

## Know Thy Self: Improving an IT organization's ability to drive business success

A simple archetype framework can be used to assess IT's role in executing business strategy, and optimizing IT business integration.

### Summary

We conducted a study of 269 IT organizations to find out what practices predict the highest levels of strategic alignment. Analysis of those organizations with highest alignment scores indicates they are tightly integrated with the business. This suggests that instead of trying to improve IT business alignment – IT organizations should take basic steps to improve IT business integration.

But what is more interesting is that the study framework reveals that there are different types of IT organizations that best fit different business strategies. If you are trying to improve IT's ability to meet the needs of the business, you should confirm that your IT organizations archetype fits your business strategy before you look at specific alignment practices or optimizing spending mix.

Read this paper to understand your IT organization's role as a strategy enabler, better communicate IT's primary purpose business value-add in strategic terms, and know when and how to change your IT organization's archetype to better meet the needs of the business.

Authors: Kurt Milne, Laurie M. Orlov



Advancing the Science  
of IT Management

IT Process Institute  
[www.itpi.org](http://www.itpi.org)

This study and other IT Processes Institute research was funded by the generous contributions of our managing sponsors Protiviti and CA, who are committed to helping improve performance of all IT organizations.

## Table of Contents

Rethinking Strategic Alignment .....	4
Archetype Model Enables IT Strategic Awareness .....	6
Alignment Starts With IT Value Archetype Fit.....	7
Key Performance Drivers Optimize Integration.....	10
Archetype Profiles .....	12
Summary by the Numbers .....	15
Study Overview .....	16
Endnotes.....	17

## Related Resources

IT Process Institute Strategic Alignment Performance Study Research Report  
IT Process Institute Strategic Alignment Benchmark  
IT Process Institute Understanding IT Value Archetypes White Paper

## About the Authors

Kurt Milne is the Managing Director of the IT Process Institute. He has almost 20 years experience in various marketing management, alliance management, and engineering positions at leading technology companies. His main areas of expertise include IT service management and IT controls, inventory and supply chain management, and computer integrated manufacturing. He is responsible for overall ITPI operations including research, sponsorship and membership.

**Laurie Orlov**, now an independent consultant, is a long time practitioner and industry observer. She has over 33 years of IT experience, the last 9 years as a VP and Principal analyst, research director and consultant at Forrester Research. Laurie was one of the key drivers of Forrester's definitions about IT maturity, IT archetypes, and how to communicate about IT with business executives and the board of directors. Most recently, she has done research on the role of the "21st Century CIO", accelerating business innovation, and IT and enterprise maturity frameworks.

## About the IT Process Institute

The IT Process Institute is an independent research organization that exists to support the membership of IT operations, security, and audit professionals. Our mission is to advance IT management science through independent research, benchmarking, and prescriptive guidance. Our vision is to bridge industry and university-based researchers to identify and study top-performing IT organizations and enhance the efficiency and effectiveness of the industry. [www.itpi.org](http://www.itpi.org)

© 2008 IT Process Institute. All rights reserved. No part of this publication may be used, copied, reproduced, modified, distributed, displayed, stored in a retrieval system, or transmitted in any form other than PDF by any means (electronic, mechanical, photocopying, recording, or otherwise) without the prior written authorization of the IT Process Institute. Submit requests to [info@itpi.org](mailto:info@itpi.org). v050808

## Executive Snapshot at a Glance

Key Concepts	Three IT Value Archetypes			
		Purpose	Key Challenges	Key Enabler
<p>The execution of a winning business strategy depends on the alignment of an organization’s capabilities with key success factors that enable that strategy.</p> <p>An IT value archetype model helps IT executives quickly assess IT’s structural fit with strategic key success factors.</p> <p>There are three primary IT value archetypes:</p> <ol style="list-style-type: none"> <li>1) <b>Utility Providers</b> focus on one primary purpose.</li> <li>2) <b>Process Optimizers</b> focus on two primary purposes.</li> <li>3) <b>Revenue Enablers</b> more evenly distribute focus on three primary purposes.</li> </ol> <p>Regression analysis reveals 11 of 49 surveyed alignment practices optimize alignment performance across the three archetypes.</p> <p>The Revenue Enabler archetype group leverages practices that integrate IT with the business, instead of simply aligning IT with the business.</p>	<b>Utility Provider</b>	Provide common infrastructure and capabilities that support basic information and transaction management	Business units “go around” IT limits and controls.  Competitors may be leveraging IT to win and keep customers.	Better communication with and access to business management, customers, and suppliers helps prioritize shared service offerings.
	<b>Process Optimizer</b>	Provide common services.  Plus - Optimize key business functions and processes with a focus on business-unit-specific objectives and capabilities that drive competitive advantage.	IT must balance standardization and centralization (Utility Provider focus) with meeting unique business requirements.  IT needs to understand enterprise business key success factors.	IT establishes touch points to get involved with business improvement efforts.  Business is involved with IT planning and strategy.
	<b>Revenue Enabler</b>	Provide common services.  Plus - optimize key business functions.  Plus - Technology enable products and services in order to enter markets not possible without IT-enabled offerings.	Pace of business change does not match IT’s desire for stability.  IT needs to understand the organization’s customers.	Operational excellence and effective IT-business touch points enable customer focus and agility.  Understanding the competitive landscape reveals winning technology-enabled products and services.

