IT GOVERNANCE DOMAIN PRACTICES AND COMPETENCIES

IT Alignment: Who Is in Charge?

IT GOVERNANCE INSTITUTE®

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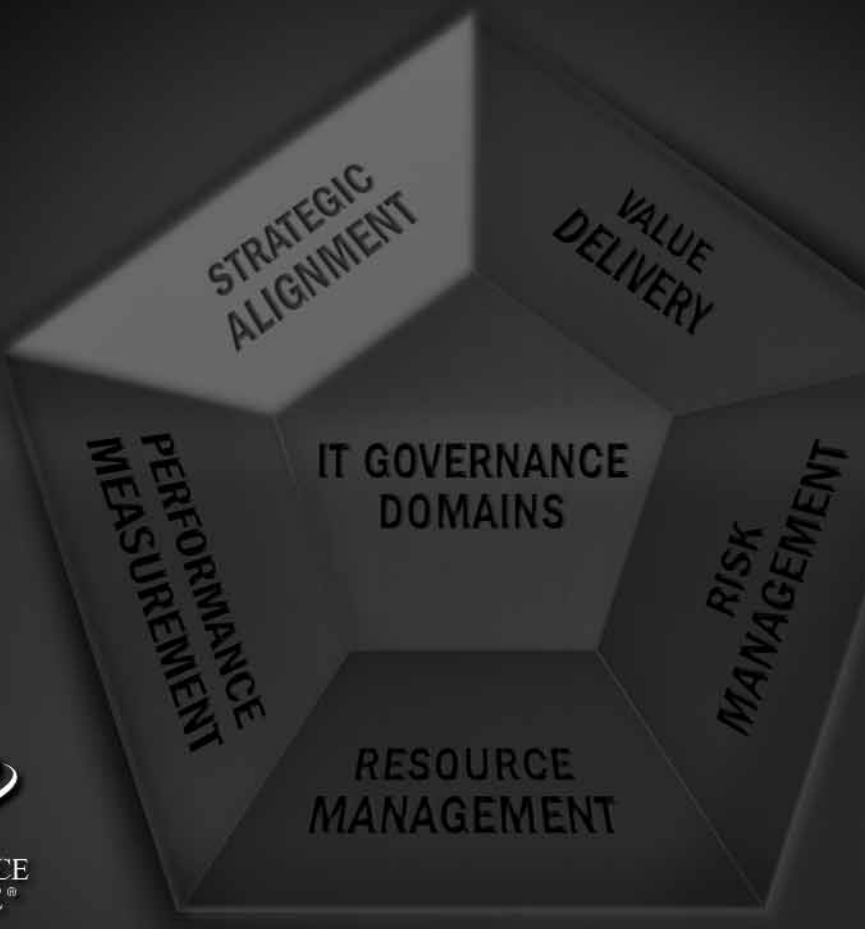

IT Governance Institute®

The IT Governance Institute®

The IT Governance Institute (ITGI) (*www.itgi.org*) was established in 1998 to advance international thinking and standards in directing and controlling an enterprise's information technology. Effective IT governance helps ensure that IT supports business goals, optimises business investment in IT, and appropriately manages IT-related risks and opportunities. The IT Governance Institute offers original research, electronic resources and case studies to assist enterprise leaders and boards of directors in their IT governance responsibilities.

Disclaimer

Disclosure

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Note: The publication is part of the IT Governance Domain Practices and Competencies Series from the IT Governance Institute. The titles include:
- *Information Risks: Whose Business Are They?*
- *Optimising Value Creation From IT Investments*
- *Measuring and Demonstrating the Value of IT*
- *Governance of Outsourcing*
- *IT Alignment: Who Is in Charge?*

1. Introduction

For any enterprise to achieve long-term sustainable success, it is essential that employees in all elements that comprise the enterprise fully understand corporate objectives and work together in a properly controlled and co-ordinated way to ensure that those objectives are met.

As a simple analogy, unless attempting a particularly avant-garde interpretation of a great musical opus, orchestra members must work in the same key, playing the same piece, in the same tempo as their colleagues under the overall direction of the conductor, whose specific talent and genius may result in nuances that may set that specific performance apart as a uniquely successful and memorable event. Many of us have attended concerts, classical or rock, that deliver something unique and memorable, where one is left feeling that the whole is greater than the sum of the individual parts. Commercial enterprise and not-for-profit sector performance is capable of achieving similar greatness, reflected in enhanced stakeholder return or the highest levels of service at the lowest possible cost, if the individual components operate to the highest standards possible and work together to meet, or exceed, expectations. That is what alignment is all about: achieving maximum results through proper professional and experienced individual and collective endeavours that work in harmony under strong and inspired leadership.

Each organisation has to select and work with an approach for IT strategy alignment.

However, if any of the individual components perform below par or to a separate agenda, if the leadership is weak, or if risks are inadequately managed, the results achieved will be below expectations and, rather than creating optimum value, value could be eroded or destroyed.

This paper sets out some specific guidance on the responsibility for IT strategy alignment and how alignment might best be achieved and sustained and, in particular, it suggests some practical ideas for the role, activities and constitution of a board-led IT strategy, investment or policy committee.

Suggestions are provided on how alignment might be optimised. However, there will never be a standard, universally applicable solution. Each organisation, whether a for-profit or not-for-profit enterprise, has to select and work with an approach that works for it. The degree of formality and, in particular, the committee structure required will vary depending upon the size and shape of each enterprise and the extent to which its use of IT is fundamental to business success.

2. Setting the Scene

The research supporting this paper presents evidence primarily from a research survey specifically commissioned to support the IT Governance Domain Practices and Competencies Series, with support from other research and anecdotal evidence. Whilst some good practices do exist within many companies to maximise alignment, there are a number of concerns including:

- Almost 50 percent of the entities responding to the survey did not have a formalised governance structure designed to ensure IT and business alignment.
- The responsibility for IT strategy is often delegated to management levels below the board. In particular, fewer than 25 percent of entities engage board members directly in the IT strategy-setting process.

