



# **Running your IT organization like you mean business.**

*The IBM Business of IT Executive Workshop*

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**Executive summary**

As the global marketplace becomes increasingly competitive, CEOs today are placing a high degree of importance on business and technology integration. Nearly 80 percent of the CEOs interviewed in IBM's Global CEO Study rated business and technology integration as of "great importance."<sup>1</sup> However, there is a significant gap between their desired levels of integration and the extent of the integration they've actually achieved. Many feel that the current level of alignment between business and IT is inadequate in their enterprise, and they find this to be a real source of frustration. As a result, these CEOs are looking to their CIOs to become collaborative business partners, and this means those CIOs need to think in business terms.

Integrating IT strategy with overall business goals has, therefore, become a key CIO priority. In addition to the external customers, other organizations within the enterprise are now seen as customers of the IT department. This unfolding new perspective means that CIOs must also analyze their IT business in much the same way a CEO or CFO might analyze the business of the overall organization.

Building on a technique developed to help executive teams model their businesses in terms of key components, IBM has created the IBM Component Business Model™ for the Business of IT (CBM-BoIT) framework. CBM-BoIT is designed to help CIOs and their teams take a business-oriented, strategic approach to IT. The component modeling approach helps executives identify priorities for innovation and investment by breaking their IT organizations down into functional areas, or components. These components can be assessed for strategic differentiation and effectiveness, and mapped against spending and staffing

data, in order to identify strategic priorities. The technique draws on years of IBM business and technology consulting expertise. This executive brief explores the CBM-BoIT framework, the Business of IT Executive Workshop, and their value to executive leaders of IT.

**Thinking of IT as a business**

It's not news these days that as a CIO you have to do more with less. Finding ways to increase productivity and decrease spending has long been a central part of your mission. More recently, however, a new dimension of the CIO's role has come to the fore—one that reflects the new perception of IT as a driver of competitive advantage. While in the past IT may have been viewed primarily as a provider of technology operations and related services, it is now also seen as a source of a company's differentiation in the marketplace. IT organizations perform key activities that fuel business success. Aligning IT strategy with overall business goals, therefore, has become a primary CIO function. Today, it is more common than ever for you to work closely with your CEO as part of a senior management team.

While many CIOs are gratified by the increasing emphasis on IT's contributions, the new focus brings with it new responsibilities and challenges. IT executives must demonstrate that investment decisions regarding technology and staffing will deliver business value and are consistent with the enterprise's strategic intent for IT. However, because this perspective on the role of IT is relatively new, you may not have the appropriate mechanisms and processes in place for identifying the activities that are truly differentiating or that are otherwise crucial to business success. You may also need a system for evaluating the effectiveness of the various functions of the IT organization. Only with such information can executives make investment decisions that are truly strategic.

### **Key concepts**

**Business component**—A collection of all the people, processes, technologies, expertise and other resources necessary to perform a specific function (such as supply chain management or systems administration) and to deliver those services to the enterprise.

**IBM Component Business Model**—A framework for organizing and analyzing an enterprise in terms of the non-overlapping business functions, or components, that comprise it. The model helps identify opportunities for innovation and improvement by highlighting areas that are strategically differentiating and then assessing how resources are allocated to each area and measuring their effectiveness.

**IBM Component Business Model for the Business of IT**—An extension to the IT organization of the Component Business Model. Just as the component business modeling approach helps business leaders make strategic decisions about the enterprise, CBM-BoIT helps IT executives make strategic decisions about the business of IT. The model's analytical perspective also helps IT executives align their objectives with those of the overall organization, and it provides a common framework for discussions with other members of senior management about how IT can deliver more business value.

**Business component map**—A graphical model of the enterprise, designed to show all business components and to highlight areas of differentiation or gaps between current and desired states.

Fortunately, there is a solid framework for compiling and analyzing the information that can support business-oriented decision making for IT executives. Business leaders think strategically about their organizations by identifying the key components and underlying processes that drive their company's performance in the marketplace. Executives then invest to support the elements that matter the most. CIOs can do the same for IT. Building on its success at modeling key business processes and components for enterprises, IBM has pioneered a unique approach to help you run IT like a business. First, though, it is important to understand the framework that gave rise to CBM-BoIT.