## Rethinking Strategic Alignment

The development of a winning business strategy requires the thoughtful assessment of market forces, competitive offerings, organizational strengths and weaknesses, and customer needs. Successful execution of that strategy depends on aligning an organization's capabilities with the key success factors that enable a competitive offering.

IT capabilities are an increasingly important component of an organization's capabilities. Business expectations for IT are rising: the vast majority of business processes are enabled by computers, and organizations have no fallback paper processes. Process changes are impossible without technology. High levels of availability, reliability, and security are assumed for key business systems.

Business strategies and key success factors may differ among companies, however—even for companies in the same industry. As a result, the purpose and objectives of IT organizations for those companies also may be different.

For example, cost reduction and resource utilization are generally recognized goals for all IT organizations. But these goals do not help support winning business strategies in companies where agility and speed drive competitive advantage, or where more costly and less efficient technology solutions may provide better differentiation for a niche product or service.

An increasing number of companies no longer view IT as just a back-office utility or information management service provider. Business executives expect technology to enable revenue growth or increase profit. Certainly, business executives expect ongoing cost containment diligence: IT costs consume a significant portion of revenue. In fact, companies in this study spend from 1% to 4% of revenue on IT.<sup>1</sup> But cost containment is not a strategic key success factor for many businesses.

The IT Process Institute conducted a study of 269 North American IT organizations to determine which specific practices enable IT strategic alignment success. The companies we studied operated in various industries and had revenues greater than \$100 million. The survey collected data on nine value archetype attributes, 49 strategic alignment practices in five categories, and 16 alignment performance measures. (See End Notes for more details)



Study participants were placed into one of three different IT value archetypes on the basis of common answers to nine attribute questions. Regression analysis was used to reveal a short list of specific practices that best predict alignment performance for each archetype group.

**Multiple purposes imply multiple competencies.** Unexpectedly, the study revealed that two of the three archetype groups have more than one primary purpose. Utility Providers primarily focus on managing shared infrastructure and information management services. Process Optimizers have two primary purposes: manage shared services as well as address business application and business process optimization requirements. The Revenue Enabler group has three areas of near equal focus: shared services, business process optimization, and technology-enabling customer-facing products and services. This pattern of mixed objectives suggests that these archetype groups require a scaled set of competencies as companies move beyond a focus on shared information management services.

**Specialization matters.** The study findings support a breakthrough in thinking about IT and business alignment that rejects the notion of generic IT and focuses on more than spending mix as a key alignment indicator. Specific technologies, IT strategies, and industry best practices do not apply equally well to all business strategies, because what the business needs from IT is different for each organization.

As an analogy, when you have a plumbing problem, you call a plumber. When your problem is a leaky roof, you call a roofer. If you have a specific problem and you call the wrong type of contractor, then your results may not meet your expectations.

**Optimize practices based on archetype.** If you view your business strategy as a problem that needs to be solved with a specific type of IT organization, then IT strategic alignment means building and managing an IT organization that has capabilities that fit the strategic business need. Only after you verify your IT archetype is an appropriate fit with your business strategy, should you assess alignment oriented functions, processes, and procedures.

**The study findings support a breakthrough in thinking about IT and business alignment that rejects the notion of generic IT.**

For example, if the company's business strategy is to buy and hold companies and gain cost advantage through consolidation and economies of scale, it makes sense to have an IT organization that specializes in fast and effective technology consolidation and delivery of shared services with a focus on operational efficiency and cost containment. When the business strategy calls for a differentiated offering to a niche market, the IT organization must optimize business processes to enhance the competitive position of the company's products or services. When a business strategy prioritizes the offering of technology-enabled products and services ahead of the competition, then an agility-focused IT organization must be able to quickly change gears to support a fast-paced product road map.