These concerns become particularly significant in view of the fact that in the same survey, respondents identified the alignment of IT investments with business strategy as by far the biggest single issue that they face. Are these issues a consequence of lack of clarity/involvement from the board or from the largely IT-centric respondents' inability to interpret and translate what the board wants in business terms into applicable actions for the IT functions? What is the real problem? Is it lack of the board getting closer to IT or IT not being closely involved with the business? The reality probably is both. This is one of the reasons why alignment is so important as, to be achieved, there needs to be commonality of understanding between IT and the business.

In today's world of international competitiveness, high stakeholder expectations, increasing regulation and continuous change, it becomes even more essential that proper alignment be ensured among all functions of the enterprise including, among others:

- Research and development
- Product/service design
- Development (and, if appropriate, manufacture)
- Marketing/CRM
- Sales
- Finance
- Distribution/supply chain
- Human resources
- Real estate
- Outsourcing
- Any other function upon which the enterprise depends

This alignment is essential regardless of whether or not the function is sourced internally or externally. One function that commonly crosses all of these other functions is information technology.

In many companies, over the last twenty years, IT has moved from providing largely back-office support to becoming the prime facilitator and enabler of the total business. Without proper alignment of IT, it is unlikely that any enterprise will achieve and sustain long-term success through the delivery of value to its stakeholders.

The alignment of IT with the overall strategy of the enterprise does not happen by accident. It requires full and active involvement from many levels and activities within the enterprise. It requires active and focused management. It is a continuous effort and requires world-class skills and expertise, either in-house or outsourced. It requires risk taking, but with appropriate risk management. It also requires strong and demonstrable governance.

Strategic alignment is one of the five domains within IT governance, as shown in **figure 1** and as described by the IT Governance Institute in its *Board Briefing on IT Governance, 2nd Edition*.[1]

Figure 1—The Domains of IT Governance

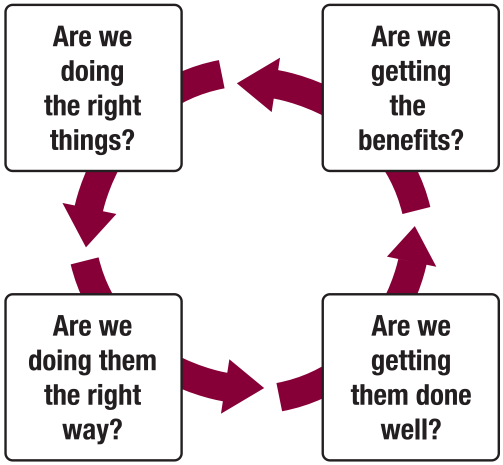
Proper governance over the achievement of IT alignment requires leadership and commitment from the highest levels of the enterprise. This requires the proactive engagement of the chief executive officer (CEO) and board. As articulated in the *Board Briefing* publication, this requires the board to take responsibility for:
- Ensuring that IT strategy is aligned with business strategy
- Ensuring that IT delivers against the strategy
- Directing IT strategy to balance investments appropriately among systems that support the enterprise as it is, transform the enterprise or grow the enterprise

[1] IT Governance Institute, *Board Briefing on IT Governance, 2nd Edition*, 2003

- Making informed decisions about the focus and priority for the use of IT resources
- Ensuring that appropriate IT and related business resources are available to enable IT to deliver upon its expectations

Within the IT service delivery continuum (**figure 2**), the prime outcome from successful IT and business alignment is a satisfactory answer to the first question: are we doing the right things? Of course the ultimate success factor is the assurance that the enterprise is getting the maximum benefits from the investment, but this is achievable only if the right things are chosen in the first place, are being done the right way and are being done well.

Figure 2—The IT Service Delivery Continuum[2]



But who should be responsible for strategic alignment between IT and the business? Should it be the chief information officer (CIO) and the IT function or should it be the CEO and the business executives? Should it be a responsibility equally shared between both?

There is evidence that all too often business management may be reluctant to take on responsibility for any IT-related issues even though IT often has a major effect on the success of the business and the purpose of IT is to support and enable the business. IT is not an end in itself. It has no purpose and no value beyond supporting and enabling the business, thus there is a strong argument that ultimate responsibility for IT strategy setting and implementation should rest with the business leadership.

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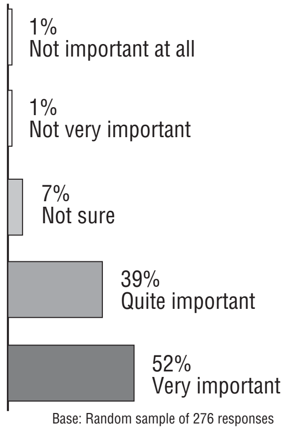
[2] Thorp, John; *The Information Paradox—Realising the Business Benefits of IT*, McGraw Hill, 2003

3. Why IT Alignment Is Important

Research carried out by PricewaterhouseCoopers on behalf of ITGI in 2003 highlighted the top ten IT-related issues that were being faced at the time by corporate executives. Whilst recognising the importance of IT for overall strategy delivery (**figure 3**), prominent amongst these issues was the perceived disconnect between IT strategy and business strategy. This lack of alignment leads to adverse business issues including:
- Inability of the business to reach its full potential
- Failure to identify and capitalise upon business opportunities that could be enabled by IT
- Potentially higher operating costs and, therefore, competitive disadvantage due to the failure to replace expensive labour-led processes with lower-cost (over the long term) automation
- Incorrect and ineffective focusing of IT-related resources
- Inability to recruit and retain high-quality IT and business personnel
- Higher costs overall
- Erosion of stakeholder value over time

