



Aligning IT with Business Priorities

TeamQuest's Perspective

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Summary

Alignment of information technology (IT) with business priorities has been a hot topic with IT executives for years, but with today's brutally competitive IT environment, alignment is taking on a new urgency.

CIOs, VPs and directors are facing an increasingly competitive threat from outsourcing organizations. The outsourcing providers wield potent weapons including economies of scale and less expensive off-shore expertise, creating an environment that compels in-house IT organizations to defend themselves by proving that they are worth what they cost. A savvy IT commander-in-chief knows that cutting costs will never be enough. To win you must prove that you are adding business value.

In this paper, we will show how you can be victorious by attaining alignment and adding business value. We will summarize the challenges and offer solutions. We provide systematic instructions and real-life examples demonstrating how others have approached the alignment problem.

Finally, we do not expect you to charge into battle with only knowledge and information. You need weapons and you need to know how to use them. TeamQuest offers tools that can help you attain alignment, so we invite you to read the sequel to this paper, "Using TeamQuest Performance Software to Align IT with Business Priorities."²

Armed with both knowledge *and* tools, how can you lose?

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IT, on Average, Is Worth It

During 2002, information technology spending may have contracted, but over the long haul spending on IT has gone up. The worldwide IT market started at zero in 1939 when work began on the first electronic computer. Today our yearly spending on information technology worldwide can be measured in trillions of dollars. Is all of that spending working to improve our business productivity? On average, yes.

Research^{6,7} has shown a positive correlation between the relative investment that a company makes in information technology and the productivity of that company. Generally speaking, the more an organization spends on IT, the more productive it is. However, there are wide variances between individual companies.

Spending more on IT does not *guarantee* that you will increase productivity or that your investment has business value. To be sure, you must invest your IT dollar wisely. TeamQuest believes that your IT investments should support an overall corporate strategy. In other words, you need to align IT with business priorities.

Rat Hole or Pot of Gold?

Any good salesperson will be quick to point out that there is a big difference between *spending* money and *investing* it.

“Would you rather *spend* your money on a new high definition television set, or *invest* it in your child's future by purchasing him or her a personal computer?”

“Do you want to continue *spending* money on rent for the rest of your life when you could be *investing* it in real estate?”

“Why *spend* your money by over-provisioning your systems when an *investment* in TeamQuest capacity planning software could help you purchase just what you need?”

Sales people use this tactic because they know that prospects are much more willing to use their money on something that will bring them a return.

Nobody wants to pour good money down a rat hole, yet we allow our IT departments to be viewed just that way, as a rat hole, an expense, or a cost center. OK, maybe not exactly like a rat hole, since most are willing to consider IT as providing a necessary service, but because IT is viewed as an expense rather than an investment, nobody wants to pour any more money into it than is absolutely necessary. The less money going down the rat hole, the better.

Having IT viewed as a cost center can make life difficult for IT management. New projects that could make an excellent business contribution are difficult to get approved because they increase IT costs. Worse than that, many times IT management lives in constant fear of having their organization outsourced.

How different would things be if IT were viewed by management not as a necessary expense, but as an investment? What if IT was viewed not as a cost center, but as a provider of business value and as an important component of overall business strategy? Instead of an IT rat hole, what if management saw an IT pot of gold?

Be The Solution, Not The Problem

Of course, before you can change corporate management's view of IT, you have to change your own. You need to take measures to ensure that the dollars spent in your department will provide business value and further the overall goals of the enterprise.

“IT should be an investment, not an expense.”

You cannot afford to leave the destiny of your IT department up to others in your organization, because you cannot count on others to know what needs to be done. For your organization to be successful, you need to lead.

Later in this paper, we provide some real-life examples where IT executives took the initiative and lead their companies in the charge toward better management of IT. Those IT execs knew the key measures that must be taken in order to guarantee IT produces demonstrable business value. They knew that you need to:

1. Understand your company's business
2. Market the IT organization to business units
3. Integrate IT with key business processes
4. Measure results

Understanding your company's business seems basic, but a great many in IT have their roots in technology. They have never been involved in the day-to-day workings of their company, so for them to understand the business they are in requires a certain amount of research and self-education. This is an effort that must be expended, because in order to escape from being viewed as an expense that should be contained, you will have to show relevance and value to the primary business activities of your company. To do that, you must understand the business that your company is in.