## Archetype Model Enables IT Strategic Awareness

IT strategic alignment continues to be a top priority for CIOs.<sup>2</sup> But in practice, aligning IT resources to match strategic business needs is difficult for two primary reasons.

**What to focus on?** First, there are many ways that IT can add value to the business. Demands for enabling transactions and common information services such as e-mail are a given at most organizations. IT can also consolidate and adopt standards and open source technologies to reduce costs. IT can adopt service-oriented architectures to improve agility. IT can work with business managers to help streamline and optimize business processes. And, IT can develop and offer technology-based customer offerings. All may add business value. But, when an IT organization focuses on adding business value without first confirming the archetype fit, it risks becoming fragmented as it attempts to move simultaneously in multiple and counterproductive “value add” directions.

**What business strategy?** The second reason aligning IT resources to business strategy is difficult is because the business may not articulate a clear business strategy. As a result, it is not readily apparent what to do first. Only 36% of organizations in this study indicate that their business clearly identifies business strategy, key success factors, competitive advantage, and goals and objectives.<sup>3</sup> Those organizations that had the highest alignment scores in the study are part of an organization that has a clear business strategy.<sup>4</sup>

However, waiting for the business to give IT clear marching orders is a cop out. Those organizations in the study that had the highest alignment scores also followed practices that indicate that they are actively integrated with the business. IT is involved with setting business strategy. Business executives are involved with setting IT strategy and spending priorities. Even if the business does not clearly articulate a strategy, or if it has many business units that each have a different strategies, IT can use an IT value archetype model to articulate what it believes its core purpose to be (in business strategy terms, not technology terms) and then seek confirmation from business unit and C-level executives.

**Confirm and fill in missing attributes.** Building and managing an IT organization with the characteristics of a particular archetype is an effective way to enable overall business strategy execution success. If the current archetype doesn't fit the business strategy, specific attributes can be changed to transform the organization. Then an organization can optimize ongoing alignment by implementing specific practices and procedures that are proven to optimize alignment for each archetype.

The remainder of this paper will help you identify your organization's IT value archetype and identify key performance drivers that optimize ongoing alignment.

## Alignment Starts With IT Value Archetype Fit

When you establish IT strategic alignment, instead of starting with the question, “What should IT do to deliver business value?” you can use an archetype framework to help you first answer the question, “What type of IT organization do we have”? Then you can assess whether that type of IT organization is a good fit with the current business strategy.

The IT Process Institute developed a three-pillar IT value archetype model that builds on the archetype work of Forrester<sup>5</sup> and McKinsey<sup>6</sup> as well as the CIO archetype assessment offered in *CIO Magazine*.<sup>7</sup> Our model assumes that different attributes combine to support a specific strategic purpose or overarching value objective for the organization. We then collected data to confirm the validity of the model and learn what specific practices drive top alignment performance for each archetype.

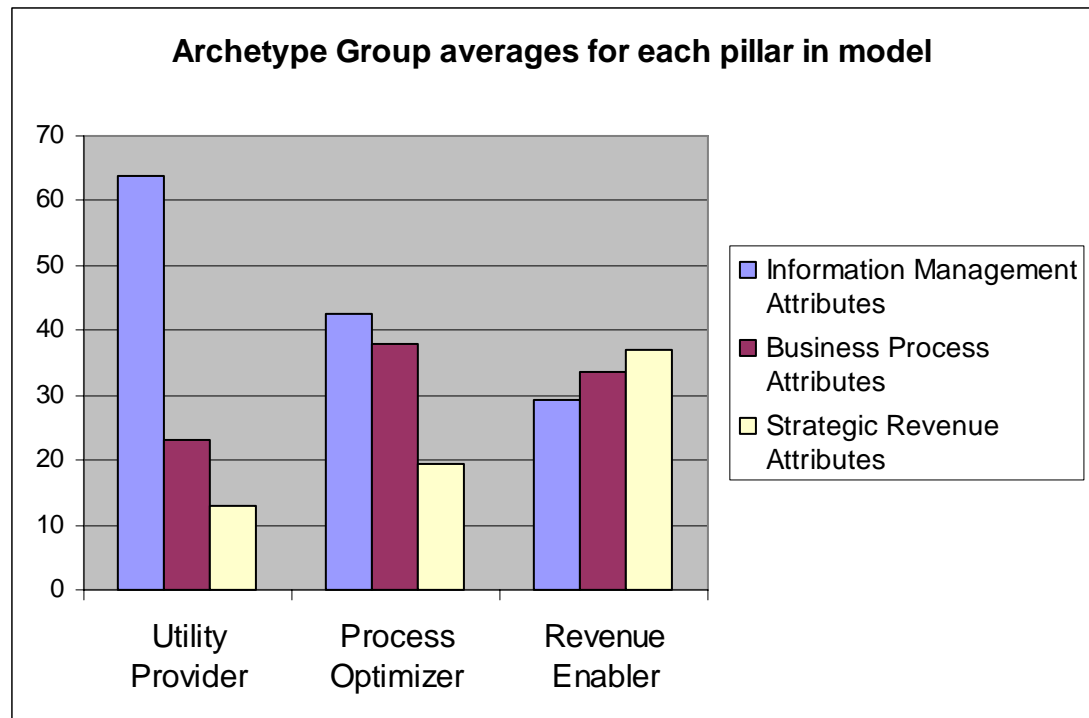
The model on the next page highlights nine archetype attributes that differ across three pillars: information management, business process, and strategic revenue. Study participants assigned 100 points across each of three pillars for all nine attributes according to how those attributes apply to their organization.

