



ZIFF DAVIS

**CIO**

**INSIGHT**

SPECIAL  
ISSUE

**ALIGNMENT**



# FOLLOW THE MONEY

Maximizing IT for Business Success

“Most companies don’t think about technology in the right way.”

**Bill Zollars**

CEO, YELLOW CORP.

SEE CASE STUDY, PAGE 48



PHOTOGRAPH BY MATTHEW MCFARLAND

**▲ Leadership | 48**

**Driving Change**

By Perry Glasser

At Yellow Corp., CEO Bill Zollars has made alignment between business and IT executives a condition of employment, enlisting CIO Lynn Caddell in his team-driven push to reinvent the \$2.6 billion transportation services company around IT-driven innovation and efficiency.

**Compensation | 56**

**Measuring Results**

By Margaret L. Young

At ChevronTexaco, the impact of IT on the business is measured right down to the person and the penny. The company’s activity-based cost accounting system is being used to boost IT’s credibility and cut millions from the bottom line.

**Perspective | 66**

**Best Intentions**

By Cathleen Benko

Your project portfolio is your only reliable guide to your company’s true intentions. Is it taking you where you need to be? In a competitive landscape, it’s important to avoid letting your response to short-term needs put you off-course for meeting long-term business goals.



ZIFF DAVIS

**CIO**

**INSIGHT**

SPECIAL  
ISSUE  
**ALIGNMENT**

“The reason ROI has failed miserably is because it’s been sold as a driver, and that’s when it becomes very difficult for it to deliver.”

**Atefeh Riazi**

CIO, OGILVY & MATHER  
WORLDWIDE

SEE ROUNDTABLE, PAGE 38



**Whiteboard | 17**

**Strategy Maps**

By David Norton

Is your technology strategy in harmony with business goals? First, be sure that everyone describes the strategy in common terms—or risk breaking the connections that link your information systems to a business payoff. Here’s a guide to getting everyone on the same page.

**Research | 25**

**How Does IT Funding Affect Alignment?**

By the editors of *CIO Insight*

Most IT and business executives we polled say IT is better aligned with corporate strategy. But most agree there’s still a long way to go before IT becomes a true strategic partner.

**▲ Roundtable | 38**

**The Trouble with ROI**  
With Allan Alter

Many IT executives still find ROI to be a frustrating and difficult exercise, even though they’re under increasing pressure to use it. *CIO Insight* convened a group of nine CIOs, CFOs and business management experts to talk about the trouble with ROI, and suggest some alternatives.

**EXPERT VOICES**

**Robert S. Gold | 11**

**The Money Trail**

The path to alignment involves negotiating your way along a dark path of IT budgets, cost-allocation and discretionary spending. Get business input to make the right trade-offs.



**Paul Tallon | 75**

**The Alignment Paradox**

It’s not always the case that better IT alignment leads to business gains.

Avoid creating information backbones too inflexible to embrace marketplace change.



**EXTRAS**

**Editorial | 9**

Business execs must do more to make technology pay

**Editorial Index | 80**

**On the Web at [www.cioinsight.com](http://www.cioinsight.com)**

- Roundtable, a full transcript
- Q&A with Bill Zollars, CEO of Yellow Corp. on leadership
- Q&A with Dave Clementz, former CIO ChevronTexaco on accountability
- Download research results
- Readiness Assessment Guide

# The Money Trail

Strained relations between IT and business hurts alignment. To fix it, look no further than where the dollars go.

IN WORKING WITH LEADERS of dozens of companies, I have heard lots of complaints about their IT organizations. That dissatisfaction translates into a set of real problems that must be overcome when trying to execute strategy. The dissatisfaction stems from a lack of shared understanding. IT folks don't understand business folks as well as the business folks would like them to, and business folks don't fully understand how

tough it is to manage IT. This isn't necessarily a problem; IT organizations exist because of their specialized knowledge, despite the fact that professionals outside IT have become more sophisticated in their understanding of technology. Yet only by making some effort to bridge the gap can companies hope to improve the alignment of IT spending with business strategy.

The purpose of IT organizations is to spend money on behalf of their parent companies and their business units. How IT



organizations obtain the money they spend and how they decide to spend the money determines the impact of technology on the organization's ability to create value. Seems simple, doesn't it? Yet virtually every company struggles with the problems of ensuring a return on IT investments, managing the growth of IT spending and—most important—making sure IT is aligned with the company's business strategy. This last

point, of course, is the key. How can businesses make sure they're getting the most strategic value out of their IT organizations? The answer: Follow the money.

I draw a sharp line between business unit managers, who are the primary consumers of IT, and senior executives, who are primarily responsible to shareholders or owners. They see things differently. Business unit managers understand intuitively that their businesses depend on information technology in terms of both day-to-day operations

# “Following the money means understanding how

and long-term success. They know that if IT fails, they can't run their businesses.

