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THE Open GROUP
Making standards work®

Extending Enterprise Architecture to a Business Discipline

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July 20, 2009

Audit.Tax.Consulting.Financial Advisory.

Agenda

The Strategy Disconnect

What's Needed to Make Strategy Work

EA's Support for Business Strategy Today

Extending EA to a Business Discipline

Seven Steps to Extending EA to a Business Discipline

Discussion

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The Strategy Disconnect: Current Situation[1]

The Office of Strategy Management

Q&A with: Robert S. Kaplan
Published: March 27, 2006
Author: Martha Lagace

"Why is there such a persistent gap between ambition and performance?" ask Robert Kaplan and David P. Norton in "The Office of Strategy Management" in the October 2005 *Harvard Business Review*. "The gap arises, we believe, from a disconnect in most companies between strategy formulation and strategy execution. . . . [But] it doesn't have to be like this."

Bain Consulting study data shows:

<u>Seven out of eight companies</u> in a global sample of 1,854 large corporations <u>failed to achieve profitable growth</u>, <u>though</u> more than <u>90 percent had detailed strategic plans</u> …. "

(a) Many **organizations don't have a consistent way to even describe their strategy**, other than in a large strategic planning binder. We believe strongly that **organizations need to find a consistent, coherent way to translate strategy into operational terms.**

(b) **Sixty percent of typical organizations do not link strategic priorities to budgets**, virtually ensuring that key strategic initiatives do not get funded and resources may not be supplied to deliver on the strategic plan.

(c) **Two-thirds of HR and IT organizations develop strategic plans that are not linked to the organization's strategy.** This is extraordinary.

(d) **Seventy percent of middle managers** and more than **90 percent of front-line employees have compensation that is not linked to the strategy**.

(e) Most devastating, **95 percent of employees in most organizations do not understand their [organization's] strategy.**

In short, there is often **a chronic disconnect in organizations between strategy formulation and strategy execution.**

The Strategy Disconnect: Current Situation

Examples

M&As often fail to achieve the expected benefits that drove the transaction.

- A 10 year study of 340 major acquisitions found that 57% of the merged companies lagged behind industry averages 3 years after the transaction was completed.

Results of poor execution

- Employees don't understanding how their jobs relate to execution outcomes.
- Trading partners become confused as the organization stumbles in positioning itself.
- There are delays and time & money is wasted.
- The firm responds inappropriately to competitive pressures or is distracted and fails to respond.
- Financial analysts downgrade the stock as performance fails to meet expectations.

Organizations often can't execute the strategies they develop or fail to get the benefits expected when the strategy was crafted!

The Strategy Disconnect: Execution Challenge

Making strategy work is harder than making strategy[1]

- Making Strategy

    - Can be done in a short period of time
    - With small number of people
    - It separated in time from the results .. not a closed loop system
    - Often does not consider the internal capabilities to execute the strategy

- Making Strategy Work

    - Requires the coordination of many people over a long period of time
    - Requires a translation of the strategy into implications for day to day operations
    - Requires considerable communications and coordination
    - Requires alignment of operations to the strategy
    - Occurs over time during which environmental conditions may change
    - Generally requires change and overcoming inertia
    - Often requires new skills or competencies
    - Requires performance metrics to understand how well the strategy is being executed and how well it is working.

The Strategy Disconnect: Execution Challenge

Factors	Implication
Strategies are often vague	Vague strategies can't be translated into specific actions, measurable objectives and metrics.
Implementation issues aren't considered during strategy formulation	Planning and execution are interdependent. Planning affects execution and execution affects strategy over time. Execution is generally more successful when those responsible for executing are involved in the formulation process.
A lack of understanding of what it takes to execute	Execution doesn't receive the same attention as making strategy. MBA programs teach how to create strategy but not execution. In addition strategy planning is often taught in silos (marketing, finance, HR, etc) rather than as an integrated process.
Execution is complex involving a large number of people over a long period	Information must be shared… communications is a challenge Incentives must be aligned to reward the right behaviors Change must be managed Power and influence must be considered and addressed

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What's Required to Make Strategy Work

6 key elements[1]:

1. Consider implementation issues when developing strategy	2. The strategy should be clear and unambiguous	3. Translate Long term needs into short term objectives
Implementation considerations should be taken into account when the strategy is developed. Anticipate potential issues in execution.	To ensure demands of the strategy (e.g. organizational capabilities, competences, resources) are understood and resources, roles & responsibilities are clear. Helps ensure those tasked with implementing the strategy understand the specific actions required and performance expectations. Allows short term goals and metrics to be established that align with the strategy. Whatever the strategy, differentiation, low cost, innovation, it will fail if it is not well defined, communicated and understood.	Associated performance metrics must also be developed to help determine implementation progress and needed adjustments.

What's Required to Make Strategy Work

6 key elements[1] (continued):

4. Address communications and integration requirements of the strategy	5. Focus on the people side of execution	6. Follow a unifying integrated approach
The strategy must be communicated throughout the organization. Organizational units must be able to communicate. Organizational unit activities must be integrated to support process capabilities.	Even with a good plan, execution may not work due to politics, inertia, and resistance to change.	Managers need to understand what's required to make strategy work. Provide a roadmap to guide execution — tell us what to do, when & in what order. Execution requires a disciplined process or logical set of connected activities that enables a strategy to work.

What's Required to Make Strategy Work: Framework[2]

Unifying Integrated Approach

- **Develop Strategy**
  – Mission (purpose), Values (internal compass) and Vision(Aspirations)
  – Strategic Analysis (assess competitive and operating environment, external (PESTEL), internal(key processes, HC, operations, technology, innovation) and existing strategy)
  – Strategy formulation (Niches, value prop, key processes, Human Capital, tech enablers)

- **Plan Strategy [execution]**
  – Describe strategy (strategy maps). Strategic themes supporting the boundaryless approach execution.
  – Select measures /targets (balanced scorecard). Identifies gaps to be closed.
  – How to fund initiatives (estab. STRATEX)
  – Who will lead execution (create theme teams). Executives become theme owners.

- **Align the Organization with the St*rategy***
  – All employees must understand the strategy and be motivated to execute it. Ensure all org. units are on the same page. Strategy maps provide specific sources of synergy. BU strategies should reflect (1) objectives related to their local strategies and (2) objectives that integrate with the corporate strategy and the strategies of other Bus.
  – Requires support units align their strategies to the value-creating strategies of the company and its Bus. Support units should negotiate SLAs with Bus to define the set of services they will provide. Strategy maps based on SLAs enables each unit to define and execute a strategy that enhances the strategies being implemented by Bus.
  – Motivate /align employees: Employees must understand the strategy if they are to link their day-to-day operations with the strategy. This requires communication programs (7 times, 7 different ways). Align employee objectives and measures to BU and Company strategic obj. and provide training and career development to help employee gain competencies needed for successful execution.

- **Plan Operations**
  – Which processes are most critical for executing strategy (improve key processes). Once key processes are identified, dashboards provide key indicators of local process performance.
  – Link strategy to operating plans and budgets.

- **Monitor and Learn**
  – Operating review meetings and strategic review meetings help evaluate indicators and initiatives from the units Balanced Scorecard and assess the progress of and barriers to strategy execution.
  – Operating review meetings assess short-term performance to identify problems that need attention.
  – Strategy Review meetings.. determine if they are executing strategy well. (monthly).

