

AlignCo: Improving profit margin by aligning IS with business managers' goals

By Thomas M. Lodahl and Kay Lewis Redditt, Principals
CogniTech Services Corporation

**This is the story of
our measurement
work at AlignCo
since 1998.**

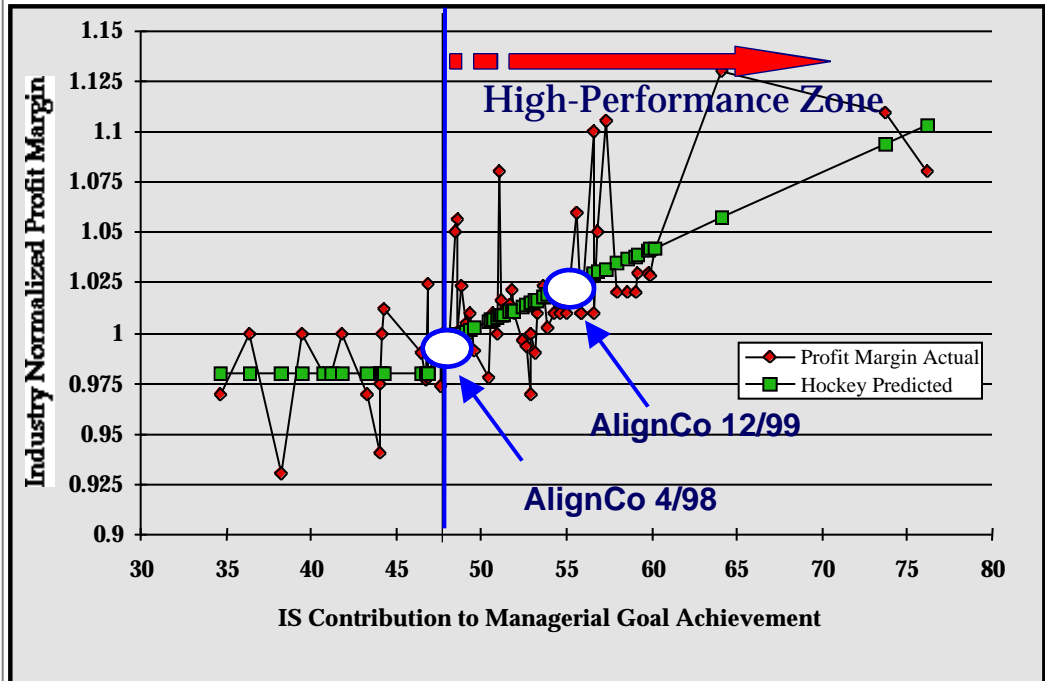
AlignCo is a large company in the midst of a rapidly changing industry. The chairman of AlignCo believes that the measurement program we implemented in his IS department provided such a competitive advantage that he does not even want his industry to be identified in this case study. Hence, this company is known as AlignCo because the measurement work has focused on aligning the IS department's work with the changing goals of the business managers.

This effort contributed to a bottom-line *increase* of 2.5% in AlignCo's (industry-normalized) profit margin (from 1998 to 1999). At the same time, the industry average *decreased* 1/2%. The Chairman believes the changes in the IS organization played a significant role in the profit margin increase – a remarkable statement from a senior business executive – hence his concern for letting his competitors know "his secret weapon".

This is the story of our measurement work at AlignCo since 1998. Figure 1, next page, sets the stage: it shows the relationship between our measure of IS alignment (IS Contribution to Managerial Goal Achievement) and company profit margins.

We compare IS Contribution to Profit Margin on the Hockey Stick chart.

Figure 1: The Bottomline Hockey Stick Chart: IS Contribution to Company Profit Margins



Interpreting the Hockey Stick Chart: IS Contribution to Profit Margin

The hockey stick chart plots profit margin against IS Contribution.

The vertical axis gauges profit margin, normalized by industry, which eliminates external variables that impact companies in the same industry. What remains is the impact of actions taken by the company measured. Thus, a 1 on this scale means the company has a profit margin equal to the mean of the industry.

The horizontal axis measures IS Contribution. This score is based on an amalgam of survey responses obtained from senior managers across the business units of the organization. It is standardized to have a mean of 50 and a standard deviation of 10. Thus all companies in our database are scored in relation to each other. The bottom 10% of the 120 companies benchmarked thus far have scored about 34; the top 10% average 70.

Note that below 48, a company's IS organization does not contribute to profit margin (hence the flat line). Above 48, it does. This measure reflects effectiveness (that is, doing the right things for the business), not efficiency (doing things right).

Predicted contributions are shown in the squares. The hockey-stick line is the linear regression line fitted to all 80 publicly traded companies scoring over 48. It indicates that each increase in IS Contribution results, on average, in a .4% increase in profit margin. The actual figures are shown by the diamonds surrounding the line.

Figure 1 also shows that over a 20-month period Alignco was able to improve its IS Contribution score by over six points (their target was a 3-point improvement) and Profit margins increased by 2.5% against the industry average for that period. The rest of this study details what measures were used, what actions were taken, and describes the lessons Alignco learned.

All companies that have followed our recommendations have improved both their IS Contribution score and their profit margin.

Significance of the Bottomline Hockey Stick Chart. As far as we know, this is one of very few measures of IS performance that shows a strong positive relationship with company financial performance. It demonstrates that companies in which IS resources are devoted to improving managerial goal achievement have better profit margins than their industry rivals. Thus it provides a way of showing IS' value to the company. More importantly, our methodology clearly points to where IS alignment with managerial goals is poor, by goal types and by business unit within the company, showing where to pinpoint improvement efforts.

The relationship shown in Fig. 1 is very strong.

Statistically, there is less than one chance in 10,000 that the IS Contribution-to-profit-margin relationship is due to chance. In fact, the relationship gets stronger with each company we add to our database. With 120 cases (82 publically traded), and an Rsquare of .52 (which has been stable for six years), we can say that IS performance explains about 50% of the variance in profit margin.

We believe that normalizing profit margin by industry takes out most of the extraneous factors that have obscured this relationship until now. So, if you can improve IS Contribution and alignment with business goals, it's a fair bet there will be a corresponding increase in profit margin against the industry. All companies in our database which have made efforts to align IT with business goals based on our recommendations have experienced profit margin improvement.

Our interpretation of this relationship is not that IS by itself helps profit margins. Rather, good IS alignment with business goals lets IS leverage managerial goal achievement, and this is what enhances profit margins. So, it's not how much you spend on IS that make a difference: the key factor is to spend it on the right things. Most of our high performers (the top 10%) have a wide mix of projects, many of them small, but all built to leverage management goals. Most of them will not undertake projects that will take more than a year to deliver at least some functional results.

The Assessment Process

The metrics in our CogniTech effectiveness assessment are based on survey data collected from senior business managers. The executives generally include senior corporate management, senior operating executives in each division, and IT management.

The questionnaire seeks to determine the quality of alignment between the IS organization and each business entity (business unit, corporate management, and so on). The survey asks the executives to consider their own top three business goals, categorize them in one of nine category types (such as improve quality, reduce cost, and such), and then assess the IS organization's performance across a number of different criteria for each goal.

What is "alignment?" In your car, it's whether the wheels point in the right direction. In football, it's how the defensive lineup matches the offense. For IT, it's the degree to which projects and programs support the achievement of business goals. We survey senior business managers' actual operating goals and they assess IS' contribution to their achievement of those goals.

In business, alignment operates at several levels. One is alignment between the company and its markets. In AlignCo's case, management was aiming at new markets in order to deal with newly active competition, which changed corporate strategy. Their tactics (and their goals) changed often during this transition period.

There is a second level: alignment between senior corporate strategy and business unit managers' top goals. When this fit is bad, the CIO has a dilemma: whose goals to support? At AlignCo, the New Business unit's goals were initially wrong. They were aimed at cutting costs rather than generating revenue. Managers' goals needed to be realigned to suit the search for new markets. This was done as a result of Senior management's seeing the CogniTech data and taking appropriate action, including replacing some senior New Business managers.

For us, the third level of alignment is the major focus of our effort: between business unit managers' goals and IT projects and services. AlignCo's CIO's work focussed at this level, and she emphasized Planning Interactions to prioritize IS projects right.

IS Contribution. The executives' answers yield fine-grained data, so that a CIO can pinpoint where alignment is good and where it is not so good. It also yields a single average: IS Contribution to Managerial Goal Achievement. Since 1991, we have performed this assessment on 120 organizations (82 are publicly traded).