Statistical analysis then identified three archetype groups that, on average, answered the questions in a similar way.<sup>8</sup> These three archetype groups roughly align with the three pillars, but with varying degrees of focus on how the 100 points were applied.

The archetype model has nine attributes that vary based on amount of focus on the three pillars.

<b>IT Value Archetype Model: Nine Organizational Attributes</b>			
<b>Attribute</b>	<b>Information Management</b>	<b>Business Process</b>	<b>Strategic Revenue</b>
<b>1. Purpose</b>	Provides shared services—common infrastructure and information management	Enables business unit objectives, and focuses on application and process improvement to differentiate customer offerings	Enables technology-based products and services to enter new markets
<b>2. New technology requirements</b>	Improve cost and efficiency	Meet specific business function requirements	Enable new product or service
<b>3. CIO role</b>	Operations expert	Business manager	Corporate strategist
<b>4. CIO reports to</b>	CFO or COO	Business unit executive	CEO
<b>5. IT funding source</b>	Independent as shared service	Part of business unit budget cycle	Part of enterprise strategic planning
<b>6. Success metrics</b>	Operating performance SLAs and user satisfaction	Project success and business unit executive satisfaction	Enterprise-level revenue contribution
<b>7. Business strategy participation</b>	IT is not involved in determining business goals and strategy	IT collaborates at the business-unit level	IT plays a proactive role in shaping corporate strategy
<b>8. Competitive advantage contribution</b>	Cutting costs, reducing inefficiencies, and enabling better decision making	Optimizing business functions and business processes to differentiate existing products and services	Creating new technology-enabled products and services that change the rules of the game
<b>9. Investment justification</b>	Cost savings and business process efficiency gain	Revenue or profit gains from existing products and services	Revenue and profit that are generated by new products or new markets

The following figure shows the average score that the three archetype group achieved for each pillar in the model.



The Utility Provider archetype group averaged more than 60 out of 100 points on the attributes related to the information management pillar in the model. That is, Utility Providers focus on managing common information management services. They place much less focus on attributes related to business process optimization, and even less focus on revenue-producing products and services.

When we developed the survey framework, we assumed that each group would have a similar profile that showed significantly more focus and average of points in a single column of the model.

However, the Process Optimizer archetype group has a near even matched focus on shared service attributes and business process attributes (43 and 38 out of 100 points), and has less focus on strategic revenue attributes. The Revenue Enabler archetype group has a near even average mix of points across all three columns (29 and 34 and 37), and has slightly more focus on strategic revenue and business process attributes.

This data indicates that the IT value archetype model is additive; only Utility Providers have a single area of focus. Process Optimizers have two areas of focus, and Revenue Enablers have three areas of focus. This suggests that strategic alignment challenges as well as practices that optimize ongoing alignment might be different for each archetype.

## Key Performance Drivers Optimize Integration

If each archetype group has a fundamentally different mix of purpose and objectives, then we want to know whether the practices that optimize ongoing alignment are different for each group. The answer is yes: they are.

For each archetype group in the study, we developed a regression model to test 49 specific strategic alignment practices to determine which correlate with higher levels of strategic alignment performance.<sup>9</sup> Strategic alignment performance was measured by a combined score on 16 questions in five categories.<sup>10</sup> Data analysis indicates that each archetype has just 4 or 5 of the 49 practices that predict performance variation at a significant level.

The practices that have the biggest predictive value for each archetype are shown below from highest to lowest impact.