- **Test and Adapt the Strategy**

Consider Implementation Issues

Clear & Unambiguous

Communicate & Motivate

Focus on People Side

Translate LT into Short Term

Translate LT into Short Term

What's Required to Make Strategy Work: Organization

Office of Strategy Management[2]

- **As Architect** – designs the new strategy and operational management processes. [Ensures all planning, execution, and feedback components are in place, and linked in a closed loop system].
- **As Owner** – of key processes in the management system. Facilitates execution of processes that cross business and functional lines. [including strategy development, planning, aligning org, review of strategy, test & adapt].
- **As Integrator** – aligns all diverse processes within the strategy.

What's Required to Make Strategy Work: Integrated Framework

1. The disconnect between strategy and execution is recognized and well documented.
2. Key factors causing the disconnect have been identified.
3. What's required to link execution to strategy has been defined.
4. Numerous techniques have been developed to try to address the disconnect.
5. At least one over-arching framework has been identified…. but it lacks rigor.

What's needed is a management discipline that provides :

- an integrated framework addressing the key factors necessary to link execution to strategy
- with sufficient rigor to model and understand the linkage between strategy and execution…

EA contains elements that make it a good starting point…... but it needs to be extended.

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EA's Support for Business Strategy Today

1. Consider implementation issues

- What does the current organization structure look like?
- How are roles & responsibilities currently defined (RACI)?
- What competencies exists within the current organization?
- What capabilities exist to help communicate the strategy and support inter-organization communications in general (e.g. social networking or other collaboration technologies to help with communications)?
- What integrating tools, technologies, services, applications exists to support inter-organizational integration and cross-functional integration (orchestration capabilities in a service oriented environment)?
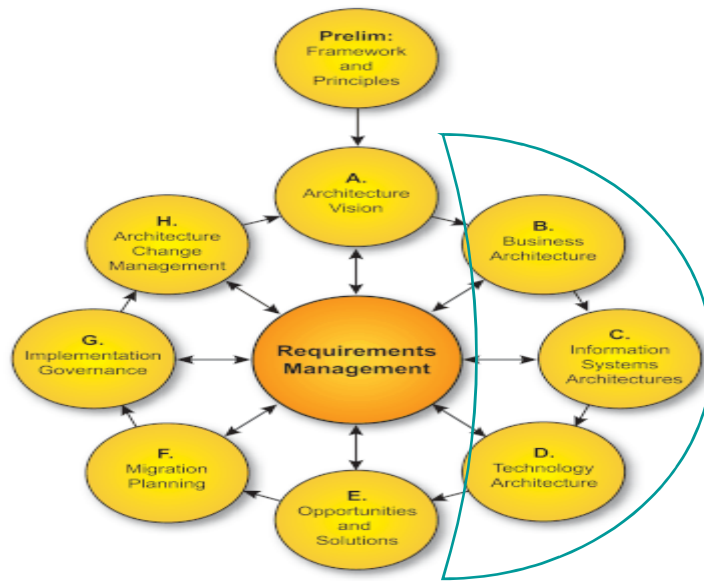

But lacks some of the capabilities, organizational, process and performance management models necessary to provide complete insight into the enterprise's current state.

The **business, information & application, and technical architectures** can provide valuable input to strategy formulation.

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EA's Support for Business Strategy Today

2. Begin with a clear, unambiguous strategy

- The EA organization, since they have to translate strategy into business, information systems, and technical architecture, are a leading indicator as to whether the strategy is 'clear and unambiguous'.

- EA will recognize early if the strategy is ambiguous. It will be difficult to define the future architectures if the strategy is ambiguous. The EA organization should be working with senior management as strategy is being developed to ensure it can be represented in business, and information systems architectures.
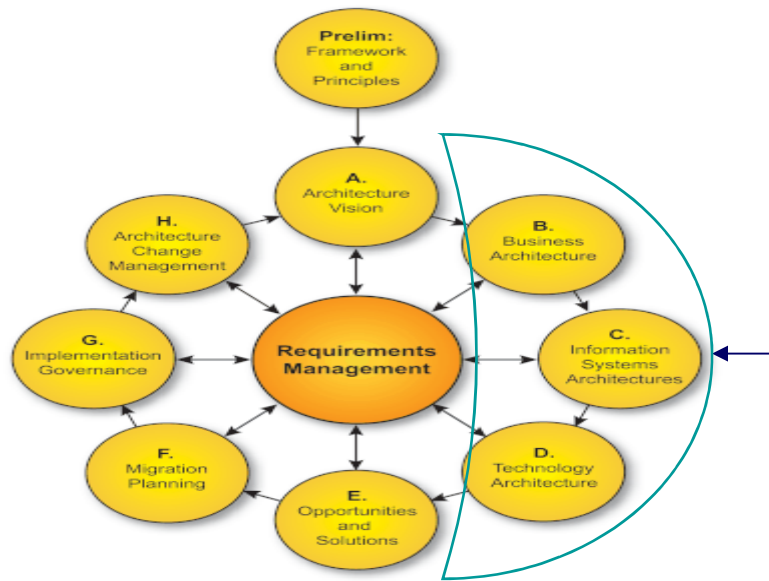
However, current EA frameworks lack complete models of capabilities, core competencies, performance management and other dimensions needed to provide an unambiguous description of strategy in operational terms .

Enterprise architects need a clear, unambiguous strategy in order to develop the future **business, information systems, and technical architectures.** Therefore, they can serve as a 'leading indicator' as to whether the strategy is clear and unambiguous.

EA's Support for Business Strategy Today

3. Translate strategic needs into short term goals & performance measures

Strategy
|
v
Strategic objectives
(market share, profitability, shareholder value)
|
v
Short term metrics
(sales quotas, customer sat, quality metrics, cost controls, manuf. downtime)

However , the linkage to strategic drivers is often unclear/tenuous

Business architecture: Will help define & document short term goals and metrics & the linkage to strategic objectives as well as a future RACI matrix.

Information architecture: defines various metrics to be captured and the linkage to strategic objectives as well as operational and business intelligence capabilities necessary to capture and report on the short term performance metrics.

Technical architecture ensures the necessary technical infrastructure exists to capture and report on the short term metrics.

4. Address communications & integration requirements

- Communications are an important part of strategy execution. The information, applications and technical architectures can play a vital role in supporting this communications.
- Structure leads to the separation of the organization into operational units, but to operate effectively, and achieve the desired goals, integration or coordination is needed.
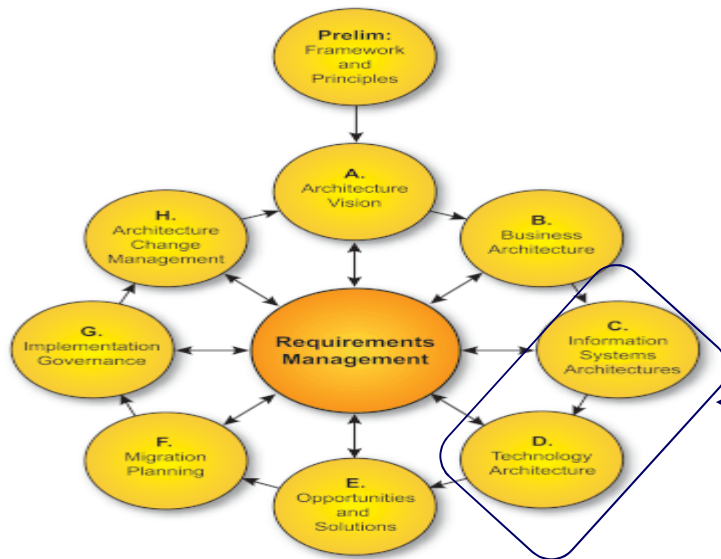
However, it does not provide a communications strategy, or linkage back to strategy performance & continuous improvement.