Figure 1 shows that up to an IS Contribution score of 48, IS performance does not contribute to a company's profit margin--the line is pretty flat here. Above 48, each one point increase in IS Contribution corresponds to a .4% increase in profit margin.

Other key measures:

Satisfaction and IS Credibility. Our assessment also measures the executives' satisfaction with the IS organization's performance and IS's credibility in the eyes of the business executives. Neither metric correlates with company financial performance, but both are important in designing a realignment effort. When credibility is low, it must be raised, otherwise the business units will not make the time to discuss realigning the IT portfolio with their business goals.

Other diagnostic measures. These include assessments of current systems quality and functionality, IS and business cultures, and planning interaction, which measures the degree to which IS managers participate in the *business* planning process. Taken together, these measures set the stage for designing a re-alignment effort.

Alignco Background: In 1998, AlignCo's industry began changing much faster than in the past. Senior management responded in numerous ways. They formed new business units – one to explore new business opportunities, another to take advantage of the new market environment. They bought companies to reinforce their core competencies. And they reorganized. The changes have continued. They recently merged with another firm.

The IS organization has some 800 staff members; 350 are employees and 450 work for outsourcers, managing the desktop, performing one-half of system development, and handling operations. The outsourcing took place in late 1997, so the department was just getting settled when the measurement program began. Most of AlignCo's senior executives have technical backgrounds so they realized the company is highly dependent on information technology. In 1998, they believed the IS organization could contribute to their new competitive positioning. The CIO believed her organization was capable of better performance. She knew she needed to keep in step as the business changed and more closely realign her organization's work with moving goals and targets. To begin the alignment process, she engaged us to conduct an IS effectiveness assessment of her organization.

The Initial AlignCo Findings

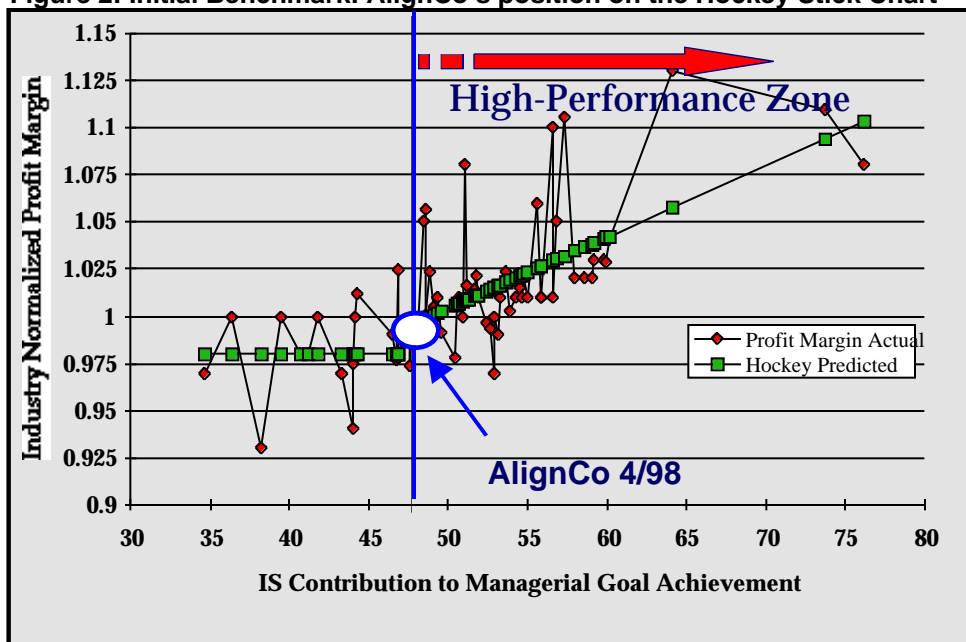
Our survey work began at AlignCo in April 1998, just when the executives were feeling the new competitive threats but before their effects could be seen clearly. The entire measurement process, from start to final report, took eight weeks.

We briefed IS management on the findings in late May; however, due to a corporate reorganization, we were not able to brief the survey participants until September. We re-aligned our data and findings with the new company structure and then in October, we presented the findings to corporate management.

AlignCo saw their data plotted in comparison to the other 120 anonymous companies in the database (specifically high performers, low performers and industry comparisons). Our analysis not only gave them data but also indicated how IS could improve their alignment with the business, which would improve their IS Contribution score.

Our assessment yielded good and not-so-good news. The not-so-good news was that their IS organization was initially not contributing to profit margin. The elbow of the hockey stick is at 48. AlignCo's IS Contribution score was 48.09. (See Figure 2.)

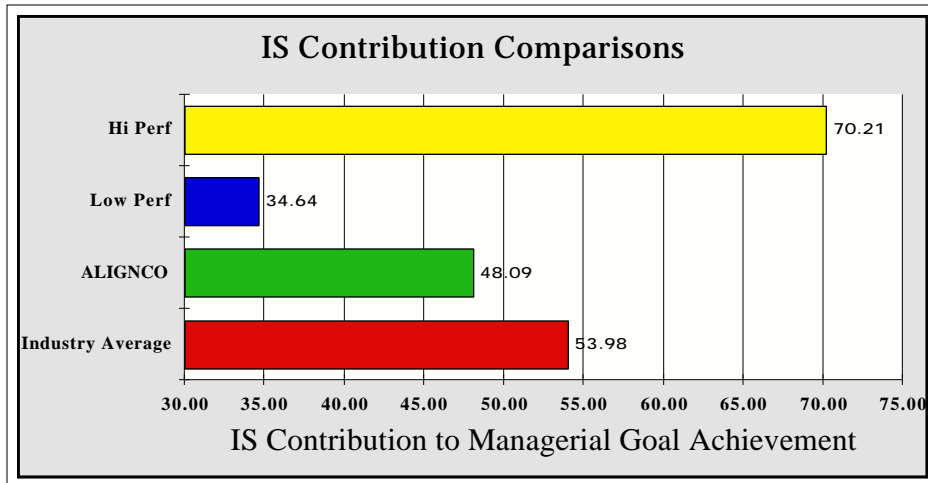
Figure 2: Initial Benchmark: AlignCo's position on the Hockey Stick Chart



AlignCo began at 48 – at the edge of the high-performance zone.

Our other piece of not-so-good news was that AlignCo was below their industry average of 53.98 on IS Contribution. They scored at the 33rd percentile in our database – some 10 points above the low performers’ average, but not a top performer. See Figure 3.

Figure 3: AlignCo’s Performance Compared to Others in Its Industry



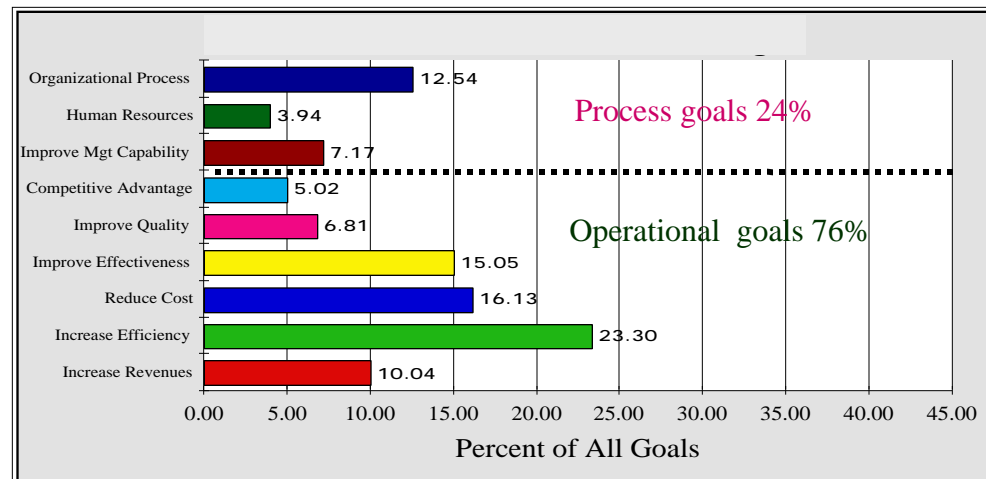
AlignCo was below its industry average on IS Contribution.

The good news was that any improvement in IS Contribution would improve their profit margin. At the time, it was .5% below the industry average, as noted in Figure 2.

In addition to this single-point view, we presented data to explain the situation. We pointed out, for example, two situations that needed immediate attention: (1) IS was not aligned with the business managers’ goals, and (2) IS Contribution varied significantly across the business units.

IS was not aligned with the business managers’ goals. When we delved into the underpinnings of the IS Contribution score, we found the business managers’ top three goals to be mainly operational – 76% were operational, in fact. The goal cited most often (23.30 %) was “increase efficiency,” an operational goal. The goal cited least was “improve HR processes” (3.94%), a process goal.

