Aligning IM/IT with Business Directions

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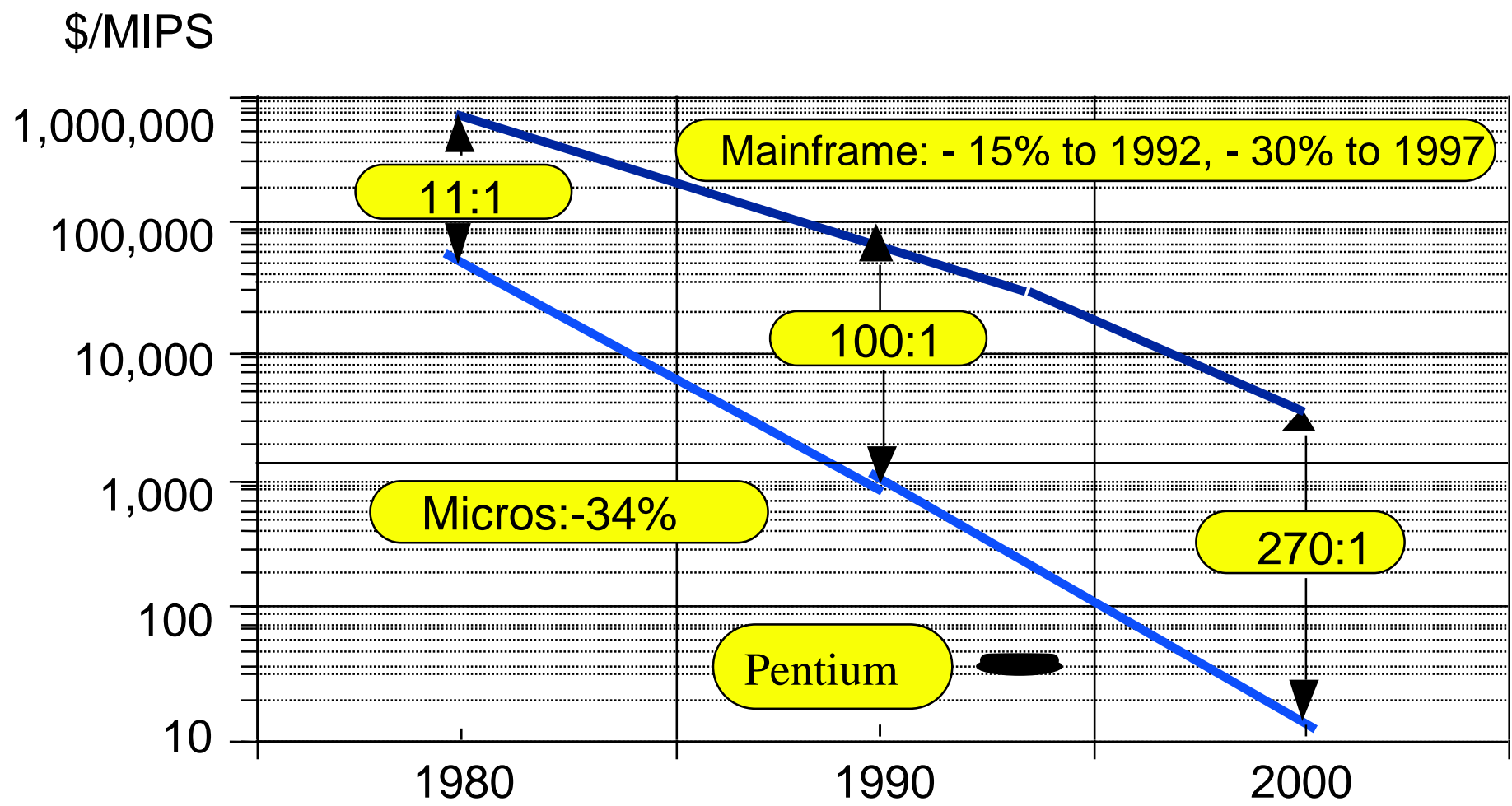
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Key Issues

1. Why is IT alignment with business an ongoing critical issue?

2. What does alignment really mean?

3. How can alignment be achieved?

Dramatic IT Cost Declines Deliver Greater IT Penetration Both in Commerce and Society

The Technological Pace of Change Remains Phenomenal

$/MIPS

11:1	Mainframe: - 15% to 1992, - 30% to 1997
	100:1
Micros:-34%	
	270:1
Pentium	

1,000,000

100,000

10,000

1,000

100

10

1980   1990   2000

The driver is Moore's Law: 60 percent/year more capacity, or 35 percent/year decline in price at the semiconductor level.

