Strategic Best Practice - Importance of Business and IST Alignment

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**Introduction**

This paper presents initial best practice in the area of business and Information Systems Technology (IST) alignment. This paper should be read in conjunction with ‘Strategic Information Systems Knowledge – IST and Business Alignment’

**Discussion**

Since Porter’s (1985) early work on competitive advantage, the concept of IST in the business context has been discussed widely. Porter’s models such as five forces, generic strategies and value chains have enabled a ‘coherent’ strategic language to develop in organisations. This is despite the widespread theoretical objections to Porter (Ciborra, 1994). In terms of IST capability McFarlan *et al* (1983) postulation of IST within the strategic grid allows organisations to determine where their IST capabilities are, and provide an indication of an appropriate IST strategy (Robson, 1997). Within this grid IST in an organisational context is classified as support, turnaround, factory or strategic. Additionally, a more inside-out, resource-based focus towards IST strategic activity can be enabled through organisations’ shared IST capabilities that provide the foundations for other business systems (Broadbent and Weill, 1997). Infrastructure assets such as technological (the actual technical platforms), the human assets (the ability to apply business and technical skills to business problems) and the relationship assets (the sharing of IST responsibility) can in fact enable strategic capability through flexibility and responsiveness (Ross, 1996).

This strategic potential, of an organisation’s IST infrastructure, is clearly denoted in Keen’s (1991) reach and range model. By enabling a business applications base through the underlying architecture and infrastructure, organisations are able to extend their IST reach (the ability to enable connectedness) and range (the range of services offered) to internal employees, suppliers and customers. As Dunn (2004) argues, IST has become an integrated part of business. However, to deliver value, the underlying IST architecture must be flexible to allow for strategic agility.

To gain value from IST within the business context, there is a need to ensure business and IST activity is aligned. As more recent research shows:

“…we draw attention to a significant and reframed role of IT as a digital generator in contemporary firms.” Sambamurthy *et al* (2003: 237)

With the advent of e-business technologies, we now see a more IST centric business model developing across organisations. This means that not only can IST lead to improved efficiencies and deliver generic strategies but can in fact enable organisations to deliver strategic agility and open up new ‘digital options’ (Sambamurthy *et al*, 2003). In fact:

“…we argue that the inability to realise value from IST investments is, in part, due to the lack of alignment between business and IST strategies of organizations.” Henderson & Venkatraman (1993: 4)

“…alignment is based on two building blocks: strategic fit and functional integration. The former recognises the need for any strategy to address both external and internal domains. The external domain is the business arena in which the firm competes and is concerned with decisions such as product-market offering and the distinctive strategy attributes that differentiate the firm from its competitors…In contrast, the internal domain is concerned with choices pertaining to the logic of the administrative structure (functional or divisional or matrix organisation) and the specific rationale for the design and redesign of critical business processes.” Henderson & Venkatraman (1993: 4)
As Glasser (2004) argues, bringing together IST and business activity is extremely difficult to achieve since: the business strategy may not be clear and consistent, the senior executives may be unable to determine and agree strategic priorities, and IST opportunities may not be clearly understood (Glasser, 2004). Glasser further argues that one mechanism that could assist organisations align the business and IST strategic activity is to ensure that the high-level strategic intent of the business strategy (e.g., low cost) is also mirrored in the IST strategy. From the work of Scott-Morton (1991) and Henderson and Venkatraman (1993) it is argued that IST and business integration must ensure both functional and strategic alignment across the internal and external business and IST domains. In conceptualising the alignment debate Henderson and Venkatraman (1993) postulated four alignment perspectives covering:

- **Strategy Execution** - The business strategy is the sole driver of all domains – adopting the more classical view of IST strategy development discussed earlier.
- **Technology Transformation** - Assessment of implementing the chosen business strategy through the appropriate IST strategy. This perspective seeks to identify the best possible IST competences.
- **Competitive Potential** - This perspective is concerned with the exploitation of IST to deliver strategic capabilities. It allows for the adaptation of the business strategy through IST capabilities.
- **Service Level** - Focus here is on how to build a world class IST service organisation.