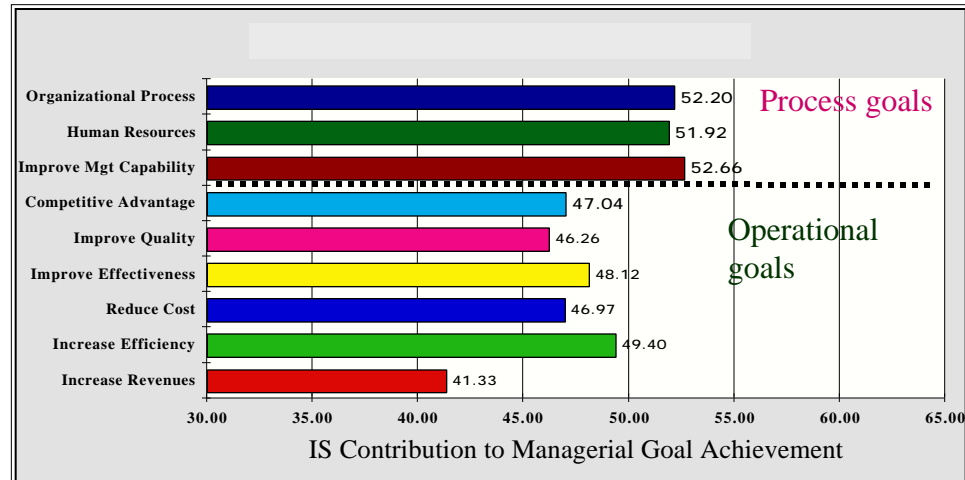
Figure 4: Managers’ Main Goals



Managers’ main goals were operational, not process goals...

However, IS was much better at supporting process goals (averaging 52.2 Contribution) than operational goals, (average 46.5) as shown in Figure 5. Because process goals only indirectly affect corporate financial performance, the IS department was not contributing to AlignCo's bottom line; hence its position at the bend on the hockey-stick curve.

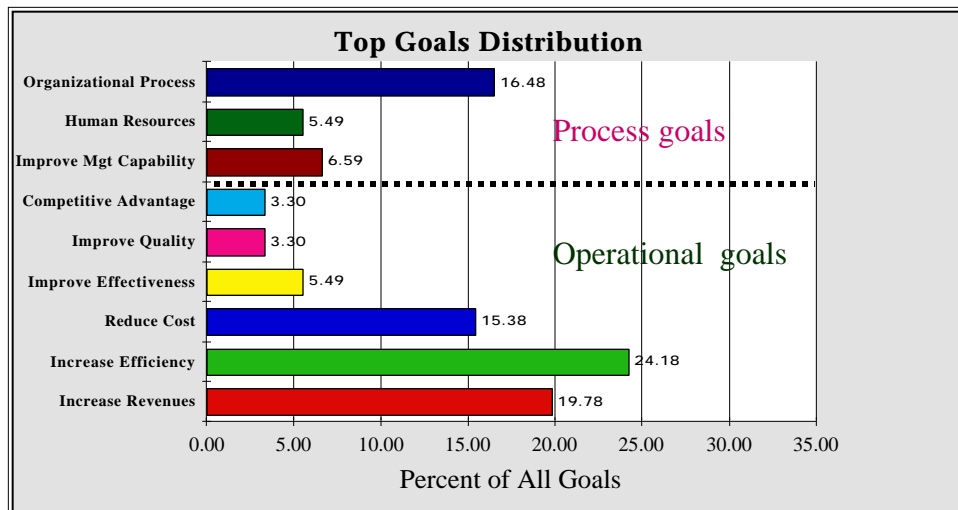
Figure 5: AlignCo's IS Contribution by Goal Type



...but IS was better at supporting the process goals.

This finding points to the needed realignment: support operational goals better. Figure 6 pinpoints this more finely. It shows only the managers' #1 or top priority goals. While "increase efficiency" retains the highest frequency, "increase revenues" jumps from #5 to #2.

Figure 6: Distribution of Managers' #1 Goals



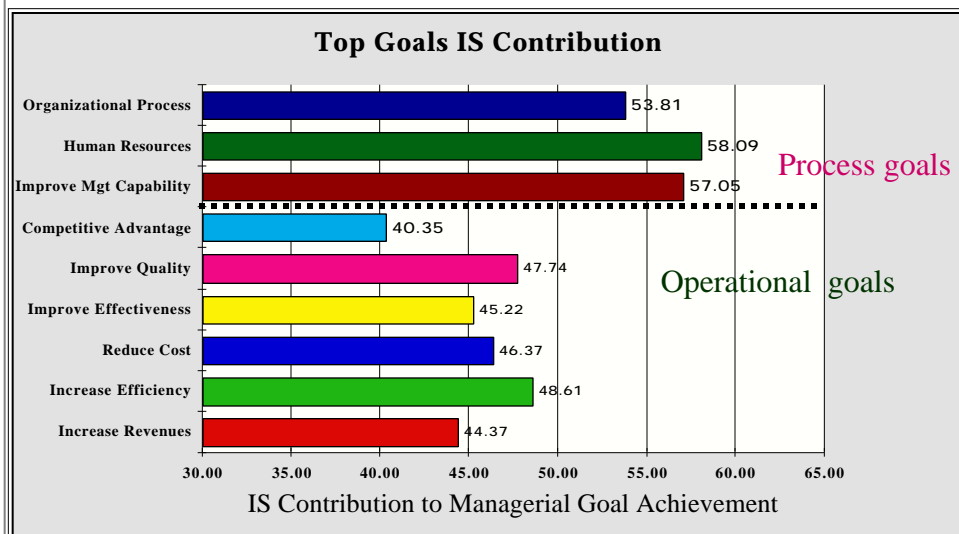
Managers' #1 goals were also operationally based.

We have seen such jumps in top priority goals before and we have learned that it foreshadows a coming change in corporate strategy. In this case, it foretells management's shift from improving operating efficiency to increasing revenues.

In turbulent times, an IS organization may not spot such a shift quickly because there is a lag in systems requests. The business executives continue to submit requests for the old strategy because they understand how IT contributes to it. They may not see how IT can contribute to the new strategy (for example, gaining competitive advantage), so they make few or no requests in that area. Thus, the IS organization must uncover the new needs in other ways (as we discuss later). Meanwhile, IT continues to devote work to existing items in the portfolio.

At AlignCo, the IS department's alignment with the #1 operational goals was not high, as Figure 7 shows. The department was not supporting increased efficiency or revenue improvement well. And competitive advantage goals--newly urgent in the face of increased competition--scored worst of all.

Figure 7: IS Contribution to #1 Goals



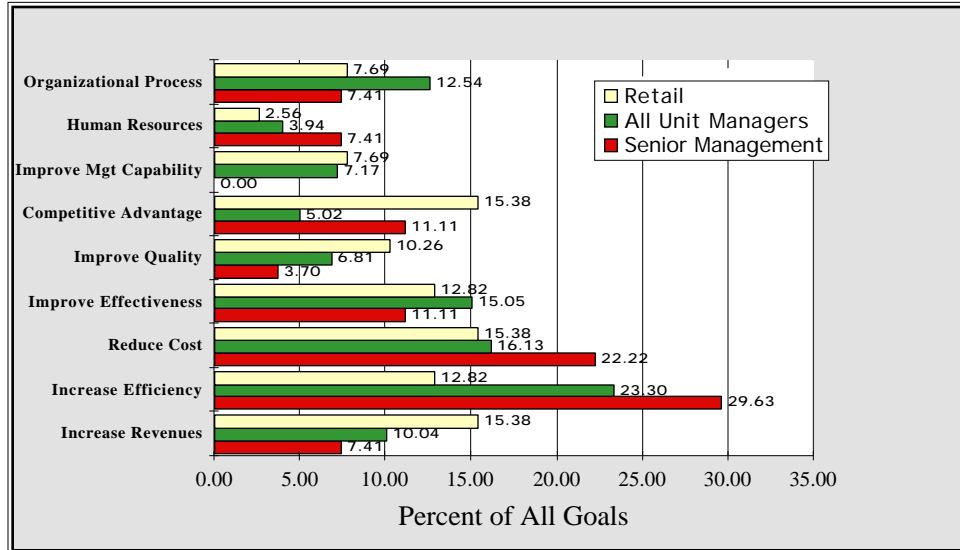
IS's alignment with #1 priority goals was not high either.