The **information, applications, and technical architecture** again are important in achieving the coordination and integration required across business units by enabling effective coordination / information sharing.

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EA's Support for Business Strategy Today

5. A focus on the people side of execution

- Cultural change has to begin with behavioral change.
  - EA can help support changes in roles & responsibilities, and put in place the performance metrics, and reporting required for behavioral changes.
  - EA can put in place communications capabilities to promote changes in behavior and cultural norms.
- Part of addressing the people aspect, may involve a shift in power and the alignment of resources to achieve and support such changes in power.
  - EA plays a major part in defining how resources are allocated in both the business architecture, as well as the applications and technical architecture.

However, they don't help in defining such programs and linking them to strategy execution.

The **information systems architecture** can define the necessary information and systems necessary for revised recognition and reward programs necessary to effect desired behavioral changes, including incentives important in changing behavior and culture,.

EA's Support for Business Strategy Today

6. A unifying integrated approach

" An Enterprise Architecture or **Master Plan** establishes the agency-wide **roadmap** to achieve an agency's mission through optimal performance of its core business processes within an efficient Information Technology (IT) environment [1]."

A Master Plan links business strategy to elements needed to realize the strategy:

- Business processes & procedures, including governance models.
- Organization structure / roles & responsibilities.
- Information Technology support.

[1] FEAF Definition

EA's Support for Business Strategy Today

The Master Plan is driven by the aspirations of the enterprise (i.e. Mission / Objectives)

- What is the purpose of the Enterprise ?
- What does it want to achieve ?
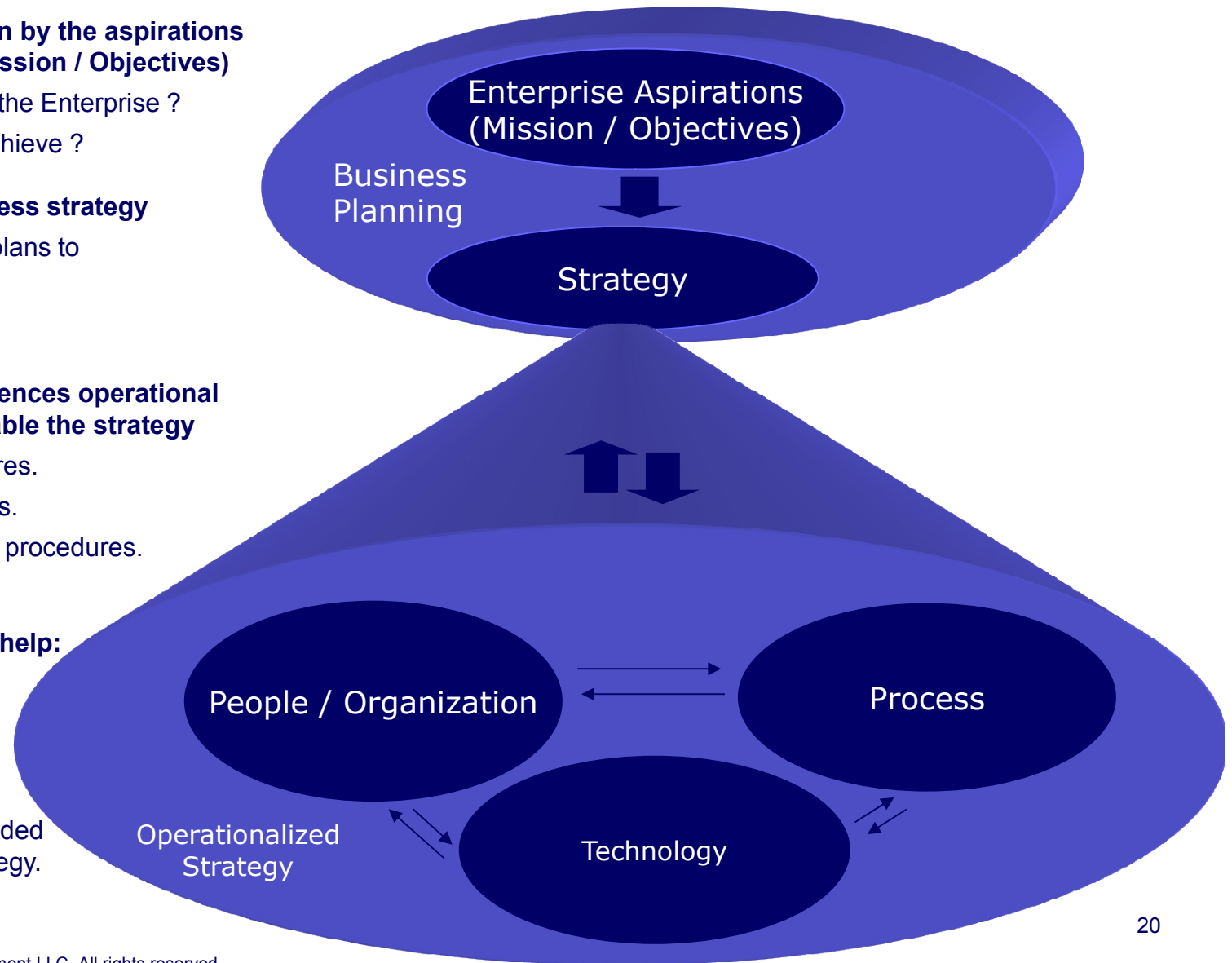
Aspirations drive business strategy

- How the organization plans to achieve its purpose.

Business strategy influences operational characteristics that enable the strategy

- Organizational structures.
- Roles & responsibilities.
- Business processes & procedures.
- IT enablement.

Master Plan is a tool to help:
- Plan
- Analyze
- Implement
- Measure performance and continually improve operational elements needed to achieve business strategy.

