Enabling the Strategy-Focused IT Organization

by Robert S. Gold, principal and practice leader for IT Strategy Management, Balanced Scorecard Collaborative

Why is the relationship between Information Technology organizations and the business so often strained? IT often focuses on reducing cost and keeping systems running, while the business needs IT to emphasize value creation. To move beyond merely proving their competence, IT managers are using the Balanced Scorecard framework to speed their organization's progress in becoming a true partner with business units in executing strategy.

Over the past 35 years, information technology in organizations has evolved to the point of near ubiquity. Today, it is hard to imagine any organization — for-profit enterprise, non-profit, government — that does not rely on IT on a daily basis. Now, another evolution is taking place in the role of IT. By necessity, the formal organizations that deliver it must change as well.

The rapid growth of general purpose business computing in the 1960s was driven by the opportunity to replace manual labor processes (such as billing and record-keeping) with faster, more accurate, and automated processes at far lower costs. Today, enterprises use technology to enable the design of new business processes, functions, and capabilities (e.g., ERP systems, customer relationship management, Internet banking, etc.) and to strengthen the connection between providers and customers. Technology has become so embedded in both the internal functions and the external value propositions of modern organizations that it is nearly impossible to execute strategy in any organization without it.

Strained Relations

Yet despite the essential nature of IT, relations between IT and its internal customers are often strained. In working closely with about a hundred different IT organizations over the last twenty years, I have often heard a litany of issues that IT and its customers have with each other:

- Most business managers say that they need IT to be more aligned with the business — to better understand how it can enable the success of the business, and to use that knowledge to develop more valuable solutions. Managers want dial-tone reliability of systems. They want to know that their technology costs are competitive, not necessarily the lowest possible cost. However, most managers have an incomplete understanding of IT expenditures, especially the structural factors that affect total IT cost. As a result, managers generally believe that their IT costs are too high.
- Most managers in traditional IT organizations believe that their responsibility is to deliver high-quality, reliable systems at the lowest possible cost. Spending for IT is usually constrained by an externally-set budget. The organization's business units compete for IT's limited financial and people resources, and political tradeoffs ensue. Inevitably, business unit managers feel short-changed by IT. In extreme cases, this disenchantment leads to the outright decentralization of IT management to the business units themselves, with a significant sacrifice of scale economies. Not surprisingly, it is unusual to find an IT organization that is focused on aligning with its business unit customers.

Not all IT organizations are focused on cost and quality. Many firms born within the last decade (and some older firms) have information technology at the center of their value proposition. They use technology in innovative ways to create and sustain competitive advantage, focusing on quickly bringing these innovations to the marketplace. Amazon.com uses sophisticated analysis of individual and group purchasing patterns to greet repeat customers with personalized recommendations. Fidelity Investments offered trading and account management services on wireless devices well ahead of many of its competitors.

But while these organizations excel at agility and innovation, they sometimes overlook the disciplines

Figure 1. Evolutionary Stages in the Development of IT Organizations

	Basic Competency Focus		Strategic Contribution Focus	
STAGE	**Costs**	**Quality**	**Agility**	**Innovation**
I. Defensive	• IT expenditures are externally budgeted, often as a share of revenue.	• Quality focus is exclusively on system availability.	• Delivery schedules are constrained by resources and internal priorities.	• Creative budgeting and accounting are used to defend against outsourcing.
II. Reactive	• Service level agreements and charge-back systems are employed.	• Quality focus on systems availability and response time.	• Resource allocation is driven by politics.	• Technologies are used in innovative ways to reduce IT cost.
III. Responsive	• Unit costs and demand are quantified and managed.	• Quality is managed to negotiated service level agreements.	• Methods are applied to reduce development cycle time.	• The role of technology in business strategy is considered.
IV. Strategy-Focused	• Technology investment decisions are informed by business strategy.	• Availability and reliability are no longer an issue.	• Broad focus is on time to market and competitive advantage for the business.	• Technology is embedded in the firm's value proposition.

More complex IT organizations may well fall within various stages simultaneously, but IT and business managers generally agree on these classifications.

of effective systems management. America Online's rapid growth in subscribers during the late 1990s resulted in busy signals, disconnects, and other service problems because of AOL's inattention to such established practices as capacity planning and performance management.