This was a serious mismatch. Interestingly, in a time of change, a goals mismatch can also occur between corporate management and operating management. Our data delved into this question at AlignCo by looking at the responses of three executive groups: corporate management, all operating management, and retail management (that is, those closest to the customers).

Sure enough, we found a misalignment, as Figure 8 on the next page shows. Corporate management emphasized efficiency and cost reduction – the old strategy. Retail management emphasized competitive advantage, increasing revenues, and reducing costs – basically, the new strategy. Operating management also emphasized increasing revenues more than corporate management – leaning toward the new strategy. Thus, the three groups were sending mixed signals on strategy to the IT organization.

When we presented these findings to corporate management, they explained their reasoning, “At the time of the survey, we felt that emphasizing efficiency and cost reduction was the best way to stay competitive. We formed our New Business unit to explore new opportunities.” Since that survey, corporate management has shifted its position to emphasizing competitive advantage and revenue improvement.

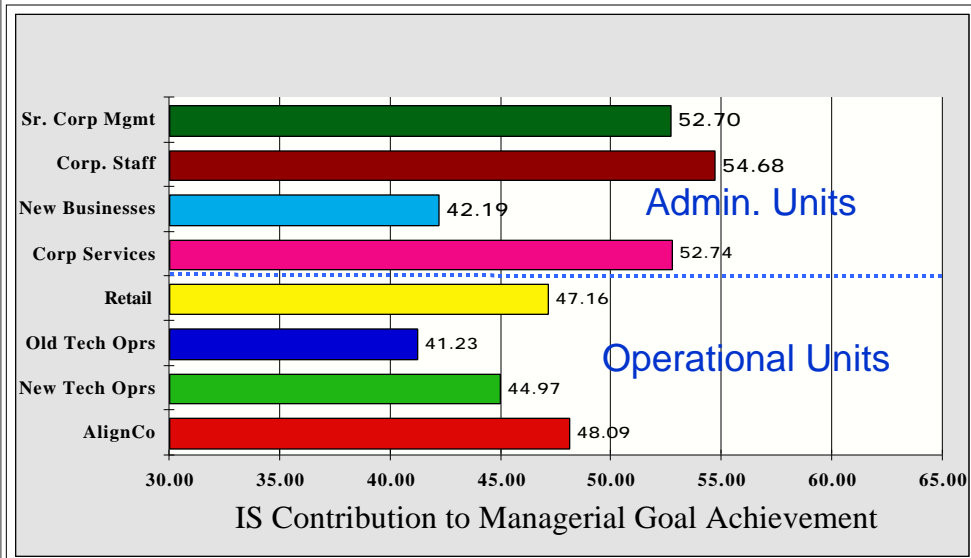
Figure 8: Goal Mismatch Among the Three Executive Groups



IS was receiving mixed signals from the three executive groups.

IS's Contribution varied significantly across the business units. Our analysis also showed IS Contribution by business unit. The company average was 48.09, but the business unit scores ranged from 41.23 to 54.68 (a 1.5 standard-deviation spread), as shown in Figure 9.

Figure 9: IS Contribution by Business Unit



IS Contribution varied significantly by business unit – and three were below the 45 danger zone.

One troubling aspect of this chart was that IS supported administrative functions better than revenue-producing functions. IS Contribution was highest for corporate staff, senior corporate management, and corporate services. More disturbing still, three units were below the danger level of 45. We have found that units scoring below 45 in both IS Contribution and Customer Satisfaction are generally so dissatisfied with their IS organization that they often seek alternatives, such as hiring their own staff, using outside contractors, acquiring equipment on their own, or finding another IT provider.

At AlignCo, Traditional Operations, New Operations, and New Business were below 45. New Operations was seen to provide the new core competency of the company and New Business was to provide the new revenue sources for the company. Having these forward-looking units in the danger zone warned of a serious problem for the CIO.

These findings pointed to the realignment the CIO needed to make: Better support the operational goals of Retail, New Operations, and New Business and probably abandon (or scale back) IT projects that do not support key management goals. Cutting beloved projects can be difficult because they are often near-and-dear to IS staff, with significant sunk investment.

Taking Action

Along with statistics and findings, we presented recommendations of actions we have seen work well in other companies. Based on these recommendations, the CIO initiated the following actions to better align her department with the business.

Track key performance indicators. During the three months following our presentation to top management, the IS organization developed its goals, targets, and budgets for 1999. To track progress, the CIO created a key performance indicator (KPI). It combined a measure of client satisfaction with her department's performance with our IS Contribution metric.

To gauge the key factors behind IS Contribution, the CIO also tracked Planning Interaction metrics (our measures of the amount of communication between IS and the business in the development of the business strategic plan) and IS Credibility (our measure of someone's dependency on IS for success coupled with their belief IS could do the work). These formed her "dashboard," which she would track quarterly.

To collect this data easily, we designed a "QuickCheck survey" that could be completed in 10-15 minutes. The plan was to administer it quarterly so that the division information officers (DIOs) had updated goal profiles for their quarterly Planning Interactions within their business units.

Base IS staff incentive pay on improving IS Contribution. After considerable discussion, IS management agreed to set a target of improving IS Contribution by three points – from 48 to 51. This was quite a stretch goal. The CIO actually believed her department only had a 50-50 chance of achieving this goal.

Furthermore, she would base incentive pay on achieving this goal. Although some staff members felt they had little control over achieving the target, in reality, the burden was widely dispersed.

The job of understanding the goals of the business managers fell to the DIOs (Division Information Officers, assigned to each major unit of the company) because their job was to represent their business unit's needs to IS, and vice-versa. A key technique they would use was Planning Interactions – but only after the IS organization was seen as credible, which was not the case in a couple of the business units.

The job of improving customer satisfaction (and credibility) fell to three groups. The development staff needed to deliver quickly on identified goals because our survey showed that users were dissatisfied with the long development times. The infrastructure staff needed to improve network performance, and the desktop outsourcers needed to improve their support because Customer Satisfaction scores had been low for both, doing significant damage to IS' credibility.

Increase the number of Planning Interactions. As we had reported to the CIO, poor IS alignment with business goals usually goes hand-in-hand with low IS involvement in the firm's strategic planning. To truly know business managers' goals first-hand, especially when the goals are changing, IS managers need to be "at the table." Yet, we have found that only 43% of the senior IS managers we have surveyed actually participated in business planning sessions.

In fact, we have found that the best predictor of IS Contribution is Planning Interaction.

A Planning Interaction meeting follows a fairly standard format, described in box. During the first Planning Interactions at AlignCo, we sometimes acted as facilitator.

Format of a Planning Interaction Meeting

- Participants: senior business executives from a business unit (or a sub-unit), plus the senior IT manager for that group who conducts the meeting.
- Explain the importance of alignment (relationship between IS Contribution and company profit margin)
- Compare current management goals (and projects) with IT projects perhaps based on QuickCheck results
- Discuss (1) top-priority business projects that have no IS support to uncover ways IS can help, (2) what to do about planned IT projects (perhaps some should be eliminated), and (3) how to reprioritize IS work based on the new goals and new IT projects.
- Discover how else IS can help managers accomplish their goals
- Sum-up on what the discussion revealed

The First QuickCheck Results

We performed the first QuickCheck survey in March 1999, three months after the realignment work began, but before much change had occurred. Even though it still appeared to be "business as usual," the survey uncovered significant shifts in managers' goals. On average, revenue goals doubled (up to 20%). New Business's revenue goals jumped from 13% to 44%, which was significant because the jump showed improved alignment between New Business and corporate strategy.

The executives originally chosen to lead New Business had been recruited or seconded from traditional units of the company. And their goal distributions in the initial benchmark reflected traditional company directions. It was not until our survey results showed they were focusing inwardly (on efficiency and cost) rather than outwardly (toward new markets) that top management realized that New Business executives were marching to the wrong tunes.

Overall, the scores for IS Contribution increased slightly (by 0.3 of a point), Customer Satisfaction decreased slightly in some units, and Planning Interaction decreased slightly.

More significantly, the larger IS Contribution increases came in the operational units while decreases came from the support groups, which indicated that IS was shifting its efforts away from support to operational units – a very good sign.

So there were faint signs of change in the right direction in those first three months, even though not much had formally been done to re-align IT with the business other than to share the CogniTech report that identified problem areas and made recommendations.

Holding Planning Interactions

By April 1999, the alignment challenge was set: It was to better align IT projects with the still-changing business managers' initiatives. The DIOs had concrete data on the managers' goals from the first QuickCheck survey. This information could be used in Planning Interactions and to reprioritize IT projects. Some 20 Planning Interaction groups were formed, ranging in size from 3 to 10 business executives who had reported significant business initiatives. Generally, smaller was better, so that the goals, projects, survey data, and IT projects could be discussed extensively.

