How to align Information Technology with Your Business Needs

You know that you need to leverage Information Technology (IT) for your business success. Yet, sometimes you have this nagging feeling that you are not getting value from your IT investments. This article discusses how to implement IT governance to align IT to your business.

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How to align Information Technology with Your Business Needs
How to actively Govern IT

> You know that you need to leverage Information Technology (IT) for your business success. You are spending a lot of money on IT. Yet, sometimes it feels like you are not getting value from your IT investments. Why is that? Have IT projects ever gone over budget and failed to meet expectations? You have tried different things to deal with this. To solve IT problems, you may have replaced your IT Director in the last few years. Would you like to know how to make IT deliver even more business value to your organization?

Perhaps you have implemented a whole new IT system in the last few years. Yet, your business executives complain about not being able to get the data they need to make good business decisions and the lack of quality support from the IT group. What do you think is going on? Is having a good IT service that provides good business value beyond your reach?

IT is ubiquitous, complex, expensive and hard to do right. However, with the right tools, there is no reason why you should not be able to align IT to serve business needs in your organization. This article discusses IT governance and how to implement a simple set of processes to leverage IT for maximum business value.

Why should you care about IT in my organization?

IT has tremendous potential to help your business. In your organization, IT is comparable to a very sophisticated tool box in your home. Unfortunately, many people buy tools that they do not fully use. Perhaps in a home environment that may be OK but in a business setting that is unneeded waste.

IT as a discipline is only about 40 years old and is a relative newcomer in the executive suite. Many business executives understand the fundamentals of their business well; they understand the disciplines of finance, sales, marketing and operations. But they do not necessarily understand IT because it is technical, complex and keeps changing. Besides that, IT people seem to speak a different language and can be very difficult to communicate with.

Therefore, in many organizations, IT becomes a complex toolbox that executives invest in but do not necessarily understand well. They think they can hire IT people to do that job for them but does not work if the IT people cannot speak the language of business and the utilization of the tools is not aligned to the business. Turning over the keys to a very large and expensive asset such as IT to a less than capable IT leader can be fatal.

IT has tremendous potential. But things can go wrong easily.

IT has the potential to provide tremendous business value in any organization if leveraged correctly. For example the collaboration capabilities of IT alone have great potential to bring people together across distance and time to accomplish great things together. Examples of collaborative capabilities of IT include e-mail, web based document sharing, video conferencing, workflow systems and project management tools.

In a sales organization, IT tools – if implemented correctly – have the potential to provide great visibility into the operation of the sales funnel and process. IT can provide detailed metrics about what is working well and what needs to be changed in people and process to improve sales.

In marketing, IT tools provide web sites to attract customers to learn about and purchase company products and services. Search engine optimization technology when implemented correctly will attract even more potential buyers. Social media tools have the potential to leverage the power of customer social networking to improve products and services and to reach even more audiences.

The IT toolbox has tools to improve business operations through automation in almost every department in any organization. The challenges come in the selection of the proper tool or set of tools, adoption by people and particularly the integration of these tools in any business across departments to provide a uniform set of information as well as well-integrated information based work processes.

As with anything that has a lot of power, things can go wrong with IT. Different departments within a company (if allowed to do so) may work independently to implement tools that are not compatible with each other. They may pressure the IT organization and drag IT in different incompatible directions. A centralized governance function to watch for this real possibility can ensure this does not happen.

IT cannot be allowed to become the proverbial elephant in the room.

To improve performance across the entire company, all IT systems in an organization need to connect and exchange information pertaining to customers and products of the business. There must be an information architecture that allows efficient information exchange between systems and minimizes the cost of implementing multiple systems as much as possible.

Since IT is a shared resource and IT dollars are usually limited in any organization it is very important for different parts of the business to work together to maximize the value of precious IT dollars and prioritize the use of these dollars in support of the total business. Furthermore, since technology can change so fast, and IT projects have a tendency to go south easily, IT should be monitored to make sure that IT projects are proceeding according to plan and IT operations is always delivering business value.