On the other hand, senior-level executives generally understand the crucial role played by IT, but they also have to consider overall spending. And what they see is IT spending increasing faster than other key indicators of growth, such as revenue, and that, they instinctively believe, is a problem. Of course, carried to the extreme, it is a problem. If IT and all the other expenses overtake revenue, obviously there won't be any profit.

But the role of IT has evolved over the decades, from simply increasing productivity to connecting people with information inside the firm, to connecting the firm with its customers, to leveraging the value of information itself. Many IT expenditures are no longer an option. Organizations simply *must* have e-mail to communicate, they *must* have Web sites to reach their customers, they *must* play by the rules of other organizations (such as Wal-Mart) in order to survive. It is inevitable that IT increases as a share of expense as businesses use IT more intensively.

By following the money, it becomes clear that much of the problem of aligning IT with business strategy boils down to how business unit managers and senior executives make IT financing decisions involving three issues: overall IT spending, resource allocation and cost recovery. There is little conventional wisdom among companies; some have explicit spending caps for instance, while many do not. How companies allocate discretionary IT resources varies widely. And while many companies use some form of cost allocation and chargeback, others don't bother at all. Every company has a unique set of policies that are deeply rooted and hard to change.

## Decisions, Decisions

Let's put all IT expenditures into two buckets, mandatory and discretionary. Mandated spending “keeps the lights on” to operate the business into the foreseeable future “as is,” without making strategic changes. The level of mandated spending isn't really planned; it's the result of two factors outside the control of the IT organization: the unit cost of hardware, which generally decreases over time, and the demand for existing technology resources, which increases as the business grows. It is no more practical to limit mandatory spending than to tell an executive to stop making long-distance phone calls after the budget for those calls has been exhausted. Because mandated spending is the product of unit cost and demand, which are independent of each other, it is difficult to predict the amount and direction of change from one year to the next. And mandatory spending does not in and of itself improve alignment.

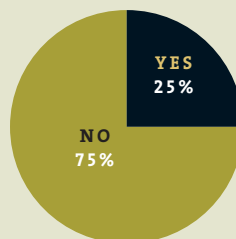
The path to IT strategic alignment follows discretionary spending—how an enterprise chooses to invest to change its technology capabilities. My first principle of IT alignment states that you can't execute strategy without IT. You can't

change the way the business operates—and change is the essence of executing strategy—if you don't change the underlying IT. And if you inhibit a business unit's ability to go after change, then you inhibit its ability to compete in its marketplace. Following the money means understanding how companies make discretionary choices.

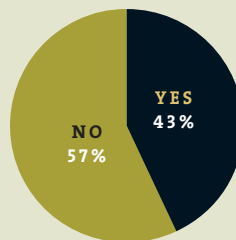
A third of all companies impose an annual cap on IT spending, according to this month's *CIO Insight* survey (see page 25). At such companies, discretionary spending

### CAP GUN

Do top corporate executives at your company cap IT spending at a fixed level before the IT budget is written?



Small companies



Large companies

SOURCE: CIO INSIGHT

# companies make discretionary choices.”

is limited to what's left over after the mandatory spending. Typically, the distinction between mandatory and discretionary spending isn't clear because IT accounting doesn't explicitly segregate them. The result is to artificially limit the level of discretionary spending.

Why a spending cap? When CEOs and CFOs see IT spending growing faster than revenue, they panic. Since most CEOs and CFOs can't tell the difference between legitimate investments and waste, they fear that something really bad is going on in the IT organization, and that it's becoming a black hole for money. Their natural reaction: Put a cap on it.

But capping IT spending across the corporation is a dangerous move, because each business unit requires its own technology investment to compete effectively. A cap puts either IT or top management in the position of making far-reaching decisions about which businesses are going to get the IT and which aren't. Thus, the IT funding decision becomes a proxy for deciding which strategic initiatives will and won't be executed.

My second principle states that the demand for IT resources in any organization exceeds the capacity to deliver them. To improve alignment, discretionary IT spending decisions must be made in the context of business strategy, not IT budgets. It's as simple as that. But most companies aren't very good at describing or executing business strategy, so there's little or no strategic context in which to make the decisions.

The IT organization does have an important role to play in influencing certain types of decisions. Under a business initiative to improve customer information, for example, IT can and should weigh in on which of three CRM systems is the best fit with the current and planned infrastructures. But IT should not be in the position of deciding whether the business unit should use a CRM system to pursue its customer intimacy strategy.

Too many corporate leaders abdicate their responsibility to make the tough decisions. They should be saying to business unit executives, "You haven't made a compelling business case for your strategy, so we're not funding it." Instead, they avoid the problem by capping overall IT spending at a level lower than needed to deliver on all proposed strategies, and let IT pick the winning strategies by proxy through its funding decisions.