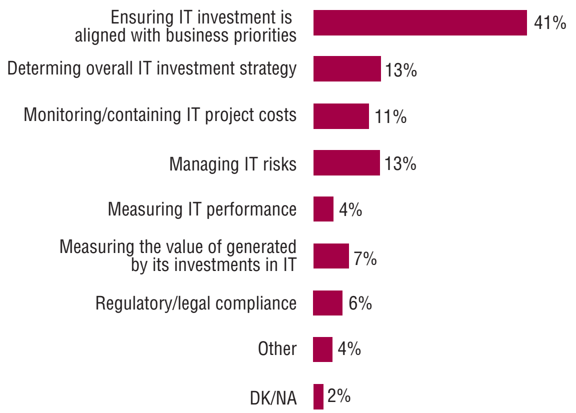
Figure 3—The Importance of IT to Strategy Delivery



A more recent study[3] carried out by Lighthouse Global in 2004 for ITGI's IT Governance Domains Practices and Competencies Series identified the need to align IT and business strategies and ensure that IT investments are properly prioritised according to the business needs as the most important factors in achieving IT-related business success (**figure 4**).

[3] In 2004, the IT Governance Institute, in conjunction with Lighthouse Global, surveyed 200 IT professionals from 14 countries in the Americas, Asia-Pacific and Europe. The respondents included CIOs, IT directors and IT managers from companies with a turnover in excess of US $50 million.

Figure 4—IT-related Issues



Base: All randomly selected respondents to answer this part of the questionnaire—Section 2 IT Governance/Alignment (155)

> **'For many years, IT alignment has been the No. 1 issue on IT executives' minds. However, despite the focus and attention we've paid to this idea, we're no closer to IT alignment today than we were 20 years ago'.[4]**

Interestingly the respondents to this survey had a high level of confidence in the ability of their enterprises to achieve IT and business strategy alignment. Indeed, some 88 percent of the respondents believed that they were already either very effective (31 percent) or fairly effective (57 percent) in achieving this. Although superficially this result appears to be quite positive, it does reflect the view that at least 69 percent of the respondents at least recognise that there are improvements, and in some instances major improvements, that could be made to their IT strategy alignment processes. It is probable also that, as the majority of the survey respondents were IT management, they are perhaps more likely to have a more positive view of their business alignment than might have been the result had business colleagues been consulted.

It should be noted also that this survey identified that approximately half of the entities responding to the survey did not have a formalised governance process to ensure appropriate and effective alignment. This is probably the most critical fact surfacing from the studies. Combine this fact with the existence (or lack thereof) of senior IT positions (i.e., CIO, VP) and their placement in the organisation, i.e., reporting down one to two levels, and one of the key reasons for misalignment becomes obvious.

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[4] DeLisi, Pete (Academic dean of the IT Leadership Program at Santa Clara University); "IT Alignment Revisited", *Optimize Magazine*, June 2005

4. Where Business Strategy Is Formulated

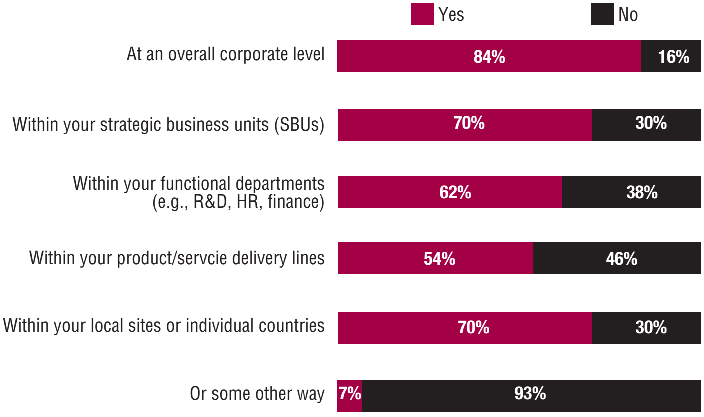
In practice, business strategy is formulated to some extent at all levels of a business. The overall strategic direction is set by the CEO and board, taking into account such factors as the external economic and political environment, the capabilities and known strategies of the competition, regulatory frameworks, skills and resource availability, and appetite for risk. Knowledge of these areas enables properly informed decisions to be made on the overall strategic direction for the entity including, for example:
- Do we go for growth, consolidation or divestment?
- If a growth strategy is to be pursued, will this be achieved by organic growth or by acquisition and merger?
- What should our target markets be?
- Should we pursue a cost reduction strategy?
- Should we go for greater diversification or should we concentrate only on principal markets and products?
- What are our external stakeholder expectations?

High-level questions such as these have to remain the domain of the CEO and board, but implementation of the strategy involves other senior business management. It is important that they should be involved in the strategy setting, partly because of the informed input that they can provide but also because implementation requires leadership and ownership. These are more difficult if senior business managers feel that the strategy has been imposed upon them without any opportunity to contribute to it.

This diverse input to the strategy process is reflected in the Lighthouse research findings as shown in **figure 5**.

Figure 5—IT Strategy Formulation

Q15: Can you briefly describe how your organisation's IT strategy formulation is organised? Is it organised…?



Base: All randomly selected respondents to answer this part of the questionnaire—Section 2 IT Governance/Alignment (155)

The involvement of IT in strategy formulation is a two-way process. There has to be confidence that IT can support and enable the resultant strategy but, at the same time, IT capabilities and opportunities must provide essential input to what that strategy should be. This is self-evident in the case of an e-generation business, such as Amazon or eBay, but it may be less evident in the case of traditional bricks-and-mortar businesses, such as banking or insurance. In these businesses, historically, IT had only a supporting rather than an enabling role, although many have now become transformed through, for example, diversification into Internet banking and direct insurance offerings achieved through the use of the enabling properties of IT. This would have required significant IT input into the development of the strategies that led to the diversification into these highly successful new areas. Few business strategies can ignore IT. Even an established, risk-averse business following a relatively safe cost-reduction, market-consolidation strategy needs to consider how IT might be used to help cost reduction whilst maintaining service levels and protecting market share. Those companies with a higher risk appetite wishing to go for growth and diversification need to understand the additional opportunities enabled by the use of new technology. This requires a continuing watch on new and developing technologies, a willingness to experiment, a need for imagination and innovation, and a willingness to accept occasional failures as part of the learning process toward achieving success.