Enterprise Aspirations (Mission / Objectives)

Business Planning

Strategy

People / Organization

Process

Technology

Operationalized Strategy

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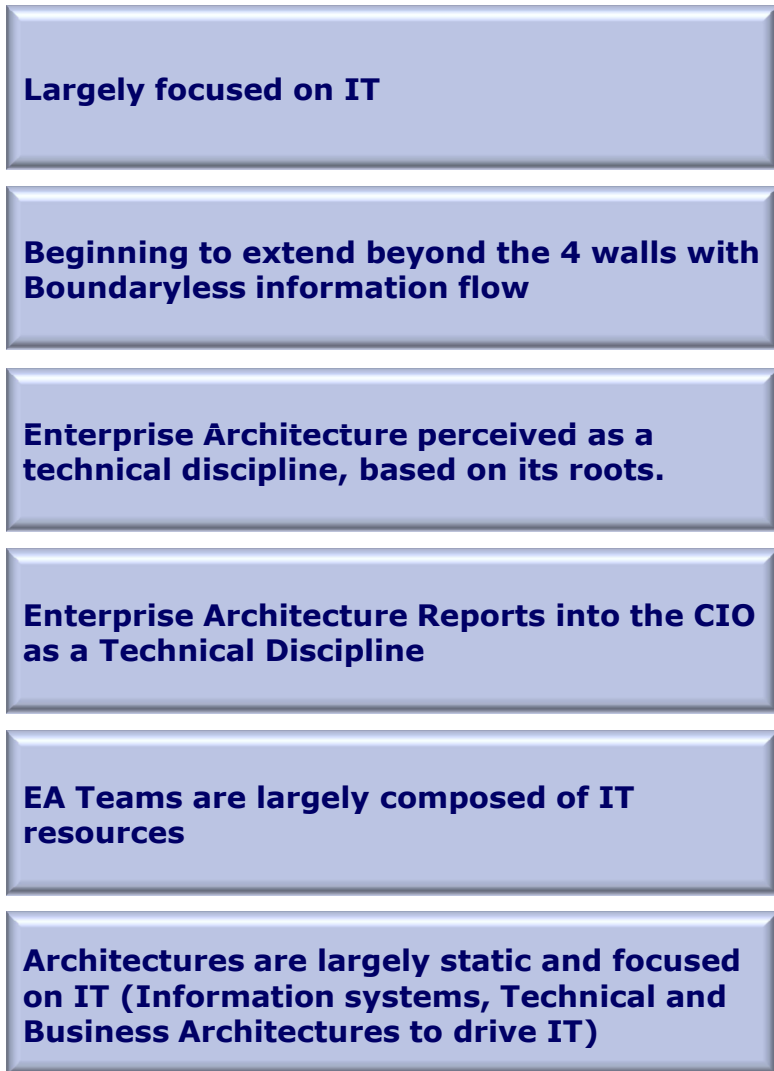
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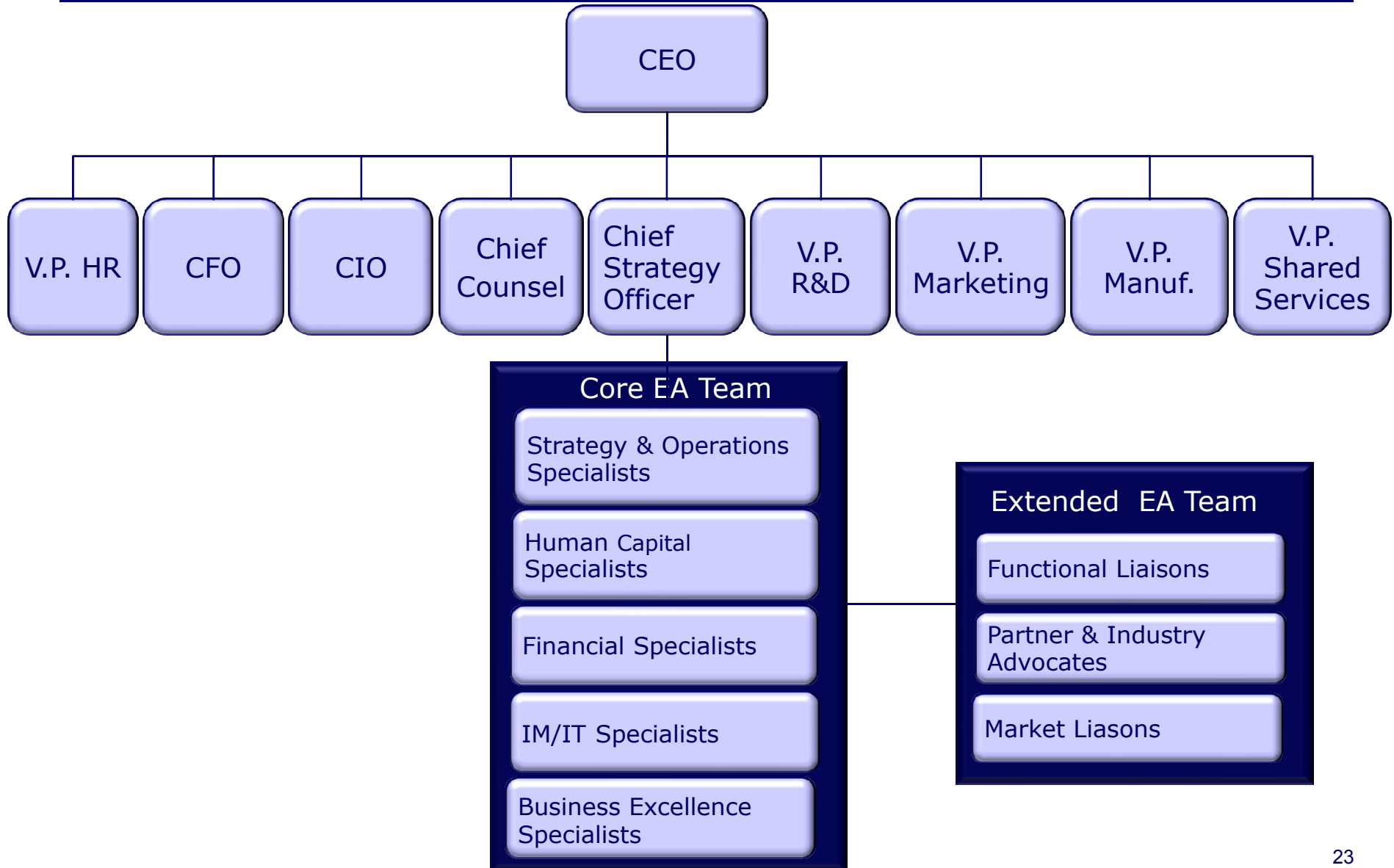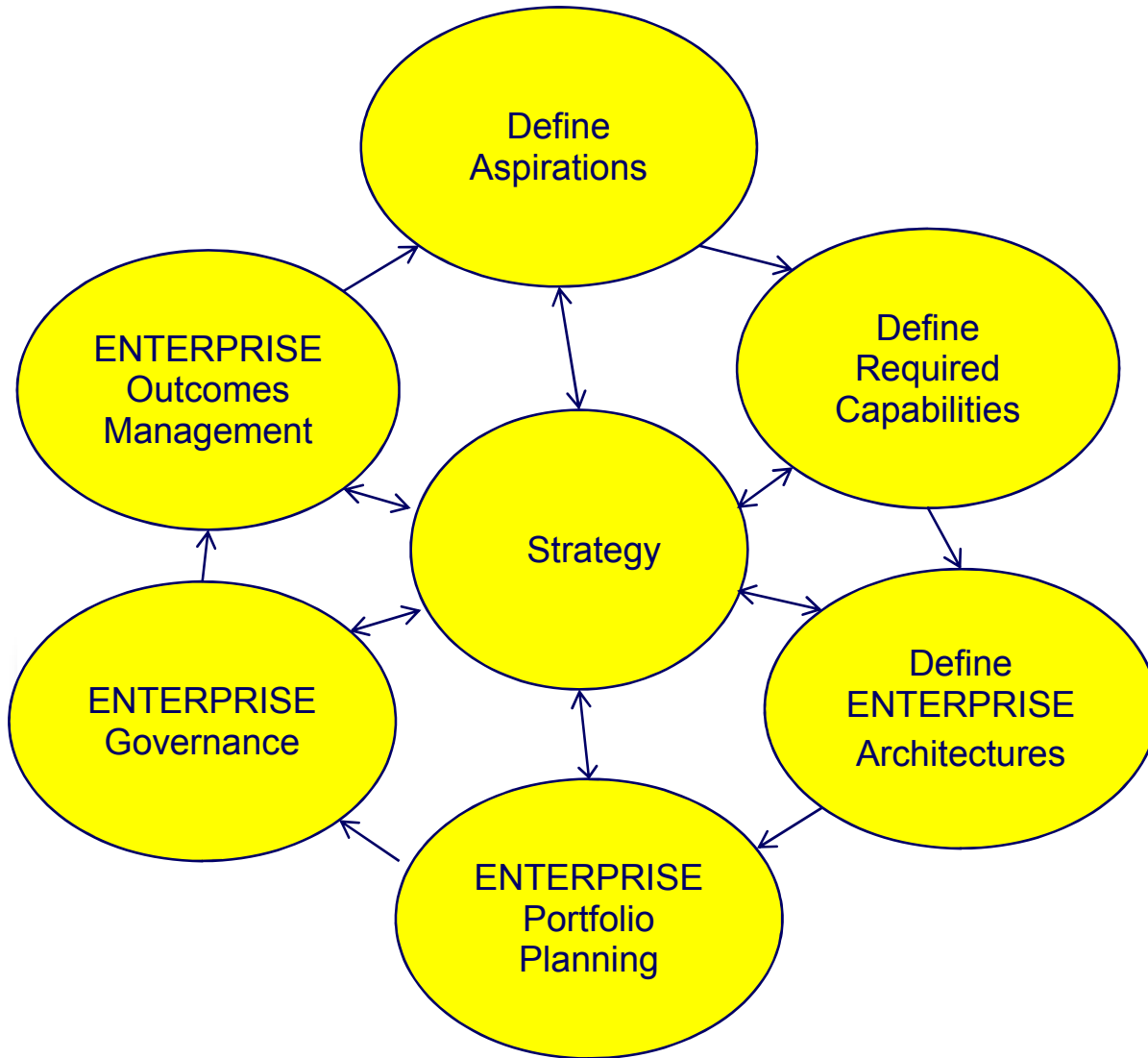Discussion