During May and June, Planning Interaction meetings were held in the business units. Overall, the business managers were "hopefully skeptical." They realized a new approach was being tested; they hoped the results would be positive.

Instituting these sessions had its ups and downs. Retail took a "wait and see" attitude (and later jumped on board when improvements showed up in the other groups). Traditional Operations refused to meet with IS because IS had low credibility in their eyes. Thus, the DIO worked on ways to improve satisfaction. Unfortunately, the DIO in New Operations left the company and was not replaced quickly, which stopped that division's alignment effort.

The DIOs' major challenge was learning to dialog with the business managers. Formerly, there had been such poor communication between IS and the business that the DIOs took a defensive stance in the new sessions – preparing too much and talking too much to justify their current agenda. After some coaching, they learned they really needed to listen to what the managers said they needed in order to accomplish their new goals. The DIOs also had to ask the tough question, "What work should we drop?" Linking their incentive pay to increasing the IS Contribution score seemed to help carry them through these stressful first meetings.

At the same time, the company was reorganizing, starting new businesses, and looking at new ways of working, which meant the DIOs were contending with these organizational changes as well. The new DIO for New Business, for example, on his first day of work was faced with deciding whether to scrap a multi-million-dollar investment in a purchased package or try to make it work. Several Planning Interactions later, the group decided to scrap the project and start over, improving both his and IS's credibility.

On the positive side, the poor performance of the desktop outsourcer was finally addressed because the survey data and the Planning Interactions demonstrated that the situation was significantly hurting IS's credibility. The CIO formed a task force to address the problem and renegotiated a new contract with the outsourcers with new performance criteria.

Finally, there were budget stresses. The IS budget needed to be cut in many areas, the CIO was told. But when she said cuts would kill the realignment efforts, she was given a reprieve.

Second QuickCheck Results

In August 1999, five months later, we conducted the second QuickCheck. The IS organization had been concentrating on quick-hit projects to support business managers' goals and to improve IS's Customer Satisfaction rating.

Some trends emerged from the survey. Overall, IS Contribution had risen 1.2 points in the five months. More importantly, it increased most in the divisions that held Planning Interactions. The largest jump (a whopping 10 points) was in the all-important New Business unit. The score did not increase however in New Tech Operations, which had lost its DIO. In fact it decreased because the expectations set in the Planning Interactions were not fulfilled. IS Contribution also decreased in Corporate Services because IS had turned its attention to the operational groups and away from this support group.

A second trend was that managerial goals began to stabilize; revenue goals were still emphasized. The third trend was an increase in Customer Satisfaction in three units. Again, improvements occurred in the units that held Planning Interactions. But some dissatisfaction persisted – lead times were still deemed too long, too much work continued on old systems, and there was not enough work being performed on new systems – the survey results said. The fourth trend was that Planning Interaction scores improved and more groups held Planning Interactions.

The CIO was able to conclude that the Planning Interaction approach was helping to improve the IS Contribution score but her organization had to execute quickly on realignment projects to maintain Customer Satisfaction and credibility.

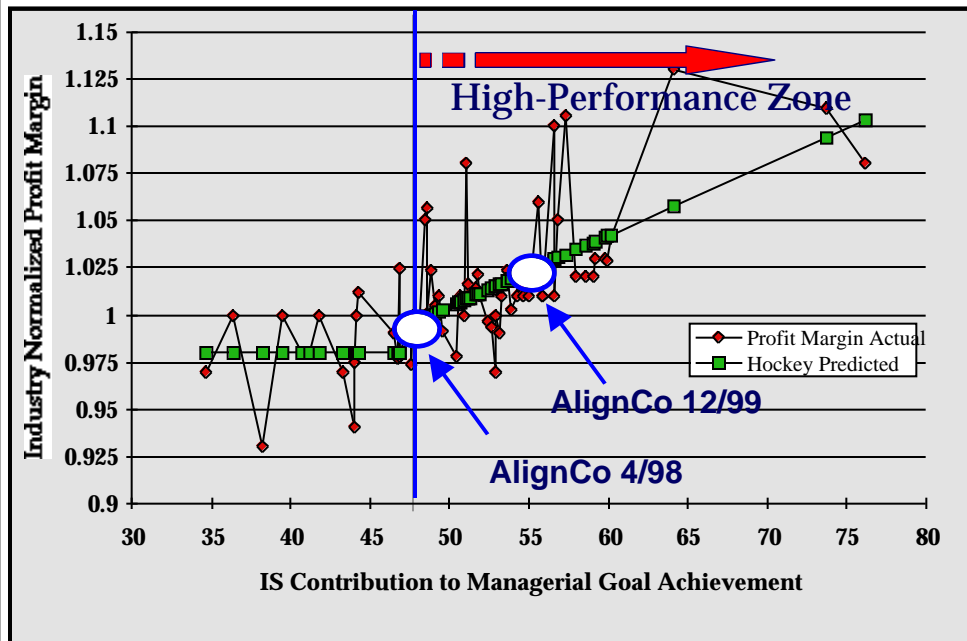
For the next four months, until the end of 1999, the IS organization persisted on its realignment path.

Results of the Second Full Measurement

In December, the second full measurement was conducted. The results were better than expected. IS Contribution increased by 6.4 points (from 48.09 to 54.50) – more than double the stretch goal of three points up from 48. That meant the IT bonus for the year was now secure. AlignCo went from the 33rd percentile in our database to 66th percentile. This was a remarkable accomplishment, especially considering all the reorganizing taking place, which made the business units moving, not stable, targets for IS's efforts.

Thus, AlignCo moved into the high-performance zone on our hockey-stick chart, and sure enough, a very large profit margin increase occurred in tandem.

Figure 10: Results of Second Full Assessment



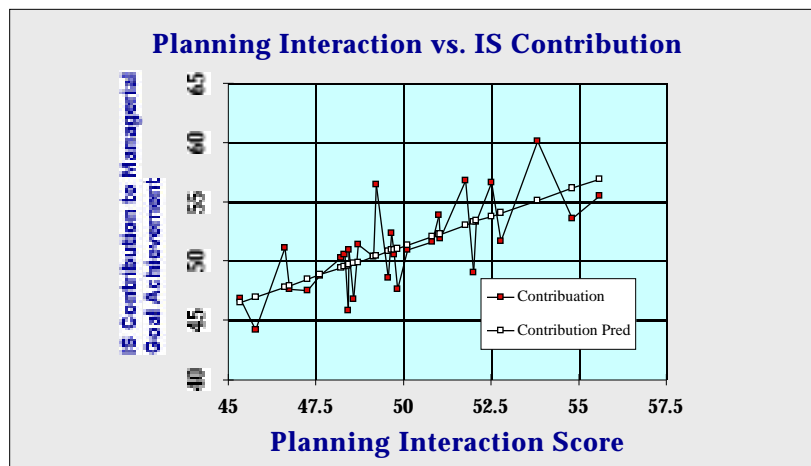
AlignCo IS Contribution jumped six points and profit margin increased by 2.5%.

From 1998 to 1999, the industry's average profit margin decreased by 1/2% due to the greater competition. And AlignCo had been *below the average* by 1%. But by year end 1999, AlignCo's profit margin had increased by 2.5% to be 1.5 % *above the industry average*. **Had Alignco's profit margin declined in line with the industry average, the difference would have been more than \$600 million dollars.**

From the chairman's point of view, this was tremendous news. But there was more good news: AlignCo could see the underpinnings of IS Contribution. In general, in the operational groups where the Planning Interaction score rose, IS Contribution rose. For example, Planning Interaction in New Business rose 5 points, IS Contribution rose 13. Likewise in Retail; Planning interaction rose 5, IS Contribution rose 12. However, in the support groups, IS Contribution did not

The influence of Planning Interaction (IS managers participate in Business planning activities) on IS Contribution is strong.