Every business and not-for-profit entity needs to develop an understanding, shared at the board level and then cascaded throughout the organisation, of the key processes that contribute to business success and, crucially, the importance that IT has to these processes. This is best achieved by a detailed mapping of all key value contributing processes and the part that IT plays in making them happen. Only by developing such an understanding will there be any clarity of the extent to which IT and business process alignment contributes to long-term, sustainable enterprise success.

Strong IT governance in all its domains contributes toward the achievement of proper alignment between IT and business strategy. IT governance requires significant engagement of the CEO and his/her board colleagues to ensure that IT delivers value to the business. This value is not achievable or sustainable without alignment.

5. Business and IT Strategy—An Essential Partnership

Over the last 30 years there have been calls for an entity's IT strategy to be formally aligned with the business strategy. This has often been understood to imply that the business strategy is prepared and agreed first and the IT strategy is then built in response to it. This may have been appropriate when IT merely automated the way the existing business worked. However, in today's world where IT goes way beyond a mere support role and actually provides the enablement of new business models, this responsive and reactive approach is no longer sufficient. Indeed, in some cases, the IT strategy may even become the business strategy. At the very least, the two need to be regarded as inseparable, with the consequent need to be thinking IT in every aspect and at every stage of the business strategy development. Further, senior business management must become more IT-literate to effectively synergise business strategy with enabling IT strategies and to ensure that IT planning becomes completely embedded into enterprise strategic planning.

Senior business management must become more IT literate to effectively synergize business strategy.

This may be regarded in a similar way to the design of a new building. Such a design would never be undertaken without a full understanding of the land upon which it will be built, the local environment and climate, the materials, the technology, the budget and the craft skills available to the architect and builder. Without a complete understanding of all of these aspects, the design will never progress beyond nonspecific sketches. It may ultimately be compromised by the failure to identify and make use of, for example, materials and technology that could have added significant value to the project, or the failure to identify environmental issues that also might compromise success.

In their book *The Discipline of Market Leaders*,[5] Michael Treacy and Fred Wiersema introduce the concept of value disciplines that may be used to identify the potential effect of different IT supporting and enabling strategies.

These value disciplines are:
- Operational excellence—Emphasising efficiency and reliability, leading the industry in price and convenience, minimising overhead costs, streamlining the supply chain
- Customer intimacy—Focusing on building and sustaining client relationships, customer service, responsiveness and customisation based on deep customer knowledge
- Product or service leadership—Continuing product innovation, finding new solutions to problems and rapid commercialisation/exploitation

IT is an underlying enabler in the Treacy/Wiersema model. In each of the value disciplines there are two basic levels of IT support required. First is the 'level

[5] Treacy, Michael; Fred Wiersema; *The Discipline of Market Leaders*, Addison-Wesley, 1995

of IT necessary to exist in the market' and second is 'the level of IT employed by the leaders in the market'. For each business area (i.e., operational excellence, customer intimacy and product innovation), technology is deployed in different ways. However, each has a 'threshold of participation' with the market leaders demonstrating innovative and extensive use of IT.

Although there are obvious overlaps between those categories of companies requiring respectively those disciplines, the first category might include companies such as Wal-Mart or IKEA. The second might include, for example, the leading accounting, legal and consulting firms, whilst the last category might include companies such as Apple, Motorola or Sony. Each is a valid high-level business strategy. They are not individually exclusive. Indeed, in the view of Treacy and Wiersema, successful organisations have excellence in at least one of these disciplines and at least minimum competence in the other two.

At the highest level, these disciplines may focus certain aspects of the strategy for IT. For example, the first category might imply a need for strong supply chain and logistics IT solutions together with a need for high-volume, lowest-cost transaction processing systems. The second category might imply a need for a high level of customer-related data sharing and high-quality data, perhaps based upon a customer relationship management system, with all the implications this may have for a shared and robust common infrastructure and architecture. The third category may imply a greater need for more focused 'point' solutions with the consequent implications for greater flexibility and decentralised decision making, a greater emphasis on systems to support research and development, and a greater appetite for taking on more risky projects with an uncertain yet potentially high return.

These high-level strategies will never define the detailed agenda, but it is important that they be defined, communicated and understood as an essential foundation for detailed strategy articulation.

Maximising Alignment

There is no one-size-fits-all approach for maximising the alignment of IT with the business and all of its components. Much depends upon the nature of the business, its size, its markets, its dependence upon IT, its leadership style and its culture. Additional factors that help dictate the organisation's alignment components and structure include the in-house IT capabilities, the dependence upon outsourcing, the nature of that outsourcing and the overall governance structure. The case study at section 8, The IT Investment Committee, of this document provides an example of how one company has developed its IT governance and management structure to, amongst other things, maximise alignment.

The Role of the CEO and Board

The CEO and his/her board colleagues have a significant role to play in the determination of IT strategy and its implementation. Amongst the key responsibilities for the CEO and the board are:

- Approval of all significant IT-related business investments. As is described later, this direct responsibility may be delegated to a board member-led committee, but the final governance responsibility must always rest with the CEO and the board.
- Approval of the business strategy and its IT implications
- Ensuring that the IT function (including any outsourced elements) has the appropriate resources and the capability to deliver and maintain the IT elements of the business strategy
- Asking the right questions and ensuring that all IT risks are being properly identified and mitigated
- Gaining assurance that value is being obtained from the investment in IT

The CEO and board have a significant role to play in the determination of IT strategy.

