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IT Strategy Maps: A Tool For Strategic Alignment

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BEST PRACTICES

November 21, 2005

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by Craig Symons

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Visual Representation Of Strategy Makes IT-Business Communication Easier

by Craig Symons
with Laurie Orlov, Samuel Bright, and Katherine Brown

EXECUTIVE SUMMARY

Aligning IT and business strategy remains the No. 1 or No. 2 business IT issue year after year. But no matter how much focus and attention this subject receives, little progress seems to be made. Forrester recommends that 1) firms start measuring strategic alignment as part of the "you can't manage what you don't measure" philosophy, and 2) start using strategy maps to build consensus around strategic objectives and communicate this strategy to all stakeholders. By creating a picture of strategic objectives, making strategy visible in a strategy map makes it easier to communicate and drive alignment, thus embodying another familiar philosophy — a picture is worth 1,000 words.

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NOTES AND RESOURCES

For this document Forrester spoke with a range of firms, including: Amazon.com, Dell, Honda, Nieman Marcus, Nordstrom, Procter & Gamble, Southwest Airlines, and Toyota.

Related Research Documents

"IT Measurement Survey Results"
April 21, 2005, Trends

"IT And Business Alignment: Are We There Yet?"
April 13, 2005, Trends

"The Balanced Scorecard: An IT Perspective"
October 15, 2004, Best Practices

STRATEGY MAPS PRESENT BUSINESS STRATEGY FROM FOUR PERSPECTIVES

Aligning IT and business strategy remains one of the top issues that business executives and CIOs wrestle with. Maximizing the return on IT investments requires that these investments link directly to strategic business objectives. One of the major obstacles to achieving strategy alignment is that many organizations do a poor job of communicating their strategy. When people who are key to executing strategy don't know what the strategy is or understand how their day-to-day activities contribute to strategy execution, it's highly likely overall enterprise performance is going to suffer. Strategy maps are one way to shore up communication about strategy with a visual representation. Strategy maps are:

- **Derived from the Balanced Scorecard.** Strategy maps emerged as part of Robert Kaplan's and David Norton's seminal work with the Balanced Scorecard.[1] At their simplest, strategy maps describe how the organization creates value — the missing link between strategy formulation and strategy execution. Using the four balanced scorecard perspectives as a starting point, the strategy map shows the cause and effect linkages between the four perspectives:

  Financial — To succeed financially how should we appear to our shareholders?

  Customer — To achieve our vision, how should we appear to our customers?

