

Digital Governance

Closing the Digital Strategy Execution Gap

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Never before has there been such an intense focus on digital as during the COVID-19 pandemic. This has been especially true for the business continuity management (BCM) efforts needed to provide work-from-home functionality to support social distancing. Organizations that struggled to action their business continuity plans (BCP) will, in effect, have experienced a digital execution gap (i.e., the difference between the aspirations and the reality of effecting business continuity).

In the same way that a digital gap is experienced in BCP, there is also an enterprise digital strategy execution gap (which incorporates BCP). The following details how governance ensures that the enterprise digital strategy execution gap is as narrow as it can be, ultimately supporting organizational sustainability.

Reinforced by the waterfall model of software development,¹ IT has typically been a reactive enabler of business. The waterfall model begins with business giving IT their requirements, which IT then develops, tests and, ultimately, deploys into production—all in response to the business requirements. The Agile methodology² can also be

challenged in this, given that it begins with the end user crafting the stories, which are then implemented and deployed either traditionally or in a DevOps paradigm.

A key question is whether reactive IT is sufficient for an organization to sustain its competitiveness and whether strategically proactive IT is becoming a necessity in the interests of organizational sustainability. This key question was introduced in IT-business alignment work and the Strategic Alignment Model (SAM) of 1990.³ It remains foundational literature for any governance professional, providing a qualified means to frame IT oversight regarding the governance professional's fiduciary duties on the board.

The first reason for SAM's continued relevance is in the original article's title, "Strategic Alignment: A Model for Organizational Transformation via Technology." An evolution of the article was published in 1999, where the article's title had become even more interesting: "Strategic Alignment: Leveraging Information Technology for Transforming Organizations."⁴

Both titles seem appropriate for today's digital transformation texts because digital transformation is instrumental in organizational transformation, impacting the organization's operating and

Guy Pearce, CGEIT

Has served on governance boards in banking, financial services and a not-for-profit, and as chief executive officer (CEO) of a financial services organization. He has taken an active role in digital transformation since 1999, experiences which led him to create a digital transformation course for the University of Toronto School of Continuing Studies (Ontario, Canada) in 2019. Consulting in digital transformation and governance, Pearce readily shares more than a decade of experience in data governance and IT governance as an author in numerous publications and as a speaker at conferences. He received the 2019 ISACA® Michael Cangemi Best Author award for contributions to IT governance, and he serves as chief digital transformation officer at Convergence.Tech.

Tony Gaffney, ICD.D

Is a CEO with extensive corporate director experience. He has led and governed enterprises, from small to large (US\$3B), through the development and implementation of strategies enabled by technology and digital. His CEO experience includes organizations in the financial, technology, telecommunications, professional and managed services sectors. As a corporate director, Gaffney has served on strategy (chair), technology (chair), human resource (chair), CEO search (chair), special (chair), risk, audit and conduct committees. He is a graduate of the Rotman Corporate Directors program and serves on the advisory board of Convergence.Tech.

business models and, ultimately, the customer experience.⁵ From another perspective, digital transformation in any industry integrates technology, value creation, structure and financials.⁶

Integrating both the operating model, the business model and the customer experience on the one hand with the contexts of technology, value creation, structure and financials on the other, a table such as **figure 1** can be created, and it highlights technology's transformational role. Another reason for SAM's sustained relevance is its four perspectives on IT planning:⁷

1. **Technology exploitation**—IT's influence on business strategy, a concept at the heart of today's digital transformation paradigm
2. **Technology leverage**—The more traditional understanding of IT's role, which is how IT supports and enables the business strategy
3. **Strategy implementation**—Implementing business strategy enabled by the interaction between business and IT infrastructure and processes
4. **Technology implementation**—Interpreting the IT strategy via the requirements for IT infrastructure and processes

In particular, what differentiates SAM from some of the later technology and IT research organizations' proposals is the clarity on how to achieve alignment

by detailing not only what needs to be done—strategic IT alignment—but also outlining how this may be achieved across four perspectives. Even more interesting recently, is how the effectiveness of IT-business alignment can be measured.⁸

The SAM perspectives sustain the relevance of SAM today. For example, the technology exploitation perspective is explicit about technology's role in shaping business strategy, an instrumental step in today's digital transformation efforts. Furthermore, hints of the drivers of the digital strategy execution gap are found in the next three perspectives, with a mismatch between strategy and IT execution driven by, for example, flaws in the interaction between business and IT, or if the IT interpretation of the business strategy is flawed. All of these continue to comprise many of today's governance challenges.

