CIO

QUARTERLY

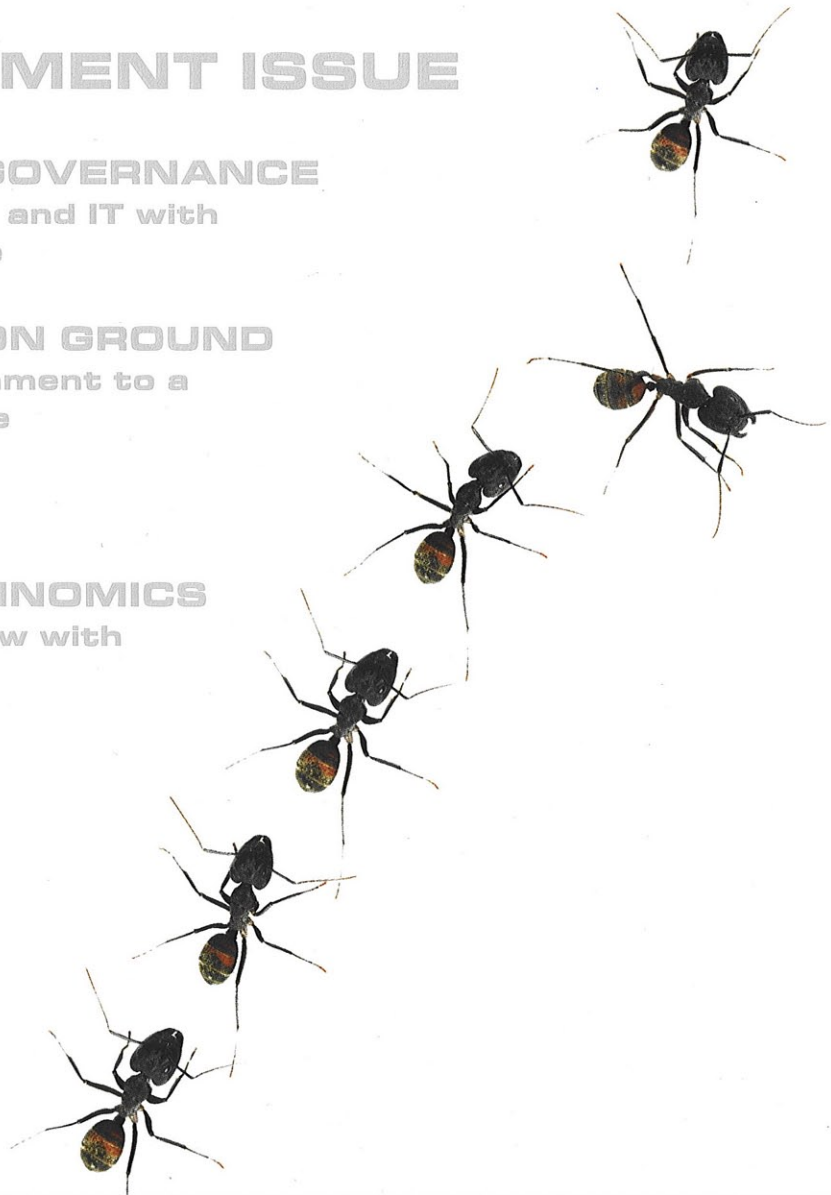# THE ALIGNMENT ISSUE

DRIVING GOOD GOVERNANCE
Integrating business and IT with
effective governance

FINDING COMMON GROUND
Moving through alignment to a
state of convergence

MASTER OF WIKINOMICS
An exclusive interview with
Don Tapscott

THE HOLY GRAIL OF SUCCESSFUL IT-BUSINESS INTEGRATION

Over the last two decades, CIOs have consistently placed IT-business alignment at the top of their agenda. Given that the modern CIO is required to maintain a broad business perspective rather than a technology-centric view, and the current demands on IT to drive company-wide innovation and accelerate business projects that deliver rapid competitive advantage, it is certainly not surprising that IT-business alignment continues to be critically important.

However, what is astonishing is that after all these years, alignment remains a major concern and a great challenge. What the IT community of today continues to deliberate on, is why hasn't alignment become a reality for most organisations? Why is it so hard to achieve? What has to happen to achieve the perfect alliance of IT and business goals? Is alignment no longer sufficient? Is convergence the way forward, the ultimate merging of business and technology?

In this issue of CIO Quarterly, global IT leaders and Mr Convergence himself, Faisal Hoque, aim to give answers to these tough questions, discussing "in detail" the alignment evolution. Hoque, the architect of the Business Technology Convergence Index, advocates the importance of creating a 'whole-brained enterprise', where business and technology activities are intertwined and leadership teams operate almost interchangeably. And progressive CIOs agree.