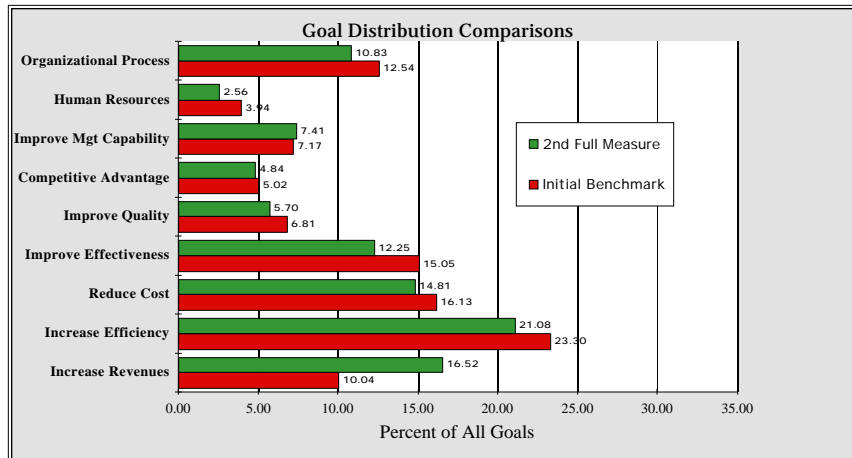
Figure 11: Correlation of Planning Interaction Scores with IS Contribution



rise much, mainly because IS was reallocating resources to the operational units. This difference illustrates that IS Contribution does not increase until the performance of the IS organization against the new agenda is visible and positive. Better communication is not enough.

Another piece of good news was the change in business managers' goals (Figure 12). The percentage of revenue goals increased substantially, from 10.04% to 16.52% of the total, which meant the company was changing its strategy.

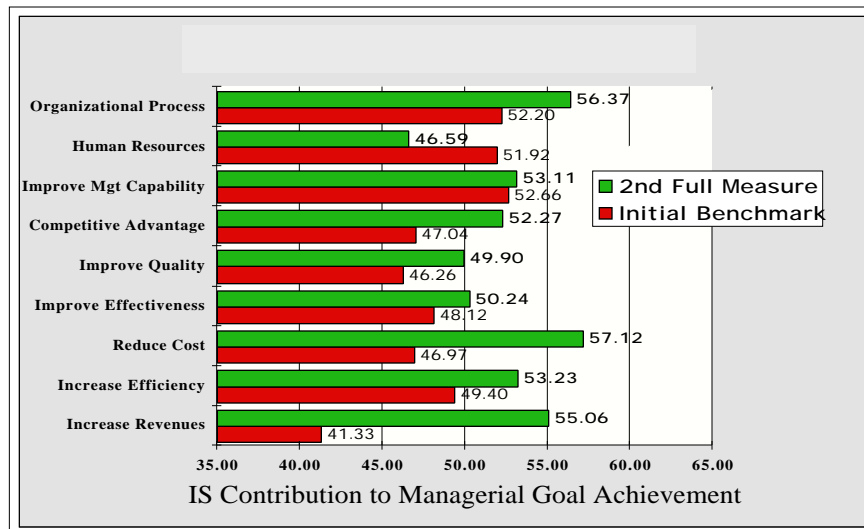
Figure 12: Changes in Business Managers' Goals



Revenue goals increased from 10.04% to 16.52% of the top three goals.

Most importantly for IS, their support of these revenue goals increased almost 14 points on IS Contribution (Figure 13). Furthermore, most of the improvements in IS Contribution took place on the operational goals, another piece of good news. They were up an average of 8 points. Only HR, a process goal, decreased. In short, the IS organization could see from the graphics they had become much better aligned with the business operational goals.

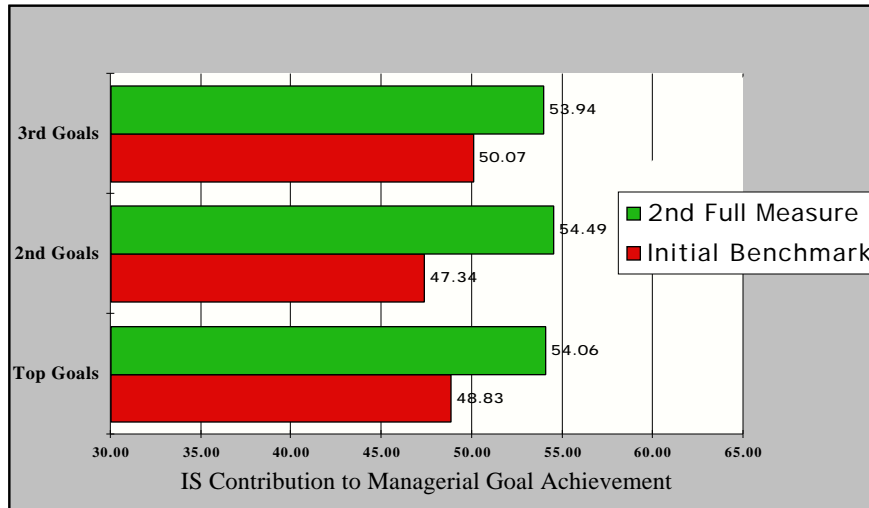
Figure 13: Changes in IS Contribution to Managers' Goals



IS Contribution to operational goals in general, and revenue goals in particular, increased.

We have also found from our research that high performing IS organizations typically contribute more to the #1 priority goals of business managers than to the #2 and #3 goals. In this second measurement, AlignCo's IS organization showed it was moving in this direction, by improving its IS Contribution on all three goals. But it still had some way to go to be emphasizing support for managers' #1 goals like the highest performing IS organizations.

Figure 14: Changes in IS Contribution by Goal Priority

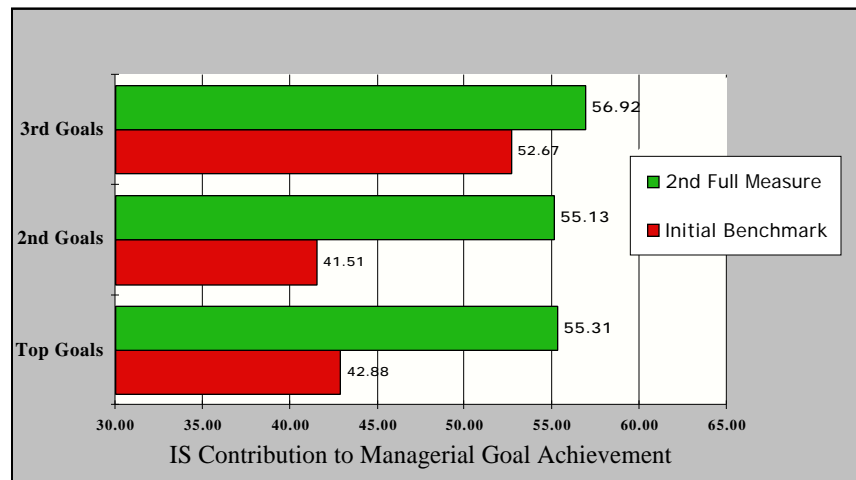


IS improved support on all three goals, but has a ways to go in supporting #1 more than #2 and #3.

Drilling down

Delving into one business unit's scores. Our data allowed AlignCo's CIO to drill down in all the business units to pinpoint where the most improvements had (and had not) occurred. For example, she could look at just the New Business group, which was a crucial group in the firm's foray into the new economic environment. In that drill-down, she saw that IS Contribution to managers' #1 priority goals improved the greatest amount (13 points), but was still not leading the #2 or #3 goals.

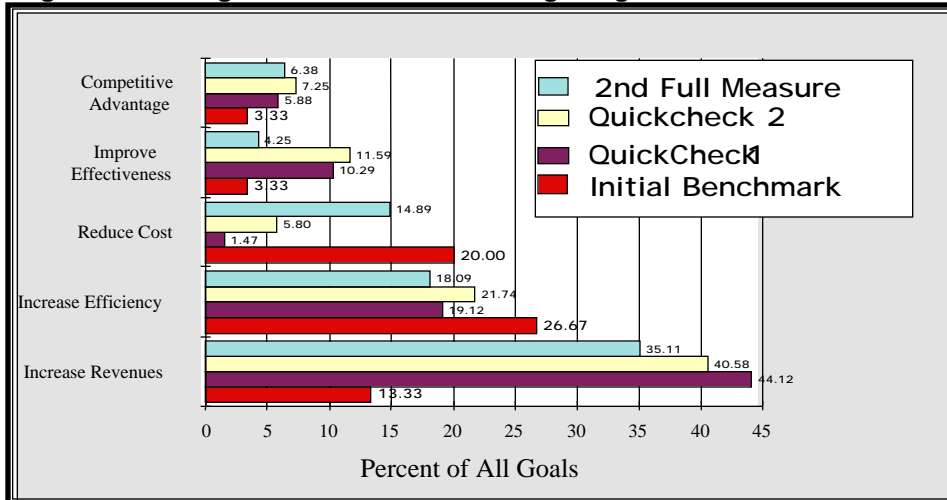
Figure 14: IS Contribution to New Business Goals



IS support of New Business' goals improved, but not enough on the #1 goals.

