Determining IT's Strategic and Tactical Roles

by Niel Nickolaisen, Pollyanna Pixton, and Todd Little

The question before us is this: "Is IT an enabler of business strategy?" In order to answer this, we have done extensive research into the work and opinions of Nicholas Carr, Bill Gates, Peter Weill, and others. We then combined this research with our own experience in leading and improving IT and software development processes. From our extensive analysis comes the following definitive answer:

"It depends."

Wait — before you accuse us of weaseling out of the question, let us explain.

In some cases, the strategy of the business is such that IT can be an enabler of that strategy. In other cases, IT is not a strategic enabler; rather it provides only that which is needed to keep operations going and enable the company to do business. In many cases, the IT portfolio of projects will include projects that enable strategy and projects that are strictly tactical. It is essential that an organization find out how IT relates to its strategy. If IT can be a strategic enabler but is not, the company might suboptimize its strategy and miss market opportunities. If IT is not a strategic enabler but is treated as if it were, the company will overinvest in IT and business process capabilities that do not generate business value. To further complicate our "It depends" answer, market dynamics and technology might change IT's strategic role over time, requiring the organization to regularly assess and reassess both strategy and IT's strategic role.

In this article, we offer proven frameworks for determining business strategy and IT's strategic role. The process we use to sort through the decisions and options is:

1. Determine, with strategic intent as a guide, the organization's business strategy by identifying what brings it a sustainable competitive advantage.

2. Use collaborative leadership and collaboration methods to ensure the quality of strategy and to disperse strategic decision making throughout the organization.

3. Use business purpose to make strategy immediately understandable and usable.

COMPETITIVE ADVANTAGE

The prerequisite to sorting out our "It depends" answer is to determine business strategy. This is not easy to do, and many companies struggle with it. Sometimes the business has defined its strategy but does not use the strategy to make choices or does not communicate a usable version of its strategy throughout the organization. For many years, IT-business alignment has ranked as a top issue among business and IT leaders. The consequences of a poorly defined and implemented strategy can be catastrophic, particularly in today's global, technology-driven markets. The landscape is littered with companies that hit a home run with a process or product that they could not turn into a sustainable competitive advantage. Getting strategy right is critical, not just to answer the question about IT's role as strategic enabler, but also because a well-defined, well-communicated strategy allows the organization to thrive and lead in an increasingly dynamic and chaotic marketplace.

Strategy Equals Sustainable Advantage

Michael Porter, the modern master of strategy, claims that strategy is synonymous with sustainable competitive advantage [2]. Another way to think of strategy is the "hedgehog" that Jim Collins describes in *Good to Great*; according to Collins, "Those who built the good-to-great companies were, to one degree or another, hedgehogs" [1]. In other words, they find the one thing that they must do well in order to be successful and then focus on being the best at this one thing.

From Porter and Collins, we infer that strategy is fairly static (although the implementation of sustainable competitive advantage might change as market conditions and technology change). We also infer that strategy is about choices. Strategy should be a usable decision filter that we constantly use to make resource allocation, research and development, partnership and alliance,

and business activity decisions. Strategy is what we use to align IT and all other business functions.

Using Strategic Intent to Define Strategy

Yet for many organizations, strategy remains elusive. It is difficult to define what constitutes sustainable competitive advantage (if it weren't, more organizations would do it). It is difficult to use strategy as a decision filter (if it weren't, IT would know whether or not it is a strategic enabler). We have found a model that helps us determine strategy. In their book *The Discipline of Market Leaders*, Michael Treacy and Fred Wiersema report that long-term successful companies have strategies that fit within one of three general categories [3]:

1. Product leader

2. Cost leader

3. Best customer solution

These categories form strategic intent. According to Treacy and Wiersema, companies whose market focus is the broad market are either product leaders or cost leaders. Companies whose market focus is niche markets are best customer solution companies (whose best customer solution ranges from product leadership to cost leadership and everything in between). This is shown graphically in Figure 1.