To maximise the value of IT-relevant discussions, it is important that, in the same way that the CIO and his/her senior team need to understand the business, the industry and its markets, the CIO's executive committee or board colleagues also need to have a good level of understanding of the opportunities and risks associated with IT. This does not require turning them all into Java programmers, but the business implications of IT must be better understood today. Some education may be required, perhaps by commissioning some specific training through an established business school. At the very least, all board and executive committee members should have read and assimilated the guidance provided by the two ITGI publications: *Board Briefing on IT Governance, 2nd Edition,* and *The CEO's Guide to IT Value @ Risk.*[6]

Also, it can be extremely helpful to ensure that at least one non-executive member of the board has amongst his/her skill sets and experience a knowledge of IT sufficient to promote and contribute to informed discussions and decision making on IT.

To be effective, IT needs to be on the board meeting agenda regularly. Typical items that might be included in such an agenda would include:

- An update on the IT investment portfolio including potential business impact from late delivery of systems or the ROI impact of over-budget costs of key investments
- A periodic report on IT operational issues, perhaps in the form of an IT performance dashboard or IT balanced scorecard (see *Measuring and Demonstrating the Value of IT*, ITGI, 2005)
- IT implications of current and proposed mergers and acquisitions and divestment activity
- A periodic update from the CIO on IT capabilities, current issues and emerging technologies that may provide opportunities for the entity

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[6] IT Governance Institute, *The CEO's Guide to IT Value @ Risk*, 2004

The Role of the CIO

Crucial to the alignment debate are the role and responsibilities of the IT director or CIO. The CIO is the most senior link between the highest levels of business management (usually the executive board) and the IT function. The CIO needs to be selected based as much, if not more, on his/her business skills as on his/her technical knowledge. Indeed, many would now argue that business skills are more important than technical knowledge. This has been at least partially acknowledged by the introduction in recent years of the role of chief technology officer (CTO), which recognises that the need to keep on top of IT-driven technological developments has become a profession in its own right, and that the 'I' for information and the 'T' for technology in IT, whilst inseparably linked, require different but overlapping dedicated skill sets. The CIO's main role is to take responsibility for understanding the information and the processes that are needed to maximise the business's long-term sustainable success, whilst the CTO has the responsibility for ensuring that the right technology is selected, implemented and managed to deliver that success. Of course, as with all senior roles, equally important are the personal skills that the CIO (and the CTO) must have. These include communication abilities, diplomacy, persuasiveness, and the ability to understand and reconcile potentially conflicting views. This latter attribute is particularly important when it comes to contributing to decisions on business priorities.

In a highly technology-dependent business it would be beneficial for the CIO to be a member of the main executive committee and board of directors to ensure that he/she participates in all major business-relevant discussions and decision making. Only in this way is it possible to ensure that the essential IT implications are properly factored in at the earliest stage to any key strategic decisions, including potential and actual merger and acquisition activities where IT may make or break the success of the deal.

If it is deemed inappropriate for the CIO to be a full board member, there should at least be a regular (perhaps quarterly) opportunity for IT to be discussed as a formal board agenda item, with the CIO in attendance to deliver the report and participate in the resultant discussions. Where the CIO is not a full, or even *ex officio*, board member, it becomes particularly important that he/she report directly to a full board member who has a proper appreciation of IT-related issues and who can be relied upon to work and consult with the CIO on all business-led discussions and decisions for which IT will have implications. This should include consultation in advance of, and subsequent to, the board discussions.

IT and business strategy alignment is likely to be compromised significantly unless the CIO is fully engaged with the business.

Can Alignment Be Effective Without Transparency on Cost?

Different companies have different approaches for dealing with, and allocating, costs of IT. Many organisations treat all IT-related costs as central costs controlled by the IT function. Others have mechanisms for ensuring that the individual business departments are charged directly for their own incurred costs. Others may have a mix of the two, whereby some costs are charged directly whilst others are controlled and absorbed centrally. This document is not the place to fully articulate this debate; however, as a general rule, it is probable that alignment will be better achieved if the business departments bear the full cost of their own share of the IT infrastructure and systems. Indeed if the organisation does not do this, how does the organisation really know what different parts of the business cost and therefore contribute?

A key benefit of aligned IT and business strategies is improved decision making on IT-related investments.

Of course, this is rarely easy to achieve, particularly in diversified businesses sharing common infrastructure, and may require the use of allocation formulae to ensure that, for example, the costs of the common IT systems (e.g., e-mail) and the common IT infrastructure that supports them are fairly shared amongst the departments using them. Without this understanding and allocation of IT costs, it will be impossible for operating and support departments to make properly informed decisions on their own IT needs. Similarly it will become increasingly difficult to decide upon priorities for the use of IT-related resources. To understand the value and the return that will be expected from a specific IT-related business initiative, it is essential to have a full understanding of the costs and the expected quantified benefits. One of the key benefits of properly aligned IT and business strategies is the enhanced ability to improve decision making on IT-related investments. This requires full transparency of the costs and the benefits. If IT costs are merely part of a central accounting 'black hole', this becomes difficult. Having complete knowledge of the real costs of IT will help focus the minds of management on the need for properly aligned IT investments and should reduce the risk of investing in projects that might not deliver real value.

6. The IT Strategy Committee

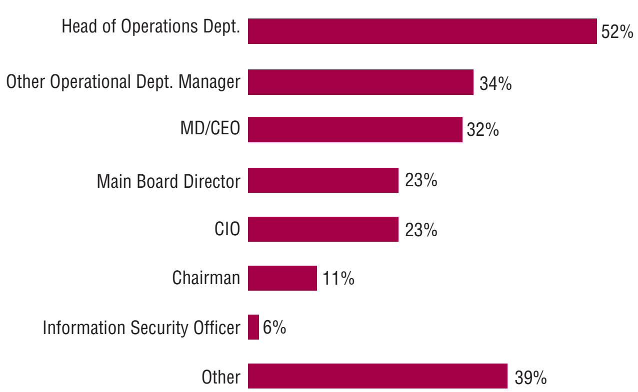
Many successful companies have established properly representative internal bodies in the form of IT investment committees or IT policy, steering or strategy groups. Indeed, the research from Lighthouse Global indicates that, although only half indicated that they had fully formalised their IT governance processes, some 74 percent of respondents had established an IT strategy committee (or equivalent body) as the main 'think tank' on strategy alignment matters.