Figure 2 illustrates how the newer contexts of digital transformation can still be articulated in terms of combinations of the original four domains of the SAM. Given SAM's sustained relevance, it is little wonder that it is still useful in articulating strategic alignment for digital transformation almost in defiance of its age.

The Strategy Execution Gap

The strategy execution gap is the difference between the objectives articulated in an organization's corporate strategy (the sum of business, IT, human

Figure 1—Organizational Scope of Digital Transformation				
Key Constructs in Digital Transformation	Digital Transformation	The Enterprise Scope of Digital Transformations		
		A. Operating Model	B. Business Model	C. Customer Experience
	1. Use of technology	Implied in the technology component of the operating model	Reactive or proactive business enablement	Reactive or proactive customer experience enablement
	2. Changes in value creation	Technology-driven cost reduction, and better risk control	Technology-driven revenue generation, and better risk control	Technology-driven incremental customer attraction and retention, and better risk control
	3. Structural changes	Implied in the people, process, technology, data and IT governance aspects of the operating model	Introduced by new digital business models and the technological enhancement of existing business models	Technology-driven extended or expanded markets
	4. Financials	Lower capital and operating costs, and lower risk (which also translates to lower cost)	Increased revenue from existing sources and from new revenue streams	Increased sustainability and relevance through increased customer retention and heightened customer attraction

resources [HR] and operations strategies) and the results achieved from the execution of that strategy (**figure 3**). The gap could therefore originate in many different places within the organizational strategy (e.g., between any combination of the four SAM domains shown in **figure 2**).

The strategy execution gap is an enduring problem,⁹ with two-thirds of senior executives thinking that their organizations lack the right capabilities to execute their strategies,¹⁰ resulting in gaps between expectations and outcomes. This implies that the cause of the gap is in the “Business Strategy Implementation” and/or “IT Strategy Implementation” SAM domains.

The gap is such that organizations realize less than two-thirds of the financial performance their corporate strategy proposes and reflect that only 7 percent of staff members understand the expectations of them in executing the strategy.¹¹ Furthermore, two-thirds of chief executive officers (CEOs) admit that they lack the capabilities required to create value, and 80 percent of executives admit that their strategy is not well understood in their organization.¹² This version implies that the cause of the gap could be in any or all four SAM domains shown in **figure 2**.

These findings have major implications for governance. If the staff lacks strategic understanding in their roles, it is little wonder that the strategy execution gap is a concern. Some of the capability gap could be an outcome of poor alignment between IT and business and, thus, the poor allocation of organizational resources with respect to the organization’s strategy. Capability building, therefore, includes ensuring alignment between IT capabilities and corporate strategy execution.

Particularly challenging is that both IT and business alignment have a context in the complex environment within which the organization operates. In addition, factors such as technological evolution and changes in regulation, customer preferences, macroeconomy, and competition¹³ all impact organizational strategy and, thus, the nature of the required IT alignment.

The Digital Strategy Execution Gap

Two characteristics of strategic management are highlighted in SAM. These are strategic fit or the relationship between the external environment in which the organization competes, and the organization’s internal capabilities and functional integration or the relationship between business

Figure 2—The 30-Year-Old SAM Domains Overlaid With Modern Digital Transformation Domains