Organizations can use strategic intent (product leader, cost leader, best customer solution) to guide the definition of strategy. For a product leader company, the specific strategy should define a sustainable competitive advantage in product leadership. For example, a product leader's strategy might be to develop advanced technology products (like an iPhone) that are simple to use. One best customer solution company creates its advantage by locking up supplies of a high-demand commodity. Its primary decision filter is whether the choices it makes will capture a new supply contract or extend an existing one. In order to create a sustainable competitive advantage, best customer solution companies achieve a certain level of customer intimacy so that they will know what constitutes a best solution.

QUALITY THROUGH COLLABORATION

Because in practice so many organizations find it difficult to determine and communicate strategy, we use the methods of collaborative leadership to ensure that work on strategy, its implementation, and its communication are of high quality and include a broad range of considerations and what-if scenarios. Collaboration requires an open environment, one that encourages the free flow of ideas, hears the ideas, and passes no judgments — so leaders can truthfully consider the factors that lead to sustainable advantage and those that do not. This collaborative work must be done with decision makers and leaders from all parts of the enterprise. As a group (and in an open, high-trust, nonblaming environment), the decision makers and leaders brainstorm what they know about the market, market needs, internal capabilities and weaknesses, long-term goals, action plans, and so on. Through this collaboration process, each department starts to see how it aligns to the strategy and its role in supporting the strategy. Each leader then volunteers for the particular strategic and tactical elements he will own and implement and commits to a timeline for making it happen.

Ideally, this work on strategy is widely dispersed through the organization so that each person can make decisions aligned with strategy. Leaders accomplish this by cascading the strategic and tactical decisions and tasks to their functions and departments.

Collaborative leadership first requires filling the organization with the right people — those with integrity, motivation, and capacity. Then, the organization must implement the principle of "Trust first!" If you can't trust the people in your organization, why are they there? Let teams tell the leaders what to implement

Competitive Position

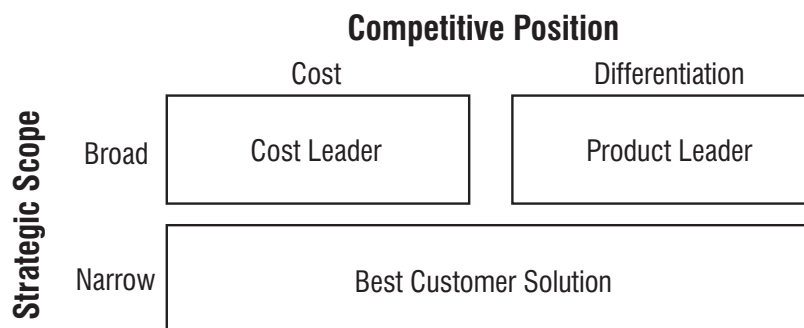|	Cost	Differentiation
Broad	Cost Leader	Product Leader
Narrow	Best Customer Solution	

(left axis label: **Strategic Scope**)

Figure 1 — The Treacy and Wiersema model [3].

based on their participation in the collaboration process of creating strategies. Finally — the most difficult step — stand back and let the teams deliver.

These collaborative leadership methods are essential in today's rapidly changing, competitive marketplace. The agile enterprise uses a collaboration process to regularly assess and revise the implementation of strategy. Leaders meet regularly to assess the alignment of projects with strategy. What is "regularly"? It depends on the velocity of the marketplace. It may be once per month, once every other month, or once per quarter. In our experience, it should never be longer than once per quarter.

ALIGNING ON PURPOSE

To further help determine strategy, we use an approach (Process Purpose) that evaluates the business purpose of business activities. To use this approach, evaluate all business activities in two dimensions. First, consider the extent to which an activity differentiates the organization in the marketplace. Second, determine the extent to which the activity is mission-critical to the organization. These factors combine into the four activity types and purposes shown in Figure 2.