Why Alignment Matters

- IT and communications now account for over 50% of all business equipment capital spending.

- The resource management need is more critical now due to IT's penetration and its rapid pace of change.

- As a critical resource, IT requires effective resource management, and it must be aligned with the goals of the enterprise.

- This applies equally well to government as to commerce
  - Productivity
  - Information Access
  - New Services
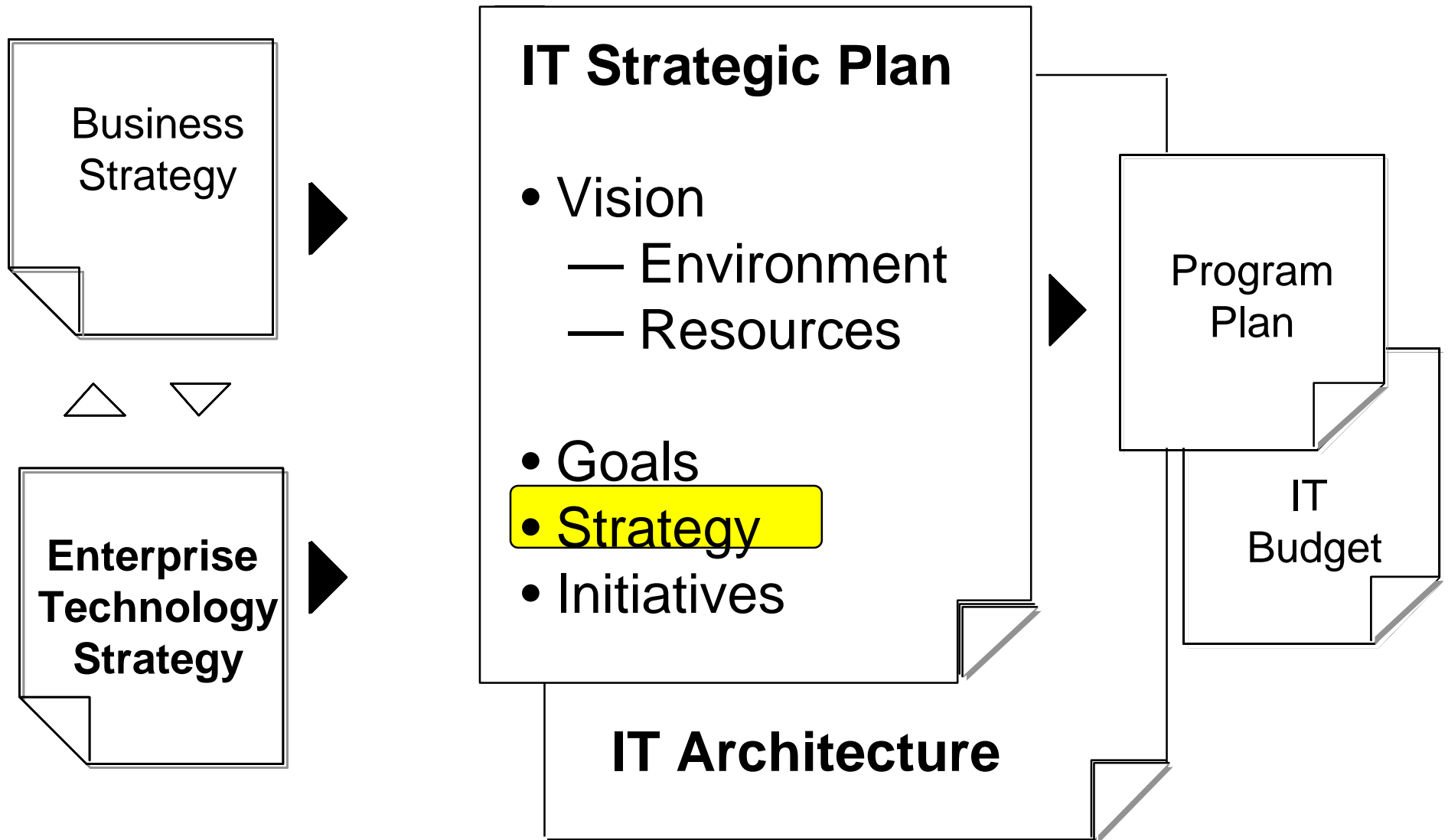
Overall Measures of IS Performance