Key Performance Drivers: Practices that Optimize Ongoing Strategic Alignment		
Utility Provider	Process Optimizer	Revenue Enabler
<ol style="list-style-type: none"> <li>1. Actively identifies opportunities to use emerging technology to meet objectives</li> <li>2. Has an effective process and methodology for justifying and prioritizing IT investment decisions</li> <li>3. Develops and enforces enterprise infrastructure standards</li> <li>4. Has a project management office function to provide oversight to business-prioritized IT projects</li> </ol>	<ol style="list-style-type: none"> <li>1. Actively identifies opportunities to use emerging technology to meet objectives</li> <li>2. Develops and enforces enterprise infrastructure standards</li> <li>3. Justifies IT investments primarily by business process optimization that enables competitive advantage</li> <li>4. Understands business needs, and this understanding is pervasive at the IT executive and VP levels</li> </ol>	<ol style="list-style-type: none"> <li>1. Proactively educates all IT personnel on business objectives, so that everyone in IT understands how IT adds value to the business</li> <li>2. Acts in concert with the business when setting IT strategy and priorities</li> <li>3. Has a strong track record of rejecting bad projects</li> <li>4. Has a formal, periodic process in the IT organization for identifying what is needed by the business</li> <li>5. Includes the IT budget cycle as part of the business unit budgeting process</li> </ol>

**Utility Providers are not actively engaged with the business.** The archetype data shows that Utility Providers focus primarily on providing shared information management services. According to the regression analysis, the practices that predict strategic alignment performance for this group include actively seeking opportunities to use technology to meet objectives, and enforcing infrastructure standards. Having both an effective method for justifying IT investments and a project management function for ensuring that investments are successfully implemented also drives higher levels of performance. What's not on this short list is any linkage between business strategy and IT strategy, or integration with business priorities or business funding. Overall, this set of proven practices for Utility Providers paints a picture of a stand-alone internal service provider not actively involved in business process optimization or creating technology-enabled products and services.

**Process Optimizers are responsive to the business.** Process Optimizers have a dual focus on information management services plus business applications and business process optimization. Proven practices for this archetype group that are similar to those for Utility Providers include actively using emerging technologies and enforcing enterprise standards. The proven practices that align with business optimization focus areas include justifying investments on the basis of business process optimization and competitive advantage, and IT executives having a pervasive understanding of business needs. This set of proven practices aligns with the dual focus of this archetype group. But, it doesn't include practices that indicate a tight integration of IT and the business.

**Revenue Enablers are well integrated into the business.** The Revenue Enabler archetype group focuses on all three areas of shared services, business process optimization, and technology-enabled products and services. The proven practices for this group paint a picture that indicates tight integration of IT with the business. The most powerful practice for this group is educating everyone in IT, so they have a visceral understanding of the business. This finding is striking, compared with all the practices tested, such as having a project management office, business steering committee, IT business alliance executive, and so forth. Thus, in-depth training of IT staff on what drives the business is the most effective way to achieve ongoing alignment. Other practices, such as IT acting in concert with the business when setting priorities, having a formal process for determining what the business needs, and tying the IT budget to the business budget cycle, also indicate tight integration of IT and the business. Finally, having a strong track record of rejecting bad projects indicates the ability to focus resources on business priorities.

## Archetype Profiles

The following sections provide a summary of each archetype, with recommendations on how an organization can foster change to a more business focused or customer focused archetype.

### Utility Provider Profile

The Utility Provider archetype group has the following attributes:

- **Primary purpose**—The primary purpose of IT is to provide common infrastructure and information management services.
- **Competitive position**—The IT organization improves the company's competitive position by using IT to enable efficiency gains and better decision making.
- **CIO**—The CIO most likely reports to the COO or CFO. The primary role of the CIO is as an operations manager.
- **Funding source**—Budgets primarily are funded independently as a shared service, and secondarily as part of enterprise planning.
- **Investment justification**—A Utility Provider justifies IT investments by their potential for cost reduction.
- **IT success**—A Utility Provider measures IT success primarily by operating performance service level agreements (SLAs) and secondarily by business unit executive satisfaction.

Alignment challenges for Utility Providers include:

- IT is not plugged into business goal setting, and the business is not plugged into IT goal setting. Funding is under IT governance control, which reduces integration.
- Business executives may “end run” centralized IT with outsourced service providers and software as a service (SAAS) vendors.

The following practices predict improved alignment (from greatest to least impact):

1. Actively identifies opportunities to use emerging technology to meet objectives.
2. Has an effective process and methodology for justifying and prioritizing IT investment decisions.
3. Develops and enforces enterprise infrastructure standards.
4. Has a project management office function to provide oversight to business-prioritized IT projects.