A previous ITGI publication, *IT Strategy Committee*,[7] made a number of recommendations for such committees and, in particular, set out in a table the different responsibilities and constitution of the IT strategy committee and the IT steering committee. Principal amongst these differences is the recommendation that the prime role of the strategy committee (as the name implies) is to assist and advise the board on the formulation of IT strategy, whilst the prime role of the IT steering committee is to assist the executive in the delivery of that strategy. The strategy committee is seen as comprising primarily main board directors, including non-executives, with the CIO acting as a full or an *ex officio* member. The important matter is to ensure that all significant lines of business are represented at the highest levels and this responsibility is not delegated downwards. Ideally, the CEO, or at least a very senior director, should chair the committee with IT being represented by the CIO and perhaps the CTO.

The Lighthouse Global research indicates that the actual representation on the strategy committee is at a lower level than might be ideal (**figure 6**).

Figure 6—Strategy Committee Representation

Q18: Who participates in that on a regular basis—what are their job titles?



Base: All those who have an established IT governance framework organized through an IT group (62)

[7] This material is now included in an appendix in ITGI's *Board Briefing on IT Governance, 2nd Edition*.

This research shows that, although operational departments are generally well represented, this representation is not always at the department head level, often being delegated to lower-level managers. This can have the consequence of the committee becoming more of a user group than a strategy formulation body. Similarly, the CEO and main board directors are involved only in the minority of cases. This again reduces the effectiveness of the committee. Perhaps most interestingly of all, the CIO is involved only in 23 percent of the cases. If this research is indicative of the real situation, then—although it is encouraging that so many companies (74 percent) have strategy or equivalent committees—there have to be serious doubts about the true value that is achieved from their work. This is an area that is very much in need of improvement.

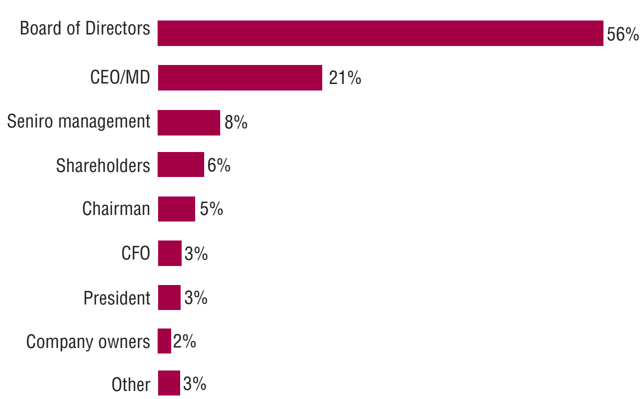
Notwithstanding the representation issue, this committee should be seen to be at the same level as, for example, the audit or remuneration committee. It is unlikely that the roles of these latter committees would ever be delegated to the lower levels that seem to apply to the IT strategy committee. Perhaps this again reflects real alignment issues, as IT strategy may be seen to be less important than audit or remuneration.

It is also likely that the fear factor still exists, in that senior business managers may feel exposed through their own lack of IT knowledge. However, this 'head in the sand' response merely perpetuates the problem. It is only by becoming actively involved that this ignorance may be overcome, perhaps supported by some focused training.

On the positive side, however, the research does indicate that reporting lines of the IT strategy committee have the potential to be effective, as in most cases it is reporting either directly to the board or to the CEO, as shown in **figure 7**.

Figure 7—Strategy Committee Reporting

Q19: To whom, or what, does it report? ***(Unprompted answers)***



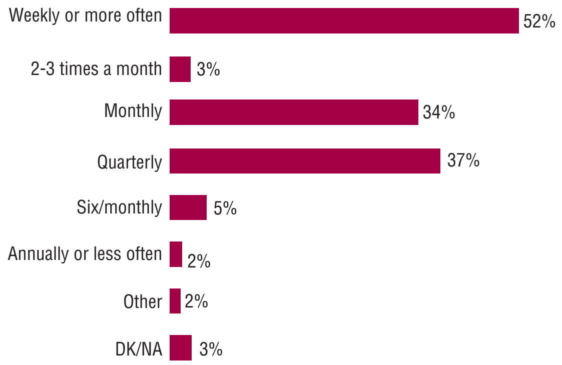
Base: All those who have an established IT governance framework organized through an IT group (62)

The frequency of meetings also is encouraging, as shown in **figure 8**, with almost 90 percent meeting at least quarterly. Those respondents reporting the meeting frequency of weekly or more are unlikely to be talking about a strategy committee in the proper sense. Such a frequency of meetings is more likely to apply to a user group or a specifically focused project steering group.

Generally, a meeting frequency of quarterly would be deemed most appropriate.

Figure 8—Meeting Frequency

Q20: How frequently does it meet?



Base: All those who have an established IT governance framework organized through an IT group (62)

As originally stated in the *IT Strategy Committee* publication, the committee does not assume the board's governance accountability, nor does it make final decisions. Its role is advisory in such areas as:
- The relevance of latest developments in IT from a business perspective
- The alignment of IT with the overall business direction
- The achievement of strategic IT objectives
- The availability of suitable IT resources, skills and infrastructure to meet the business objectives
- Optimisation of IT costs
- The role and value delivery of external IT outsourcing
- Risk, return and competitive aspects of IT investments
- Progress on major IT-enabled business change projects
- The contribution of IT to the business and to shareholder return
- The management of IT-related risks including regulatory compliance

The important matter is that this committee should be able to dedicate the time and the knowledge to ensure full and proper discussion and formulation of recommendations to the main board on all of these issues, as time may not be available within the full forum of a board meeting to ensure such a debate.