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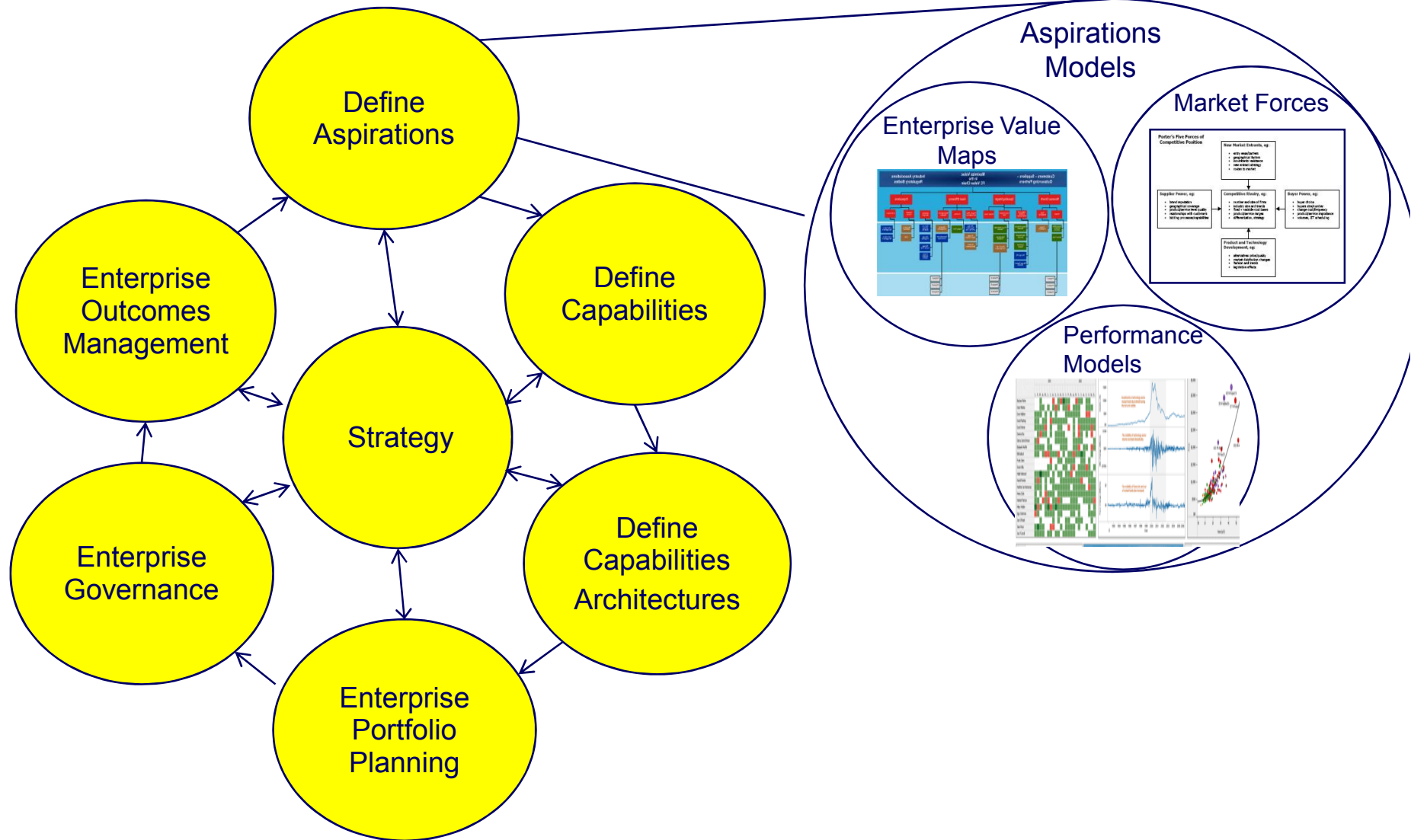
Today	As a Business Discipline
Largely focused on IT	Focus on business strategy. [Strategy, Capabilities, Business Process, Organization, and Enabling Technologies]
Beginning to extend beyond the 4 walls with Boundaryless information flow	Architecting for the "Networked Enterprise"
Enterprise Architecture perceived as a technical discipline, based on its roots.	EA should evolve to Master Planning and be considered a business discipline.
Enterprise Architecture Reports into the CIO as a Technical Discipline	Master Planning reports to the Chief Strategy Officer or similar C-level business executive.
EA Teams are largely composed of IT resources	Master Planning requires broader representation from across the organization. IT is one part of this broader team.
Architectures are largely static and focused on IT (Information systems, Technical and Business Architectures to drive IT)	Dynamic & static architectures should be developed focused on business strategy. System dynamics models should be employed for scenario based planning. IT is one element.