In addition to learning the business, you will need to market your organization to the rest of the company. (Check out "Business Relationship Management" in the list of buzzwords above.) You will need to have persons within your organization who can represent your organization to the client organizations or departments within your company. Your goal is to have people with intimate knowledge of your internal customers' needs acting as a communications conduit between IT and the organizations that IT serves.

Once you are familiar with the workings of your company and you have others within IT who understand your company's business, then you can begin to look at key business processes within the company. This analysis should probably include processes beyond those that you are used to looking at, because your goal is to find new ways that IT can help. You are looking for opportunities to make significant improvements in overall productivity and profitability.

While you are doing all of that, and before you start any major new projects, make certain that you have measurements in place. You want to measure before you implement improvements, then measure again afterwards to see if you are having the desired effect. Measure not only speed or efficiency, but also the revenue you are adding, or the expenses you are cutting by way of your improvements. You will want to know your results, and if they are stated in terms that are meaningful to upper management, you will want to share your measurements with the boss.

Steps for Aligning IT

The process for achieving alignment and demonstrating business value will mostly likely *not* be a surprise. The basic steps for aligning IT will sound familiar to anyone who has experience with Total

A Few Alignment Buzzwords

Business Relationship Management calls for a designated front-line interface with business units, a customer rep for the IT organization. BRMs must understand both business and technology.

Six Sigma is a technique of measurement and corrective action aimed at eliminating defects from products and services.

Business Process Analysis is the analysis of business processes to look for opportunities to make improvements, such as new and better ways to utilize IT as a contributor to overall business value.

Business Activity Monitoring brings measurement of business processes together with the more traditional monitoring of processes automated by IT.

Business Process Management includes management of more than just those processes automated by IT.

“You can't manage what you don't measure.”

Quality Management, Six Sigma, or other programs aimed at a process of continual improvement. Stated in the simplest of terms, you need to measure what you are doing, make adjustments to what you are doing, then start all over again.

The key is to measure, to measure what matters, and to act on what you learn from your measurements.

In more detail, the steps for aligning IT with business priorities are as follows:

1. Identify key business priorities.
2. Identify processes that support those priorities.
3. Set service levels consistent with overall priorities.
4. Measure key processes.
5. Adjust processes and configuration to optimize business value.

In the next few sections we will discuss each of these steps in detail.

Step 1: Identify Key Business Priorities

Before you can align IT with business priorities, you need to know what those priorities are. You need to discover your overall corporate strategy. Find the corporate vision, mission and objectives.

There is always a corporate strategy of some sort, so you should not use the lack of a written strategy as a reason to abandon hope for enlightenment and alignment. Where there is no written strategy, you need to launch an investigation to find the implicit strategy that must be at work. Interview upper management to obtain their views of the company's vision, mission, and objectives. In fact, even if you do find a written strategy, you will want to interview upper management to learn whether the written strategy is an accurate portrayal of your company's plans.

If there is no document labeled "Corporate Strategy," you will still be able to find documents that reveal any underlying business priorities. Here are some examples of what you should look for:

- Forecasts and growth plans
- Action plans to meet objectives
- Budgets
- Sales targets for various lines of business
- Upcoming mergers or acquisitions
- Plans to cut costs in certain operations
- Hiring plans

Depending on the circumstances at your company, where you find the corporate strategy lacking in some ways, you may wish to exercise leadership and assemble a management team to improve on it. This will benefit all departments, not just IT, and could greatly improve the overall operation of the company.

Step 2: Identify Processes That Support Those Priorities

Once you understand the overall corporate strategy and priorities, you need to do Business Process Analysis (see "A Few Alignment Buzzwords" on page 3). Business Process Analysis will allow you to identify key processes that support the priorities of your company that you discovered in Step 1. Assuming your IT department does not automate *all* of your company's processes, this is going to require that you think outside the IT box.

Your goal is to not only improve the ways that your IT department currently automates processes, but to take a broader view, looking for new and different

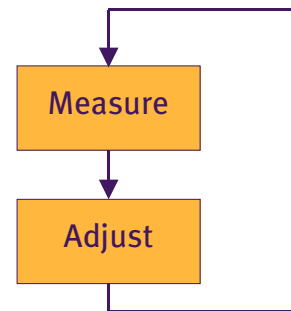


Figure 2
Alignment Process

“Think outside the IT box.”



ways to facilitate a more efficient operation. After all, you may only get incremental improvement by adjusting what you are doing now. Instead, you will want to look for new and different ways for IT to assist the company in implementing its strategy.

