

IT-business alignment

For highly-motivated IT leaders who are trying to figure out why IT departments are losing clout in many businesses, the best thing you can read right now is the study *Avoiding the Alignment Trap in Information Technology* from the MIT Sloan Management Review. I consider it one of the most important pieces of IT research that has been published this decade. Written by four advisers from Bain & Company (a global business consulting agency), the study surveyed over 500 business and IT executives. The results revealed that the vast majority of IT departments are focused primarily on maintaining their current infrastructure and are doing very little to help drive growth. "IT at these companies is generally underperforming, undervalued, and kept largely separate from a company's core business functions," the study reported. That's a recipe for mediocrity for most companies. For an IT department, it's the fast track to becoming viewed as a necessarily evil. A utility. A commoditized cost that has to be controlled. The sad truth is that this is what's happening to many IT departments today. The MIT Sloan study pinpoints it, diagnoses the problem, and recommends a three-part solution. Here's my summary of their findings along with my take on it.

Alignment and efficiency

The authors of the Sloan study put forward two primary factors for success in IT: Alignment between business goals and IT goals Efficiency of the IT department in delivering services on time and within budget Then they did their survey of business and IT leaders based around those two factors. Here are highlights from the results: "Only 18% of respondents believed that their company's IT spending was highly aligned with business priorities." "Only 15% believed that their IT capability was highly effective, that IT ran reliably, without excess complexity and always or nearly always delivered promised functionality, timing, and cost." "Almost three-quarters of respondents believed that their IT capability was neither highly aligned nor highly effective." In other words, 74% of respondents were in the "maintenance zone" on the Sloan chart. "Here, IT projects were treated like plumbing, less aligned to major business objectives and bumping along at slightly below-average levels of [business] growth "When we looked at the 11% of companies in which IT was highly aligned but was not highly effective, however, we found those companies were considerably worse off than their counterparts in the maintenance zone. While their IT spending was 13% higher than average, their three-year growth rates were 14% lower than average... In these cases, it seemed to us possible, even likely, that the alignment prescription could be worse than the disease." This is the alignment trap. "Only 7% of respondents said that their IT organizations were both highly aligned with business strategy and highly effective in delivering what was asked of them. But those companies as a group recorded a compound annual growth rate over three years that was 35% higher than the survey average. More surprising still, they were spending 6% less on IT than other respondents." And here are some of the conclusions that the authors drew from the study: "A lack of alignment can doom IT to either irrelevance or failure." "A narrow focus on alignment reflects a fundamental misconception about the nature of IT. Underperforming capabilities are often rooted not just in misalignment but in the complexity of systems, applications, and other infrastructure." Richard E. Connell, CIO of Selective Insurance Group, said "Aligning a poorly performing IT organization to the right business objectives still won't get the objectives accomplished." "For a large company, the stakes in getting IT right can thus be enormous. In some cases, companies can save hundreds of millions in costs, while increasing sales growth dramatically." This is demonstrated by the 7% that were highly aligned and highly efficient.

Three recommendations

The study cited Wal-Mart, Dell, Charles Schwab, and FedEx as examples of businesses that have effectively used IT to gain a competitive advantage. With IT, these companies were able to get a major jump in the market with unique products or services. These four would fall into the “IT-enabled growth” sector. In order to achieve that level, three principles were identified by the study as critical for highly effective IT departments:

Emphasizing simplicity — For companies that had tightly aligned their IT and business goals and dedicated an above-average budget to IT, the study found that their downfall was that their IT department was just not efficient enough. This was often a result of unnecessary complexities that needed to be eliminated. “Reducing complexity means developing and implementing companywide standards,” wrote the authors. “It means replacing legacy systems where possible and eliminating add-ons. It means building new solutions on a simplified, standardized infrastructure rather than extensive customizing or more layering on top of whatever happens to be there. Such an approach requires a greater investment of time and money upfront and will lead to lower costs only later.” Simplification has to become a continual process and not a project because lots of factors will conspire against it — mergers and acquisitions, software upgrades, seemingly small customizations, and more.

“Rightsourcing” capabilities — In order to maximize the IT investment in the business, IT leaders must figure out what services are best to handle in-house, which to farm out to consultants and partners, which to consider for off-shoring, and when to simply purchase a pre-packaged solution. For those who do decide to outsource, the study also made a strong recommendation: “Many of the CIOs we spoke with emphasized that they needed a deep understanding of the tasks or projects being outsourced, so that vendors could be held accountable for performance and price. That often means doing the job yourself for a while until you understand it well enough to send it outside.”

One other piece of advice: “Whatever the sourcing decisions, companies need to revisit them regularly as their strategic priorities and in-house capabilities change.”

Creating end-to-end accountability — “Survey data suggests that about three-quarters of IT projects are canceled or fail to deliver expected results on time and on budget.

“True accountability reflects organizational changes: Executives get the information they need to measure IT progress; IT people are held accountable for outcomes; line managers give IT the resources it needs and then work closely with IT leaders to exercise joint supervision of individual initiatives.”

Sanity check

This entire discussion is primarily about big companies with big IT departments. The whole purpose of having a *big* company is to take advantage of economies of scale and streamlining business processes. And in today’s business environment, the primary tools for scaling and streamlining processes are technology tools. As a result, big companies can’t afford to tread water in the maintenance zone. They need to get serious about streamlining business processes with technology in order to unleash new capabilities. Although I agree with most of what’s in the Sloan study, the one issue that it doesn’t fully deal with is the centralization vs. decentralization of the IT department. For the most part, it is advocating centralization of IT resources and decrying the decentralization of IT into various pieces that serve various business units. In reality, the issue isn’t quite as simple or clear-cut as the study implies. Many organizations moved toward decentralization in IT because even small projects took too long to complete and because the centralized IT department wasn’t always well-aligned with the business needs of all the various departments. Some hybrid models are starting to emerge that combine some of the benefits of both centralization and decentralization. I will address this topic specifically in an upcoming installment of Tech Sanity Check.

Also, as I mentioned last week, I don't like framing the discussion as "IT/business alignment." I think it's much better to talk about IT/business integration. Alignment sounds like two separate-but-equals entities that are aligning, when in fact, IT should always be viewed as subordinate to the business. Has your company ever fallen into the alignment trap? Would you put your IT department in the "maintenance zone"? Join the discussion.