An integral part of IT governance, alignment is also the primary topic of conversation in this quarter's "chatroom". When asked what IT governance means to them, the first thing that came to the mind of the interviewed CIOs and president of the IT Governance Institute, was aligning business and IT. It is evident that linking technology decisions with company objectives and showing the value of IT to the business continues to be seen as the holy grail by many CIOs.

And whether you have started contemplating hanging up an inspirational "Alignment Is Dead, Long Live Convergence" sign in your IT department or whether you aren't planning to tie yourself into the semantic knot of 'alignment' versus 'convergence,' we hope to have provided you with valuable insight from your peers, who are just as committed as you are to finally bridging the gap between IT and the business.

Sylvia Michael

Sylvia Michael • Editor-in-Chief • CIO Quarterly

FINDING COMMON GROUND

The fact that IT-business alignment still persists as a term, and is bandied about with such alarming regularity, suggests that IT and the business have yet to fall into the harmonious marriage that many had hoped for. And with experts inching the goal posts ever further away, claiming that alignment may no longer be enough to keep companies competitive, CIOs may have new cause for concern, says Selina Denman

It was around 1999, at the height of the dot.com boom/bust, that CEO, BTM (Business Technology Management) Corporation, Faisal Hoque made the simple observation that would guide his subsequent career. "My observation was that all this technology was great but it was going to be meaningless until we had a concrete management structure around how we brought these things together. It requires the same kind of rigour as any other field in terms of process, methodology and information systems. That's where the journey began for me."

The journey has turned into an eight-year alignment crusade. Along the way, Hoque has written five books, established the BTM Institute, and become a leading authority on the issue of effective interaction between business and IT. In that time, he has also seen a definite, if measured, increase in recognition with regards to the importance of IT-business alignment. "It's been gradual. I would say that up until the last few years, people weren't even talking about the notion of alignment. But lately, especially in the last two years, there has been quite a lot of attitude change and media focus," he commented.

Research director of Macehiter Ward-Dutton, and co-author of 'The Technology Garden: Cultivating Sustainable IT-Business Alignment', Neil Macehiter has witnessed a similar transition. "As organisations have shifted their focus away from cost reduction following the dot.com crash to growth and competitive differentiation through new product and service delivery, the importance of the role of IT has only increased.

"Whether organiations are looking to improve service delivery to customers and citizens, reach new markets or collaborate with partners, they realise that connectivity across organisational boundaries and collaboration at the edge is increasingly dependent on IT. In the five-plus years that we have been exploring how organisations invest in, deploy and deliver IT to support business objectives – which we refer to as IT-business alignment – we have certainly seen a greater recognition of the importance of IT.

"We have also seen increasing maturity when it comes to the different roles that IT plays dependent on the business objectives and business processes and priorities," he explained.

However, the alignment debate has yet to dissipate into an overriding corporate culture that doesn't have to discuss the importance of IT because it instinctively knows the importance of IT. The fact that the phrase, IT-business alignment, is still so commonly used is in itself indicative of a continuing divide. IT and the business have yet to settle into the comfortable, symbiotic, mutually-beneficial marriage that many had hoped for.

The divide

"This is a continuingly topical issue that rests solely at the door of IT," maintained CIO of Europe's SpecSavers Opticians, Michel Khan. "There is no such aspect as alignment with the business. IT is an integral part of the business, at the same level as marketing, finance etc. You will never hear a marketing department discussing whether or not they are aligned with the business. They see themselves as an integral part of the business. This is a self-inflicted IT issue."

"Nobody talks about HR-business alignment or facilities-business alignment," Macehiter agreed. "So why is IT different? Primarily, it's because for a long time IT has been treated largely as a black box which is the domain of specialists who talk a different language – almost a black art best left to the practitioners.

"I firmly believe that the process of IT-business alignment is critical. However, I don't believe it has to be explicitly called out. Rather, we are in a transitionary phase and hopefully, in the future, whilst organisations will align IT with the business, they won't feel the need to give it a name: it will just be the normal course of business," he continued.

IT's immaturity

According to Hoque, who continues to hear from companies who view IT as a necessary evil rather than a strategic enabler, this is an unsurprising, if unsavoury, reflection of IT's overall maturity levels. "It goes back to the whole notion of where the IT industry is as a whole, in terms of its maturity. If you compare it to finance, or even manufacturing, those kinds of areas have been in existence for a long time.

"If you look at IT, it's really only been part and parcel of the business for 40 or 50 years, at the most. If you look at the last 20 years, it has been getting more and more ingrained into the business DNA. But the management aspect of all this hasn't quite caught up. It's frustrating, but if you want to be pragmatic about it, it's still quite early

days. We will be hearing about this for at least the next ten years or so," Hoque predicted.