Extending EA to a Business Discipline: Organization

CEO

V.P. HR | CFO | CIO | Chief Counsel | Chief Strategy Officer | V.P. R&D | V.P. Marketing | V.P. Manuf. | V.P. Shared Services

Core EA Team
- Strategy & Operations Specialists
- Human Capital Specialists
- Financial Specialists
- IM/IT Specialists
- Business Excellence Specialists

Extended EA Team
- Functional Liaisons
- Partner & Industry Advocates
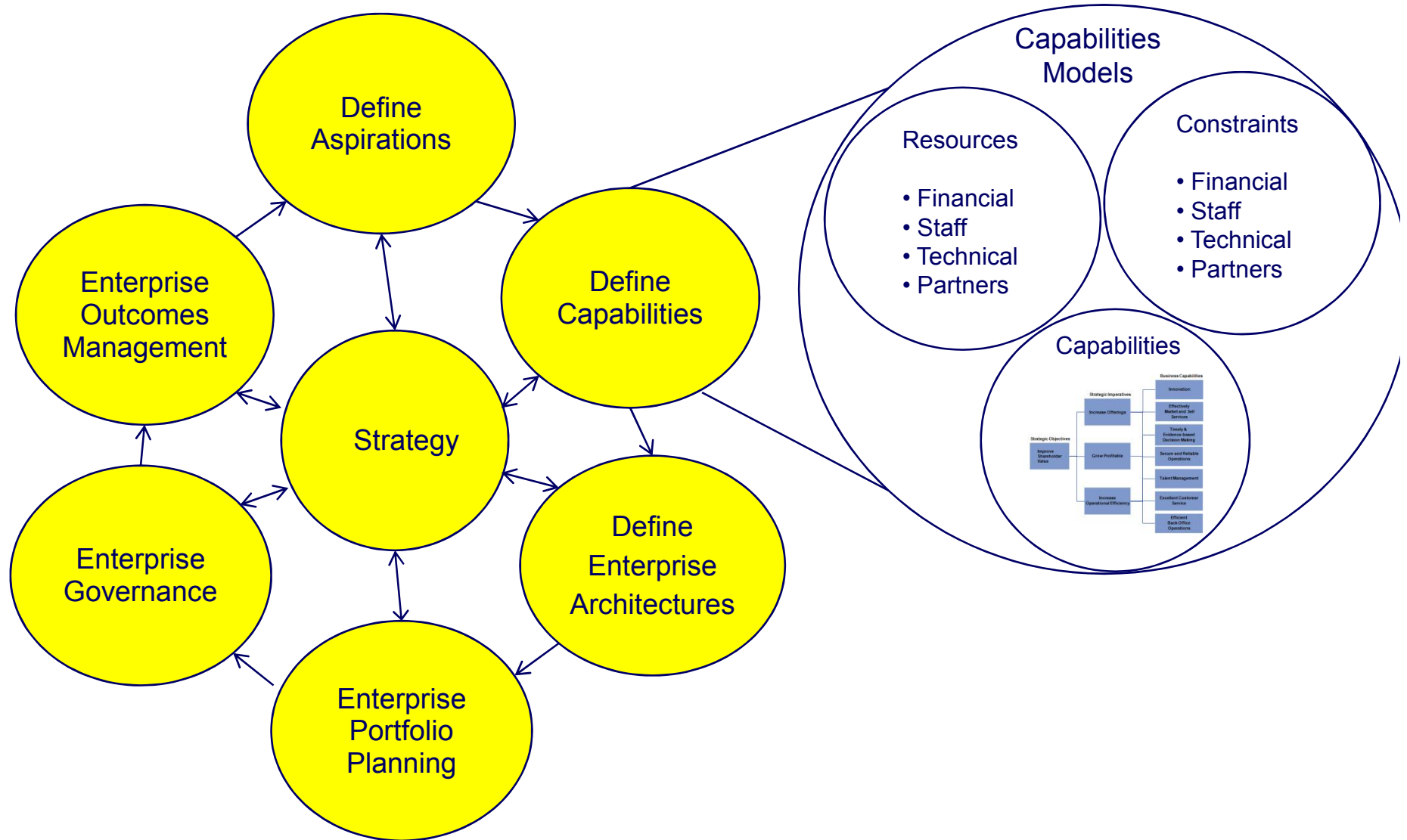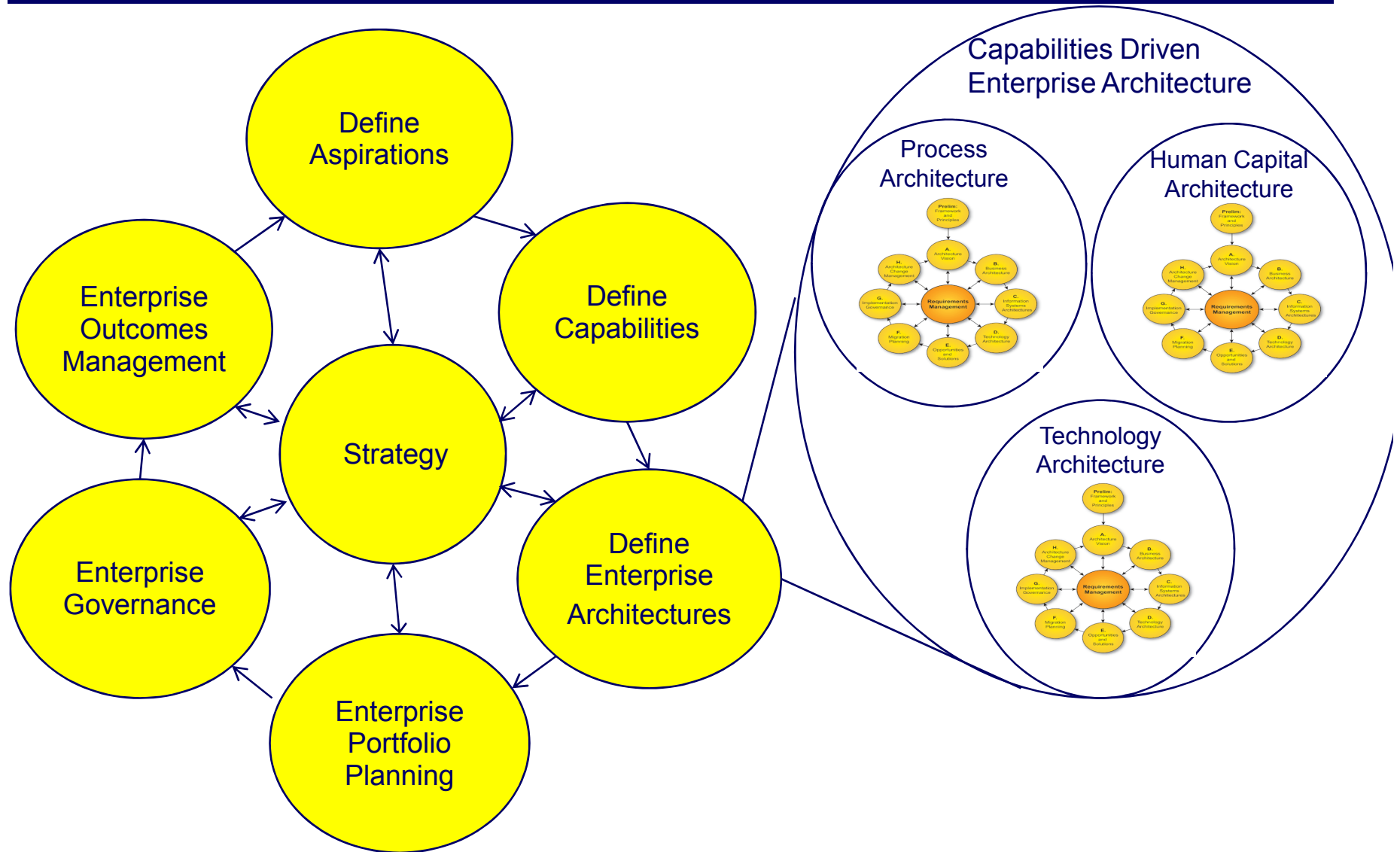- Market Liasons

