Moving Beyond (Local) Alignment: Creating Value Through IT-Business Engagement

MIS Research Center (MISRC) 7 March, 2008

Nils Olaya Fonstad
nilsfonstad@mit.edu
Center for Information Systems Research (CISR)
MIT Sloan School of Management

Mani Subramani
msubramani@umn.edu
Center for Information Systems Research (CISR), MIT
Carlson School of Management, University of Minnesota

Agenda

• Alignment: Often driven by local objectives
• The challenge: Leveraging IT to achieve both local and global objectives
• The solution: Focus strongly at the enterprise level
• Extend local alignment with linking mechanisms
• Broader view enabled by IT Engagement Model
• The three components of an IT engagement model
  – Company-wide IT governance
  – Project management
  – Linking mechanisms: enhancing user participation
• Case studies
• Initial findings in survey
• Lessons learned
About the Research

- **Interpretive Longitudinal Field Study of BT**
  - Three years of data collection
  - Data: interviews (over 30 managers); attendance of key meetings; internal and public documents.

- **Twelve in-depth case studies**
  - IT and non-IT managers interviewed at each company
  - Collected data on IT governance, project management, and linking mechanisms
  - Examples: TD Banknorth, State Street, MetLife

- **Survey data**
  - Survey data from 162 companies on how they use linking mechanisms
  - In process of analyzing data

- **Theoretical Foundations**
  - Coordination theory
  - Control
  - Cross-boundary knowledge sharing
  - Business-IT alignment

---

IT-Business Alignment

- **Alignment as View of Structure**
  - Metrics: Decision rights, Participation in governance mechanisms
  - Configurational view, e.g., link between IT strategy and business strategy, roles linking IS and Clients
  - Snapshot at specific point in time

- **Alignment as View of Process**
  - Process metrics e.g., shared responsibility, psychological ownership
  - Ongoing journey, firm never achieves limits of alignment

We adopt the view of Engagement as comprising elements of both structure and process
Pursuing enterprise-wide synergies at Insurance Co.

Insurance Co.
2006: $500bn+ in assets; $5bn+ net income

Enterprise Technologies (ET)
manages IT infrastructure for Lines of Business

- Relations between AD and rest of LBU OK; between LBU and ET not OK
- ET costs increasing, a "black hole" and a source of frustration
- The challenge: cut $12m of IT costs, however you can

Pursuing enterprise-wide synergies at Insurance Co.

Large Business Unit (LBU)

Business Sponsor (non-IT)

Application Development (AD)

Enterprise Technology (ET):
IT Infrastructure Services
Achieving Both Local and Global Objectives Involves Engaging Six Key Internal Stakeholder Groups

Traditional Approaches driven by Alignment

IT Capabilities

Smaller Solutions for Local Business Initiatives – i.e., IT as “Order Taker”
**IT Engagement Model**

**Definition:** A system of governance mechanisms targeted at ensuring that IT-enabled change projects achieve both local and enterprise-wide objectives.

An effective IT engagement model:

1) **Aligns** the interests and efforts of IT and non-IT stakeholder groups; and

2) **Coordinates** the interests and efforts of different business units and organizational levels (e.g., coordinate between project, LoB, and enterprise level efforts).

---

**The IT Engagement Model Has Three Components**

- **Company-wide IT Governance**
- **Linking Mechanisms**
- **Project Management**

**Alignment**

- Non-IT → IT

**Coordination**

- Corporate/Strategic Level
- Business Unit/Tactical Level
- Project Team/Operational Level
**Key Linking Mechanisms in LoB1**
- Informal feasibility assessment
- Architecture exceptions handling process
- Review Boards tied to LoB finance committee

**Key Linking Mechanism in LoB2**
- Accreditation Program

**Key Linking Mechanism in LoB3**
- Account Managers

---

**Organization-wide IT Governance Mechanisms**
- Enterprise Transformation Boards
- Senior Information Forum
- Architecture Realization Group

**Project Management Methodology**
Each LoB takes a distinct approach
- Informal feasibility assessment
- Architecture exceptions handling process
- Review Boards tied to LoB finance committee
The Key Third Component to Good Engagement: Good Linking Mechanisms

- **Alignment**: Business - IT
- **Coordination**: Corporate/Strategic Level - Business Unit/Tactical Level - Project Team/Operational Level

**Company-wide IT Governance**
- IT Business Unit

**Linking Mechanisms**
- Project Management
- Project Team/Operational Level
- Line of Business & Program Level
- Corporate Level

**Organization-wide IT Governance Mechanisms**
- CIO participates in key Corporate Committees
- "One IT" Centralized IT Organization
- The Bench

**Non-IT**
- IT Board
- IT Committee
- Technology Leadership Group
- Architecture Realization Group

**IT**
- Business Unit CIO teams strategically focused
- Architecture Conformance Framework Process
- Calendar of commitments
- Bonuses tied to corporate and program objectives

**Linking Mechanisms**
- All projects must belong to one of 29 programs
- Programs follow Agile Delivery & 90-day Cycle
- Hothousing
- ROI Business Case
- Post Implementation Reviews

**BT’s IT Engagement Model: May 2006**
Mechanisms to Achieve Engagement

Company-Wide IT Governance
- Enterprise architecture committee
- CIO member of firm’s executive committee
- Capital approval committee
- IT infrastructure renewal process
- IT investment and prioritization process

Linking Mechanisms
- Enterprise architecture exception process
- Business-IT relationship managers
- Early stage influence of firm-wide objectives
- Post implementation review (PIR) tied to firm-wide objectives

Project Management
- Project management office
- Industry-standard methodology
- Project tracking software
- Project team manager

The IT Engagement Model Survey:
What Types of Engagement Correlate with Different Types of Outcomes?

