How to bridge the IT alignment gap

By Donie Lochan and Sachin Shah

Information technology organisations and the businesses they support do not occupy parallel universes, but business leaders can be forgiven for thinking they might. A Bain & Company survey of more than 500 senior executives found that despite devoting enormous resources and energy trying to align IT investments with their most important business needs, fewer than one in five felt their efforts were succeeding.

Trouble typically starts when business units hand off their strategy to IT at too high a level. The broad goals are not concrete enough to be converted into well-informed IT decisions. In response, the proposals IT develops are defined at too low a level—often as a one-year operating plan rather than a comprehensive program to reach a strategic destination.

The consequences are severe: The organisation wastes money on the wrong IT investments. It is slow to bring new products and initiatives to market. And it defers making improvements because IT lacks the full support of the business which, in turn, fails to achieve critical objectives.

There is a better way. Effective alignment can occur only when IT and business strategy are anchored in clearly articulated business capabilities. Capabilities are the specific skills needed to achieve competitive leadership. They are dynamic and give the organisation an ability to adapt to changing market conditions. Supporting business capabilities permits IT to respond flexibly to essential business needs.

Consider the critical capability of customer segmentation, a key enabler of growth. An IT organisation built around capabilities enables the business to target attractive new customer segments in an environment of changing products, prices and consumer tastes. These goals require IT to build capabilities for integrated data storage; common platforms for various channel, product and security needs; and dynamic end-user computing. In short, organizing around capabilities ensures that business priorities trigger key IT decisions.

Leading companies follow a five-step process for unlocking IT's full potential to deliver business value:

1 Define business imperatives and the capabilities that underpin them. Business imperatives are the organisation's most urgent strategic priorities. Alignment begins by defining these critical battlegrounds and identifying the key capabilities the business units need. Then, executives must weigh the strategic relevance of each capability, based on the number of business imperatives it supports, and cluster them by priority.

A business imperative might be to establish a customer-centric culture. To achieve it, the business will need the ability to quickly refine products, structure special offers and set prices based on key customer relationships. IT's role in enabling this business capability includes building a responsive technology platform for delivering a full customer profile directly to sales representatives.

2 Identify IT capabilities that support business capabilities and plug gaps. Here, line executives and IT managers jointly determine the IT design. To satisfy the most important business imperatives, managers need to assess the strategic relevance of the various IT capabilities, map them to the business capabilities they support and focus on the most important ones. The process helps identify gaps between current IT capabilities and the target state, and to determine which IT capabilities can be shared.

3 Design the operations and technology architecture. Rather than develop IT features on demand, managers need to establish principles to guide IT architecture and the way new features are built and operated. For example, customer data are frequently scattered over diverse applications and databases. To support business requirements in a retail setting—and to simplify the environment for the sales force—customer systems may need to be integrated. In this way, stores and contact centres will be able to access a real-time, 360-degree customer view from one content-management system. This not only aids customer-facing employees, it facilitates customer-focused service, segment marketing and sales analytics.

4 Develop the IT-strategy roadmap. Aligning IT with business objectives requires a commitment and a roadmap. Managers must identify key IT investment needs that will close the alignment gaps, then group them into IT investment themes. Following an acquisition, for example, a priority will be to improve IT connectivity and efficiency across the merged companies. Leading firms sequence IT investments, developing a multi–year roadmap for IT initiatives based on their strategic relevance, urgency and ease of completion. They also build an investment plan based on the estimated cost and expected return.

5 Reallocate IT spending as business priorities evolve. Periodically, companies need to re-apply a business lens to IT costs to ensure alignment. Sometimes it is necessary to shift the project portfolio to newly critical capabilities, refocus IT budgets accordingly and capture the savings. Frequent reviews can quickly reallocate unaligned IT costs to new business priorities.

A business-capability approach can deliver a dramatic payoff by both better targeting IT's efforts and by making its contribution readily understandable to all. Aligning IT strategy closely with business strategy – and mobilizing the organization behind that effort—causes those once parallel universes to converge.

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