More importantly, recent research by Reich and Benbasat (2000) took the alignment debate a stage further by focusing on the need to establish long-term alignment through the connection of plans, short-term alignment and social alignment through various organisational individuals. Although short-term and social alignment is evident within the Reich and Benbasat (ibid) work, they provide little support for an organisation’s ability to enable long-term alignment through the connection of IST and business plans. It could be argued that a number of socio-intellectual factors potentially affect the alignment of IST and business, including: top management support, shared domain knowledge (i.e., synergies between groups involved in the processes) and market trust (expectations shared by IST and business individuals). In fact, a more socio-intellectual framework of alignment can help explain how business and IST alignment can be accomplished (Kim, 2003). IST alignment can impact on business performance depending on the success of social and intellectual alignment issues (Kim, 2003). The importance of social alignment is clearly argued by Enns et al:

“In order to develop and bring to fruition strategic information systems projects, chief information officers (CIOs) must be able to effectively influence their peers.” Enns et al (2003: 155)

The strategic practice presented in many organisations illustrates that IST has a fundamental role to play in shaping the business strategy, not only in terms of efficiencies and differentiation (as per Porter) but also in terms of delivering IST dependent business models through the generation of ‘digital options’. Using IST as a driver strategic initiatives adopt the use of inside-out or outside-in strategic rationale as required but must always be justified through a business case. In this sense McFarlan et al’ (1983) postulation of IST capability in the McFarlan grid reveals a clustering of many organisations’ actual strategic practice in the ‘strategic quadrant’. However, at all times, the focus of an initiative must always consider operational value as well. Furthermore, the individual requirements of each initiative can dictate the strategic rationale adopted within the organisation, meaning that any particular initiative may not be subservient to the overall organisation strategy but could in fact lead to a major strategic re-orientation. In many strategic initiatives, the formally documented rationale for investment did not explicitly state strategic value but is seen to be implicit to the actual initiative.
Importantly, strategic practice across many organisations illustrates a strong commitment to the alignment of the internal and external IST/business domains – as argued for by Scott Morton (1991) and Henderson and Venkatraman (1993). However, the potential alignment perspectives denoted by Henderson and Venkatraman are not necessarily stable across the whole organisation but can in fact vary across the portfolio of strategic initiatives being developed. Importantly short-term alignment is clearly evident at the strategic initiative level with strong social alignment enabled through IST individuals providing a linkage role (as analysts, integrators or account managers) into the business areas impacted by the strategic initiative. More importantly however, Reich and Benbasat’s (2000) conclusion that long-term IST alignment is not evident in organisations is not supported by the strategic practice evident in many organisations. In fact, strategic practice clearly shows strong commitment of organisations in ensuring long-term alignment through the connection and dissemination and IST and business plans.

Strategic practice reveals that in fact the integration and alignment of IST and business activity is not necessarily a fluid process as depicted in the orthodox knowledge. Glasser’s (2004) conclusion that the high-level strategic intent of both the IST and business strategies must be synchronised is clearly apparent in strategic practice. However, Glasser’s (2004) argument that the processes by which the business strategy is devised should be mirrored in the IST strategy process is not always supported, but can be dislocated due to the differing strategic requirements, implementation issues and the timelines of business and IST planning requirements. In many organisations the alignment and integration of IST and business activity is of paramount importance. However, through the processual perspective of strategic change, three distinct models of how planning integration unfolds in practice is evident – illustrated in Figure 1. The three distinct models represent organisations attempting to adopt different approaches, including fluid integrated approach whilst other organisations will perform a more dislocated approach. For some organisations, business planning will be conducted first, which is followed by the IST planning and then the integration of both plans. Other organisations conduct IST planning first, which would then be integrated into the business planning cycles. Interestingly, it is the specific organisational planning frameworks that dictate the actual process by which the planning phases would unfold. Ultimately whatever approach would be taken, the resultant practice would ensure that both the IST and business plans are integrated.

![Diagram](image-url)
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