Balancing Cost and Quality With Agility and Innovation

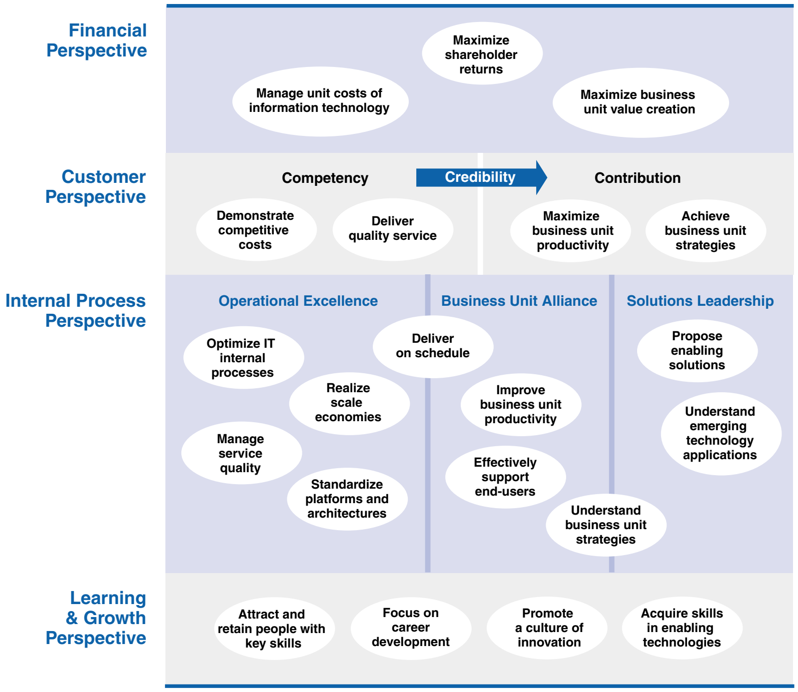
It is easy to see how striking a balance between these two extremes — cost and quality vs. agility and innovation — works to the benefit of the enterprise. By adding an emphasis on agility and innovation, traditional IT organizations can become more focused on using technology to create value for the firm; they can recognize the importance of rapid implementation in achieving competitive advantage. Similarly, newer IT organizations — those oriented toward agility and innovation — realize significant benefit by incorporating the established disciplines of cost and quality management into their operating objectives.

By necessity, every traditional IT organization is evolving away from an exclusive focus on cost and quality. Each of the organizations I've observed falls into one of the four distinct stages identified in *Figure 1* (previous page).

Before IT can begin contributing to the execution of business strategy, it must first demonstrate its competency in cost control and quality. Cost management and high quality are necessary but not sufficient to meet the enterprise's IT needs. Competency is merely eliminating dissatisfaction with IT's performance. Strategic contribution enables value creation in the business. Once competency is established, IT can seek to understand and participate in realizing business strategies, not just operational objectives.

Not surprisingly, there is a gap between how IT views itself and how business managers view it. Shows of hands I've taken at public conferences indicate that IT managers generally see their organizations at the "Responsive" stage, while business unit managers generally see their IT organizations as merely "Reactive." IT managers and their business unit customers do agree on one thing: that IT must become strategy-focused.

Figure 2. Strategy Map Template for an IT Organization



Balancing competency and contribution is essential in the Strategy-Focused IT organization.

The Strategy-Focused IT Organization

The Balanced Scorecard enables the Strategy-Focused IT organization by creating a shared language between IT and its business unit customers. Scorecard measures communicate IT's competence in delivering competitive costs and meeting service quality objectives. IT's strategy map establishes that it has a strategy distinct from that of the business units, and clearly shows how IT's strategy is aligned with the success of the business units.

Figure 2 offers a strategy map template for a generic IT organization. From the financial perspective of enterprise management, IT is simply a means for accomplishing the strategy of the business units and, by extension, the enterprise itself. The optimal use of IT resources — to maximize value creation by the business units — is distinct from the traditional goal of controlling IT expenditure. In progressive organizations, the financial emphasis is not on reducing overall IT expenditure, but rather on understanding and managing the unit costs of IT resources, as well as on predicting demand, which together ease the traditional budgetary constraints on IT investment. Establishing the value-creating potential of IT helps business managers (and senior management) recognize the difference between IT investment and IT expense.

