Figure IT7eU
Chapter Outline

1. Alignment of Business and IT Strategies
2. IT Strategy Initiation
3. IT Strategic Planning
4. Outsourcing, Offshoring and IT as a Subsidiary
5. Managerial Issues
13.1 Alignment of Business and IT Strategies
Alignment of Business and IT Strategies

• **Business strategy** is a long term plan of action designed to achieve a particular goal or set of goals or objectives.

• **IT Strategy** defines what information, information systems, and IT architecture are required to support the business.
Alignment of Business and IT Strategies

Governance Structure for IT-Business Alignment

Achieving IT-Business Alignment

• Understanding IT and Corporate Planning
• CIO is a member of Senior Management
• Shared Culture and Good Communications
• Deep Commitment to IT Planning by Senior Management
• Shared Plan Goals
• Deep End User Involvement
• Joint Architecture/Portfolio Selection
Alignment of Business and IT Strategies

• Identity of Plan Factors
• CIO Skills
  – Political Savvy
  – Influence, Leadership, and power
  – Resourcefulness
  – Strategic planning
  – Doing what it takes
  – Leading employees
Business & IT Strategies – Survey Data

• 87% surveyed believe IT is critical to their companies’ strategic success.
• Few work with IT to achieve strategic success.
• 33% of leaders reported that IT is very involved.
• 30% reported business executive responsible for strategy works closely with IT division.
• Alignment improves revenue.
IT & Business Alignment

• IT must align function’s strategy, structure, technology & processes with those of the business units toward common goals.

• IT must align strategy with organizational strategy.

• IT strategic alignment goal to ensure that IT priorities, decisions & projects are consistent with overall business needs.

• Shared ownership & shared governance structure that crosses organizational lines & makes executives responsible for success of key IT initiatives.

Click link for an article with more:  How to Develop a Shared Vision: The Key to IS Strategic Alignment
# Table 13.1

<table>
<thead>
<tr>
<th>Rank</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Attracting, developing, and retaining IT professionals</td>
</tr>
<tr>
<td>2</td>
<td>Aligning IT and business</td>
</tr>
<tr>
<td>3</td>
<td>Building business skills in</td>
</tr>
<tr>
<td>4</td>
<td>Reducing the cost of doing business</td>
</tr>
<tr>
<td>5</td>
<td>Improving IT quality</td>
</tr>
<tr>
<td>6</td>
<td>Promoting IT security and privacy</td>
</tr>
<tr>
<td>7</td>
<td>Managing change</td>
</tr>
<tr>
<td>8</td>
<td>Implementing IT strategic planning</td>
</tr>
<tr>
<td>9</td>
<td>Making better use of information</td>
</tr>
<tr>
<td>10</td>
<td>Acknowledging evolving CIO leadership role</td>
</tr>
</tbody>
</table>

*Source: Adapted from Luftman (2007).*
Challenges in Achieving IT-Business Alignment

• Promoting collaboration between IT & organizational business units.
• Persuading senior management about importance of IT to business.
• Contributing to strategic planning & business growth initiatives.
• Identifying opportunities for business process automation & improvement.
• Improving internal & external user experience & satisfaction.

Top Business Issues Facing CIOs & IT Directors for what industry leaders forecast....
Top Business Issues Facing CIOs & IT Directors

- IT / Business Alignment: 27%
- Cost-saving: 14%
- Managing change: 8%
- Status of the IT Director: 8%
- Legacy Systems: 5%
- Customer focus: 5%
- Enterprise Architecture: 5%
- Business Intelligence: 5%
- Avoiding the latest and greatest: 3%
- Cloud Computing: 3%
- Only one response: 17%
## Top Business Issues Facing CIOs & IT Directors

<table>
<thead>
<tr>
<th>Issue</th>
<th>% of Votes</th>
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</thead>
<tbody>
<tr>
<td>IT / Business Alignment</td>
<td>27%</td>
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<td>Avoiding the latest and greatest</td>
<td>3%</td>
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<tr>
<td>Cloud Computing</td>
<td>3%</td>
</tr>
<tr>
<td><em>Only one response</em></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