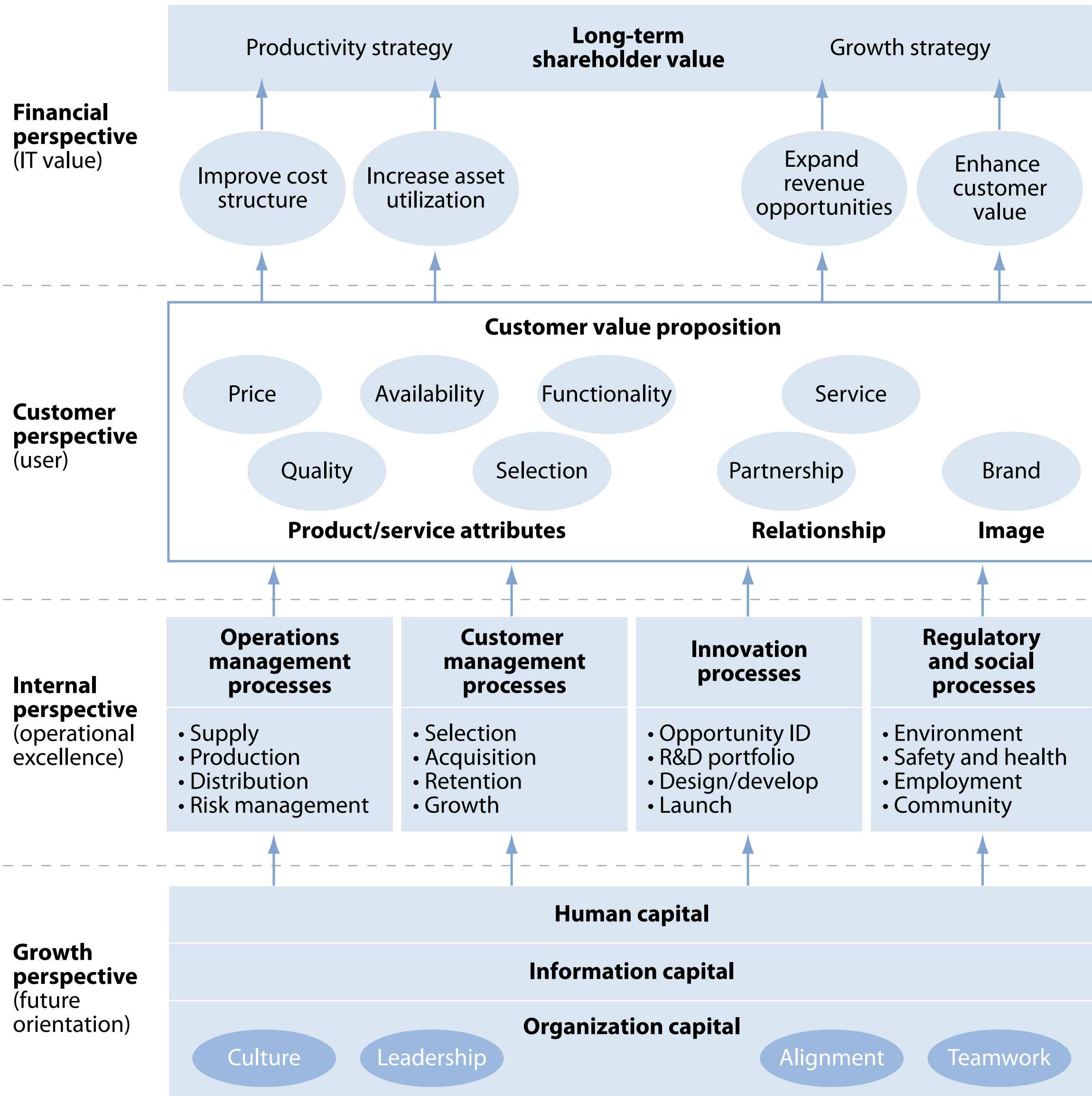
  Learning and growth — To achieve our vision, how will we sustain our ability to change and improve?

  Internal business process — To satisfy our shareholders and customers, at what business process must we excel?

  A strategy map is a generic architecture for describing strategy that helps organizations develop a holistic, integrated, and systematic way of viewing their strategy. The strategy map forces an organization to think about its strategy from the four perspectives, to develop the outcomes and drivers of the strategy, and to draw the linkages between them (see Figure 1).

- **Developed within a top-down process.** Strategy map development is a top-down process beginning with the financial (value) perspective and ending with the learning and growth (future orientation) perspective. Developing a strategy map is a forcing function that drives an organization to first reach a consensus on its strategy and related objectives, and then to develop expected outcomes and their dependent drivers. Financial and customer perspectives represent the expected outcomes of strategy (i.e., make money and have happy customers), while the internal process and learning and growth perspectives represent the drivers of those outcomes.

Figure 1 A Generic Strategy Map



Source: Forrester Research adapted from Robert S. Kaplan and David P. Norton

Source: Forrester Research, Inc.

The Financial Perspective — Strategies Create Value

For publicly held companies, creating shareholder value is the overarching strategic objective. On the other hand, for nonprofit and government entities, stakeholder value is often substituted for shareholder value. There are two major strategies for creating shareholder value — growth and productivity. These strategies are not necessarily mutually exclusive, but typically a company will emphasize one over the other.

- **A growth strategy drives revenue.** Companies in new or emerging markets will be likely to pursue growth strategies. Developing new sources of revenue through new markets, new products, and/or new customers as well as increasing the "wallet share" of existing customers (i.e., expand the relationship through cross-selling, upselling, etc.) are central to a growth strategy. By growing top-line revenue faster than expenses, organizations can expand margins and improve their profitability — typically leading to stock appreciation.

- **A productivity strategy focuses on cost and efficiency.** Favored by companies in mature industries, productivity strategies work on the expense side to lower the costs of products and services and improve the utilization rate of assets. This too can also lead to improved margins and profits.

The Customer Perspective — How Will The Firm Differentiate?