The strategy map also expresses IT's need to balance its focus on both competency and contribution. From the perspective of IT's primary customer, the business unit manager, IT competency means both quality service and competitive cost, while IT contribution refers to both the implicit benefit of IT on the

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productivity of the business unit, and the explicit achievement of business unit strategies. Agility and innovation are embedded in the manager's definition of achieving strategy. But to deliver on the customer's expectations, everyone within the IT organization needs to embrace the balanced themes of competency and contribution.

My colleagues and I have interpreted the Treacy/Wiersema model[1] to guide the organization of IT internal activities in several IT organizations. The Operational Excellence objectives within the internal business process perspective of the strategy map reflect the IT organization's commitment to deliver competitive unit costs and quality service. The centralized IT organization exists to realize scale economies by aggregating and optimizing standardized resources and processes.

By achieving these objectives, IT's credibility increases, permitting the organization to shift its orientation outward to its customers. The Business Unit Alliance component reflects a new focus on productivity in the business unit itself. By setting and meeting deadlines for the delivery of services and new functions, by ensuring that end-users have access to effective support, and by understanding the way the business works, IT earns the opportunity to participate in creating and executing strategy as a true partner of the business unit.

True Solutions Leadership results from IT's intimate understanding of the business unit's value proposition and value-creating processes, along with its proactive thinking about the practical application of emerging technology. Increasingly, business value-creating opportunities and solutions will originate in the Strategy-Focused IT organization.

Strategy-Focused IT depends on having the right people and the right climate in which they can perform. Intense competition for people with leading-edge skills necessitates an explicit focus on staff development and retention that is often absent from IT organizations that are focused only on reducing cost.

A Starting Point

Every IT organization faces unique challenges, and the template presented here is just a starting point for facilitating the evolution toward the Strategy-Focused IT organization. Our approach to developing IT Balanced Scorecards begins with the formation of a small team of key IT managers, business unit managers, and senior enterprise executives. We use their input to create a strategy map, and then to select measures that capture the unique objectives of the enterprise and its IT organization. We then facilitate the selection of measures for each of the objectives and establish targets for each measure. A clear picture of the strategic alignment of IT emerges when we help evaluate the initiatives underway in IT against the strategic objectives. Inevitably, some objectives are not yet supported by any initiatives; conversely, initiatives that don't support strategic objectives may be found.

Besides focusing explicitly on IT organizations, Balanced Scorecard Collaborative is forming the Information Technology Action Working Group, in which the participating firms will examine the broader questions of how to measure and maximize the value of information capital — the technology-based intangible assets that every firm employs to create value. We'll report on our findings in future issues of *BSR*.

The rate at which information technology is enabling value creation varies by industry, even by company. Those firms that recognize that IT must evolve from being a cost-focused service provider to a partner in value creation will actively promote this evolution and enjoy significant advantage.

[1] The Discipline of Market Leaders *(Michael Treacy and Fred Wiersema, Perseus Books, 1995) states that firms achieve competitive advantage by emphasizing one of three value disciplines: operational excellence, customer intimacy, or product leadership. While the authors contend that only satisfactory performance is needed in the two non-focus areas, IT's competitive landscape is different. In exchange for its monopoly or preferred provider status within the enterprise, IT must excel in all three disciplines in order to maximize the value-creating potential of its business unit customers.*

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Borealis

These distinguished companies, handpicked by BSC creators Robert Kaplan and David Norton, join the inaugural Hall of Fame companies named in September 2000:

ABB Switzerland
AT&T Canada
Brown & Root
Chemical Bank
CIGNA Property & Casualty
City of Charlotte
Duke Children's Hospital
GTE Human Resources (now Verizon)
Hilton Hotels
Mobil
Nova Scotia Power
Southern Gardens Citrus
Texaco Refining & Marketing
UPS
Wells Fargo Online Financial Services

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