Efficiency

Customer Satisfaction
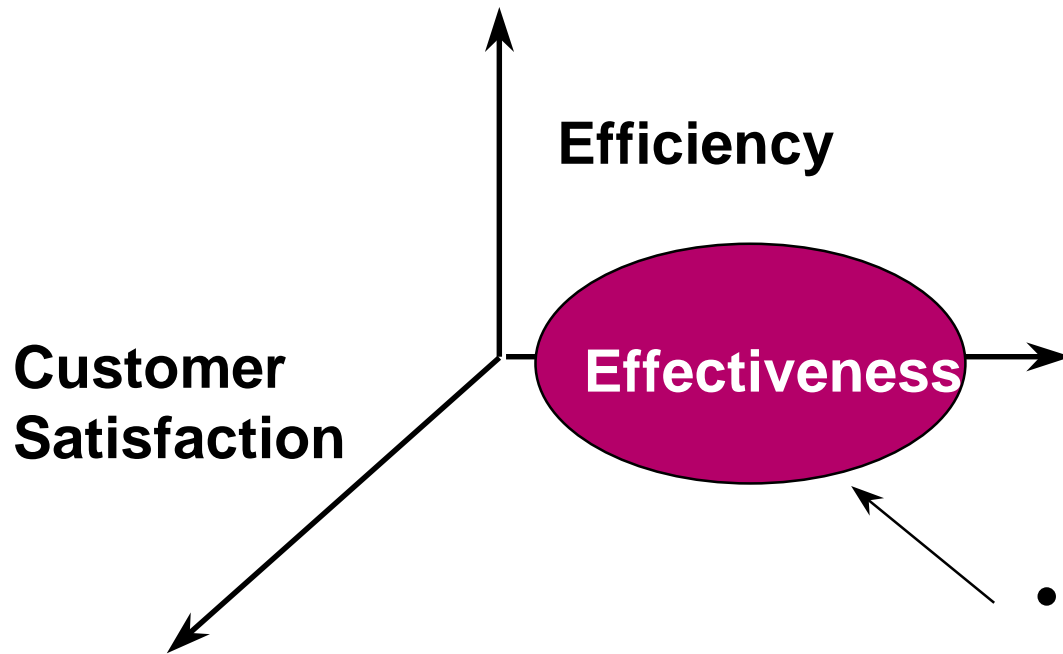
Effectiveness

- **Effectiveness: The degree to which IS is contributing to the achievement of business objectives.**

- **Going in the same direction: alignment.**

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Predictors of High Effectiveness Performance:

- **IT planning process** — best is interactive with business

- IS organization culture — best is "marketing"

- IS organization design — best is hybrid with local control

- IS credibility - above a threshold level of trust

The Basic Planning Document Framework

Business Strategy

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Enterprise Technology Strategy

