

## Information Technology

# Nordic companies seek stronger governance to drive IT productivity

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Confidence is high today among Nordic companies about the ability of IT to boost productivity and help companies achieve high performance. A recent Accenture survey of IT and business executives in the Nordic region shows that both groups believe overall IT productivity at their companies has increased in the past few years. The study also pinpoints, however, a potential weak spot in the value chain when it comes to driving better productivity through information technology: IT governance.

A strong IT governance policy—one that includes business executives during project and program implementation—plays a critical role for companies that successfully use IT investments to boost productivity. By making improvements in several key areas within a holistic approach to IT governance, companies can build on their strong IT foundation and position themselves for high performance.

### Strategic alignment

IT performance is linked closely with how successfully a company aligns IT expenditures with company goals. The Accenture survey points to a number of potential vulnerabilities among Nordic companies in the area of alignment. Almost 40 percent of the Nordic business executives surveyed say they have "little or no input" to their company's IT budgeting and resource allocation. Fewer business executives describe their companies' IT-business alignment as strong, compared to the opinions of IT

executives. In fact, 25 percent of the business executives view the alignment as weak.

Survey results also show, however, that companies with strong IT-business alignments are more likely to perceive an increase in both overall and IT-based productivity. This finding bolsters Accenture's continuing research into high performance, which has identified strong IT-business alignment as a critical IT governance factor driving productivity gains.

Survey respondents that view their IT-business alignment as strong are much more likely to indicate that their companies invest the time necessary to connect IT to both business value and productivity. They also create a climate in which the executive management team and the CIO collaborate extensively, and business units contribute actively during IT budget development.

### IT financial management

Many Nordic businesses struggle with optimizing strategic IT investments. Typical challenges include lack of a long-term blueprint that drives the strategic investment plan, unclear prioritization criteria and rigid planning cycles with limited transparency of the value from IT information.

The Nordic IT study supports previous research findings from Accenture that high-performance businesses actually spend less than their lower-performing counterparts on IT, but spend it more wisely to develop truly strategic business capa-

bilities that improve the company's competitiveness. High performers institute effective IT financial management as part of their essential governance capabilities. They rigorously analyze where business improvements can be achieved through IT, and they continually monitor their return on these investments.

As one example of budgetary rigor, leading companies devote at least 40 percent of their IT budgets to discretionary spending aimed at creating new strategic business capabilities. Lagging companies spend 30 percent—or less—on discretionary activities.

### Performance management

One of the more troubling findings of the survey is that more than half of the respondents believe that IT is underdelivering relative to what the company spends. Clearly, improving performance management—the ability to measure results and manage based on metrics—is a key challenge in improving overall IT governance. Many companies have put balanced scorecards in place, but such tools often focus too much on budgetary metrics rather than on business value delivered by IT, a company's technical capabilities or IT productivity. Instead of viewing IT purely as a cost center, high-performance businesses are relentless about continually tracking the business value delivered by IT initiatives—and about linking senior-level compensation to the business outcomes.

For example, one large manufacturer, distributor and seller of spirits and wines sought a more structured and proven approach to IT governance. The company's senior executives rationalized their IT project portfolio, prioritizing those projects that directly aligned with their overall business strategy. As a result of the governance initiative, the company identified and delivered savings representing more than 50 percent of the remaining discretionary investment budget for that financial year.

More important, this initiative gave the company a critical tool for prioritizing future IT projects based on the company's strategic intent. The improvements to the IT governance structure provided transparency, so the board and other senior executives could more easily see how the company spends its IT budget—and the returns on that spending. Furthermore, the executives are now much more knowledgeable about how IT projects add value to the bottom line. Says the company's CIO, "In addition to saving in IT spend, our flexible and responsive global IT organization is now equipped to make credible IT delivery promises to our business and keep them."

### Leadership: The accountability factor

After being part of the IT investment decision-making process, business executives must then stay involved during implementation. IT project execution remains a challenge, and recent studies have shown that as much as 35 percent of IT projects fail to come in on time and on budget. Surprisingly, very few companies have systematic post-project reviews for such IT initiatives, let alone proper tracking of actual value delivered. In companies with effective IT governance, on the other hand, C-level executives play an essential role throughout the IT investment lifecycle. They are actively involved in decision making and in implementation, and then are held accountable for business results.

What is the risk when executives do not stay involved throughout the IT lifecycle? Unless senior business management plays an active role, the odds of successfully delivering business value through IT will be substantially reduced. Because of the long investment cycle when implementing new technologies, ongoing involvement from executives is vital to ensuring that technologies continue to support the right business needs. During implementation, if the IT organization is at risk of going over budget or missing a major delivery

deadline, tough decisions need to be made, and quickly. Without business executives weighing in to maintain priorities, an entire project may fail to deliver on its promise. If the decision is left to an IT organization driven primarily by cost, an application might be scaled down or reduced in functionality to the point that it fails to deliver adequate business value.

### Governance as a key to IT productivity

Accenture research and experience indicate that a strong IT governance policy paired with top-management involvement throughout the IT lifecycle can improve IT productivity as well as the business value delivered through IT. Although most Nordic IT and business executives surveyed agree that IT investments have boosted overall productivity at their companies, the two groups still have differing perceptions about the underlying factors responsible for those increases, as well as the degree of alignment between IT spending and company goals. Mastering the various disciplines of IT governance promises to bring these groups together and boost companies along their journey to high performance.

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<sup>1</sup> The Accenture Nordic IT Productivity study surveyed 308 IT and business executives from Sweden, Norway, Finland and Denmark. See: [http://www.accenture.com/Global/Services/By\\_Subject/IT\\_Strategy\\_and\\_Transformation/R\\_and\\_I/ITdrivenProductivity.htm](http://www.accenture.com/Global/Services/By_Subject/IT_Strategy_and_Transformation/R_and_I/ITdrivenProductivity.htm).

<sup>2</sup> Source: Accenture Business Value of IT study, 2002.