

Enterprise Architecture as Strategy

*Creating a Foundation for
Business Execution*

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Goals and Overview of the Book

UPS's experience with happy surprises from IT and its ability to design new products and services that leverage its foundation for execution is exceptional relative to most companies we've studied. But, like the District of Columbia government, companies are increasingly experiencing incremental, but significant, operating improvements as they build and leverage a foundation for execution. Building a foundation is not a quick or easy process. This book is a call to action for those companies that have not yet started on this journey and a handbook for those who are in the midst of building their foundation. In this book we describe how to (1) define an operating model, (2) design and implement an enterprise architecture, and (3) adopt an IT engagement model. In doing so, we describe how your company can achieve greatness with a foundation for execution.

Companies that build a solid foundation for execution do achieve greatness. Throughout this book we will describe the IT and business process capabilities of companies generating strategic benefits from their foundations. These companies include the following:

- *ING DIRECT*: the number one direct bank (in terms of retail funds entrusted) in every one of the nine countries in which it operates. ING DIRECT's operational costs are only 0.43 percent of assets, as compared to 2.5 percent for a typical full-service bank, allowing the company to offer higher savings rates and lower-cost loans than other banks. The result has been phenomenal growth. In the first quarter of 2005, ING DIRECT grew an average of 250,000 new customers and more than \$5 billion in new assets each month.
- *7-Eleven Japan*: the most profitable retailer in Japan and the eighth-largest retailer in the world. Since its inception as a single store in 1973, 7-Eleven Japan has grown to

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10,800 stores in Japan. Worldwide 7-Eleven Japan has 28,000 stores and annual revenues of ¥25,000 billion (approx US\$22 billion). Gross margins per store have increased from 5 percent to more than 30 percent from 1977 to 2004. Management has reduced stock turnover from 25.5 days in 1977 to fewer than 8.7 days in 2004.¹⁴

- *TD Banknorth: Forbes's "best managed" bank for 2004*, due to the company's steady earnings growth of 10 percent or more. TD Banknorth has acquired twenty-six banks in the past eleven years, and since 1989, it has grown from \$2 billion to \$32 billion. TD Banknorth is second among banks in the *Fortune* 1000 in total return to shareholders (a 37% annual rate from 1991 to 2001).¹⁵

This book is intended for senior managers who have—or believe they should take—responsibility for developing and overseeing their company's foundation for execution. Business executives should finish this book with a clear understanding of what they need to do to lead the change and engage their business and IT colleagues in discussions on how to create a foundation for execution. IT executives should finish this book with a clear frame of reference for their work and the tools to successfully work with their business colleagues. Building a foundation for execution requires extraordinary IT-business alignment, so both IT and business leaders need to exert influence on the process. The result is worth the trouble.

The structure of the book is as follows:

- *Chapter 2: Define Your Operating Model.* In chapter 2 we introduce the first discipline for creating the foundation for execution: the operating model and its two key dimensions—business process standardization and integration. Four different types of operating models are described: Unification, Coordination, Replication, and Diversification. We explore how the operating model concept is applied to both

companies and business units. Case studies of JM Family Enterprises, Merrill Lynch, Dow Chemical, TD Banknorth, and Schneider National provide examples of different operating models.

- *Chapter 3: Implement the Operating Model Via Enterprise Architecture.* In chapter 3 we introduce the second discipline for creating the foundation for execution: the enterprise architecture. The key elements—digitized business processes, IT infrastructure, shared data, and customer interfaces—are identified and linked in the enterprise architecture. The one-page core diagram is introduced, and comparative diagrams are developed for each of the four operating models. Four case studies of firms and their enterprise architecture designs illustrate effective practices: MetLife, ING DIRECT, Carlson Companies, and Delta Air Lines.
- *Chapter 4: Navigate the Stages of Enterprise Architecture Maturity.* In chapter 4 we introduce the four stages of enterprise architecture maturity: Business Silos, Standardized Technology, Optimized Core, and Business Modularity. Companies traverse these stages as they learn new organizational processes and change their IT investment practices. We describe how the strategic value of IT evolves as companies mature their enterprise architectures. A number of short examples illustrate the concepts, and we conclude with a discussion of how to apply the architecture stages in your company.
- *Chapter 5: Cash In on the Learning.* In chapter 5 we explain how companies get unique business benefits at each of the four stages of maturity by using various management practices and roles. We explain how achieving these benefits requires implementing different management mechanisms at each stage to formalize organizational learning. A case

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- *Chapter 6:* In chapter 6 we introduce the discipline for engagement and project management. A good engineering foundation and Toyota ingredients
- *Chapter 7:* In chapter 7 we introduce the discipline for entering successful markets and entering into outsourcing relationships, and the experiences of Chemical and Enterprise Architecture Broker
- *Chapter 8:* In chapter 8 we discuss the growth potential of CEMEX

study of Schindler illustrates how the role of the CIO evolves as companies move through the maturity stages.

- *Chapter 6: Build the Foundation One Project at a Time.* In chapter 6 we introduce the third discipline for creating the foundation for execution: the IT engagement model. The IT engagement model has three ingredients: IT governance, project management, and linkages connecting the two. A good engagement model enables a company to build its foundation one project at a time. Case studies of Raytheon and Toyota Motor Marketing Europe illustrate the different ingredients of the model.
- *Chapter 7: Use Enterprise Architecture to Guide Outsourcing.* In chapter 7 we describe how outsourcing can contribute to enterprise architecture maturity but warn that outsourcing success is far from guaranteed. To improve the likelihood of success, we show how to use the operating model and enterprise architecture to determine what and when to outsource. We distinguish between three different types of outsourcing—strategic partnerships, cosourcing alliances, and transaction relationships. Analyzing the experiences of Campbell Soup Co. and the City of Liverpool, we discuss how outsourcing can affect enterprise architecture, and vice versa. A case study illustrates how Dow Chemical aggressively uses outsourcing—driven by its enterprise architecture—to move to what it calls the “Federated Broker Model.”
- *Chapter 8: Now—Exploit Your Foundation for Profitable Growth.* In chapter 8 we make the urgent case for increased agility in companies that must compete in a global economy. Case studies of UPS, 7-Eleven Japan, and MetLife illustrate the growth potential of different operating models. A case study of CEMEX highlights the architectural challenges created

by acquisitions. We close the chapter with a look at what's coming next—the fifth stage of architecture maturity.

- *Chapter 9: Take Charge! The Leadership Agenda.* Chapter 9 summarizes the key ideas in the book with a review of the symptoms of an ineffective foundation for execution. We follow with a set of six steps for rethinking your foundation for execution. Then we provide ten leadership principles for building and leveraging a foundation for execution.

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