The essence of doing this in any organization is Actively Governing IT.

What is IT Governance? Why should you care?

All organizations have some form of IT governance. Those with effective IT governance have an actively designed set of IT governance mechanisms including committees, budgeting processes, approvals that encourage behavior consistent with the organization's mission, strategy, values, norms and culture.

In governing IT, we can learn from good corporate and financial governance. For example, the CFO does not sign every check or authorize every payment. Instead, he or she sets up a financial governance system specifying who makes the decisions and how. The CFO then oversees the enterprise's portfolio of investments and manages the required cash flow and risk exposure. The CFO tracks a series of financial metrics to manage the enterprise's financial assets intervening only if there are problems or unforeseen opportunities.

Exactly the same approach should be applied to IT governance.

Executive management determines the actual amount of money budgeted in a given year and how it should be spent at a high level. They design the IT decision rights and accountabilities to encourage the enterprise's desirable behaviors.

For example, if desirable behavior involves independent and entrepreneurial business units (per organizational strategy), IT investment decisions will be primarily with the business unit heads. In contrast, if desirable behavior involves an enterprise wide view of the customer with a single point of customer contact, a more centralized IT investment governance model works better.

Definition - IT governance is the effective prioritization, decision-making and planning of IT resources.

According to the IT Governance Institute, the purpose of IT is to direct IT endeavors to ensure that IT performance meets the following four objectives:

> 1. <u>Strategic Alignment of IT with the enterprise</u> - This means that somebody outside of the IT organization has to make sure that IT systems and processes are what the organization needs at a strategic level. IT investments are selected carefully to maximize strategic business value in the long term.

2. <u>Ensuring business value of IT</u> - This means that someone has to formulate a score card for IT and show continuously that it provides business value.

3. <u>Management of IT performance and resources</u> - This means that someone has to ensure that IT dollars are spent on the right tools and activities. Not on fancy toys.

4. <u>Appropriate management of IT related risks</u> - This means that someone has to assess, understand and actively manage risks created by the use of IT systems.

Doing all of this may sound like a lot of work in any organization. Some executives think this is the task of the CIO or IT leader in their organization. This cannot be farther from the truth. Since IT has so many dimensions and it is so complex, IT governance cannot be done by the IT leader in any organization.

IT has many facets and its business value can only be measured and interpreted by business executives. IT governance has to be done by committee - usually called the IT steering committee.

The IT steering committee should consist of all of the key stakeholders of IT. This usually includes all of the key business executives. The IT leader is also part of the IT steering committee. The goals of the IT steering committee are to govern IT as outlined above.

OK now what? How can you implement IT governance in my organization?

There are several different methodologies available to implement IT governance in your organization. A good methodology is described by Peter Weill and Jeane Ross in their book - "IT Governance". Peter and Jean are researchers at the Center for Information Systems Research at the Sloan School of Management at the Massachusetts Institute of Technology. Their IT governance methodology includes the key steps of defining IT Principles, Enterprise Architecture, Shared IT infrastructure, Business Unit application needs and IT investment and prioritization. Most large and mature organizations follow a variation of these steps.

But in a small or midsize business it does not have to be complex. In our practice with clients, we have found that the following steps can be taken to implement IT governance effectively:

1. <u>Form an IT steering committee</u> consisting of all stakeholders of IT services including the CIO. Establish a monthly meeting for the steering committee.

2. <u>Create an IT score card</u> that aligns to business goals and objectives. Measures should include a combination of IT related metrics, end user satisfaction metrics,