A divide between the business and IT function can be traced back to a number of sources, the most-cited being a lack of clear communication between the two entities. "One analogy I gave in my second book is that it's like a builder talking to the owner of a house and describing how the plumbing works and how the electricity voltage should be regulated and all that stuff, when all the owner cares about is what the house will look like and whether it will all work," Hoque pointed out.

"There isn't a common language yet. The CIO plays a significant role because they are the communicator and they have to establish that language. But, on the other hand, the business folk have to play a key role in understanding the value of these things and they have to have a keen interest in pulling it all together, or else they will become laggers," he added.

Evolution

"I think that there's still a question of credibility," stressed CIO of US-based retailer, Eastern Mountain Sports, Jeff Neville. "A lot of people talk about credibility in terms of does the IT group or the CIO understand the business that they're in? I think that's a well documented point. But one of the things I've noticed is that there are also credibility issues around doing the basics."

Neville and his team divide their priorities into two distinct categories: 'manage as utility' and 'achieve superiority'. "Achieve superiority' are the things that are core; the things that achieve business value – you love them and you live them. 'Manage as utility' are the things you just have to do. It doesn't increase business success but if you don't do them, and you don't do them well, you detract from business value. All of the things in the 'manage as utility' basket – is the network up, do the phones work, is my management reporting done every Monday morning – are the things that people just assume happen. If you can't get those things right, you're not going to get the credibility to start talking to the business."

According to Khan, the disconnect goes a little deeper. "CIOs are, I believe, risk averse and conservative. This stems back to the old saying: 'You can't get fired for buying IBM' and hasn't changed.

It is interesting that most of the businesses we work for are not conservative and can be high on the risk-taking scale. If we are not in this culture we cannot expect to meet the demands set by the business," he highlighted.

Group CIO, Chubb Group of Insurance Companies, June Drewery agreed. "CIOs are much more willing to stay focused on their territory and what they know – technology. I've heard people say, 'who am I to tell the business what to do?' Well, you're somebody that they pay a lot of money to do exactly that. CIOs are still very conservative – if you were to look at the executive team in any business unit, I can tell you that out of all those people, the CIO is most likely to be the quietest person in the room when business strategy is being discussed. We're seen as not being assertive enough in business discussions, and I think that is a conservatism," she noted.

But there's a balance to be struck. "In some respects the CIO still acts as the conscience of the business," Neville pointed out. "You might have someone in the business who wants to do something new and exciting and it's a great revenue stream and it might drive profitability, but there may be inherent risks from a technology standpoint or a business process standpoint or from a compliance standpoint."

A tangible evolution of the CIO role is already underway, but a more active approach will have to be adopted if CIOs are going to prime their organisation for success in an ever-changing marketplace. "The CIO role is transitioning from one which is looking inwards, focusing on the IT organisation, to one which is outward facing, focusing as much on the business," Macehiter pointed out. "The CIO is having to work more closely with peers in the business.

"This may involve a seat on the board, but the position on the organisational hierarchy is less important than the establishment of effective relationships to facilitate an understanding of business objectives and priorities. The CIO is taking on the role of business change agent, not only in terms of explaining how IT can enable the changes required by the business, but also in identifying opportunities for business change enabled by IT," he maintained.

"I think there are an awful lot of CIOs out there

waiting for someone else to call those meetings and make this or that happen, because they think it's not their job. Well, guess what? If no one else is doing it, it's your job!" Drewery added.

Heightened alignment

Ultimately, CIOs must lead their organisations to a heightened state of alignment, what Hoque refers to as 'convergence', or the holy grail of successful IT business integration. Straightforward alignment, it would appear, is no longer sufficient, and the more progressive CIOs know it. "IT needs to be an integral partner of the business; this ensures common commercial objectives. Alignment does not necessarily achieve this. There is a major difference between being aligned and being an equal partner," said SpecSavers' Khan.

In a converged state, a company has a single focus with no discernable differentiation between an IT strategy and a business strategy. Rather than being the end goal, alignment is a mere first stage in the journey towards a complete merging of business and IT objectives.

"In a company that is aligned, what happens is that technology is aligned to the business strategy and is supporting the business strategy. In a converged company, there is no business strategy and technology strategy; it's all one strategy and one execution. There is no talk of the value of an IT project, the talk is of the value of a business initiative. Business people and technology people take equal ownership and responsibility to make those kinds of decisions happen," Hoque explained.

As per the results of an extensive research report from the BTM Institute, the 'Business Technology Convergence Index', IT-business alignment can be broken up into three distinct stages of maturity. Alignment is the most passive of these stages, as IT essentially plays a support role and is constantly striving to keep up with the business. In the next stage, synchronisation, IT plays a more active role and has a far greater influence over business operations.

At the very highest maturity level, convergence, IT and business are one and the same, with no discernable distinction between the two.