### **Breaking it down: using a component modeling approach to build a strategy**

Most people view strategic thinking as big-picture thinking. And that's absolutely correct. But to truly understand the big picture, you have to understand what goes into it. More important, you have to understand the *relationships* among all the components of your organization. Only then can you set realistic goals for the future and develop tactics that achieve these goals. So, to get to the bigger picture, you first have to think smaller.

When business leaders employ IBM's component business modeling approach, they build a component map of all the functions that drive the organization; a sample component map is shown in Figure 1. While many of these components might be present in most enterprises, business component maps can be customized for particular organizations. A pharmaceutical company's map will differ from a financial services organization's map, for example.

Once identified and placed on the map, each component can then be assessed for the degree to which it contributes to the company's strategic differentiation in the marketplace. For example, some functions may not distinguish the company in the eyes of its customers, but may still be necessary to operations. Senior management can also examine how well the company performs each function and the amount of resources—people and money—consumed by each.

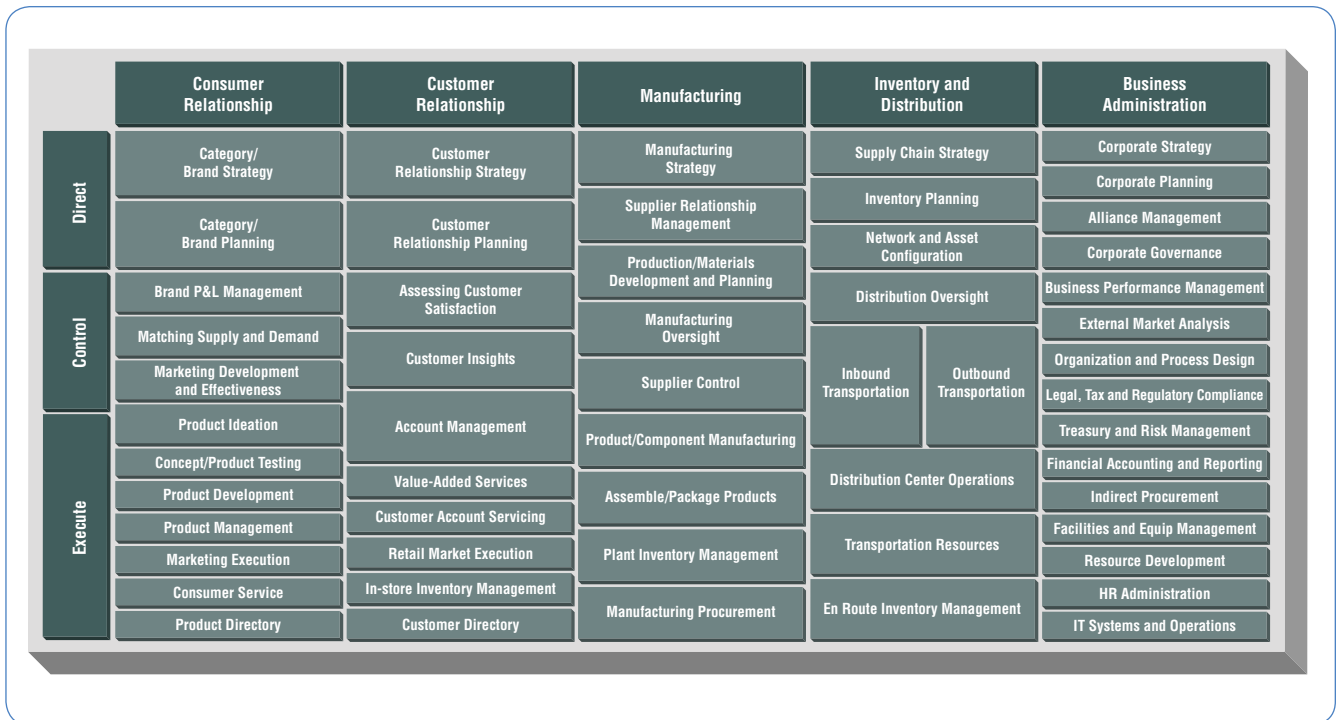


Figure 1: A sample business component map.

For nondifferentiating components that are underperforming, or high cost, executives can decide whether it makes sense to eliminate them, boost the company's in-house capabilities in those areas, or examine alternative sourcing arrangements—all based on a function's strategic value to the enterprise. Management can also assess whether differentiating areas are receiving adequate support. The map of a company's current component state can be compared against a map of the business's desired future state, and the resulting gap analysis can be used to make strategic decisions about innovation and investment.