Further, she could see that the managers in New Business were increasingly emphasizing “increase revenue” goals (Figure 15), almost tripling their percentage of revenue-improvement goals while decreasing efficiency and cost-reduction goals.

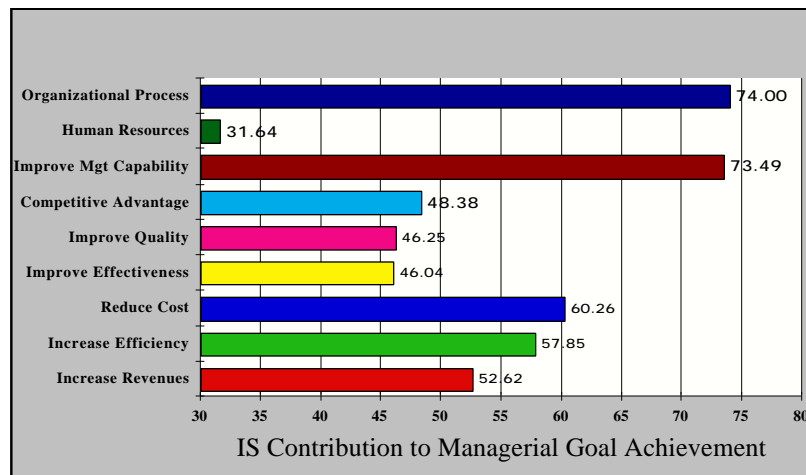
Figure 15: Change in New Business managers’ goals



New Business had emphasized “increase revenue” goals...

The CIO also saw that her organization needed to focus more on supporting these revenue goals. They had made progress, going from 36.75 to 52.62, but this was not as high as needed (Figure 16). Furthermore, her organization needed to improve its support of the effectiveness, quality, and competitive advantage goals.

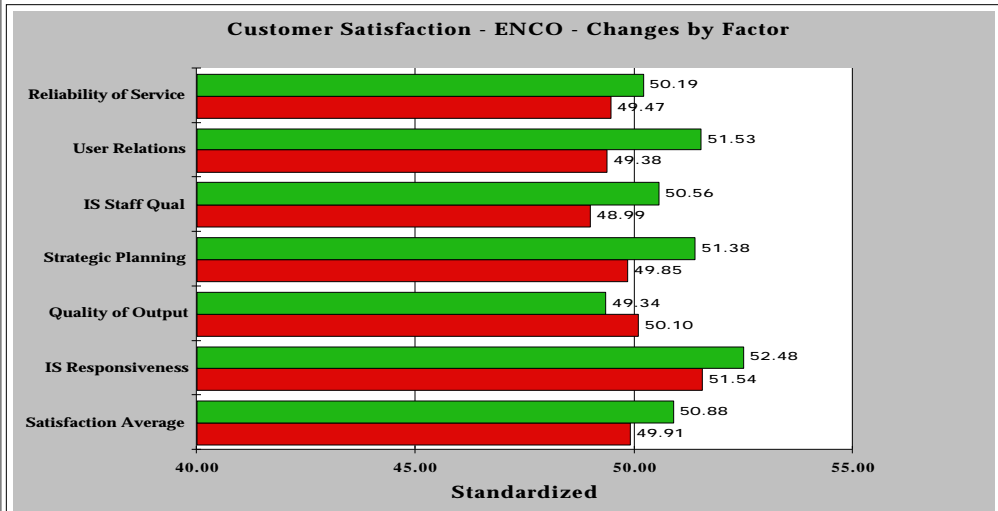
Figure 16: Second Benchmark IS Contribution scores, New Business Group



... but IS needed to support the revenue goals more.

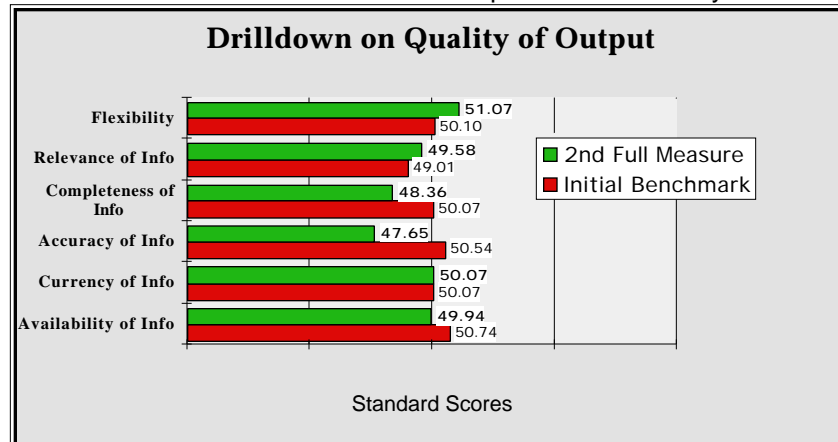
Delving into the Customer Satisfaction scores. Overall, the data suggested that a new sense of partnership had developed, with more business managers believing the IS organization could help them achieve their key goals. Normally, this leads to more spending on IT; however, if IS Credibility is low, funding may not be forthcoming. We have learned that high performers do not try to maximize Customer Satisfaction; however, they do try to keep it well above average (between 55 and 60).

Drilling down showed that satisfaction with “quality of output” decreased.



All the scores increased, but “quality of output” went down. Exploring further (Figure 18) the CIO found that both accuracy and completeness of information had decreased. This was disturbing. It appeared that her organization was getting blamed for poor data integrity even when it might not be responsible. She realized she needed to work on these areas to improve IT’s credibility.

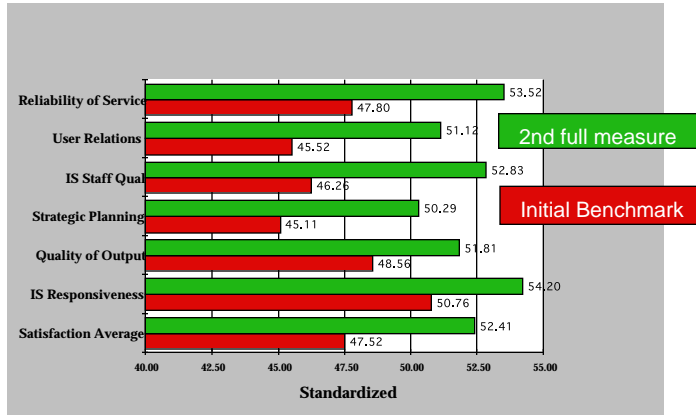
Drill-down showed “accuracy and completeness of information” to be the problem areas.



She found other problem areas as well. But it was not just the numbers that were important. The trends were perhaps more important because if dissatisfaction continued in a business unit, DIO would have a difficult time convincing the executives to participate in the Planning Interactions. She knew that adequate Customer Satisfaction is necessary before starting the realignment process, and she was pleased to see that the efforts of the DIO in Traditional Operations to improve Customer Satisfaction were paying off (Figure 19).

In fact, the scores improved to the point where the IS executives believed they could begin serious conversations with the managers on realignment.

Figure 19: Changes in Traditional Operations' Customer Satisfaction Scores



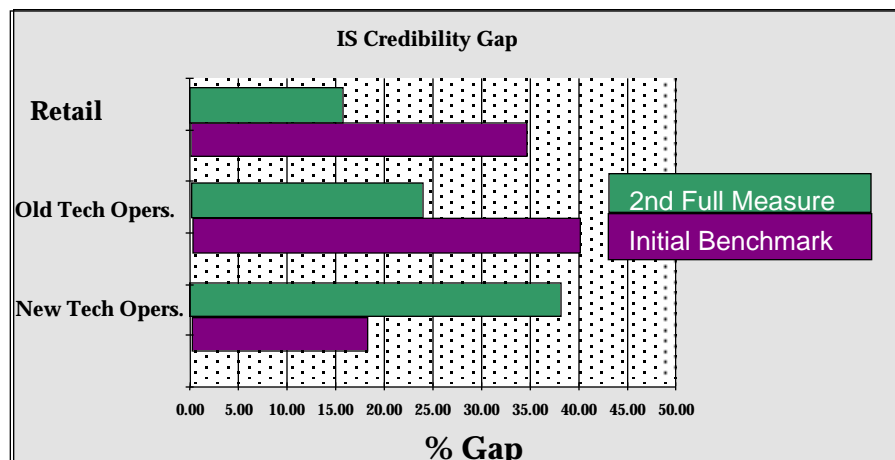
Customer satisfaction increased enough to approach the managers about holding Planning Interactions.