IT Strategic Plan

- Vision
  - — Environment
  - — Resources

- Goals
- **Strategy**
- Initiatives

IT Architecture

Program Plan

IT Budget

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Strategic Planning

Selection of the initiatives and allocation of resources to maximize the achievement of business objectives with an acceptable level of risk.
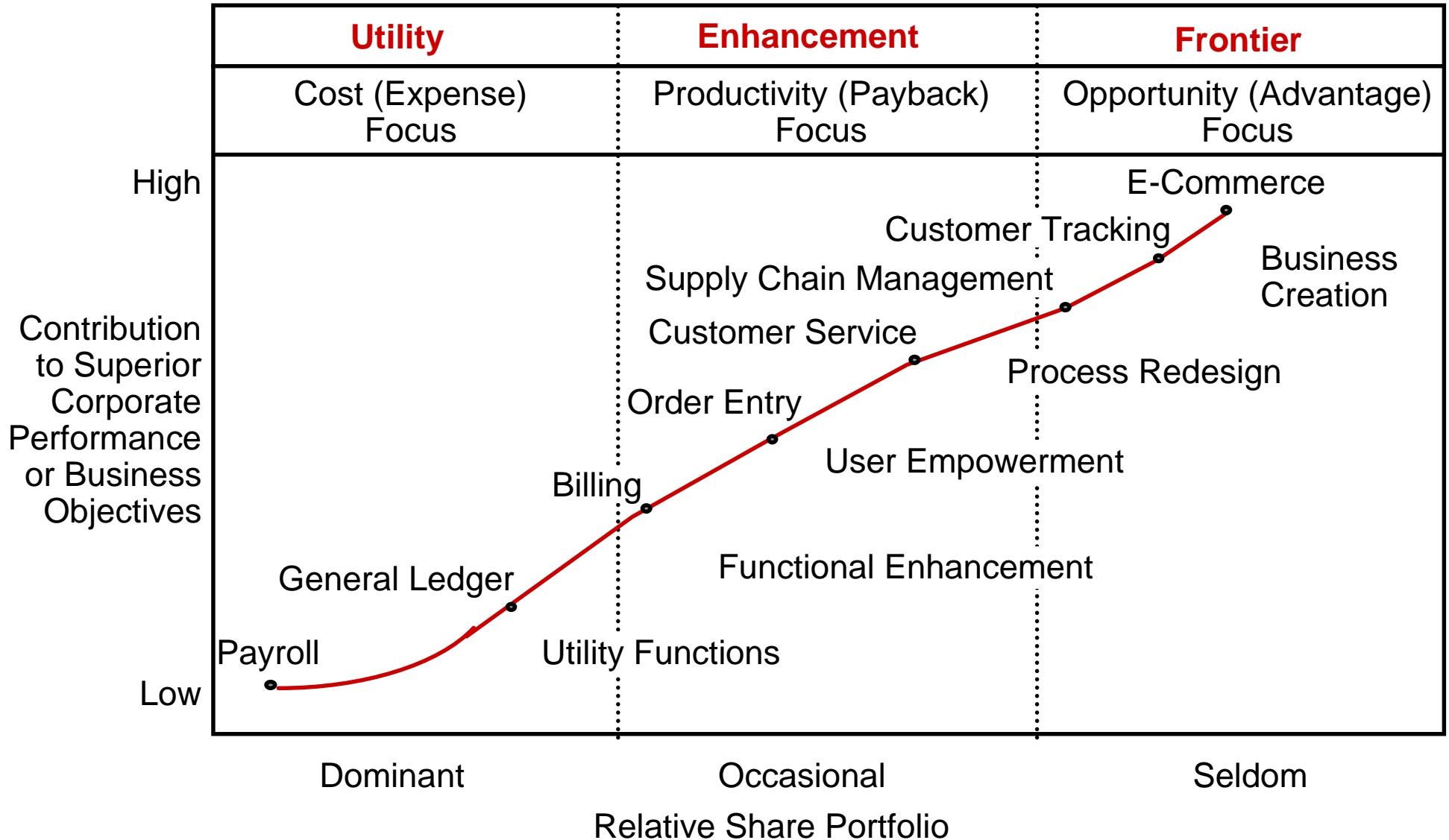
Analytical Tools

Portfolio Management

To establish a portfolio of different investment classes in order to establish an overall balance that best meets business needs and opportunities.

Within IT, the applications portfolio can identify and clarify alignment with business.

Portfolio Analysis:
IT Application Categories

Utility	Enhancement	Frontier
Cost (Expense) Focus	Productivity (Payback) Focus	Opportunity (Advantage) Focus

Y-axis: Contribution to Superior Corporate Performance or Business Objectives (Low to High)

X-axis: Relative Share Portfolio (Dominant, Occasional, Seldom)

Data points along curve:
- Payroll
- General Ledger
- Utility Functions
- Billing
- Order Entry
- Functional Enhancement
- Customer Service
- Supply Chain Management
- User Empowerment
- Customer Tracking
- Process Redesign
- E-Commerce
- Business Creation

Character by Application Category

	Utility	Enhancement	Frontier
Issues	Reliability Cost	Identification Ranking and Selection	Innovation Leadership
Mgmt. View	"Overhead"	Value and Contribution	
BU Links	Alignment Irrelevant	Aligned to Business Objectives	
Mgmt. interest	Boring	Important	Entrepreneurial

Evolution ◄ Migration
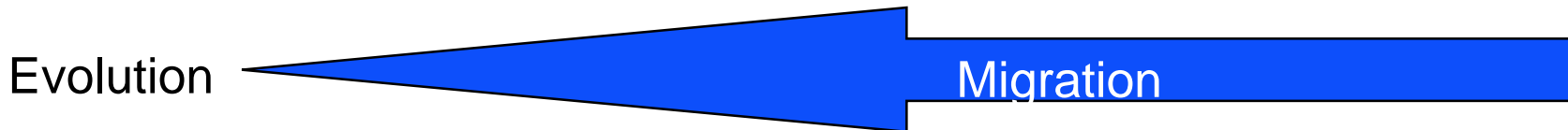
| Style | Tuned | Scale up | Quick and Dirty |

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Infrastructure Underlies All Applications

Utility	Enhancement	Frontier

INFRASTRUCTURE FOUNDATION

Infrastructure Investment Rationale:

Utility -   mandatory - e.g. Y2K
cut operating costs
capacity growth
improve reliability

Enhancement -   a prerequisite to enable the enhancement
to scale up for wide application

Frontier -   to establish a platform for future extensions
to set a base for rapid response to opportunity

Management Issues

Utility Class

Criteria

Delivery of a function that is basic to the operation of a business. Superior delivery has little effect on enterprise performance - e.g. payroll.

