

# Diagnosing Your Organization

The chart on these pages is a rating system that will help you evaluate your company's level of alignment and set goals to improve it. The rating is done by selecting the definitions that best describe your business practices. Each description corresponds to a level of alignment: Level 1 is the weakest; Level 5 is the strongest. Level 1 companies lack the processes and communication needed to attain alignment; in Level 5 companies, IT and other business functions (marketing, finance, R&D, etc.) adapt their strategies together using fully developed processes that include external partners and customers. CIOs should seek to attain and sustain this fifth and highest level of alignment. The evaluation has four steps:

- 1. Form the assessment team.** Create a team of IT and business executives to perform the assessment. Ten to 30 executives typically participate depending on whether a single business unit or the entire enterprise is being assessed.
- 2. Gather information.** Team members should assess each of the 38 alignment practices and determine which level, from 1 to 5, best matches their organization. This can be done in three ways: in a facilitated group setting; by having each member complete a survey and then meeting to discuss the results; or by combining the two approaches, if it is not possible for all the group members to meet.
- 3. Decide on individual scores.** The team agrees on a score for each practice. The most valuable part of the assessment isn't the score, but understanding its implications for the entire company and what needs to be done to improve it.
- 4. Decide on an overall score.** The group reaches a consensus on what level to assign the organization. This is done by averaging the individual scores. Some companies adjust the average because they give more weight to particular practices.

This overall score can be used as a benchmarking aid to compare different organizations and to see how organizations improve over time. Fortune 500 executives who have used this tool for the first time have usually rated their organization, on average, as a 2, although they score a 3 for a few criteria.

## GLOSSARY

**COMMUNICATION** The exchange of ideas, knowledge and information among the IT and business organizations, enabling both to have a clear understanding of the company's strategies, business and IT environments, priorities and what must be done to achieve them.

**METRICS** The use of measures that demonstrate the contribution of IT and the IT organization to the business, in terms that the business understands and accepts.

**GOVERNANCE** The degree to which the authority for making IT decisions is defined and shared among management, and the processes managers in both IT and business organizations apply in setting IT priorities and the allocation of IT resources.

**PARTNERSHIP** The relationship between the business and IT organizations, including IT's involvement in defining business strategies, the degree of trust between the two organizations, and how each perceives the contribution of the other.

**TECHNOLOGY** The extent to which IT is able to provide a flexible infrastructure, evaluate and apply emerging technologies, enable or drive business processes, and provide customized solutions to meet customer and internal needs.

**HUMAN RESOURCES** This includes practices such as training, performance feedback, encouraging innovation and providing career opportunities, as well as the IT organization's readiness for change, capability for learning and ability to leverage new ideas.

## COMMUNICATION

|                                 |                                   |
|---------------------------------|-----------------------------------|
| Understanding of Business by IT | IT management lacks understanding |
| Understanding of IT by Business | Managers lack understanding       |
| Organizational Learning         | Casual conversation and meetings  |
| Style and Ease of Access        | Business to IT only; formal       |
| Leveraging Intellectual Assets  | Ad-hoc                            |
| IT-Business Liaison Staff       | None or use only as needed        |

## METRICS

|   |   |
|---|---|
| IT Metrics                                    | Technical only                          |
| Business Metrics                              | IT investments measured rarely, if ever |
| Link Between IT and Business Metrics          | Value of IT investments rarely measured |
| Service Level Agreements                      | Use sporadically                        |
| Benchmarking <sup>1</sup>                     | Seldom or never                         |
| Formally Assess IT Investments                | Don't assess                            |
| Continuous Improvement Practices <sup>2</sup> | None                                    |

## GOVERNANCE

|                                       |   |
|---------------------------------------|---|
| Formal Business Strategy Planning     | Not done, or done as needed               |
| Formal IT Strategy Planning           | Not done, or done as needed               |
| Organization Structure                | Centralized or decentralized <sup>4</sup> |
| Reporting Relationship                | CIO reports to CFO                        |
| How IT is Budgeted                    | Cost center; spending is unpredictable    |
| Rationale for IT Spending             | Reduce costs                              |
| Senior-level IT Steering Committee(s) | Don't have                                |
| How Projects are Prioritized          | React to business or IT need              |