Ultimately, financial success is a function of a differentiated value proposition (i.e., the unique mix of product, price, service, customer relationships, brand, etc.) that an enterprise provides its customers. Michael Treacy and Fred Wiersema determined that there are three different strategies an organization can use to differentiate itself in the marketplace, including:[2]

- **A product leadership strategy.** The organization attempts to be the first to market with innovative products and services, thus obtaining a near monopoly in the beginning. It is the only source for the product or service. For example, Southwest Airlines was the first to market with a low-cost point-to-point flight travel offering.

- **A customer intimacy strategy.** The organization builds lasting bonds with its customers, anticipates their needs, and provides the products and services they require. For example, Amazon.com's approach to customer relations emphasizes its ability to understand and anticipate what the customer will next want to purchase.

- **An operational excellence strategy.** The organization delivers a combination of quality, price, and ease of doing business that is difficult to match. For example, Dell strives to differentiate from its various competitors with its streamlined supplier relationships and direct-to-customer model sales channel.

- **A combination.** These strategies are not mutually exclusive; however, organizations typically excel at one of these while maintaining some level of competency in the other two. For example, an organization that excels in customer intimacy would not be successful long term if it sold shoddy products or charged an exorbitant price. Using a retail industry example, one could argue that The Sharper Image pursues a product leadership strategy, Nieman Marcus pursues a customer intimacy strategy, and Wal-Mart pursues an operational excellence strategy.

The Internal Process Perspective — It's All About Execution

The shareholder value and the customer value proposition are the outcomes an organization expects from its strategy; however, these outcomes depend on execution — and that is where many organizations fail. Developing a strategy and its associated outcomes is the easy part, excelling at the required processes and aligning them with the appropriate outcome is the hard part and the one where many companies fail. The true value of the strategy map occurs when it can identify and link the performance drivers that will lead to the desired outcomes. For example:

- **Innovation drives new products and services.** An organization that wants to be a product leader must have excellent innovation capabilities around product design and development, including robust research and development capabilities. It must produce a steady stream of new products and services on a consistent basis. For example, Procter & Gamble's transformation in recent years to a "connect and deliver" innovation network, as opposed to its previous focus on developing all products internally, has boosted revenue and lowered development costs.

- **Customer management processes drive relationships.** Building lasting customer relationships means having deep knowledge about the customer and a passion for providing world-class customer service — the Nordstrom approach to customers is an example of a culture emphasizing "the customer comes first."

- **Solid operating fundamentals drive operational excellence.** Firms like Honda and Toyota that manufacture and distribute high-quality products and services at low cost, require competencies in supply chain management, efficient manufacturing, and optimized distribution capabilities.

The Learning And Growth Perspective — What About People?

Ultimately, success at the process level requires that the intangible assets of the organization, as well as those previously discussed, are also aligned with the strategy. The appropriate investments must be made in people and systems in order to generate and sustain innovation and growth. This perspective defines the core competencies, skills, information systems, and corporate culture required to successfully execute strategy. The three intangibles of the learning and growth perspective are human capital, information capital, and organizational capital.

- **Human capital.** Process excellence depends on having a motivated workforce. Individuals are driven to succeed knowing they possess the required skills and competencies, and understanding how their day-to-day activities are aligned with the overall strategic objectives of the organization. For example, organizations are beginning the active use of competency models and assessing their employees against them. By understanding their employees' future needs, organizations can perform a gap analysis and develop proactive plans for addressing any identified gaps. An IT organization might determine, for instance, that next year's project portfolio will require 10 senior project managers to fulfill. An assessment reveals that there are only seven senior project managers and only five are performing at or above the competency model. This would suggest that the organization must either develop additional project managers or begin the process to bring on board external hires.

- **Information capital.** Process excellence also requires that employees have access to information systems, data, and other tools necessary to effectively and efficiently carry out their responsibilities. For example, an organization may have a strategic goal to improve customer service by reducing the long customer wait times a multi-system causes. While customer service representatives access multiple systems to find requested information, customers wait longer than necessary. Implementing an integrated CRM system would provide the required tools to increase efficiency and meet this specific objective.

- **Organizational capital.** Organizational culture plays an important role in strategy execution. Successful organizations require strong leadership, collaboration, and a clear line of sight from individuals to organizational strategy. For example, to improve its effectiveness a manufacturer of machine tools wanted to encourage the sharing of ideas and best practices among its line workers. It began to measure contributions and reward workers who shared information with their colleagues, holding contests each quarter. Over several years this sharing practice became part of the factory floor culture and contributed to an improved safety rating, among other benefits.