Business Process Standardization

Business Process Integration
## Example of IT Engagement Model Survey Results

<table>
<thead>
<tr>
<th>Linking Mechanisms (A)</th>
<th>Percent of firms using mechanism (B)</th>
<th>Percent of firms using mechanism with joint corp. involvement (C)</th>
<th>Impact of joint corp. involvement on business process integration in firms with...</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Accountability for project outcomes</td>
<td>93</td>
<td>29</td>
<td>–</td>
</tr>
<tr>
<td>2. Program management office</td>
<td>85</td>
<td>22</td>
<td>–</td>
</tr>
<tr>
<td>3. Post-implementation review of IT projects</td>
<td>78</td>
<td>22</td>
<td>–</td>
</tr>
<tr>
<td>4. Local incentives tied to organization-wide objectives</td>
<td>52</td>
<td>19</td>
<td>–</td>
</tr>
<tr>
<td>5. Early involvement in project requirements</td>
<td>96</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>6. Project prioritization process</td>
<td>88</td>
<td>54</td>
<td>0</td>
</tr>
<tr>
<td>7. Business-IT relationship management role</td>
<td>85</td>
<td>32</td>
<td>0</td>
</tr>
<tr>
<td>8. Early influence of enterprise architecture on projects</td>
<td>78</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td>9. Business cases for projects</td>
<td>95</td>
<td>34</td>
<td>++</td>
</tr>
<tr>
<td>10. Risk assessment of projects</td>
<td>78</td>
<td>25</td>
<td>+</td>
</tr>
<tr>
<td>11. Project gates tied to organization-wide objectives</td>
<td>67</td>
<td>31</td>
<td>+</td>
</tr>
<tr>
<td>12. Enterprise architecture conformance process</td>
<td>62</td>
<td>5</td>
<td>++</td>
</tr>
</tbody>
</table>

1. All results are statistically significant. Results based on 2007 survey of IT executives from 130 companies. Alignment consists of four questions on the extent to which IT and non-IT executives: a) share responsibilities for deriving business value from IT; b) have a high level of understanding of each other’s missions, objectives, and plans; c) consult each other; and d) routinely share knowledge. The impact of corporate level involvement was assessed by holding the level of alignment constant (e.g., at low or high) and comparing the level of business process integration achieved by firms using each mechanism. Using data from the subset of firms indicating a high level of alignment, we rank ordered the mechanisms based on the impact of corporate level involvement on business process integration. The top five mechanisms on this list are indicated here.

2. Key to symbols: “–” = negative impact; “0” = insignificant impact; “+” = positive impact; “++” = one of the five mechanisms in which joint participation had the greatest impact.

---

### Effective organizations do not have corporate-level engagement at post implementation reviews without alignment

![Business Process Integration and Post Implementation Reviews](image_url)

1. All results are statistically significant. Results based on survey conducted in 2007. Survey participants were senior IT executives from 118 companies. Business Process Integration is a factor made up of six items, such as: Core business processes are integrated across business units; Business units regularly share data as part of their daily operations; and Data from core business processes are integrated across business units. Alignment is a factor made up of the following items: IT and non-IT executives share responsibilities for deriving business value from IT; IT and non-IT executives have a high level of understanding of each other’s missions, objectives, and plans; IT and non-IT executives consult each other; and IT and non-IT executives routinely share knowledge. Corporate-level engagement refers to IT and non-IT stakeholders from the corporate level participate in a mechanism.
Wasteful Engagement

Above Average Level of Business Process Integration

Below Average Level of Business Process Integration

Business Process Integration and Business-IT Relationship Managers

Corporate-level Engagement

Alignment

Fruitful Engagement

Above Average Level of Business Process Integration

Below Average Level of Business Process Integration

Business Process Integration and Project gates tied to organization-wide objectives

Corporate-level Engagement

Alignment

1 All results are statistically significant. Results based on survey conducted in 2007. Survey participants were senior IT executives from 118 companies. Business Process Integration is a factor made up of six items, such as: Core business processes are integrated across business units; Business units regularly share data as part of their daily operations; and Data from core business processes are integrated across business units. Alignment is a factor made up of the following items: IT and non-IT executives share responsibilities for deriving business value from IT; IT and non-IT executives have a high level of understanding of each other’s missions, objectives, and plans; IT and non-IT executives rarely consult each other (negatively weighted). Corporate-level engagement refers to IT and non-IT stakeholders from the corporate level participate in a mechanism.
Premature Engagement

Business Process Standardization and Post Implementation Reviews1

Above Average Level of Business Process Standardization

Below Average Level of Business Process Standardization

Corporate-level Engagement

All results are statistically significant. Results based on survey conducted in 2007. Survey participants were senior IT executives from 118 companies. Business Process Integration is a factor made up of:

- Core business processes are integrated across business units
- Business units regularly share data as part of their daily operations
- Data from core business processes are integrated across business units

Alignment

Key Lessons from Our Studies

- Achieving enterprise-wide synergies involves distributing and coordinating responsibilities across multiple IT and non-IT stakeholders
  - alignment between business owners and application development ("local alignment") is important however insufficient for long-term business value from IT
  - coordinating multiple local alignments also necessary
- Distributing and coordinating responsibilities:
  - defining global objectives and rules
  - relating individual local efforts to global objectives
  - creating choices with business consequences
  - making implications of decisions transparent
- Linking mechanisms support key activities
  - Users developing broadened vocabulary
  - common artifact relating local efforts to global objectives
Firms increasingly rely on a global network of service providers

Engagement across boundaries is essential to organizational integration...
Thank You!