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13.2 IT Strategy Initiation
Critical Strategic Role of IT

The Critical Strategic Role of Information Technology

• The Value Added by IT to the Business
• Competitive Advantage through Information Technology

The Value of IT to The Business

A Partnership between the IT Division and Business Management
Critical Strategic Role of IT

• Global economy is defined by innovate use of IT.
• Companies must determine use, value & impact of IT to identify opportunities & create value which supports overall strategic vision.
• CIO is key mover in upper management.
Value Add by IT

• Direct – by reducing cost through efficiencies.
• Indirect – increased revenue through improved productivity and/or reduction in employees.
• Enabling temporary or sustained competitive advantage.
Competitive Advantage thru IT

• Gained by providing real or perceived value to customers.
• Resources must be considered valuable by customers.
• Resources must be considered as rare.
• Resources must be appropriable.
Sustained Competitive Advantage

- Imitability – can another firm copy the resource?
- Mobility – easily acquired resource?
- Substitutability – is an acceptable alternative available?
13.3 IT Strategic Planning
Good IT Planning Processes

The IT Strategic Planning Process – Steering Committee

Tools and Methodologies of IT Strategic Planning

• Business Service Management
• The Business Systems Planning Model
• Balanced Scorecard
• Critical Success Factors
• Scenario Planning

Resource Allocation
Good IT Planning Processes

• Yearly, quarterly, monthly.
• Planning is continual, not one-time.
• May result in formal IT strategy, or annual reevaluation.
• Organizational planning of IT resources done throughout the organization.
• End-users must understand.

_Mistakes: Strategic Planning Don'ts (and Dos)_
Steering Committees

• Direction setting
• Rationing
• Structuring
• Staffing
• Communicating
• Evaluating
• Governing
Figure 13.3

IT strategic planning process. (Source: Drawn by J. Sipior.)
Business Service Management

• Approach for linking KPIs of IT to business goals to determine impact on business.
• KPIs measure actual performance of critical aspects of IT such as projects, servers, networks against predefined goals such as growing revenue, lowering costs, reducing risk.
• KPIs measure real-time performance or predict future results. Proactive vs. reactive.
• KPIs measures results of past activity.
Business service management (from FireScope). (Source: firescope.com/solutions/businessservicemanagement/FireScope delivers a single view into the business impact of IT operations by aggregating all IT technology and business metrics into realtime dashboards, customizable for the needs of each member of IT. Used with permission.)
Figure 13.5

Business strategies

Business processes

Data classes

Information architecture

Applications

Organizational databases

Business systems planning (BSP) approach.
## Table 13.6

<table>
<thead>
<tr>
<th>IT Project</th>
<th>Project’s Role in Strategic Business Plan</th>
<th>Project’s Evolving versus Stable Knowledge</th>
<th>Degree of Change Needed in the Project</th>
<th>Where the Project Gets Sourced</th>
<th>Data’s Public or Proprietary Nature</th>
<th>Project Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>Efficiency</td>
<td>Stable</td>
<td>Low</td>
<td>Outsourced</td>
<td>Proprietary</td>
<td>Small</td>
</tr>
<tr>
<td>Application Services</td>
<td>Customer focus</td>
<td>Evolving</td>
<td>High</td>
<td>ERP software</td>
<td>Proprietary</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Innovation</td>
<td>Evolving</td>
<td>High</td>
<td>Business intelligence software</td>
<td>Proprietary</td>
<td>High</td>
</tr>
<tr>
<td>Data Services</td>
<td>Compliance requirement</td>
<td>Evolving</td>
<td>Low</td>
<td>Outsourced</td>
<td>Proprietary</td>
<td>Small</td>
</tr>
<tr>
<td>Security Services</td>
<td>Compliance requirement</td>
<td>Evolving</td>
<td>Low</td>
<td></td>
<td>Proprietary</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Based loosely on Prahalad and Krishnan (2002).*
Critical Success Factors