## PARTNERSHIP

|  |   |
|--|---|
| Business Perception of IT                          | Cost of doing business                      |
| IT's Role in Strategic Business Planning           | Not involved                                |
| Shared Risks and Rewards                           | IT takes all the risks, receives no rewards |
| Managing the IT-Business Relationship <sup>3</sup> | IT-business relationship isn't managed      |
| Relationship/Trust Style                           | Conflict and mistrust                       |
| Business Sponsors/Champions                        | Usually none                                |

## TECHNOLOGY

|                                    |                                  |
|------------------------------------|----------------------------------|
| Primary Systems                    | Traditional office support       |
| Standards                          | None or not enforced             |
| Architectural Integration          | Not well integrated              |
| How IT Infrastructure is Perceived | A utility; run at a minimum cost |

## HUMAN RESOURCES

|  |   |
|--|---|
| Innovative, Entrepreneurial Environment    | Discouraged                                       |
| Key IT HR Decision Maker(s)                | Top business and IT management at corporate level |
| Change Readiness                           | Tend to resist change                             |
| Career-Crossover Opportunities             | Job transfers rarely occur                        |
| Cross-Functional Training and Job Rotation | No opportunities                                  |
| Social Interaction                         | Minimal IT-business interaction                   |
| Attract and Retain Top Talent              | No retention program; poor recruiting             |

<sup>1</sup> Includes informal benchmarking (interviews, literature searches, company visits) and formal benchmarking (quantitative data comparison, determining best practices).

<sup>2</sup> For example: quality circles, quality reviews.

<sup>3</sup> For example: cross-functional teams, training, risk/reward sharing.

<sup>4</sup> Centralized means a corporate IT unit (or another central unit) has primary authority for architecture, standards and application resource decisions; decentralized means each functional unit has responsibility for these areas.

## LEVEL 2

Beginning Process

## LEVEL 3

Established Process

## LEVEL 4

Improved Process

## LEVEL 5

Optimal Process

|  |                                     |   |   |
|--|-------------------------------------|---|---|
| Limited understanding by IT management | Good understanding by IT management | Understanding encouraged among IT staff       | Understanding required of all IT staff    |
| Limited understanding by managers      | Good understanding by managers      | Understanding encouraged among staff          | Understanding required of staff           |
| Newsletters, reports, group e-mail     | Training, departmental meetings     | Formal methods sponsored by senior management | Learning monitored for effectiveness      |
| One-way, somewhat informal             | Two-way, formal                     | Two-way, somewhat informal                    | Two-way, informal and flexible            |
| Some structured sharing emerging       | Structured around key processes     | Formal sharing at all levels                  | Formal sharing with partners <sup>8</sup> |
| Primary IT-business link               | Facilitate knowledge transfer       | Facilitate relationship-building              | Build relationship with partners          |

|  |  |  |   |
|--|--|--|---|
| Technical, cost; metrics rarely reviewed | Review, act on technical, ROI metrics  | Also measure effectiveness               | Also measure business opportunities, HR, partners |
| Cost/unit <sup>5</sup> ; rarely reviewed | Review, act on ROI, cost               | Also measure customer value              | Balanced scorecard, includes partners             |
| Business, IT metrics not linked          | Business, IT metrics becoming linked   | Formally linked; reviewed and acted upon | Balanced scorecard, includes partners             |
| With units for technology performance    | With units; becoming enterprisewide    | Enterprisewide                           | Includes partners                                 |
| Sometimes benchmark informally           | May benchmark formally, seldom act     | Routinely benchmark, usually act         | Routinely benchmark, act and measure results      |
| Only when there's a problem              | Becoming a routine occurrence          | Routinely assess and act on findings     | Routinely assess, act and measure results         |
| Few; effectiveness not measured          | Few, starting to measure effectiveness | Many, frequently measure effectiveness   | Practices and measures well-established           |