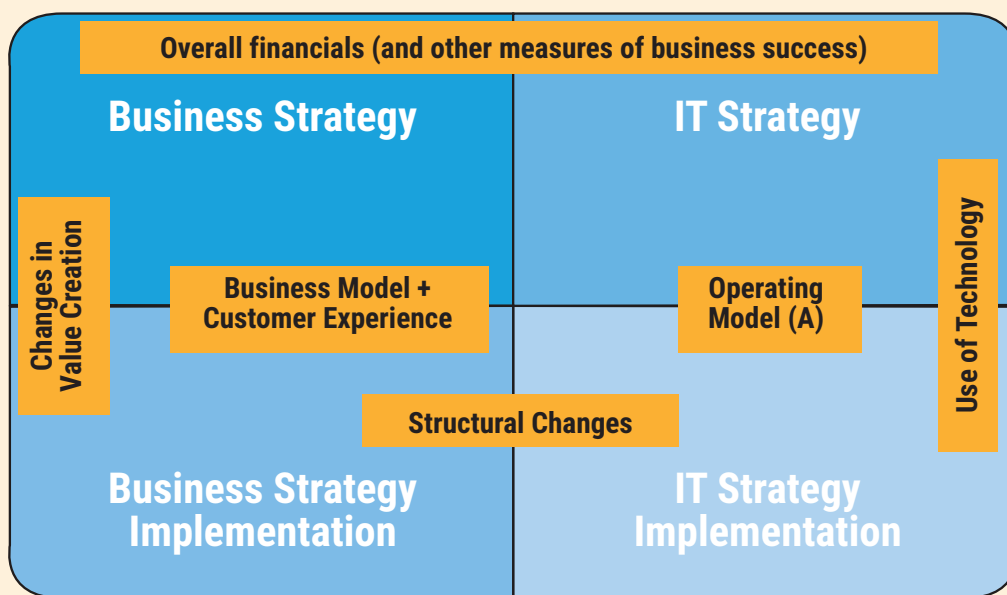
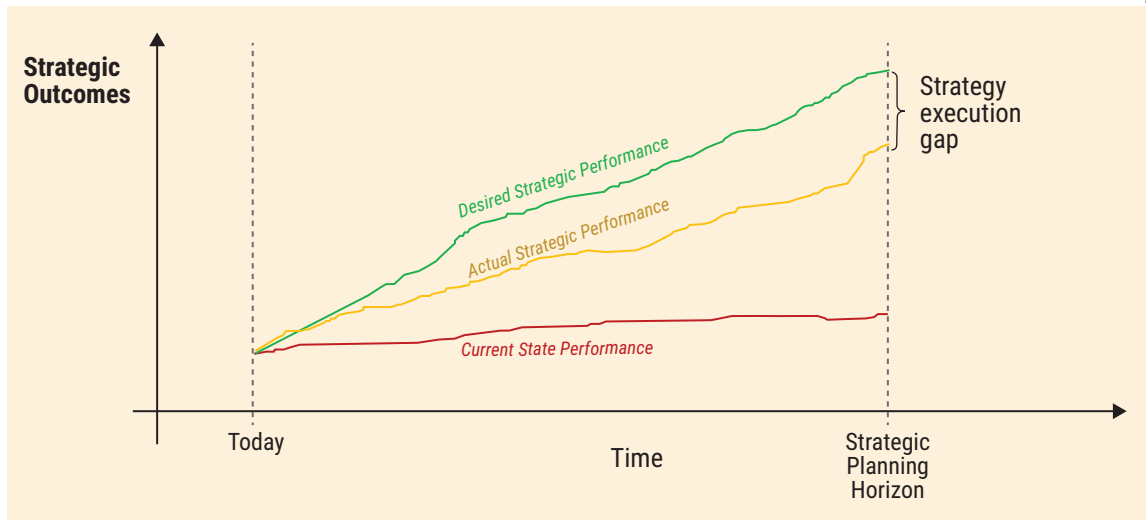


Figure 3—Strategy Execution Gap Is the Difference Between Desired Strategic Outcomes and Actual Strategic Outcomes



and IT capabilities. Thus, the IT strategy should be articulated both in terms of an external and internal domain,¹⁴ with a digital strategy being an element of the IT strategy. In this context, two key areas exist where an execution gap can occur:

1. Difficulties in translating the implications of the external environment on an organization's competitiveness
2. Difficulties in the relationship between technology enablers and business execution

While point one previously is an enterprise governance challenge, point two highlights the area within which the digital strategy gap arises. The greater the difficulties in aligning IT with business, the greater the extent of unmet expectations and the greater the digital strategy gap.

The digital strategy execution gap is serious, with only 10 percent of enterprises from a sample of 340 large global enterprise senior executives having a plan to deploy their digital strategies,¹⁵ something akin to the finance gap in corporate strategy execution mentioned earlier.

Given that a digital strategy is an element of an enterprise strategy and that digital transformation is key to organizational resilience, sustainability and relevance, if only 10 percent is being executed, it is no surprise that less than two-thirds of the financial objectives expressed in the enterprise strategy are

being missed. The survey responses from 1,591 senior business leaders in the United Kingdom and the United States termed the extent of the gap “a digital strategy execution crisis.”¹⁶

Of those organizations that do implement digital strategies, only 38 percent of them being able to determine the outcomes of their digital transformation initiatives¹⁷ is a failure, not only to shareholders—an unknown return on investment (ROI) for the time, effort and money expended—but also to customers who will subsequently be attracted to competitors where the digital investments produce a rich, seamless and integrated customer experience. This speaks to the value and value propositions and financial outcomes of **figure 1**, again demonstrating poor alignment between the SAM domains these engage with shown in **figure 2**.