As a general rule, the activities in the upper-right quadrant are those that the organization uses to gain market share and create a sustainable competitive advantage. The activities in the lower-right quadrant are those that keep it in business. Sometimes it is easier to define strategy by first segregating business activities according to their purpose. The purpose of the upper-right activities is to differentiate the organization in the marketplace. There should be a direct link between these activities

and strategy. This linkage makes is it simpler to define strategy after identifying the differentiating activities.

The purpose of the lower-right activities is to achieve and maintain parity in the marketplace. Many of us treat parity activities as if they were differentiating. While an accounting system is essential to doing business, it is unlikely that an accounting system will win customers or gain market share (unless the business builds and sells accounting systems). It would not make sense to design a marketing campaign that proclaims, "Buy our cars (or jets or LCD monitors). We have the world's best accounting system!" Most business activities fall into the parity category. Investments in projects, designs, or ideas that attempt to make these activities better than they need to be (e.g., customizing the purchasing system) are just overinvestments.

DETERMINING IT'S ROLE

With strategy defined, the next step is to perform a gap analysis to determine whether or not IT can enable the implementation of the strategy. For example, a major retailer has a strategic intent of being a cost leader and a strategy of supply chain optimization. This retailer recognizes that IT can enable its supply chain optimization strategy in at least two ways. The company has built a highly successful product and inventory analysis system that quickly determines sell-through and adjusts distribution accordingly, and it has also taken the lead in pallet- and box-level tracking (RFID) in order to further contract its supply chain. These activities are all aligned with the goal of maintaining its low cost leadership. For this retailer, these IT activities enable its strategy of supply chain optimization.
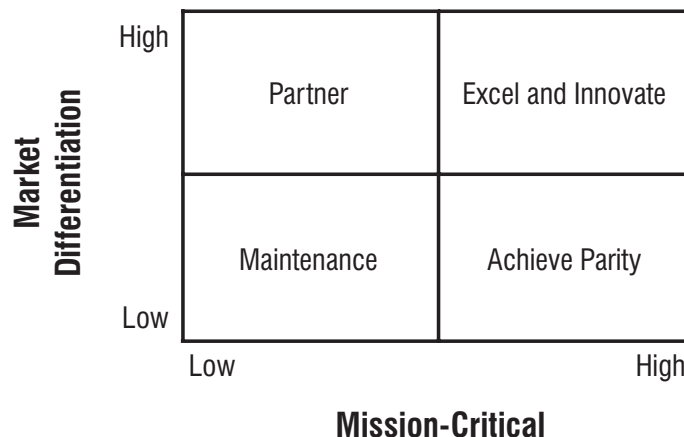
Figure 2 — The Process Purpose model.

Will IT always enable the retailer's supply chain optimization strategy? It depends. Perhaps at some point the RFID technology will be an industry standard, and its competitors will match its product analysis capabilities. If so, IT would become a tactical enabler. The retailer should then treat IT as one of its parity activities. Otherwise, it would be wasting its resources in an area that will not generate a maximum return.

Organizations can use gap analysis to identify areas where IT can be an enabler of previously unknown differentiating activities. For example, a financial services company used the Process Purpose model to define its strategy, which in turn enabled it to identify rapid delivery as its best customer solution strategy. The associated gap analysis revealed that the company could leverage IT to automate some of its manual processes in order to reduce its lead times. The company then revised IT's role and allocated resources to close this gap, using IT to better achieve its strategy. Without taking these steps, the company would have missed an opportunity and suboptimized its strategy.

Note that in accelerating marketplaces, IT activities or projects can move within the Process Purpose model in midproject. Structuring projects in an agile way — with iterative delivery and incremental funding — allows the organization to reevaluate projects as they go along to ensure that IT resources are always being utilized effectively and efficiently.

CASE STUDY

The following case study shows how to use the above frameworks to ask and answer the question: "What is the strategic role of IT in an organization?"