Step 3: Set Service Levels Consistent with Overall Priorities

We have used the quote below in a number of presentations and papers at TeamQuest. We feel it does an excellent job of defining service level management, a subject that should be familiar to 99% of the people reading this paper, because service level management is an IT services "best practice."

“Service Level management is the disciplined, proactive methodology and procedures used to ensure that adequate levels of service are delivered to all IT users in accordance with business priorities and at an acceptable cost.”

Foundations of Service Level Management
by Sturm & Morris²²

As you will recall, service level management can help to:

- Manage expectations
- Ensure client satisfaction
- Control costs
- Ensure that resources are allocated in ways that make business sense
- Allow you to know when to make adjustments to key business processes

Step 4: Measure Key Processes

We want to emphasize the portion of Sturn's quote that says service level management ensures adequate service is delivered "in accordance with business priorities." Sturn also says that the service is delivered "to all IT users." For the purposes of this paper, we would suggest that service levels may apply to anyone in a company, not just "IT users," because you may quite possibly want to set service levels for key business processes that are only partially automated by IT. The "users" of such business processes may or may not consider themselves to be "IT users."

If you have identified key business processes that support overall corporate strategy, it may sense to measure and analyze service levels for those processes, even if they are not fully automated IT functions. Even where processes are fully automated, it may make sense to measure aspects of performance that you have not been accustomed to measuring in the past. You are probably used to measuring availability, performance, workload levels, security, accuracy and recoverability. To align IT you should consider measuring other parameters, such as staffing, software costs, hardware costs, revenue and productivity, so that when you make changes, you can compare results with the past in order to show the business value produced as a result of your changes.

One of the reasons to measure aspects of business value or productivity is to monitor major IT (or other) projects like you would any investment. You want to watch your costliest projects and continually evaluate them based on potential business value, cost, and risk. This concept of "IT portfolio management" is rapidly gaining acceptance as a best practice in the commercial world.

IT portfolio management is an approach "where decisions on whether to invest in IT are based on potential return, and decisions to terminate or make additional investments are based on performance—much like an investment broker is measured and rewarded based on managing risk and achieving results."

from the "Purple Book"
which outlines policies for management of Federal IT⁴

In a rare example where government is at the forefront, IT portfolio management was mandated by the Clinger-Cohen Act (formerly the Information Technology Management Reform Act) of 1996.¹ We have also included later in this paper an example where IT portfolio management was used to good effect.

“Monitor IT projects like you would any investment.”

Step 5: Adjust Processes and Configuration to Optimize Business Value

Setting service levels and monitoring progress would be of little use if you did not act on the information. On a periodic basis you need to look at your measurements and decide whether to make adjustments to the business processes that you identified earlier. Perhaps there are opportunities for more automation, or for the strategic use of automation on the more critical business processes. Is each project or system in your portfolio performing at an adequate level? Should modifications be made, or should a project be scrapped in favor of better-performing projects that provide more business value?

If you stick with the steps we have outlined above, you will mitigate risk, focus your attentions on the most beneficial activities, and you will find it much easier to explain the value that your IT organization brings to the enterprise. Our next three sections are dedicated to telling the stories of CIOs and other executives who have implemented some of the methods that we have prescribed.

Case Study: Pharmaceutical Industry¹⁰

Our first case study concerns a large company in the pharmaceutical industry. Before changes were implemented, this company had 17 different IT organizations. IT was not viewed as an important strategic asset, but as back-office function.



The company brought in a CIO who was not a technologist, but a person with extensive experience in the pharmaceutical industry. He possessed degrees in pharmacy and business and had worked in a variety of jobs such as manager of market research, new-product planning, marketing manager and business-unit manager for retail. Although he had a love for technology, he was not knowledgeable regarding IT.

This CIO is an extreme example of the advantage of having business knowledge within your IT organization. With aggressive support from a CFO who challenged him to see how IT could drive business strategy (rather than the other way around), he was able to not only change the culture within his company's 2600-employee IT department, but also the view of IT from people outside the department. First he worked to learn about IT by going back to school and by listening to his people at the company. He brought in speakers to provide technology training for the company's non-IT executives, and also speakers to educate IT personnel regarding business.