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Extending EA to a Business Discipline

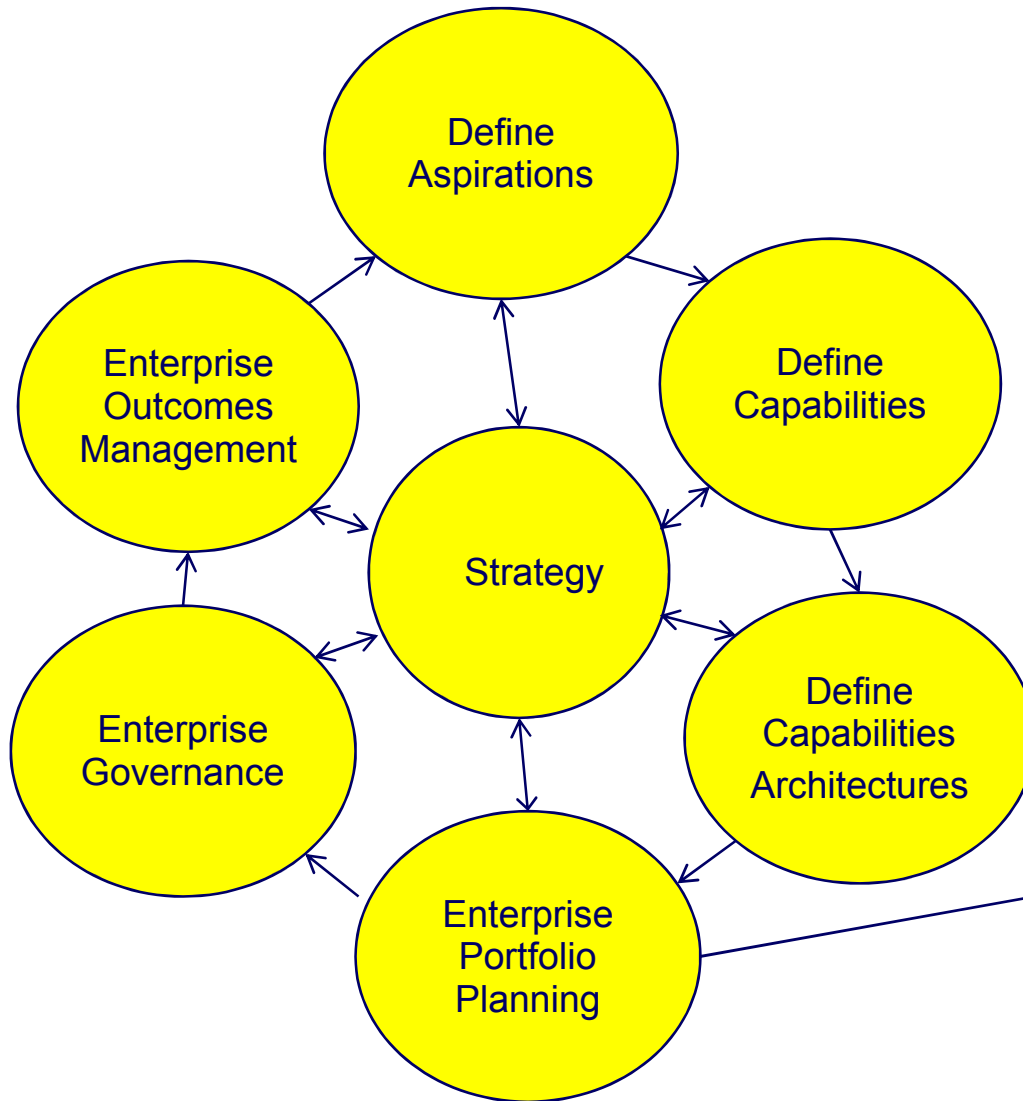Define Aspirations

Enterprise Outcomes Management

Define Capabilities

Strategy

Enterprise Governance

Define Enterprise Architectures

Enterprise Portfolio Planning

Capabilities Driven Enterprise Architecture

Process Architecture

Human Capital Architecture

Technology Architecture

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Extending EA to a Business Discipline

Define Aspirations

Enterprise Outcomes Management

Define Capabilities

Strategy

Enterprise Governance

Define Capabilities Architectures

Enterprise Portfolio Planning

Include projects / programs along multiple Dimensions:

Organizational
Process Improvement
Technical
Partner Relationships
Etc.
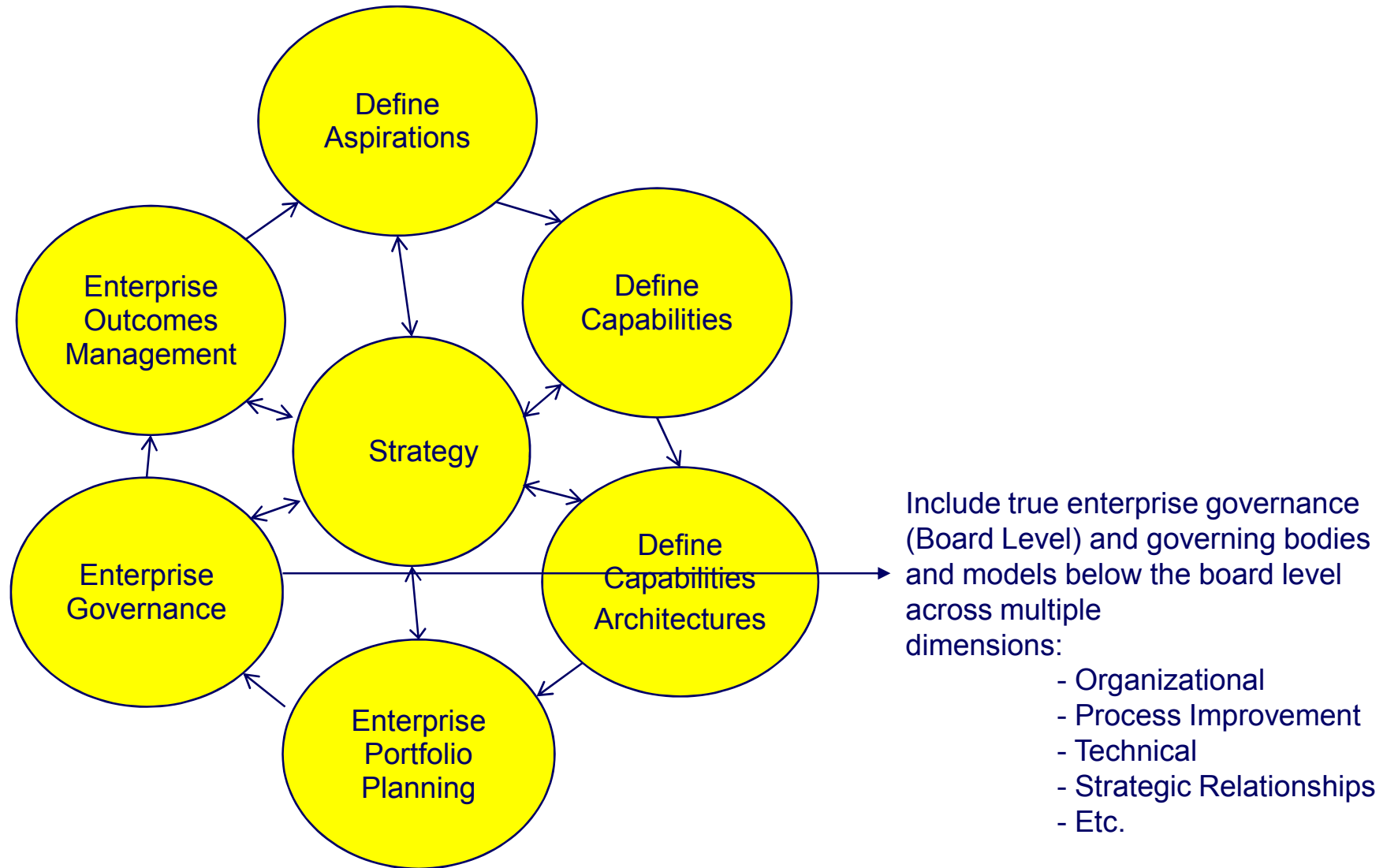
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Extending EA to a Business Discipline