Delving into IS Credibility gaps. Our survey also gauges IS Credibility, which we define as the difference between a business unit's dependence on IT for its success, and the degree to which the business managers believe the IS organization can successfully carry out the needed projects. The score shows up as a gap. The larger the gap, the less credible the IS organization.

Over the 20 months, the credibility gap changed significantly in three business units (Figure 20). It declined 15% in Retail because the DIO implemented Planning Interaction meetings and improved IS Contribution by a huge 13 points. The gap also closed 15% in Traditional Operations because the DIO solved the desktop maintenance problem and delivered several small projects that were important to the executives.

But the gap widened by 20% in New Operations because the work promised in the Planning Interactions was not delivered – because the DIO left and was not immediately replaced. The CIO realized this inaction hurt the company. Not only was New Operations the new core competency of the company but IS Credibility took a nosedive, threatening future efforts to engage in re-alignment discussions. Fixing this problem thus became a very high priority for her.

Figure 20: IS Credibility gaps



While two IS Credibility gaps closed, a serious one widened.

DIO Challenges for Change

IS and the business both had a market culture on organizational vision...

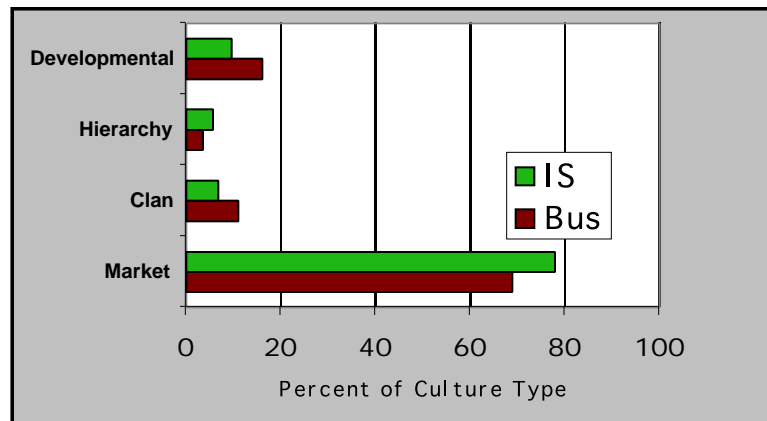
... but a mix of cultures on employee management.

Delving into cultural issues. Since beginning our measurement work, we have learned that aligning the organizational cultures of the business and the IS organization is yet another way to improve IS Contribution. Our work on cultural measurement is based on the work of Quinn and McGrath of the State University of New York in the early 1960s.

They identified four types of culture – market, hierarchy, clan, and developmental – and we split each into four cultural dimensions – organizational vision, employee management, leadership style, and decision-making style.

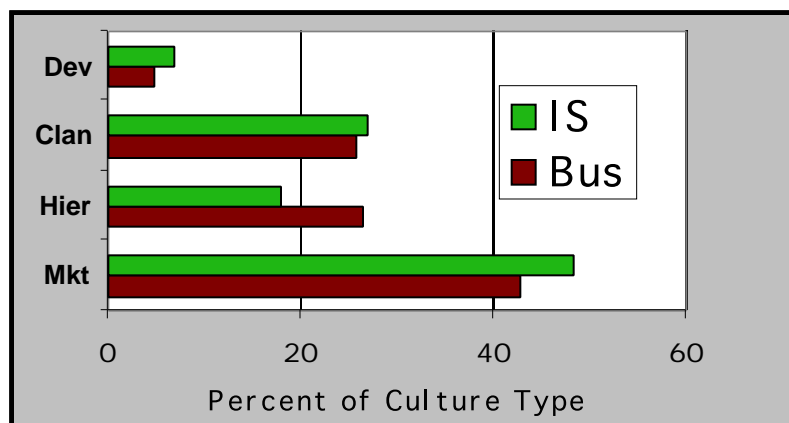
At AlignCo, the business and IS both had a market-type organizational vision, that is, they focused on high achievement measured by accomplishments, “the buck stops here” decision making, and promotion based on contribution (Figure 21). Organizational vision – or the reason for the organization’s existence – is the baseline of culture.

Figure 21: AlignCo’s organizational vision culture profile



But in the areas of employee rewards (that is, employee management), clan and hierarchical values crept in (Fig. 22 below). Clan culture rewards networking (it’s who you know that is important) while hierarchy culture uses bureaucratic criteria for rewards (tenure, number of people supervised, and qualifications). Market culture rewards performance.

Figure 22: AlignCo’s employee management culture profile

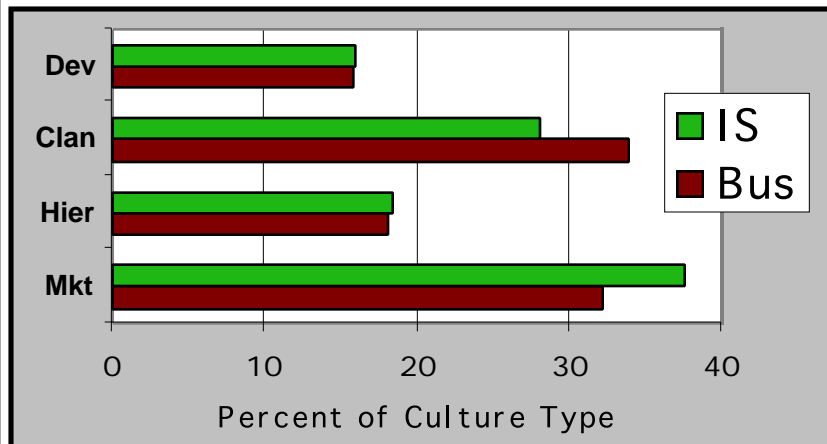


Such mismatches mean that the way people are hired, trained, promoted, and motivated does not reinforce the market culture or values. The challenge at AlignCo, both within IS and the business, is to create a market culture for managing employees. Within IT, the CIO realized the need to move toward a more market-type reward structure from looking at the culture data, and accomplished this by linking IT bonuses to improvements in the new IS Contribution KPI.

Our survey also uncovered a problem in AlignCo's decision-making culture (Figure 23). Clan and market cultures vied with each other. Clan decision-making focuses internally not externally (on the customer), decisions take a long time, many meetings are held, and decisions are often re-opened if a strong member of the clan disagrees. So clan decision-making is slower and thus does not work well Alignco's rapidly changing business environment.

A high-performance culture is mainly market, with little clan or hierarchical, and perhaps 15-20% developmental (which encourages innovation and risk taking).

AlignCo's decision-making culture is split between clan and market.



So although AlignCo's business and IS cultures match, which is important, they are not the most effective cultural mix. The challenge for IS is getting into the business decision-making clans and participating in them – hence the CIO's emphasis on encouraging her DIOs to launch Planning Interactions. However, as she realized from her drill-downs, not all the business units were open to working with IS in Planning Interactions.

Lessons learned

We and AlignCo learned a number of important lessons from this measurement work.

We discovered, for example, that in today's environment, management goals can change faster than the IS organization normally adapts. This means it is all the more important for IS to have a process for staying in touch with the business. We found that the traditional system requests process is too based on "what we know is possible" to handle this challenge, but the Planning Interaction meetings using data from the quarterly QuickChecks managed it well.

We also learned that realigning the IS portfolio to better match managers' needs really could not even get off the ground unless IS's Credibility was at a certain level. So the first order of business was to discover the level of credibility and satisfaction. Where low, work to get to that minimum level, and only then suggest Planning Interactions.

But, talk is not enough. IS must deliver quickly on its promises made in the Planning Interactions or else IS Credibility and Customer Satisfaction decline and the alignment effort is put in jeopardy.

We have discovered that the best predictor of IS Contribution is Planning Interaction. The higher the Planning Interaction score, the higher the IS Contribution score, and in turn, the higher the company's profit margin. It's a powerful series of links, and one that AlignCo's CIO proved exists and can be leveraged.

Linking IT bonuses to KPI improvements is a powerful motivator to implement Planning Interaction in order to harvest its alignment benefits.

AlignCo learned that an IT KPI that links IT to business results changes the traditional cultural conflict between IT and business managers - both are now judged and rewarded on the same basis.

AlignCo learned that the Planning Interaction process opened a continuing channel of communication between IT and the business managers, resulting in improvements in IT/business relationships leading to improved Customer Satisfaction scores.

Since undertaking the second full measurement, the CIO has seen the business goals stabilize and she has addressed the problems uncovered in the surveys. In so doing, she has made her company a stronger player in its industry - it was named Company of the Year within its industry in 1999. However, she does not plan to rest on those laurels. With the industry still in the middle of its transformation, only by keeping these processes in place can the company stay at the top of its game.