|   |  |                                       |                                     |
|---|--|---------------------------------------|-------------------------------------|
| At unit functional level; slight IT input                   | Some IT input and cross-functional planning        | At unit and enterprise, with IT       | With IT and partners                |
| At unit level; slight business input                        | Some business input and cross-functional planning  | At unit and enterprise, with business | With partners                       |
| Centralized or decentralized; some co-location <sup>6</sup> | Centralized, decentralized or federal <sup>7</sup> | Federal                               | Federal                             |
| CIO reports to CFO  | CIO reports to COO                                 | CIO reports to COO or CEO             | CIO reports to CEO                  |
| Cost center by unit   | Some projects treated as investments               | IT treated as investment              | Profit center                       |
| Productivity, efficiency                                    | Also a process enabler                             | Process driver, strategy enabler      | Competitive advantage, profit       |
| Meet informally as needed                                   | Formal committees meet regularly                   | Proven to be effective                | Also includes external partners     |
| Determined by IT function                                   | Determined by business function                    | Mutually determined                   | Partners' priorities are considered |

|   |  |  |  |
|---|--|--|--|
| Becoming an asset                       | Enables future business activity               | Drives future business activity              | Partner with business in creating value    |
| Enables business processes              | Drives business processes                      | Enables or drives business strategy          | IT, business adapt quickly to change       |
| IT takes most risks with little reward  | IT, business start sharing risks, rewards      | Risks, rewards always shared                 | Managers are given incentive to take risks |
| Managed on ad-hoc basis                 | Processes exist but not always followed        | Processes exist and complied with            | Processes are continuously improved        |
| Transactional relationship              | IT becoming a valued service provider          | Long-term partnership                        | Partner, trusted vendor of IT services     |
| Often have a senior IT sponsor/champion | IT and business sponsor/champion at unit level | Business sponsor/champion at corporate level | CEO is the business sponsor/champion       |

|                                       |  |  |  |
|---------------------------------------|--|--|--|
| Transaction oriented                  | Business process enabler               | Business process driver                      | Business strategy enabler/driver         |
| Defined, enforced at functional level | Emerging coordination across functions | Defined, enforced across functions           | Also coordinated with partners           |
| Within unit                           | Integrated across functions            | Begins to be integrated with partners        | Integrated with partners                 |
| Becoming driven by business strategy  | Driven by business strategy            | Beginning to help business respond to change | Enables fast response to changing market |

|  |  |  |  |
|--|--|--|--|
| Somewhat encouraged at unit level        | Strongly encouraged at unit level                | Also at corporate level                    | Also with partners                         |
| Same, with emerging functional influence | Top business and unit management; IT advises     | Top business and IT management across firm | Top management across firm and partners    |
| Change readiness programs emerging       | Programs in place at functional level            | Programs in place at corporate level       | Also proactive and anticipate change       |
| Occasionally occur within unit           | Regularly occur for unit management              | Regularly occur at all unit levels         | Also at corporate level                    |
| Decided by units                         | Formal programs run by all units                 | Also across enterprise                     | Also with partners                         |
| Strictly a business-only relationship    | Trust and confidence is starting                 | Trust and confidence achieved              | Attained with customers and partners       |
| IT hiring focused on technical skills    | Technology and business focus; retention program | Formal program for hiring and retaining    | Effective program for hiring and retaining |

<sup>5</sup> Here and elsewhere in the chart, unit refers both to functional organizations (such as the sales, marketing or human resources function), or business units (product or service areas, or profit centers).

<sup>6</sup> Co-location means locating IT personnel with business personnel.

<sup>7</sup> Federal means a corporate IT unit (or another central unit) has primary responsibility for architecture, common systems and standards decisions, while each functional unit has primary authority for application resource decisions.

<sup>8</sup> Here and elsewhere in the chart, partners include vendors, outsourcers and paying customers.