7. The IT Steering Committee

The IT steering committee, in its strategy implementation oversight role, should have amongst its members at least one board member (sitting as the chair) supported by heads of operational and support departments, the CIO and CTO together with other key contributors including legal, audit, finance, etc. Its discussions will be at a greater level of detail than would be expected of the IT strategy committee and it will be expected to provide a great deal of the input to the strategy committee's higher-level deliberations, including recommendations on, for example:

- The annual level of IT spending
- Alignment of the enterprise's IT architecture with business goals
- Portfolio management, including approval of projects plans for significant IT-related business investments
- Monitoring project plans and ensuring that internal and external changes are properly factored in to the updated plans
- The acquisition and divestment of IT-related resources
- Monitoring conflicts for IT resources based upon clearly articulated business priorities
- Communicating strategic goals to project teams through its representation of the operating and support departments
- Formulating plans for, and overseeing the results from, the IT dashboard, IT balanced scorecard or other key metrics
- Communicating the value of IT to all stakeholders. This may be done through articles on the corporate intranet or staff publications and, very important, to shareholders and external analysts through the corporate web site or shareholder communications.

It is essential that all committees ensure that there is no ambiguity over their scope of activities, authority and responsibilities.

Ideally, the IT steering committee should meet on a bimonthly basis. Within many highly IT-dependent entities, the board-level IT strategy committee supported by the IT steering committee may be the optimum structure, but equally it may be possible, and in some cases optimal, for the responsibilities of the strategy committee to be subsumed by the full board through proper consideration of IT-related strategic matters in the full board meetings. Similarly, it may be optimal to establish a separate board-led strategy committee that would take on responsibility for all strategic development discussions and recommendations, including those affecting IT.

As stated earlier, there is no standard formula that is appropriate for all. The key point is that the board needs to take full and active responsibility for ensuring that IT and business strategy are properly aligned. The way in which it chooses to do this depends upon individual circumstances, including the organisational structure of the entity. Further, many companies even have established advisory subcommittees to support the IT decision-making process. These subcommittees may include such special focus areas as an IT architectural review committee, IT security steering committee, IT policies or standards committee, or an information steering committee.

8. The IT Investment Committee

An alternative, or sometimes complementary, approach is to establish an IT investment committee that is delegated the very specific authority for the consideration, approval and ongoing monitoring of the major IT-related business change projects. Consideration might be given to establishing a business change investment committee, which considers IT-enabled and (to the extent that they may exist) non-IT-enabled projects. There are some activities, such as IT infrastructure upgrade projects, that might fall outside this remit, but these expenditures should have been budgeted with the original business change projects that gave rise to these aspects of the infrastructure in the first place and so be pre-budgeted rather than part of new investment initiatives. These projects are akin to maintenance. Such committees can be very successful in helping to optimise business and IT alignment. To be successful, the committee has to be appropriately chaired, perhaps by an independent non-executive director. It also has to be properly representative of all major operating and support departments, usually, and ideally, by the heads of those departments being actively involved. The delegation of these responsibilities to lower-level personnel within each department will weaken the effectiveness of the committee and, particularly if the levels of involvement become unbalanced, can lead to decisions that are not necessarily in the best interests of the business as a whole being taken based upon, for example, participant seniority and clout. The IT investment committee needs to ensure that there is a consistent and robust approach to the preparation and submission of business cases, ensuring in particular that each of them fully addresses the alignment issue. There should also be a system for measuring benefits realisation and proper accountability over the life cycle of the project.

The process for business case preparation and approval might include the following stages:
1. Complete initial idea formulation (the ideation stage).
2. Obtain general approval within business area for full business case preparation.
3. Check for existing solutions or parallel developments within the organisation.
4. Determine potential benefits for, and therefore initiative sharing with, other parts of entity.
5. Determine costs, benefits, time lines, resource requirements, etc., for inclusion in the business case.
6. Identify a high-level sponsor.
7. Identify project management and project governance needs.
8. Approve the business case within the business area for submission to the investment committee.
9. Submit and present to the investment committee.

Processes and metrics that can assist with the active portfolio management that would be an essential support to the work of the IT investment committee are discussed in some detail in the ITGI companion publication *Optimising Value Creation From IT Investments*.[8] Also Val IT, the new companion framework to COBIT, will contain detailed guidance on the formulation and approval processes for business cases.

A typical agenda items for the IT investment committee might include:
- Review the current state of the IT investment portfolio to identify progress against plan of all significant investments and to recommend action on potentially underperforming or under-resourced projects.
- Discuss and agree upon the effect of changing business or external environmental factors on the portfolio.
- Ensure that appropriate learning points are obtained and communicated from *ex post* reviews of completed projects.
- Review and, if appropriate, provide approval to proceed for submitted business cases.
- Consider and resolve potential conflicts for IT and business resources.
- Ensure unambiguous and communicated accountability for project delivery and the attainment of stated benefits.

[8] IT Governance Institute, *Optimising Value Creation From IT Investments*, 2005

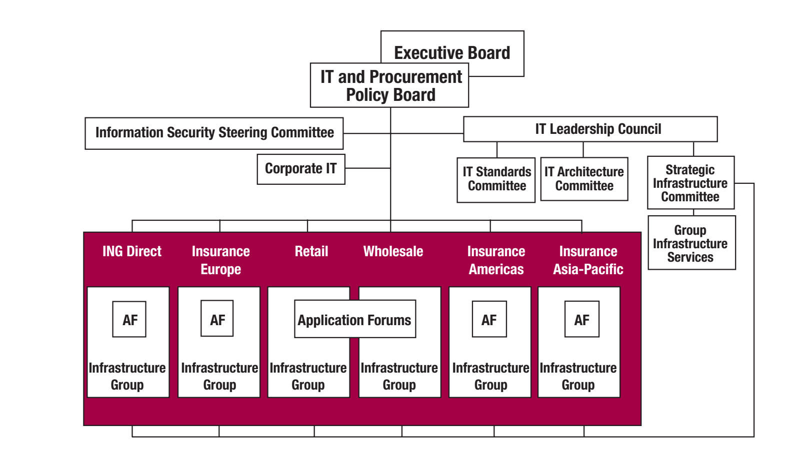
9. IT Alignment—A Case Study Example

ING is a global financial services company based in The Netherlands but operating across the globe. ING's business is based primarily in insurance, banking and asset management. It has a market capitalisation (as at April 2005) of €49 billion and, based on this market capitalisation, is ranked 13th in the global 'league table' of financial services companies. IT is fundamental to the group's business success and consequently its executive board takes its IT governance responsibilities extremely seriously, not surprising in a company that spends around €2.5 billion on IT each year, including little short of €1 billion on IT-enabled capital investment programmes. Amongst its IT governance 'tool kit' is a detailed annual IT dashboard that includes benchmarking of key IT cost and operational indicators against its own selected peer group and the use of intelligent IT investment portfolio analysis to help optimise the risk-related return from its IT investments.