THE IT STRATEGY MAP HELPS ALIGN BUSINESS AND IT

The strategy map for IT is very similar to the generic business strategy map, and an organization achieves alignment when the business IT strategy map links to the business strategy map. For example, if the business strategy is primarily a productivity strategy emphasizing driving as much possible cost out of the business to provide customers with the lowest price, then IT's strategy must reflect this. Therefore, the IT strategy should also be a productivity strategy, focused on using IT to reduce costs (see Figure 2). The IT strategy map follows the corresponding four IT perspectives, including:

- **IT value.** Like a business, IT's strategic goal is to create value via information technology. This value can come through enabling the business to develop innovative products and/or services, expanding markets (growth strategy), or helping the business become more efficient and cost effective (productivity strategy).[3]

Scenario: A Southeastern bank had a strategic objective to increase revenues from existing customers. The IT organization implemented a referral application on top of existing teller systems. This enabled bank tellers to create automatic referrals during customer transactions. For example, while a teller was handling a routine deposit transaction for a customer, he might learn through casual conversation that the customer was in the process of shopping for a new car. The teller could then initiate a referral to the branch employee responsible for auto loans. If the branch ultimately makes an auto loan to that customer, the teller receives a small commission for the referral, and the bank branch obtains additional revenue from the customer. In the year since the system went live, revenues per customer have increased by 5%.

- **User (customer).** At the same time, IT has customers (users) it must satisfy. Satisfaction can stem from the development side by delivering new projects on time and on budget, or from the operations side by providing highly reliable and available systems, as well as high quality and timely problem resolution, through the help desk.

  Scenario: In an effort to improve its customer satisfaction, the IT organization of a Midwest manufacturer decided to negotiate service-level agreements (SLAs) for 12 of its major services. These services ranged from provisioning a new employee to providing timely responses to help desk calls. It closely monitored its performance on the SLAs, and customer satisfaction consequently improved in each successive quarter.

- **Process excellence.** Creating business value with IT and maintaining high levels of user satisfaction require process excellence. Process excellence applies to both the applications side (project execution) and the operations side (reliability and availability) of IT.

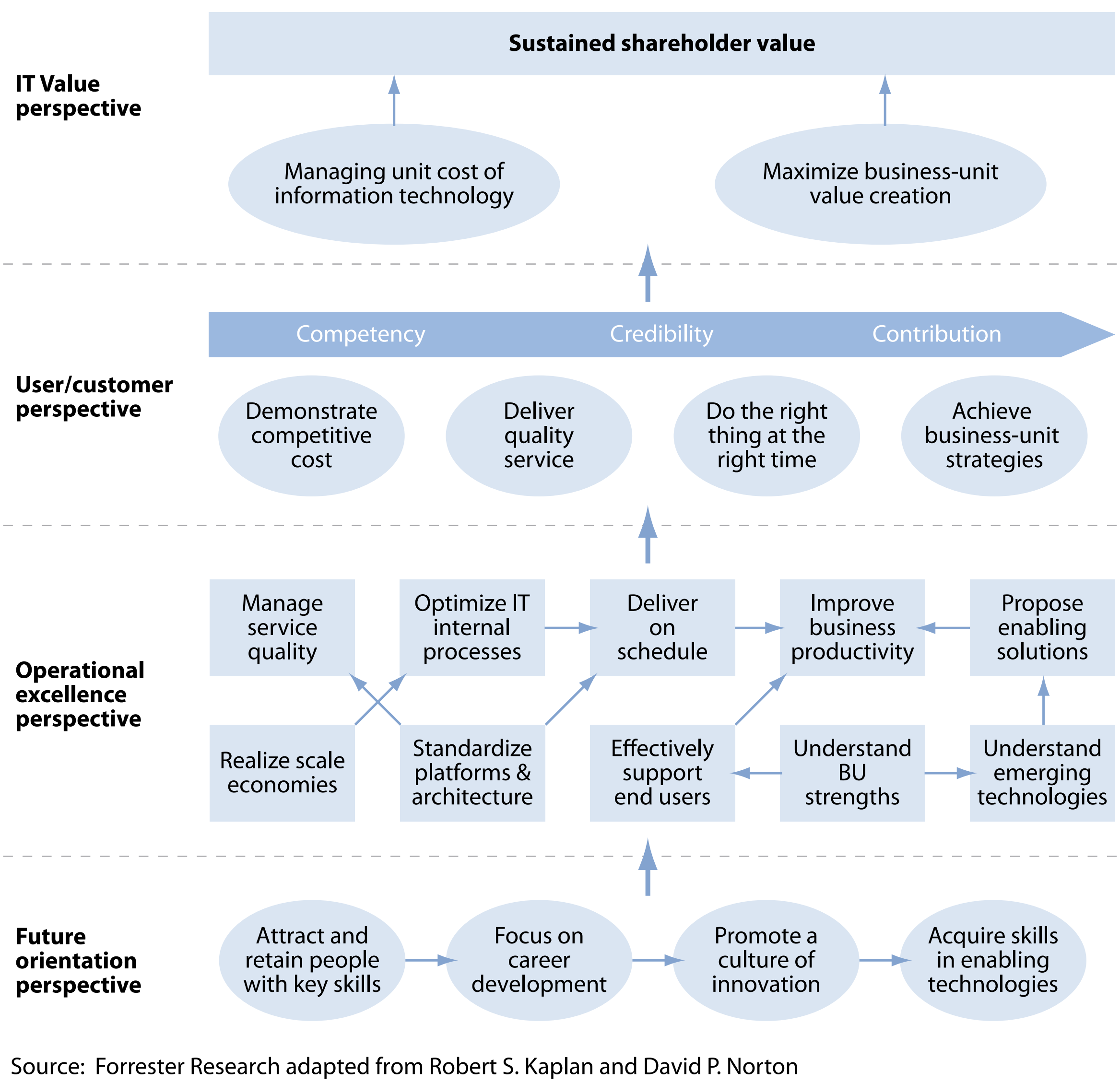
  Scenario: Unhappy with its project execution performance, a regional retailer in the Northeast implemented a project portfolio management application and upgraded the staff in its project office. The portfolio management system helped IT communicate the demand on its resources to its users and resulted in discussions that led to a more manageable workload. Today, the development group delivers more than 90% of its projects on time and on budget, versus only 68% previously.