In Figure 1, we can see that one of the components in our hypothetical business is IT systems and operations. As we've suggested, IT can be viewed as a business within a business. IBM has created an IT-specific component map for

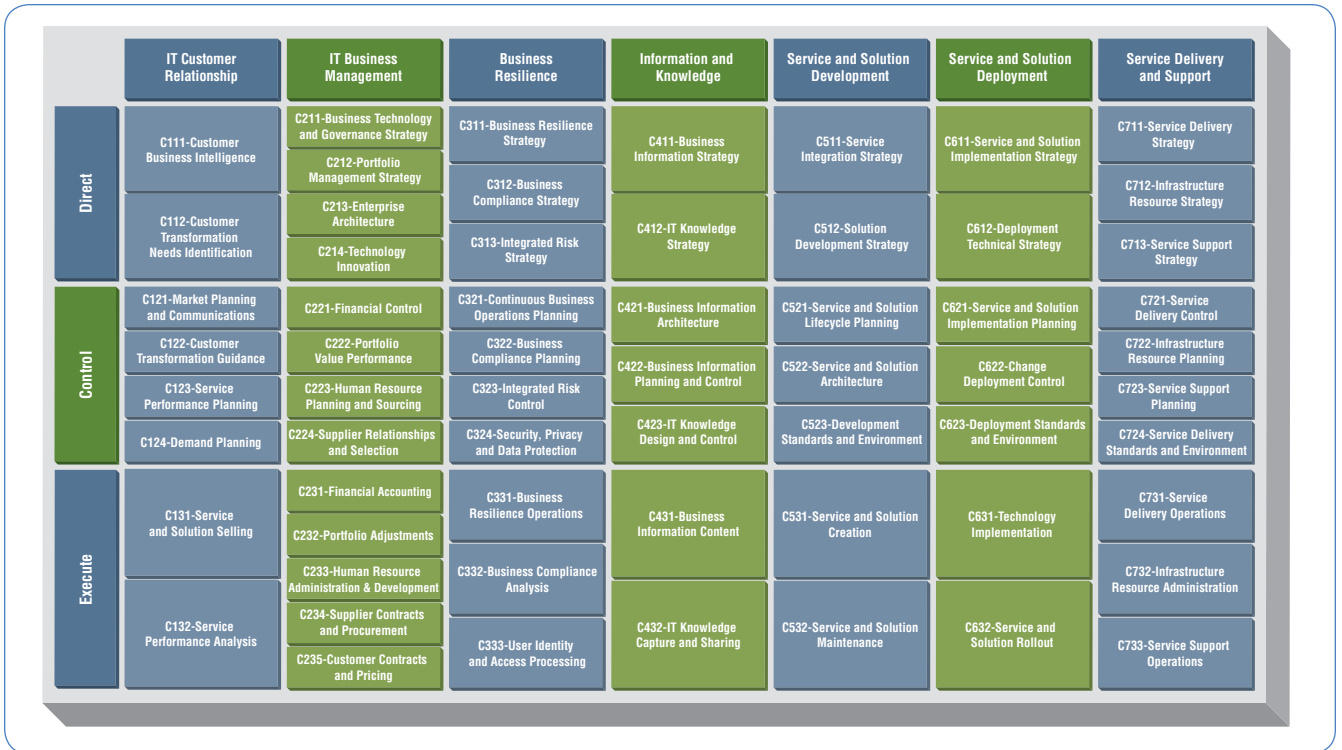


Figure 2: The business component map for IT.

looking at the components that make up this critical business function. The CBM-BoIT approach essentially takes the Component Business Model framework and drills down to apply the same innovative methodology to IT. It allows you to view IT management through a business lens, as shown in Figure 2.

**Applying an objective framework to get useful answers to the right questions**

Viewing your IT organization through an objective, business-oriented framework can help you get answers to a number of critical questions, such as:

- Which IT components help make your company more competitive or responsive in the marketplace?
- Which components need increased management attention to improve their effectiveness?

- *Where could resources be reallocated or reduced to better fit the firm's strategic priorities?*
- *Which activities should be considered for alternative sourcing options?*

Regardless of whether the answers to these questions fit your expectations, you can't make good decisions without them. And because any number of factors, from internal politics to legacy systems, can conceal this information, it's important to use an approach that's designed to be objective. An overview of the CBM-BoIT process can illustrate how such an approach can provide a framework to support your investment decisions.