Among the results from this CIO's efforts are a number of knowledge-management projects that were implemented to bring information together to shave time off the research and development cycle for new drugs. The development cycle for a new drug is typically 15 years with each year costing \$3 billion, so any time you can cut from the cycle makes a big contribution to the bottom line.

In the end, this CIO was able to change the view of IT to that of an enabler of efficiency. Unfortunately (depending on your point of view), he has since been promoted from CIO to president of one his company's operating units.

“Understand your company's business.”



Case Study: Media Industry¹²

In our third example we look at a large company that became an even bigger \$25 billion company in a merger, and as a result of the merger inherited a CIO accustomed to using an IT portfolio management tool. Using the tool, IT projects are treated like investments that must be planned before purchases are made. Cost, staffing and value information is reported along with other project planning information to the CFO on a quarterly basis. Monthly reports alert IT managers to problems so that they can adjust and tune on a finer granularity.

Perhaps predictably, this CIO's methods for measuring and tracking IT projects initially were not well received at his new company. Many people considered the necessary record keeping to be busywork

and doubted the usefulness of the measurements, but the portfolio management tool has since become very popular. ROI analysis is regularly used to justify IT expenditures. The IT organization is kept focused on the highest-value projects, and money managers are kept at bay.

In one example where the tool was put to good use, a new system was implemented to save labor costs, but when the system was rolled out on a test basis at two television stations, the ROI tool alerted managers that overtime had gone up as a result. An investigation revealed that additional training was needed in order for users to get benefit from the new system. The training was provided and the system was successfully rolled out at additional stations.

It's Difficult to Align IT

The methods for attaining alignment we have discussed here are not rocket science, so why is it that 24 out of 50 CFOs cite weak or no alignment of IT?¹³ Similarly, 65% of companies have a negative or neutral view of the ability of IT and business managers to work together in supporting corporate goals and objectives, according to a Gartner report cited by InformationWeek.¹¹

Apparently, achieving alignment is not as easy as it sounds.

Many times the problem is that the IT organization has not reached the maturity level necessary to take a longer view of things. All resources are expended in a mad reactive scramble to satisfy immediate needs. There is no time left over to plan adequately for the future. With no time taken to plan, the organization is doomed to operate in firefighter mode in perpetuity.



The only way out of the cycle is to allocate resources (e.g. time) for strategizing. This is one of the basic tenets of the *Seven Habits* books by Steven Covey. You must allocate resources for what is truly important, or you will find yourself spending all of your resources on meaningless “emergencies.” Spending resources on alignment will eliminate many future emergencies, saving time and money to be spent in ways that bring even more value to the organization.

To acquire the organizational self-discipline necessary to set aside resources for alignment activities, you need to overcome inertia and deeply ingrained habits. You will likely need to provide training. It may also be desirable to bring in some new blood. Hire people who are good communicators. Hire as if you are staffing a consulting organization, because you are.

If you find your organization has little or no business expertise, get some. You can accomplish this by facilitating communications between IT and line organizations. Having line workers and management give formal training to their counterparts in IT makes sense. You probably should implement some form of Business Relationship Management.

There are many possibilities for accomplishing your objective, which is to have persons in your organization understanding the business priorities underlying their jobs. This goes from all the way from the top to the bottom of your organization. A web designer should understand the marketing techniques that are effective in generating leads, just as you should have a detailed understanding of overall corporate strategy.

Don't forget that if your corporate strategy seems to be missing in action, you need to take the initiative to discover and document the existing strategy, or exercise your leadership skills working towards formulating a new one.

Finally, whatever you do, measure your results. Take baseline measurements before you initiate a new project, monitor during the implementation, and measure again afterwards so that you can track progress and know what you have accomplished. Measure what matters. Do not shy from tracking financial contributions made by IT projects, and when your measurements have clearly demonstrated

“Without a plan, you are doomed to firefighter mode.”

to corporate management that your organization has made significant contributions to the bottom line, celebrate!

Conclusion

We hope this paper has inspired you to assume a leadership role in understanding overall business priorities at your organization and analyzing business priorities to more effectively integrate IT with overall business strategy. We trust that you will work to communicate more effectively with your clients in line organizations and to market IT services as measurably contributing to the success of the enterprise.

You want to measure and analyze results so that you can show business value. TeamQuest has tools that can help you do that. We can also help you to find optimal ways to satisfy business needs, once they are known, so be sure to check out the sequel to this paper, "Using TeamQuest Performance Software to Align IT with Business Priorities."²

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