- **Future orientation capabilities.** Process excellence in IT requires a skilled and motivated workforce with clear goals and objectives that are aligned with the organization's strategy. Furthermore, employees must be led by capable managers and have access to the tools and information required to perform their jobs.

  Scenario: The Northeast regional retailer mentioned above, realizing that it needed to upgrade its project management skills, developed a competency model for project managers and assessed its people against it. This tool enabled the retailer to understand where in the workforce it needed to build skills, and it also identified current staff exhibiting project management potential. This identification resulted in personal development plans for these individuals that would provide them with the necessary training and mentoring to grow them into capable project managers.

The value in the strategy map is exposing the linkages between the strategic objectives and ensuring that the objectives are linked to strategic outcomes. Process excellence and future orientation capabilities result in IT value and customer satisfaction. It is the transformation of the intangible assets into tangible results.

Figure 2 An IT Strategy Map



Source: Forrester Research, Inc.

STRATEGY MAPS ARE A TOOL IN THE IT PLANNING ARSENAL

Organizations need to fit strategy maps into their overall IT strategic planning and execution toolkit, including:

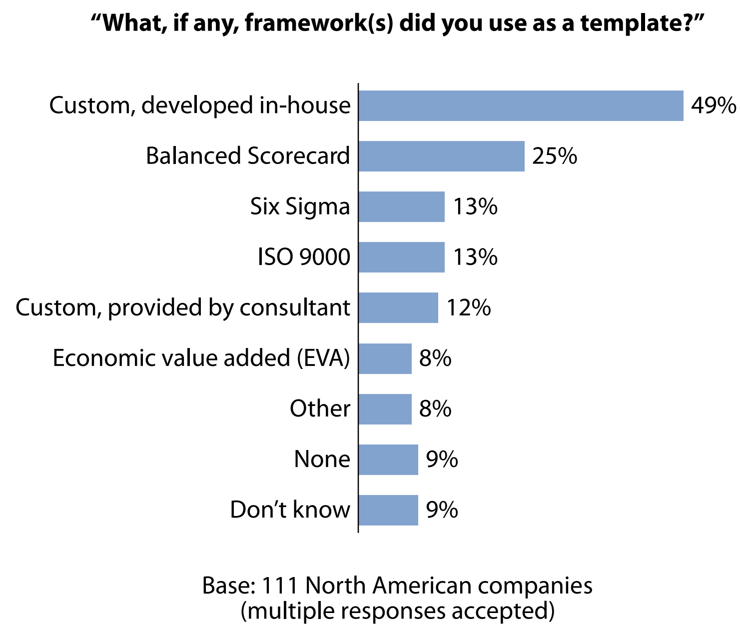
- **Balanced scorecard — for tracking IT progress.** Strategy maps are most effective when used in conjunction with the balanced scorecard. The strategy map helps clarify the strategy and related strategic objectives. The balanced scorecard is then used to establish metrics and targets to measure and manage the performance of the organization against those strategic objectives. But even without the balanced scorecard, strategy maps are an effective tool for helping to gain consensus around the strategy, develop the corresponding strategic objectives and performance drivers required to successfully execute the strategy, and communicate this to all involved stakeholders to ensure alignment.