## Charge It

My third principle states that you can't achieve alignment without a good relationship between IT and the business. A key is establishing confidence among executives that IT is distributing costs rationally and consistently. Rationally doesn't mean perfectly, but it does mean that IT can explain why they're doing things, and that it was done deliberately as a result of a policy decision, and not arbitrarily.

This issue's survey on IT alignment shows that less than half of larger companies (those with more than

### STEP BY STEP

*The following prescriptions suggest a path to improved alignment through IT finance policy:*

- **ELIMINATE** overall spending caps on IT expenditures.
- **DIVIDE** the IT budget into mandatory spending (to keep the business running) and discretionary spending (investments to improve the business).
- **MANAGE** mandatory spending by tracking unit costs, industry benchmarks and predicted demand.
- **INTEGRATE** discretionary IT spending decisions with their associated business cases, considering all costs and benefits that accrue to the corporation.
- **DEPOLITICIZE** the discretionary decisions by taking them out of the hands of the IT organization.
- **ALIGN** discretionary spending decisions with corporate and business unit strategy.
- **TRACK** actual discretionary costs and benefits compared with forecasts to manage strategic initiatives and improve forecasting.
- **ALLOCATE** and recover IT costs completely and transparently, according to actual consumption, from each part of the organization.

# “It really boils down to trust.”

1,000 employees) treat IT costs as a corporate overhead expense. The rest use some form of cost recovery, mostly a chargeback system based on the actual resources the business units use. The data shows no correlation between using chargeback and company performance.

At companies without a chargeback system, however, business unit leaders may view IT as “free,” and demand far more of the IT organization than it can possibly deliver. More requests mean more tough decisions and increase the likelihood that IT resources are wasted if the decisions are not well-informed. More significantly, treating IT costs as corporate overhead creates an accounting issue. In the typical company with multiple business units, the IT component of each business unit’s true operating cost is not accurately reflected in its results. Only those companies where IT costs are fully allocated to the individual business units can managers and investors understand the true financial performance of each unit.

Yet many using chargebacks call it a “damned if you do, damned if you don’t” proposition. Sadly, it’s not quite so simple in the real world. One of my clients is typical. There is a lot of stress in the relationship between IT and the company’s business units, primarily because of intense pressure on business unit leaders to deliver bottom-line results. The way the tension is manifested is by challenging the chargeback system. Of course, the leaders want more from IT for less money, so they challenge the rates. But allocation is also an issue. The company has three essentially independent business units that com-

pete for resources from the IT organization. The leaders of each of those business units think IT is shifting costs to their bottom line that, in fact, should be borne by the other business units. But they can’t all be right. And when business unit profits falls short, they blame IT.

## Sit Down and Talk

It really boils down to trust. When the IT organization is trusted by its customers, it has more latitude to avoid the micromanagement and nitpicking about the dollars that is bound to alienate its business cohorts. If you can get to the core of the relationship between IT and the business and begin to diffuse the tension between the two, you will improve IT’s ability to serve the strategy of the business.

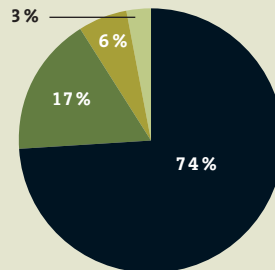
The most important step to improving the alignment of IT with business strategy is for IT leadership to open a candid dialogue with corporate and business unit executives. Together, they should challenge the effects and benefits of their IT finance policies. Together, they can consider whether current practices

serve the best interest of the company as a whole, or if they constrain it. Together, they can commit not just to following the money, but to managing IT spending for competitive advantage. ■

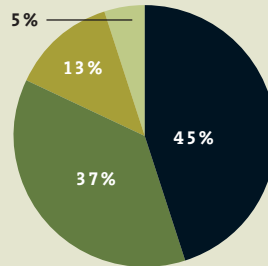
**ROBERT S. GOLD**, Vice President and Practice Leader for Strategic IT Management at the Balanced Scorecard Collaborative, Inc., has provided strategic and technology management advice to leaders in Fortune 500 firms for the past 14 years. He earned his MBA from Northwestern University’s Kellogg School of Management. Please send comments on this story to [editors@cioinsight-ziffdavis.com](mailto:editors@cioinsight-ziffdavis.com).

### NO CHARGE

Which of the following best describes how your company’s business units or departments pay for IT costs?



Fewer than 1,000 employees



More than 1,000 employees

- There are no chargebacks; IT costs are treated as a corporate expense.
- Business units are primarily charged depending on the amount of IT resources they use.
- Business units are primarily charged a fixed fee for access to IT resources.
- Business units are charged primarily according to service levels.

SOURCE: CIO INSIGHT