#### **Understanding the Business of IT Executive Workshop**

The Business of IT Executive Workshop encompasses several steps that help bring key decision makers on board and level-set their expectations and goals for taking a componentized approach to IT. The workshop process starts with an interview with the executive sponsor—typically a CIO or equivalent. This session helps the IBM facilitators understand the sponsor's business issues and reach an agreement on the objectives for the workshop.

Following this meeting, IBM conducts an orientation session for your key IT executives and managers—anywhere from eight to twelve critical IT leaders are typically involved—to explain the approach and define the data-collection resources and procedures. During this session, these participants respond to a simple questionnaire to help identify the business's strategy for the use of IT and provide a straightforward strategic context for the workshop. After the orientation session, the team collects IT budget and staffing data to provide a reflection of resource allocation. Once this team and IBM jointly allocate this resource data to the component map, the workshop itself can begin.

#### **IBM's Component Assessment Advisor tool**

To help you quickly answer complex questions—in real time—about the alignment of business and IT strategies while remaining objective, IBM developed the Component Assessment Advisor tool. The tool is a sophisticated application that consolidates the information provided before and during the workshop. It uses that information to automatically populate the component heat map and help you see where IT can better contribute to meeting business goals. Once the budget and staffing data are loaded into the Component Assessment Advisor tool and assigned to the component map, the tool is used to capture opinions from workshop participants regarding the effectiveness and strategic differentiation of each component.

Both hard data and participant opinions are consolidated and configured to show, for example, how a component's contribution to business differentiation maps against its effectiveness, and how staffing and spending levels play into the picture. The tool depicts various scenarios, such as which components need to perform better, or if certain components can have their associated resources reduced. Based on these scenarios and the discussion during the workshop, the participants identify opportunities for innovation and improvement.

In the final phase of the Business of IT Executive Workshop engagement with IBM, the Component Assessment Advisor tool summarizes the results and creates a final workshop deliverable that can be used to map strategic priorities going forward and to communicate the findings and goals to other line executives in the enterprise.

#### **The Business of IT Executive Workshop**

The Business of IT Executive Workshop itself is typically one to two business days in length and can be structured to fit your specific needs. Usually, the overall engagement lasts for four to five weeks to allow for data collection and other preparation activities. This preparation is a critical step in establishing the factual foundation of an effective workshop.

The workshop starts with a facilitated discussion about the workshop's purpose and the concept of IT business componentization. Then the process of evaluating the components for both effectiveness and strategic importance to