Governance's Role in Narrowing the Digital Strategy Execution Gap

These issues should be better governed to reduce the severity and impact of the digital strategy execution gap. To minimize the strategy execution gap, governance professionals can:

- Ensure enterprise strategy efficacy, followed by IT (and digital) strategy efficacy, the latter of which may itself feed the enterprise strategy in a proactive paradigm. Possibly an implied

assumption of SAM, there is no point aligning poorly articulated strategies (SAM's Business and IT strategy domains).

- Ensure an effective technology horizon scan to help determine the best enablers of corporate strategy objectives. A balance exists between considering proven technologies and new technologies that often offer little more than promises. Indeed, many challenges associated with the governance of innovation and innovative technologies exist.¹⁸ Selecting an inappropriate technology for the organization guarantees that part of a strategy will not be executed, thus facilitating a strategy gap (SAM's IT Strategy domain).
- Note that IT may sometimes be in a stronger than expected position to propose new digital business models and, therefore, create new revenue streams. The overall governance challenge is to ensure consistency between analog and digital business models and manage the incremental risk of the digital innovation (SAM's IT Strategy and Business Strategy).
- Distinguish between business as usual (BAU) operations and innovations that increase the organization's relevance and sustainability, which is an important construct in digital transformation that will need appropriate oversight to ensure architectural fit and a valid allocation of resources, at least if the need to demonstrate ROI is required. This falls into an emerging field of governance called innovation governance.
- Ensure that organizational structures, governance (i.e., roles, responsibilities, accountabilities) and processes are realigned and monitored. Seventy-six percent of 80 senior executives from 20 countries and 25 industries cited employee interaction as a major constraint to strategy execution: "Executives know the barriers to long-term success are a lack of interaction and collaboration."¹⁹ Furthermore, culture (behavior) has been recognized as one of the most significant critical success factors for successful IT implementation,²⁰ with one-third of 2,135 global executives polled citing culture as the top barrier to digital transformation.²¹



Boardroom Observations and Commentary

Because many root causes underly both strategy and digital strategy gaps, digital transformation presents great opportunity. However, many do not realize the anticipated benefits and, for some, a failed transformation challenges their very sustainability. Although digital transformation governance best practices are at low maturity, emerging boardroom practices, when applied smartly, can improve certainty of outcomes. Consider the four categories of practice highlighted in **figure 4**.

Talent and Expertise

Having the courage to recognize what is not known and ask for help may be an old adage, but it is fully applicable to digital strategy development and execution. Boards and management teams need to look in the mirror and critically assess whether they have the required talent and expertise to develop a digital strategy and to execute the transformation.

Because boards can be ill-prepared for digital transformation oversight,²² board skills need to be assessed and refreshed as needed. Steps to ensure competent execution include board education, advisors' engagement and, if appropriate, the appointment of directors with the required expertise, all toward ensuring the competent execution of the directors' fiduciary responsibilities. However, absent of a catalytic event, these take time to effectuate change.

Regulators are also increasingly critical of this level of board accountability. For example, in Canada, the Office of the Superintendent of Financial Institutions (OSFI) Corporate Governance Guideline (CGG) requires the board to approve and oversee the:

- Appointment, performance review and compensation of the CEO and other key members of senior management
- Mandate resources and budgets for the oversight functions²³

Indeed, board members are required annually to attest to their compliance under this guideline, ensuring that adequate and sufficient resources exist to execute the business plan and reduce the strategy and digital strategy gaps.

Strategy Development

As highlighted earlier, IT's proactive role in strategy development is a rapidly developing paradigm. It is also a prerequisite in the development of any leading

business strategy that is enabled by digital technology because these can only be developed through the fusion of great business and digital minds that fully understand digital capabilities and use cases to fully envision the strategic possibilities for the creation of new and innovative customer experiences, products, revenue streams and efficiencies.

Therefore, engaging proactive IT as equal partners in the strategy development and refresh processes is imperative. Doing so strengthens an organization's ability to envision how markets evolve, shape the industry, and the manner in which it can lead and achieve its performance aspirations. However, a 2020 survey of 302 global c-suite executives in large organizations shows that IT develops an equal partnership with business only one-quarter of the time.²⁴

Specifically, an emerging board practice not only demands transparency in the enabling digital strategy but also targets customer experience

Figure 4—Board Focus for Narrowing the Digital Strategy Execution Gap



outcomes, the enabling business model, operating model, supporting talent and workforce plans, which endorses SAM's sustained relevance and the modern digital transformation domains articulated in **figure 2**.