• What objectives are central to organization?
• Critical factors to meeting objectives?
• What decisions or actions are key?
• What variables underlie decisions & how are they measured?
• What information systems can supply measures?
Figure 13.6

Critical success factors-basic processes.
Scenario Planning

- Ensure not focusing on catastrophe to exclusion of opportunity.
- Allocate resources more prudently.
- Preserve options.
- Ensure not still “fighting the last war.”
- Give opportunity to rehearse testing & training of people to go through process.
Resource Allocation

• Consists of developing plans for hardware, software, data communications & networks, facilities, personnel, financial resources need to execute master plan.

• May be contentious process due to limited resources.
13.4 Outsourcing, Offshoring, and IT as a Subsidiary
Reasons To Outsource

Outsourcing

• Outsourcing Advantages and Disadvantages
  – Understand the project
  – Divide and conquer
  – Align incentives
  – Write short-period contracts
  – Control subcontracting
  – Do selective outsourcing

The Offshore and Global Outsourcing Debate
Evaluating Outsourcing
Reasons To Outsource

• Desire to focus on core competency.
• Cost reduction.
• Improve quality.
• Increase speed to market.
• Faster innovation.
Table 13.8

<table>
<thead>
<tr>
<th>TABLE 13.8</th>
<th>Potential Outsourcing Benefits</th>
</tr>
</thead>
</table>

**Financial**
- Avoidance of heavy capital investment, thereby releasing funds for other uses.
- Improved cash flow and cost accountability.
- Improved cost benefits from economies of scale and from sharing computer housing, hardware, software, and personnel.
- Less need for expensive office space.
- Reduction and control of operating costs.

**Technical**
- Access to new information technologies.
- Greater freedom to choose software due to a wider range of hardware.
- Ability to achieve technological improvements more easily.
- Greater access to technical skills not available internally.
- Faster application development and placement of IT applications into service.

**Management**
- Concentration on developing and running core business activity. Improved company focus.
- Delegation of IT development (design, production, and acquisition) and operational responsibility to suppliers.
- Elimination of need to recruit and retain competent IT staff.
- Reduced risk of bad software.

**Human Resources**
- Opportunity to draw on specialist skills available from a pool of expertise, when needed.
- Enriched career development and opportunities for remaining staff.

**Quality**
- Clearly defined *service levels* (see Chapter 13).
- Improved performance accountability.
- Improved quality accreditation.

**Flexibility**
- Quick response to business demands (agility).
- Ability to handle IT peaks and valleys more effectively (flexibility).
Risks Associated with Outsourcing

• Shirking – vendor deliberately underperforms while claiming full payment.
• Poaching – vendor develops a strategic application for a client & then uses it for others.
• Opportunistic repricing – client enters into long-term contract & then vendor changes financial terms or overcharges for unanticipated enhancements & contract extensions.
Hidden Costs of Outsourcing

- Benchmarking & analysis
- Investigating & contracting with a vendor
- Transmitting work & knowledge to outsourcer
- Ongoing staffing & management of outsourcing relationship
- Transitioning back to in-house
Strategies for Risk Management in Outsourcing

• Understand project
• Divide & conquer
• Align incentives
• Write short-period contracts
• Control subcontracting
• Do selective outsourcing

Top 10 Risks of Offshore Outsourcing
Evaluating Outsourcing

• How well is business value delivered?
• Balanced scorecard is useful tool to measure value of outsourcing relationship.
• Multi-vendor approach should include measures for each.

*The hidden risk in outsourcing overseas*
13.5 Managerial Issues
Leaders Must...

• Align IT strategy & business strategy
• Organize for effective planning
• Initiate IT strategy
• Undertake IT strategic planning process
• Deal with outsourcing & offshoring