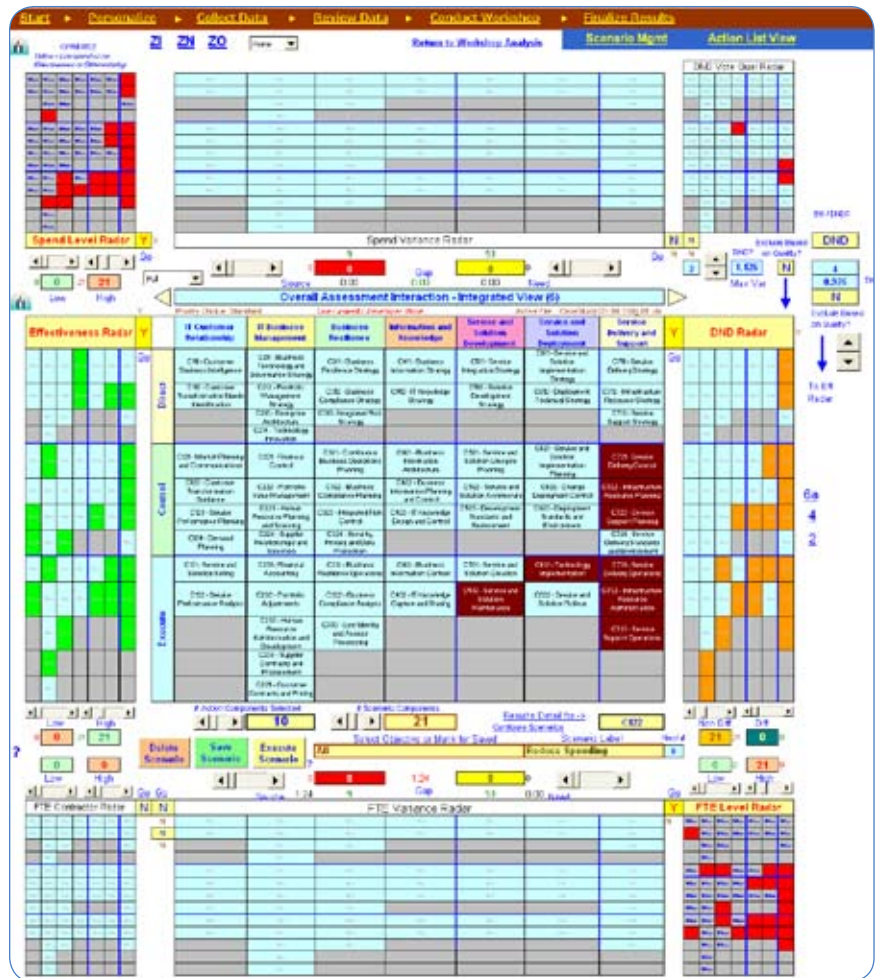


Figure 3: The Component Assessment Advisor tool supports a sophisticated analysis of your IT organization.

the enterprise begins. Participants vote first on the effectiveness and then the strategic value of each component. Each participant is given a radio frequency keypad to use so that the votes on each assessment characteristic are gathered accurately and in real time. The keypad results are directly linked to the Component Assessment Advisor tool, shown in Figure 3, which compiles these votes into component rankings. This figure shows the tool's integrated display and its ability to highlight opportunity areas in real time. In this example, the tool has generated a heat map in the center that combines the participants' voting results with the resource data to highlight areas of potential savings.



Regardless of how the workshop and agenda are structured, there are a few things that can be expected. IBM consultants will apply their facilitation expertise to help guide the team through the process, using best practices that have been developed over the course of many engagements. They will lead the participants through a process designed to reveal opportunities and issues in their own IT business. In short, they'll help the team build a consensus for action.

**Using the workshop output to guide your next steps**

Vision and communication: These are the keys to emerging from the Business of IT Executive Workshop with a clear plan of action. The gap analysis graphically represented by the Component Assessment Advisor tool's heat maps, combined with the tool's ability to display and record various scenarios based on client data and team opinions, prepares you for discussions within your organization and with other executives in your enterprise. The output of the Component Assessment Advisor tool is, in itself, a communication vehicle that you can use to help convey the need for a new direction. The information it represents can provide objective support and a rationale for the investments you are proposing.

**Aligning your IT and business strategies**

In the big picture, what is it that differentiates your company in the marketplace? Is it your outstanding customer service? Your reputation for reliability? Your innovative research and development department? Your high levels of network security and availability? Your ability to process and manage vast amounts of information? Or is it your ability to respond rapidly and flexibly to new opportunities or threats? Whatever your differentiators, they are the key to your company's competitive advantage. Lose them, and you lose your competitive edge. Enhance them, and you stay ahead of the game.

And whatever your differentiators, chances are good that you wouldn't have them without IT. Whether you rely on information processing, security services, a research engine, logistics or a database for tracking customer relationships, key IT components are directly linked to your competitive advantage.



As you learn more about the relative importance and effectiveness of your IT components, you can begin to think about how to reallocate your resources. Money you save by increasing productivity in one area can be channeled into activities that drive your marketplace advantage. The approach used in a Business of IT Executive Workshop engagement can provide an effective, efficient and objective means for gathering and analyzing the information you need to help align your IT strategy with the overall goals of your business. And the Component Assessment Advisor tool can help generate your plan, as well as document its strategic value.

### **Why IBM?**

As a leading provider of both business and information technology services worldwide, IBM has been ideally positioned to call attention to the unfolding role of IT in driving competitive advantage. Leveraging the Component Business Model framework, IBM developed the IBM Component Business Model for the Business of IT to help CIOs apply a business lens to their IT organizations. In addition to providing thought leadership, IBM has helped guide private, public, and government enterprises of virtually all sizes from around the world through the process of identifying and assessing the strategic value of their IT operations.

### **For more information**

To learn more about the IBM Component Business Model for the Business of IT, the Business of IT Executive Workshop engagement and how they can help your IT organization deliver more value to your enterprise, contact your IBM representative or visit:

**[ibm.com/services](http://ibm.com/services)**

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1 IBM Global CEO Study 2006, p. 32.