  In an April 2004 Forrester survey of North American enterprises' decision-makers on IT measurement, 25% of respondents reported using the IT balanced scorecard as a measurement and management framework (see Figure 3). Since the survey was conducted, anecdotal evidence suggests that seven months later this number is higher as the methodology gains traction.

- **IT portfolio — for management of priorities.** As strategic objectives are identified and IT strategic initiatives are proposed, IT portfolio management becomes an effective tool to ensure that the most valuable projects are approved and prioritized for implementation. The multiple disciplines of IT asset management (ITAM), applications portfolio management (APM), and project portfolio management (PPM) are designed to maximize the business value of an organization's IT investments.[4]

- **IT governance — for oversight and decision-making.** IT governance represents the umbrella framework an organization uses to ensure that decisions about IT investments are made in a way that maximizes business value, minimizes risk, and complies with all regulatory requirements.

Figure 3 The Use Of IT Management Templates



Source: Forrester Research, Inc.

RECOMMENDATIONS

USE STRATEGY MAPS TO DRIVE IT/BUSINESS ALIGNMENT

IT/business strategy alignment remains elusive because in many organizations there is no proactive dialogue between IT and the business units at the strategy level, and when they do talk it is often in different languages. Strategy maps eliminate both of these problems by creating a single language to proactively communicate strategy and objectives.

- **Use strategy maps to drive consensus around strategy.** Part of the alignment problem is often caused by a lack of consensus around what the strategy really is. Strategy maps can be used effectively to force the required discussion.
- **Use strategy maps to create a common language.** The philosophy a picture is worth 1,000 words has never been truer as when it comes to strategy maps. By reducing the strategy and its objectives to pictures, a strategy map helps achieve a common understanding. They also are one element used to communicate more effectively about IT's priorities.[5]
- **Use strategy maps as the entry point to implementing a balanced scorecard.** Once the strategy map is completed, much of the hard work in creating a balanced scorecard has been done. Leverage this work to implement a balanced scorecard to drive breakthrough performance.

ENDNOTES

[1] The Balanced Scorecard was developed in the early 1990s by Robert S. Kaplan and David P. Norton and described in their "The Balanced Scorecard — Measures that Drive Performance," *Harvard Business Review* January-February 1992, and more fully explored in their book, *The Balanced Scorecard*, Harvard Business School Press, 1996. Strategy maps were fully developed in their second book *The Strategy Focused Organization*, Harvard Business School Press, 2001. For more information on the IT balanced scorecard, which adapted the general Balanced Scorecard methodology specifically to IT organization, see the October 15, 2004, Best Practices "The Balanced Scorecard: An IT Perspective."

[2] Michael Treacy and Fred Wiersema developed a conceptual model for companies to attain and sustain market leadership in their book *The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market*, Addison-Wesley, 1995.

[3] See the November 3, 2005, Best Practices "Make IT Matter for Business Innovation" for an in-depth perspective on how IT can recover its innovation potential by changing its people and organization, process, and technology.

[4] For a more in-depth description of these three components see the September 30, 2005, Best Practices "Optimizing The IT Portfolio For Maximum Business Value."

[5] IT's inability to market effectively cements its cost-center role in the enterprise: communicating status but not value, fulfilling requests but not solving problems, and partially deploying technologies but not delivering expected results. IT organizations need to embrace the concepts, terminology, and process of marketing — creating marketing plans, executing campaigns, and boosting brand equity. See the August 23, 2005, Best Practices "The Marketing Of IT."

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