Include true enterprise governance (Board Level) and governing bodies and models below the board level across multiple dimensions:

- Organizational
- Process Improvement
- Technical
- Strategic Relationships
- Etc.

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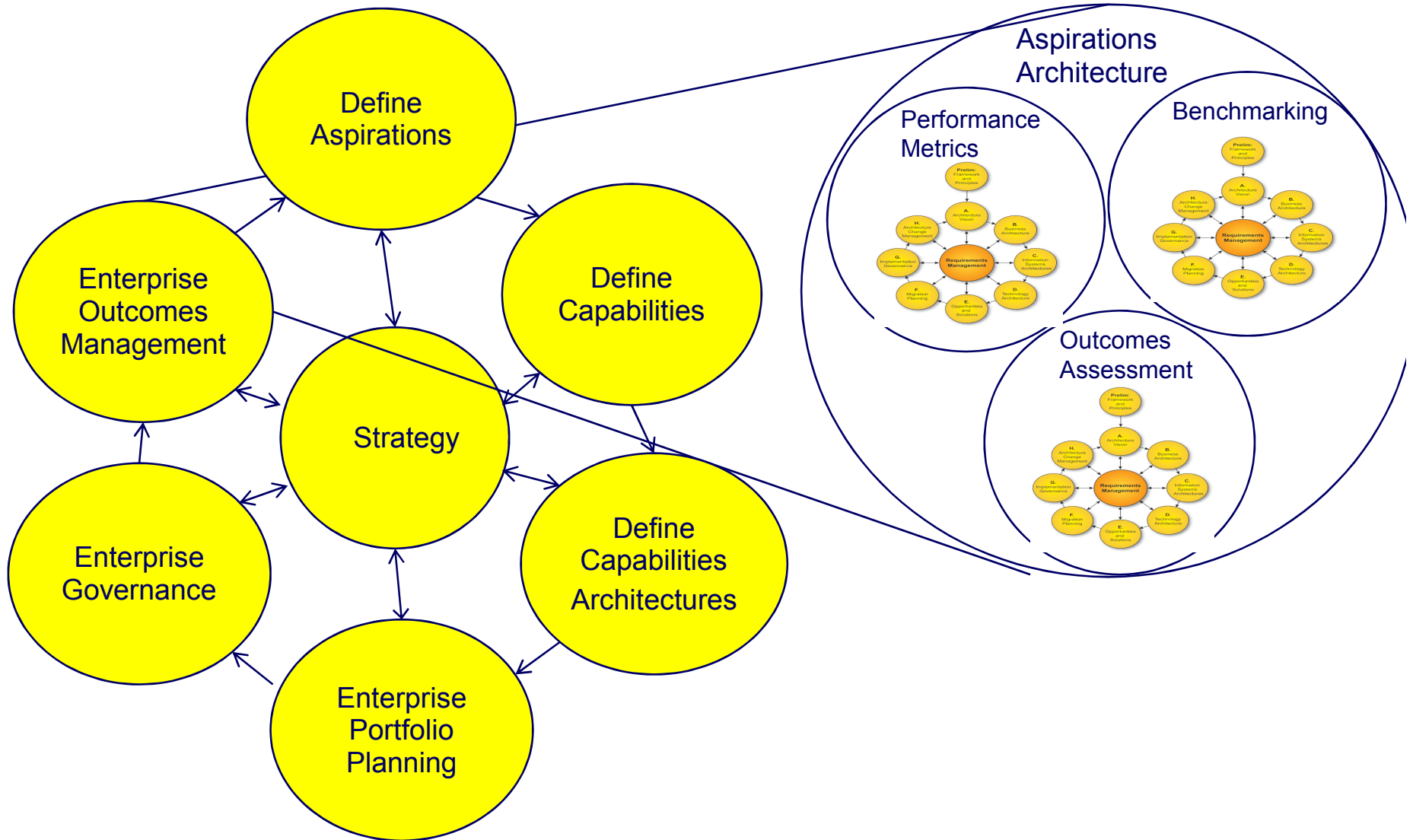
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Seven Steps for extending EA to a Business Discipline

Positioning Enterprise Architecture as Master Planning for the execution of business strategy.
won't happen overnight!

1 — Change the Focus of Enterprise Architecture. Put Strategy at the center of EA and include Business Capabilities, Performance Management, Communications, Organization and Process Design.

2 — Change the language to Master Planning and emphasize the role of "Master Planning" in Business Strategy development and execution. Being in IT, then extend the conversation to the business community.

3 — Include business staff on the "Master Planning" team. Shift the focus from technical architectures and applications portfolios to a broader model of the business that includes plans for organizational and process change in addition to an applications portfolio and technology roadmap.

4 — Build the case for "Master Planning". This can be done using metrics for the cost of strategy implementation failures in general, and with specific examples of costly failures within your organization. Leverage Industry authorities (e.g. Hrebiniack , Kaplan and Norton)

5 — Reposition "Master Planning" outside of IT. Today EA typically reports to the CIO and is considered a technical exercise. Have it owned by a senior business executive (e.g. a Chief Strategy Officer)

6 — Begin with a Proof-of-Concept if possible. Choose a business unit that is receptive and willing to invest the time and resources to demonstrate the value of "Master Planning".

7 — Learn from the effort, and adjust your "Master Planning" framework accordingly.

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