A company we'll call "Life Brands" (LB) develops and sells neutraceutical products through multiple channels (wholesale to big-box and specialty retail, retail call center, and retail Internet). LB's rapid growth required an overhaul of its IT systems (business applications and hardware). As LB began to sort through its IT choices, the CEO started to ask questions about the role and contribution of IT. First, was IT an enabler of strategy? If not, the goals of the system overhaul might be different than if IT were a strategic enabler. When LB's CEO asked these questions of the CIO, she responded that in order to answer the question, it would first be necessary to define LB's strategy. Otherwise, what strategy should IT be enabling?

The executive team met several times to determine the company's strategy. There were wide-ranging opinions as to strategy. Each meeting ended without a conclusion and with mounting frustration. The team then started over with a different approach. It used strategic intent and the Process Purpose model to identify which of the company's business activities were "differentiating" and which were "parity." While this too generated healthy discussion, it allowed the team to quickly classify entire blocks of business activities that were clearly parity, and thus not strategic.

Using the collaboration model in a couple of two-hour sessions, the executive team defined the strategic intent as "best customer solution" (as LB focused on a market niche rather than a broad market) with a strategy of delivering proven products into multiple channels without creating channel conflicts. (This is what makes LB unique or differentiates it from others in the marketplace.) This strategy provides LB with sustainable competitive advantage, as its competitors rarely validate product performance and claims and limit their multiple-channel advantage by setting up inherent channel conflicts. Since strategy is about choices, the executive team defined and now uses an agreed-upon decision filter. When sorting through options and projects and allocating resources, team members always ask, "Will this improve our ability to deliver proven products into multiple channels without channel conflicts?"

With the strategic foundation in place, the team once again used the principles of collaboration to identify what aspects of IT, if any, enabled this strategy. The team identified product, customer, and channel analytics as ways for IT to directly enable the strategy. All other aspects of LB's IT replacement project were tactical enablers and were treated accordingly when it came to software selection and implementation. Since all other system functionality supported parity business processes, LB's system selection and implementation project required a standard, best practices configuration and severely discouraged any customizations or exceptions to that standard configuration. For example, the company determined that its customer relationship management (CRM) processes, while mission-critical, were not differentiating. That is, its CRM capabilities did not create a sustainable competitive advantage but instead were parity activities. However, LB's existing CRM capabilities were not at parity and needed to be improved. Based on these determinations, LB did a vanilla implementation of a new CRM system rather than customizing the package or designing and building a custom version. This approach got LB to CRM parity with the appropriate level of resources.

LB also used the collaboration process to communicate its strategy and decision filters throughout the organization. This increased the likelihood that those making the myriad decisions required to run the business would make decisions that are better aligned with the strategy. Every quarter, the executive team dedicates the time needed to review the stated strategy and perform a gap analysis on how the strategy is being and could be implemented within LB. Are there new opportunities that will improve the implementation of strategy? Have some of LB's differentiating activities become parity? Has the strategy-enabling role of IT changed? Through the collaboration process, the team creates its next set of action plans and priorities. The net result of this approach is accelerated growth and a reduction in the complexity and cost of the company's parity processes. LB is now a market-leading, agile company that has the role of IT properly defined.

CONCLUSION

Is IT a strategic enabler? The answer not only depends on strategy but also varies as strategy implementation and technology change. Fortunately, there are usable, pragmatic frameworks and tools for addressing this essential question:

- The Porter and Treacy and Wiersema models can help determine strategic intent and identify a sustainable competitive advantage.

- The collaboration framework keeps the strategic intent current with the marketplace and communicates the strategy so all projects and activities can remain aligned with it.

- The Process Purpose model provides decision filters for prioritizing activities and resources in order to remain in alignment with the strategy. IT activities that provide high market differentiation and are highly mission-critical are strategic enablers; those that provide low market differentiation yet are still mission-critical are tactical enablers.

As we and others have used these frameworks and tools, we have moved closer to enterprise nirvana: the ability to make market-focused, strategically aligned, and adaptive decisions about resource allocation and prioritization. These tools help us get to good answers about how we should treat IT *and* all the other organizational activities in the enterprise.

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