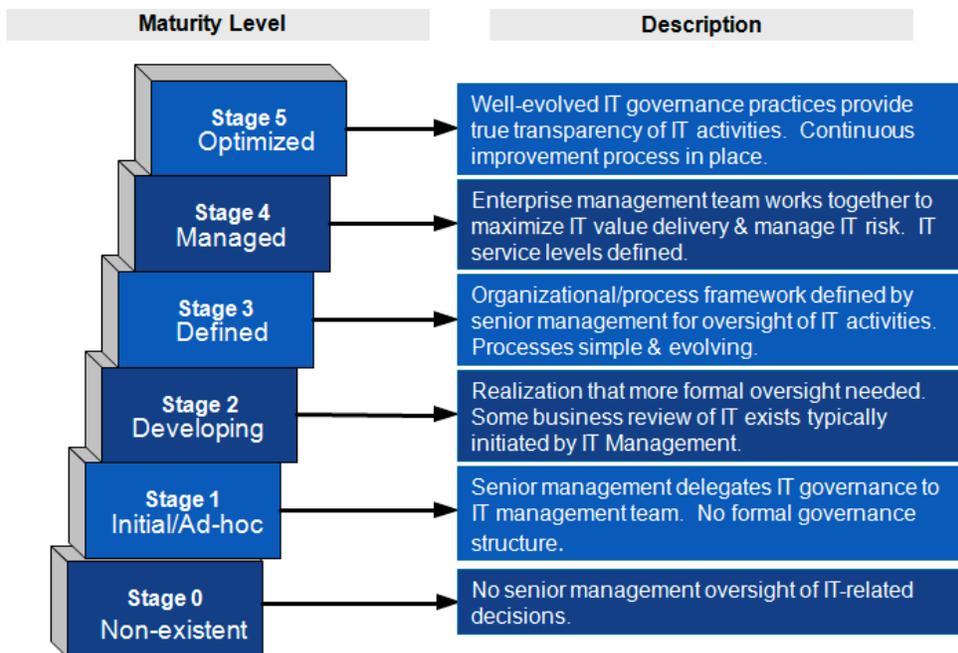business contribution metrics and risk management metrics. Perform a quarterly assessment of the metrics.

3. Establish a month agenda for the IT steering committee. Items for discussion should include status of key IT projects including corrective action and guidance for problems. The agenda should also include discussion of the business case and funding for new projects.

4. Annually, committee should perform a full assessment of IT performance based on the score card. Based on annual budget setting process, this committee should prioritize IT initiatives along with discussion and rationalization of business benefits.

Performing these basic steps will go a long way in your organization becoming IT savvy, making the right decisions about what IT initiatives to fund and monitoring them to maximizing the value of your expensive IT assets.

Assessing IT governance maturity in your organization

The following IT governance maturity model is an industry standard and can be used to assess your organization's maturity level.

Maturity Level	Description
Stage 5 Optimized	Well-evolved IT governance practices provide true transparency of IT activities. Continuous improvement process in place.
Stage 4 Managed	Enterprise management team works together to maximize IT value delivery & manage IT risk. IT service levels defined.
Stage 3 Defined	Organizational/process framework defined by senior management for oversight of IT activities. Processes simple & evolving.
Stage 2 Developing	Realization that more formal oversight needed. Some business review of IT exists typically initiated by IT Management.
Stage 1 Initial/Ad-hoc	Senior management delegates IT governance to IT management team. No formal governance structure.
Stage 0 Non-existent	No senior management oversight of IT-related decisions.

Most small and midsize businesses find themselves somewhere between Stage 1 (Initial/Ad-hoc) and Stage 2 (Developing). This is a low level of maturity and organizations should actively pursue achieving at least Stage 3 (Defined). At stages 2

and below it is highly likely that the organization is not actively managing its IT asset for true business value. Nor does the organization typically recognize where it is relative to IT maturity. At stage 3 and higher, organizations will start to see the real business value of IT investments delivered regularly and automatically.

Unfortunately, given the rate at which organizational learning and adoption takes place, moving from one level of maturity to the next can take between 2-3 years.

Sample use and benefits of IT governance

At a food distribution client of VIE, the CEO was tech savvy and had a gut level feeling about the potential value of IT for the business. The executive team consisted of executives from varying business backgrounds and did not have a strong understanding of technology. The IT staff consisted of one IT Manager and four direct reports. The business had implemented an IT system which automated many important functions in the business but not all. A key shortcoming of the system was warehousing operations automation.