Objective

Absolute reliability, precision — at lowest cost.

Management Dimensions

Cost per unit

- Data Center, distributed systems, network
- Benchmarks, comparisons
- Sourcing - distributed, centralized, outsourced

Operational Risk

- Backup, recovery

Verification of essential need

- Habit, tradition, comfort — inappropriate
- Alternative means — as user responsibility

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Management Issues

Enhancement Class

Criteria

Delivery of a function that will enhance the organization's performance in its industry. E.g. faster production cycle time, enhanced access of information to customers, more responsive customer service, greater customization, faster to market with new products, superior target marketing, lower risk exposure and so on.

Objective

To gain the maximum competitive or delivery advantage, and promote implementation.

Management Dimensions

Payoff

- Relative impact on business strategy: business "value"
- Comparative position: catch-up, maintaining position, decided advantage

Doability

- Ease of duplication, life of advantage
- Speed to implement
- Infrastructure requirement — long-term support
- Capability to modify easily

Risk

- Risk in cost, time, functionality, organization and public appreciation

Management Issues

Frontier Class

Criteria, Definition, Meaning
Delivery of a capability that could have a dramatic impact on the organization's performance and positive success. Could change the basis of performance or open up a new market e.g. internet access, service delivery, user feedback

Objective
Visionary use of IT to change the performance landscape

Management Dimensions

Innovation Level
- Generation of ideas — what internal sources
- Cross industry fertilization

Relative payback
- Scale of the potential gain or repositioning

Risk
- Impact of failure
    - capability to recover and redirect resources
    - potential for harmed or enhanced reputation
    - acceptability of new high risk proposals

Management Responsibilities

Utility Class

Information Systems
- Make certain of appropriate dependability
- Establish that costs are comparatively low
- Help verify that applications are essential
- Evaluate all alternatives to lower cost options
    - Operations, maintenance, support
    - Legacy replacement, decommissioning
- Determine infrastructure needs
- Initiate appropriate investment proposals
- Project mandatory requirements

Business Unit
- Provide demand forecasts
- Verify that applications are mandatory
- Recognize enterprise infrastructure requirements

Senior Management
- Understand the portfolio classification distinctions
- Verify the benchmark comparisons for cost

Management Responsibilities Enhancement Class

Information Systems

• Understand business unit business needs
• Provide guidance in resources, cost, time and risk re alternative proposals
• Evaluate infrastructure requirements
• Maintain current IT architecture jointly with BU
• Educate BU re new technology options as needed
• Optimize the development process

Business Unit

• Determine relative value impact, positioning, pre-emption risk
• Commit staff participation and management
• Accommodate architectural and infrastructure needs
• Keep IS aware of critical business issues
• Consider lifecycle and maintenance costs after start-up
• Relate proposal to further extensions of thrust

Senior Management

• Establish partnership environment for IS and BU
• Create governance for prioritization across BUs - a process
       - Steering committee
       - User councils
       - Link to budget and planning processes
• Verify consistent criteria are applied

Management Responsibilities

Frontier Class

Information Systems
- Maintain awareness of advances in technology payoff
- Perform technology evaluation and adoption process
- Understand longer term business needs and implications of advances in technology
- Offer scenario planning process for planning evaluations
- Promote technology adoption via business justification even when BUs have not expressed interest
- Establish a culture of innovation within appropriate IS groups

Business Unit
- Be alert to major technology potential impacts
- Determine advanced technology desired funding and risk level
- Evaluate options even if change may be unappealing
- Recognize the overdramatized lure, verify via pragmatism

Senior Management
- Encourage appropriate levels of innovation
- Provide enterprise leadership on visionary projects
- Validate the sense of judgement of proponents
- Scale the project appropriate to the risk

Summary

- IT alignment with business has traditionally been lacking, yet is growing in importance as IT becomes a critical pervasive resource.

- The key performance metric for IM is becoming effectiveness - a measure of alignment.

- High effectiveness requires good interactive planning.

- A powerful planing tool is application portfolio analysis.

- Portfolio analysis is easy to grasp and can increase understanding of IT alignment, value, management performance and investment choices.