEFINED**
  - Defined, standardized processes that are followed as documented

- **MANAGED**
  - Process is quantitatively managed for quality of outputs, e.g. benefits tracking

- **OPTIMIZING**
  - Continuously improving process based on feedback from implementation experience

Adapted from:
Software Capability Maturity Model
Software Engineering Institute
Carnegie Mellon University
What are the challenges and pitfalls to achieving success?

1. Thinking that there is one right way
2. Lacking a holistic theory (There is nothing more practical than a good theory – Kurt Lewin)
3. Losing sight of the planning objective and getting absorbed in detail
4. Forgetting that it is as much a political issue as a technical one
5. Project success means sticking with the game plan.
6. Thinking you can get it right the first time - no organization can do all the things that should be done the first time: there is a maturity curve.
7. Trying to do it all and forgetting that strategy is about choice
8. The CEO skews the decision-making process
9. Under-communicating – not engaging all the players and making the process real
10. Getting too serious and intense
The Path to Alignment – in summary

Transformation Ideas

Enterprise Business Strategy

Initiative Portfolio

IT Strategy

Transformation Initiatives

Benefits

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