To become a Process Optimizer, focus on:

- Shift the CIO role from an operations focus to a business manager focus. Shift the CIO reporting structure from the COO or CFO to the CEO, or use a business-unit matrix reporting structure. Strengthen business executive relationships. Expand CIO business purview by expanding role to include non-IT business functions such as facilities, human resources.
- Train IT executives on general business skills. Build IT executive-level awareness of your business key success factors and competitive differentiation.
- Matrix IT resources into business units. Allocate IT resources to participate in business process optimization efforts. Train IT management staff to understand and communicate IT value in business terms.
- Set aside resources to research and recommend IT-enabled process enhancements (internal) and product and service competitive enhancements (external).
- Shift the investment justification focus from cost reduction to also include competitive advantage and market share or revenue gains.

## Process Optimizer Profile

The Process Optimizer archetype group has the following attributes:

- **Primary purpose**—The primary purpose of IT is to provide a common infrastructure and information management, as well as enable business-unit-specific objectives.
- **CIO**—The CIO most likely reports to the CEO or a business unit executive, and primary roles of the CIO are operations manager and business manager. IT executives collaborate with business unit executives to help set business goals.
- **Competitive position**—The IT organization improves the company's competitive position by using IT to achieve cost reduction and efficiency gains, and by optimizing business functions.
- **Funding source**—Budgets are funded primarily by business unit and secondarily by enterprise planning.
- **Investment justification**—A Process Optimizer justifies IT investments primarily by cost reduction potential, and secondarily by business unit requirements and revenue gains from existing products.
- **IT success**—A Process Optimizer measures IT success primarily by business unit executive satisfaction and secondarily by meeting operating performance SLAs.

Alignment challenges for Process Optimizers include:

- Balancing standardization and centralization (that is, the Utility Provider focus) with meeting unique business requirements.
- Establishing IT-to-business touch points at the manager and executive levels, building IT awareness of key business success factors, and getting IT to think and speak in business terms instead of technology terms.

The following practices predict improved alignment (from greatest to least impact):

1. Actively identifies opportunities to use emerging technology to meet objectives.
2. Develops and enforces enterprise infrastructure standards.
3. Justifies IT investments primarily by business process optimization that enables competitive advantage.
4. Understands business needs, and this understanding is pervasive at the IT executive and vice president levels.

To become a Revenue Enabler, focus on:

- Shift the CIO role to be an executive team member and active participant in setting business-unit-level strategy and goals and objectives.
- Proactively educate all IT personnel on business objectives, so that everyone in IT has a visceral understanding of their business purpose.
- Utilize a portfolio management approach to invest in IT initiatives that optimize the mix across shared services, business process optimization, and technology-enabled products and services.
- Increase IT agility and improve IT's ability to ramp up and or kill projects on a business timeline.
- Research both the competitors' use of technology, as well as emerging technologies, to recommend product and service innovation to the executive team.
- Integrate the IT budget process with the business unit and enterprise budget cycle.
- Formalize a process for assessing the changing needs of the business.

## Revenue Enabler Profile

The Revenue Enabler archetype group has the following attributes:

- **Primary purpose**—The primary purpose of IT is to provide a common infrastructure and information management services, enable business unit objectives, and provide technology-enabling customer-facing products and services.
- **CIO**—The CIO most likely reports to the CEO or business unit executive, and primary roles of the CIO are business manager and corporate strategist. IT executives collaborate with business unit executives to set business goals and assess competitive and technology trends to help shape business strategy.
- **Competitive position**—The IT organization improves the company's competitive position by supporting an even mix of cost reduction, business-function optimization, and game-changing product and service creation.
- **Funding source**—Budgets are funded primarily by enterprise planning.
- **Investment Justification**—A Revenue Enabler justifies IT investments through an even mix of potential for cost reduction, business unit requirements, and potential for revenue gains from new technology-enabled products.
- **IT success**—A Revenue Enabler measures IT success by an even mix of business unit executive satisfaction, enterprise-level revenue contribution, and meeting operating performance SLAs.

Alignment challenges for Revenue Enablers include:

- Lack of focus. Priorities and objectives are divided across three areas.
- High IT resource requirements. Revenue Enablers must achieve operational excellence, provide business process optimization support, as well as conduct research and offer tech support for product and service innovation.
- IT agility must match the pace of business change. Instead of IT gaining efficiency and effectiveness from stability, Revenue Enablers must shift the paradigm to a velocity-based model.
- Improve efficiency in order to free resources available to focus on new business initiatives, agility and innovation.
- The CIO must delegate operational and technology responsibilities, so that he or she can spend time with industry thought leaders and customers.