Five years in the making, the Convergence Index highlights the very real link between corporate financial performance and business technology convergence. In precise terms, the study discovered that enterprises that were more converged in their approach to business and technology achieved 12 per cent average revenue growth between 2002 and 2006, as compared to the four per cent average increase experienced by their industry peers during the same period.

In addition, the more converged companies achieved a four per cent higher return on equity, an eight per cent average higher return on assets and a 14 per cent higher return on investments, as compared to their industry groups. "With convergence, you drive innovation and growth, and that's the bottom line. You can talk about cost-efficiency and cost-cutting all day long but unless the organisation is growing and innovating, it's not going to last. It's going to become a dying organisation," Hoque detailed.

Practicing convergence

According to Eastern Mountain's Neville, his company is fast approaching the converged state. "I do actually believe that this is what we have. Part of the reason is that I hold the unofficial title of VP of strategy for the company, and I also hold responsibility for our alternate-channel business, which includes the web. We also have a relatively small executive team, so we don't have a lot of selling or relationship building to do because we work so closely with each other anyway."

Effective partnerships and solid processes are also playing their part. "We have a very structured process in place. We go out and talk to the business; we talk about goals and objectives and pain points. That is a pretty traditional process.

"The thing that we do a little differently is that I have partnered with the VP of HR to execute and deliver that process. What she and I have been able to do is turn the conversation into an 'overall capabilities investment' conversation. We have a framework that we call T and T, 'talent and technology'. We are able to have a discussion with the leaders of the business that says 'these are the goals for the next year and these are the business metrics that have to change and here are the barriers to that success'. We can determine whether these are process barriers, people barriers or technology barriers.

"As a result, we are investing in the right things as

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RESEARCH DIRECTOR, MACEHITER WARD-DUTTON, NEIL MACEHITER

a business, not the most obvious things. We're in a position as a business where we have to make a lot of tough choices and this helps our management and leadership team do that."

Chubb Group's Drewery tells a tale of similar success. "We have gotten to the point where we sometimes lose the IT strategy. The business IT strategy within the business areas is so absolutely integrated, I've had business units complaining about how difficult it is to distinguish between operations and technology anymore, and suggesting that maybe we should be putting those two areas together under single leadership. They are at the early stages of thinking about that but it is because they are struggling to determine a difference, or where one starts and the other ends," she explained.

"I have never seen better alignment then what we have at Chubb. As I continue to watch alignment be such a huge topic of discussion in the industry, it makes me wonder, why is this so hard? Because for us it's really rather easy and I think that fundamental issues cause the difference.

"I attribute a huge part of it to the organisational model being used, so we organise and align the way our businesses are organised. Chubb has a federated model. We have strategic business units and then we have a corporate entity within which there are shared services.

"A lot of companies leave IT centralised and they sort of internally align so that this group over here supports that business unit and that group over there supports that business unit. We just felt that we had to align with the way that the company was managing itself. So we have a core IT group that stays in corporate and then our application areas reside inside the business units. We have a CIO in each business unit reporting to the CEO. And that CIO has a seat at the table.

"We are an insurance company, so there is no debate over whether IT is strategic. They know it can make or break their success, so they clearly, from day one, give the CIO a seat at the table, because without IT you cannot be successful."

Finding the formula

Formulas will differ and there is no straightforward and easy route to absolute convergence. "It's not easy to accomplish; it's actually quite compli-

cated, for multiple reasons," Hoque explained. "One is that you are talking about a new way of thinking about the way these things come together and you need cross disciplinary skill sets. Traditionally, an organisation has thought about engineering management maturity and business management maturity. They haven't quite thought collectively about what their management maturity is, in terms of their holistic and converged management maturity. It is a journey, not a one-time thing, and it is a continuous improvement process. It has to become part of your DNA and cultural make up," he elaborated.

Building culture

Convergence must be instilled as a repeatable process, fully ingrained into every aspect of the organisation. And while it needs leadership, its success cannot rely on the personality and drive of a single figure.

"What has happened many times is that an organisation is very successful because there is a charismatic CIO who had driven it with their personality, or even by brute force, but when they left, the organisation went straight back to how it used to be. So, that's the part that is problematic because, at the end of the day, if the organisation has to grow and repeat their successes, they have to establish a key management process and capability that can make it happen."

Neville believes that the culture that he has put in place will survive even if he is no longer around to enforce it. "I really think it would. The executive team has trained itself on this process and unless the person that took my place drastically changed the approach, I think that the organisation would naturally fall into the process."

Convergence is no replacement for alignment; it is the unavoidable next stage in a journey that will finally lead IT and business onto a single, common path. And for those companies already struggling to achieve the more straightforward task of alignment? "It might be hard, but it is an inevitable path, because the market will dictate that you do this," Hoque concluded.

"If you are struggling or not, it becomes a moot point. Because unless you survive and become a sustained, competitive company, you are not going to last in the long run anyway."