However, this IT governance tool kit would be ineffective without an IT management and governance structure that is best enabled to give it leadership and commitment.

The overall IT management and governance structure is shown in **figure 9**.

Figure 9—ING IT Governance Structure



The executive board of ING has the ultimate executive responsibility for the formulation and implementation of the group's business strategy and for sustainable value delivery to its stakeholders. Central to the delivery of value, alongside other critical components, is information technology. ING, in its quest to maximise the business alignment of IT, has as its main decision-making body on IT the IT and Procurement Policy Board. This board, which meets at least six times each year, is chaired by an executive board director and has amongst its active membership a minimum of three further main board directors together with the General Manager Group IT. This full and active involvement of such senior directors goes a long way toward ensuring that IT and business matters are properly considered and IT strategy becomes a fully integrated part of business strategy, thus maximising alignment.

The IT Leadership Council includes the CIOs from the major business areas and from the major geographies who provide input and advice to the policy procurement board on the many current IT issues and opportunities. This link between the leadership council and the policy board is important, as, to a great extent, it is the members of the leadership council that have the prime responsibility for the implementation and execution of the IT strategy approved and led by the policy board—thus joint ownership is essential.

The setting of strategy is supported by ING's medium-term (three-year) business planning process, the annual IT road map, and the findings from the annual IT dashboard and IT investment portfolio analysis. The IT-related standards-setting process is supported and enabled by a number of subcommittees covering IT standards, IT architecture and strategic infrastructure. There is also a high-level Information Security Steering Committee that, in recognition of the importance of security to the group, reports directly to the IT and Procurement Policy Board with its joint IT and business representation.

To ensure maximum business alignment and optimise resource sharing and the elimination of unnecessary redundancy or duplication, there are infrastructure groups and application forums within and across each of the six main business entities within ING, including ING Direct, Insurance Europe, Retail and Wholesale Banking, Insurance Americas and Insurance Asia Pacific. This structure enables business and geography-specific issues to be identified, managed and governed whilst maximising communication and optimising costs across the group.

This structure works for ING through the active involvement of key directors and managers across the whole business and through its structural alignment with the organisational structure of the business as a whole. This organisational alignment is as much a key factor for success as the alignment of the business and IT strategies.

10. Conclusions

Without open communication and mutually respected contributions to the development of IT and business strategies, full alignment will not happen and value will not be delivered.

The need for the proper alignment of IT and business strategy within any organisation is recognised and unlikely to be in dispute. There are varying approaches for ensuring that it happens. One thing is certain. It will not happen by accident. It needs leadership. It needs engagement. It needs informed input.

This paper has put forward some, but not exhaustive, suggestions on how alignment might be optimised. There is no standard, universally applicable solution. Each organisation has to select and work with an approach that works for it. The degree of formality and in particular the committee structure required will vary depending upon the size and shape of each enterprise and the extent to which its use of IT is fundamental to business success.

Regardless of the degree of formality, the most essential ingredients are based on communication and mutual understanding between business and IT management to ensure that IT resources are prioritised according to business needs and IT-based business solutions that enable their users to create real value for the business are delivered. This requires business leadership to take more direct responsibility and accountability for IT and education on IT-related issues than perhaps traditionally has been the case. This responsibility cannot be delegated. Without open communication and mutually respected contributions to the development of IT and business strategies, full alignment will not happen and value will not be delivered.

11. References

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Appendix—Top Tips for Maximising Alignment

1. Ensure that board members and other senior managers are continuously educated in the evolving opportunities and how business value arises from, and the risks associated with, IT. This education requires a 'roll the sleeves up' and get involved approach in both the planning of the business and its use of IT.
2. Ensure that IT leadership and key IT managers are given resources (especially time) to help them fully understand the business, its industry and its markets, and they are properly engaged with their business colleagues at all levels.
3. Ensure that IT is a regular item on the board agenda, not just annually as part of the budgeting process.
4. Embed the IT planning (three years of plan and budget) process into the enterprise strategic planning process.
5. If IT is central to business success, the CIO should be a full or *ex officio* member of the board, participating in all key business discussions and decision making.
6. As a minimum, the CIO must report directly to a board member who has a full understanding of, and empathy with, IT issues and the time to become properly involved in, and engaged with, IT matters.
7. Consider engaging a non-executive director with specific IT and business skills.
8. Implement a system of board reporting on IT matters based on appropriate metrics including, for example, a regular IT dashboard or IT balanced scorecard.
9. Establish an appropriate IT-related committee structure that may include a board-led and partially board-member-populated IT strategy committee, investment committee or steering committee with defined constitutions and reporting lines. For maximum success, these committees should be fully consistent with the organisational structure of the overall business and participation should never be delegated to lower levels of management.
10. Establish active IT portfolio management based upon regular reliable reporting.
11. Ensure the involvement of IT management in all potential and actual merger and acquisition activities including review of IT considerations during the due diligence process.
12. Have a representation of business processes shared at the board level. Map the IS with it and define a target that will help achieve the goals assigned to the business processes.
13. Establish cost transparency for the projects as well as for the services delivered on a regular basis.

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