The following practices predict improved alignment (from greatest to least impact):

1. Proactively educates all IT personnel on business objectives, so that everyone in IT understands how IT adds value to the business.
2. Acts in concert with the business when setting IT strategy and priorities.
3. Has a strong track record of rejecting bad projects.
4. Has a formal, periodic process in the IT organization for identifying what is needed by the business.
5. Includes the IT budget cycle as part of the business unit budgeting process.

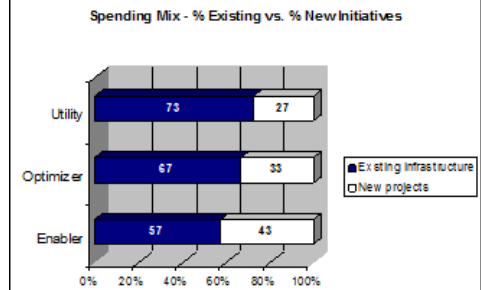
Overall, the Revenue Enabler attributes and practices result in a level of integration with the business that the other archetypes do not have.

## Summary by the Numbers

Revenue Enablers, who have the highest alignment performance scores, have the least control of their budget, but the highest budget growth. Utility Providers, who have the lowest alignment performance scores, have the most control of their budget, but the lowest budget growth. The budgets of 52% of the Revenue Enablers are growing more than 5% per year, compared to 28% of the Process Optimizers and 18% of the Utility Providers.

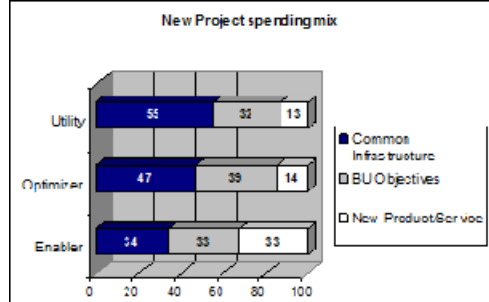
### Budget Mix: Spending on Existing Infrastructure versus New Projects

Revenue Enablers have the highest spending on new projects at 43%. Utility Providers have the lowest percentage of spending on new projects at 27%. Process Optimizers are in between, spending 33% of their IT budget on new projects.



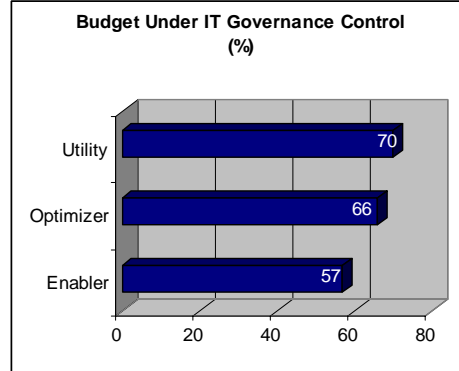
### New Project Spending Mix

The spending of Revenue Enablers on new projects is evenly mixed across common infrastructure, business unit objectives, and enabling new products and services. This spending data supports the assertion that Revenue Enablers are focused on all three priority areas, Process Optimizers are focused on two, and Utility Providers are focused on one.



### Budget under IT Governance Control

The Revenue Enablers, who have the highest overall alignment performance scores, have the least control of their budget. Their budget cycle is part of the business unit or enterprise budget process.



## Study Overview

This study was designed to determine specific practices that are shown to optimize the ongoing process of IT strategy alignment, as measured by a balanced mix of alignment measures. This study follows the typical IT Process Institute methodology of identifying top-performing IT organizations and the practices that make them different. This study is based on a foundational assumption that what the business needs from IT varies across organizations. As a result, our study is designed to assess two primary hypotheses:

- There are different IT value archetypes.
- The practices that optimize ongoing strategic alignment are different for each archetype.

## Scope of Questions

The study survey collected data about 49 alignment practices in five areas including: 1) strategy and prioritization, 2) use of business linked performance metrics, 3) governance, budget and prioritization practices, 4) use of common architecture and standards, and 5) business skills of IT organization.