A few years ago the company was at Stage 1 of the IT governance maturity model (Initial/Ad-hoc). The IT Manager was young but understood the value of communicating frequently with executives, getting their perspective and implementing IT systems to meet business needs. Due to the initiative of the IT Manager and somewhat reluctant acceptance by executives, this VIE client has slowly moved its maturity level to Stage 2 (Developing). This means that the IT manager is invited to executive meetings but the IT Manager largely drives the IT agenda without much participation from the executives.

More recently, the CEO (on pressure from a tech-savvy board member) has realized that in order to further differentiate the business from competitors, they must implement a system to provide much more visibility into their supply chain. This visibility will enable the business to label distributed products to create customer affinity. This is a new trend in their industry and has the potential to provide sustainable competitive advantage in the future. Since there is now a truly strategic relationship between business and IT capability, the business has decided to actively pursue Stage 3 of the maturity model – "Defined". This means that executives are now open to learning about how technology will help them achieve their goals and they will help direct it and put it to good business use.

So what can you do *now* to get going on Governing IT in your organization?

If you and your executives are not sure about the value of IT, it seems to cost too much and does not deliver expected value, you can take the following simple steps:

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1. Form an IT steering committee consisting of key stakeholders of IT.

2. Develop a simple charter for the IT steering committee including goals, expectations, how the committee should operate.

3. Have the committee meet monthly initially with an agenda to discuss key IT projects, assess progress and take corrective actions where necessary. A goal of the committee should be to become tech savvy and learn how IT can be leveraged further for business.

4. Define an IT scorecard for the business. Perform a full annual evaluation of IT's contribution to the business.

If you don't know how, or don't have the time to do this, hire an expert to assist you.

Finally, If you have serious feelings that something is wrong with IT in your company but cannot put your finger on the issue, or if there is a set of apparent complex inter-related IT issues, consider performing an IT assessment*. Remember, IT is essential and expensive but it does not have to be hard to do right. If you can learn how to be technology savvy, you too can learn how to measure and get the maximum possible value from your IT investments.

* Please review VIE's services page for their "IT SnapShot™"

Author's Biography

Manoj Garg is a founder of Virtual Information Executives, LLC (VIE). He is currently the Managing Partner of VIE and brings over 25 years of senior executive leadership skills and technology management experience with domestic and international operations to VIE's clients.

Manoj's prior experience includes senior executive roles in Higher Education, Technology and Manufacturing organizations. His experience covers a broad array of skills, including Large Scale Technology Infrastructure Management, Outsourcing Management, Information Security Management, Program Management and Enterprise Resource Planning. Manoj has managed technology budgets in excess of $20M. He is noted for creating and implementing innovative solutions that assist businesses in achieving goals rapidly. He has significant outsourcing experience and has delivered successful projects in many overseas locations including Brazil, Argentina, Egypt, Australia, India and China. Manoj serves on several boards of directors and advisory groups for companies.

Manoj is an active member of the Oregon Entrepreneur Network, a non-profit organization whose mission is to provide support activities and mentoring to the entrepreneurial community to foster business growth and employment opportunities in Oregon.

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Our primary goal is to build trusted relationships with our clients. By having no contractual agreements with any product or service vendors but being knowledgeable about many top providers, we are able to bring a very "what is best for the client" approach to our clients. This neutral approach is one level of assurance that we will always wear your hat.

We work with CEOs and other business executives who supervise the IT function to assess the state of technology in their organization and increase technology savvy substantially. Doing this enables them to integrate business and technology to gain the maximum possible advantage.

We work with CIOs to assist them with key initiatives that require senior level expertise. We mentor IT Directors and IT Managers to improve their performance and their leadership and communication skills.

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❑ Interim and part-time CIO Services
❑ IT Strategic Planning
❑ IT Governance implementation
❑ Enterprise Software Selection and Implementation Services
❑ IT Due Diligence for mergers and acquisitions

For more information about how VIE can help you, please visit www.viellc.com. Or call 503-828-1248.

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