Business Case and Resource Allocation

Enlightened boards are beginning to value digital transformation business cases that fully identify the opportunities and associated risk scale in a transformation execution plan that manages executive sponsorship, outcomes, performance metrics, project ownership and resource requirements.

Done well, this addresses the previously mentioned fact that two-thirds of CEOs and executives admit that they lack the capabilities to create value and execute their strategies.^{25, 26}

Execution

To achieve target outcomes, boards include strategy and digital transformation reports that provide a keen lens on transformation oversight and execution, focusing on progress against key metrics, risk, opportunities and interventions to course correct where necessary at the quarterly board meetings.

"Transition risk management" is also gaining acceptance as a risk management framework that includes oversight of digital transformation risk, with the goal of achieving greater levels of certainty in the achievement of target outcomes. Transition risk defines the point where something defined as a risk begins to materialize.²⁷ The top five transition risk factors include:²⁸

1. Schedule delays
2. Service costs
3. High-demand skill sets
4. Service quality degradation
5. Managing service provider effectiveness

Moreover, boards also focus on ensuring that the right CEO and leadership team are in place, culture is evolving the way it needs to and employees are engaged in the strategy execution.

In terms of the right CEO and management team, digital transformation quite often requires different leadership skills, both during the transformation and operation of the business afterward. Boards have a duty to understand the new skills required and ensure that the right CEO and leadership team are in place to execute this digital transformation. The right CEO is not merely a permission giver, figurehead or an endorser; the right CEO is both the chief digital ambassador and arbiter of the digital vision, ensuring that the executive team remains committed to achieving the digital vision,²⁹ thereby driving the elimination of the digital strategy gap.

“DIGITAL TRANSFORMATION QUITE OFTEN REQUIRES DIFFERENT LEADERSHIP SKILLS, BOTH DURING THE TRANSFORMATION AND OPERATION OF THE BUSINESS AFTERWARD.”

Culture, too, needs to evolve as an important element of digital transformation. Examples include ensuring that leadership teams are instilling agility and the mentality that it is “OK to make mistakes, but learn from them and fail fast.” While every organization will face technological challenges in their digital transformation journey, “transforming an organization’s culture is more challenging.”³⁰

Compared to Waterfall, Agile is a methodology better suited to achieving the desired agility because it deals with uncertain and unpredictable environments and helps ensure prioritization of the right (sub)projects.³¹ However, accommodating Agile and agility in a large organization steeped in a Waterfall culture is challenging.

Given the recruitment cost, talent war and poor employee engagement cost, the latter is high on many leaders’ agenda.³² Successful digital transformation

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includes empowered employees who have the autonomy and tools they need to do their job successfully, leading to greater customer satisfaction,³³ the ultimate outcome of digital transformation. To achieve this, boards are challenging management to ensure that through effective and continuous communications, each employee understands how the change impacts them, their roles going forward and ways they personally can contribute to the transformation and, eventually, enterprise performance in the new paradigm.

Done effectively, these strategies mitigate the previously mentioned facts that 80 percent of executives admit that their strategy is not understood in their organizations,³⁴ only 7 percent of staff understand the expectations of them in executing the strategy, and organizations realize less than two-thirds of the financial performance their corporate strategy proposes.³⁵

These board trends are increasingly helping to better align IT with business to narrow the digital strategy gap.

Conclusion

The 30-year-old SAM continues to have the power to create an IT and overall digital transformation strategy that proactively contributes to an organization's digital future. The issue of a digital future has never been as important for so many businesses as it is today, if it is not already too late for them.

For those organizations that have implemented a digital strategy, many will have experienced a digital strategy gap, part of an enterprise strategy gap that ultimately results in a financial expectations gap for the organization. As an example, one part of a digital strategy under a particularly harsh spotlight under the coronavirus pandemic is BCP. It is now strongly in focus for organizations that, for example, found that their BCPs are not quite up to the task of a mass work-from-home requirement, in some cases resulting in financial losses for organizations due to lost business.

Ultimately, SAM showed itself to be one part of an important tool set that can help to narrow the digital strategy execution gap. The other part of the tool

set is the evolution of governance demonstrated not only in theory, but also by means of the supporting enterprise governance trends found in today's boardrooms.

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