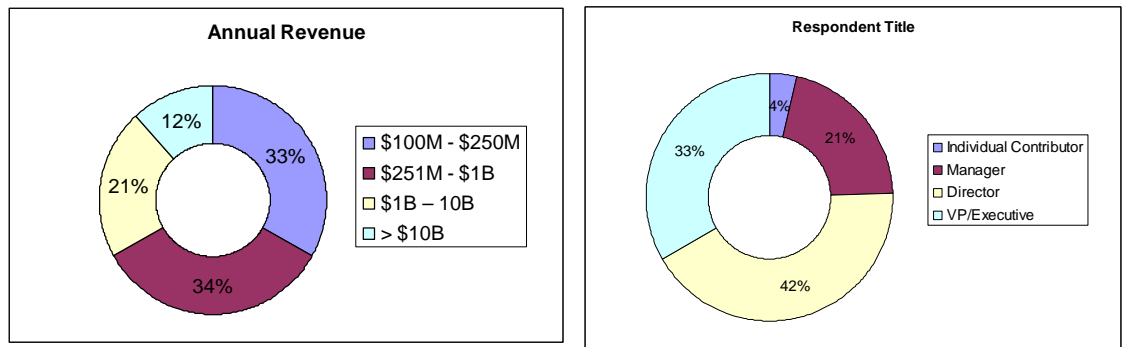
The study also collected data about 16 alignment measures, that used 1-10 scale questions about, 1) business alignment , 2) service delivery, 3) cost efficiency, 4) agility, and 5) innovation.

## Respondent Demographics

We collected data from 269 North American–based IT managers and executives through a Web-based survey in October 2007. We used GCR Insights’ IT decision-maker panel to complete the surveys.

A third of the respondents were from companies that have annual revenue between \$100 million and \$250 million. Another third were from companies that have revenue between \$250 million and \$1 billion. The rest had revenues greater than \$1 billion.

Of the respondents, 75% had IT management titles at the director, vice president, or executive levels.



## Endnotes

<sup>1</sup> IT Process Institute Strategic Alignment Benchmark—IT budget as a percentage of Revenue. The 25<sup>th</sup> percentile to 75th percentile range from 1% to 4%.

<sup>2</sup> Laurie M. Orlov, *Debunking Alignment Nirvana*, Forrester Research, June 2007. Of 239 IT executives, 50% indicated that improving and demonstrating IT/business strategic alignment was one of their top three priorities.

<sup>3</sup> Kurt Milne, Laurie Orlov, *IT Process Institute Strategic Alignment performance study*. April 2008. 36% of IT organizations indicate that their business clearly identifies business strategy, key success factors, competitive advantage, and goals and objectives (what the business is trying to accomplish), so that IT has clear guidance.

<sup>4</sup> Of the Utility Providers, 44% are in a company that has multiple or mixed business strategies. Only 30% of Revenue Enablers have a mixed business strategy.

<sup>5</sup> Forrester Research has produced a significant body of work on IT archetypes. Forrester defines archetypes as “Persistent and business-driven models of IT behavior—based on constraints determined by a company’s industry sector and the firm’s mission for IT.” Forrester’s three archetypes are Solid Utility, Trusted Supplier, and Partner Player.

<sup>6</sup> David Craig and Ranjit Tinaikar, “Divide and Conquer: Rethinking IT Strategy,” *The McKinsey Quarterly Web Exclusive*, August 2006. The takeaway from this article is that IT organizations should manage a portfolio of investments, including (1) scaling IT investments on most of the familiar applications and focusing on cost reduction, (2) competitive-advantage investments that improve the efficiency of operations or decision making, and (3) rule-changing innovations that create competitive advantage with new products or services.

<sup>7</sup> Christopher Koch, “State of the CIO 2007: Beyond Execution,” *CIO Magazine*, March 2007. This article highlights the different CIO archetypes based on primary roles, including utility, operations, business leader, and innovator.

<sup>8</sup> Cluster analysis algorithms grouped respondents on the basis of how they answered the nine archetype attributes questions. 269 respondents were then analyzed and clustered into groups of 80 (29%), 99 (37%), and 90 (33%).

<sup>9</sup> Strategic alignment practices —We asked 49 questions about the use of strategic alignment practices on a scale of 1 to 10 in five areas:

- Strategy and prioritization—10 questions about the business strategy and IT strategy development process
- Use of business-linked performance metrics—9 questions about how IT measures success related to business objectives
- Governance, budget, and prioritization practices—15 questions about overall governance, budget, and resource prioritization activities
- Use of architecture and standards—6 questions about how IT balances standardization and consolidation against nonstandard business requirements
- Business skills of IT organization—9 questions about how IT develops business skills

<sup>10</sup> Strategic alignment performance measures—We asked 16 questions about how well IT aligns with the needs of the business on a scale of 1 to 10 in 5 areas:

- Business alignment—3 questions about IT strategy development and prioritization in line with business needs

- 
- Service delivery—3 questions about SLAs, availability, security, and consistency per business requirements
  - Cost efficiency—4 questions about consolidation, third-party services, and competition
  - Agility—3 questions about project track record, latency, and business unit executive satisfaction
  - Innovation—3 questions about competitive advantage and technology treadmill