Chapter V
Strategic Alignment for Business Value Creation

INTRODUCTION

Chapter IV defines the macromodel for achieving business/IT alignment. This chapter defines the detailed methodology for each step of the IT strategy process.

First, the business strategy process must be methodical and able to clearly show the linkage between corporate strategic intents and the respective specific business functional plans for realizing the intents. For example, for a specific productivity goal defined for the corporation, the respective initiatives planned for sales and marketing, and those for supply chain management must be clearly linked and explicitly correlated in a "cause-and-effect" manner. A good method invented by Norton and Kaplan called strategy map is an effective tool for this purpose.

This chapter reviews the basic principles of IT strategy. It briefly discusses various models used to analyze or describe disparate parts of strategic alignment. These strategic alignment models are contrasted with our end-to-end alignment model for defining and executing business-aligned IT strategy. It shows that our model has integrated all the individual disparate alignment elements proposed by these models. Further, it shows our model has addressed some key requirements which have either not been considered or only partially considered by some of these models. The main strengths of our model compared to previous work are twofold: (a) it addresses all alignment elements in an integrated fashion to make them meaningful and useful for practitioners; and (b) it addresses the full life cycle of strategic alignment from direction setting to strategic outcome monitoring and ongoing feedback loop for self-adjusted alignment (aided by architecture principles and IT governance).

We use the Kaplan and Norton (2004) strategy map as a basis for developing the business-aligned IT strategy. This leads us to the first stage (strategy direction) of our four stage strategic alignment model. The first step to producing the IT strategy is to have a clearly defined business strategy, which states explicitly the business directions and objectives desired. These business strategic objectives will define the new business capabilities required for competition—the operating model for the firm (Ross, Weill, & Robertson, 2006). It will articulate the strategic business information and process capabilities required. A gap analysis is defined to assess what specific information and process capabilities are lacking in the existing IT environment to meet these strategic needs. Because these capabilities are interrelated, the results of the analysis and the desired future state should be best described in terms of integrated enterprise architecture. A key strength of the methodology is the prescribed method used to explicitly trace the linkage between the source business strategic drivers and resultant IT strategic requirements. From this analysis, we can develop the IT competencies required to deliver the business strategic objectives—the IT competency or capability strategy—over the duration of the business strategy. Sourcing strategy is then developed from the IT competency strategy. It determines with the view to achieve competency flexibility and market adaptability, in line with the business strategy, what skills must be kept in-house and what are best sourced from partners, either locally or offshore. Finally, it defines the IT governance model required to guide the execution of the strategy. The execution methodology follows the end-to-end strategic management process defined in Chapter IV.

In this chapter, we will use the case examples of the business transformation strategies of a major Australian bank (Bushell, 2003) and a retailer (Mills, 2005) to illustrate an application of the end-to-end strategic alignment principles. We break down the banking example into three parts by reviewing the approach taken by the bank's CIO at each of the first three stages of our four-stage IT strategy process. And we describe IT business value delivery reported by the retailer to illustrate the last stage of IT strategy process—business outcome monitoring.

We will return to the practical application of strategy map by example in Chapter XII through a case study of the business–IT strategy alignment process and outcomes of an Asia Pacific leading electricity utility company.

STRATEGIC ALIGNMENT PRINCIPLES

Basic Elements of Strategic Alignment

IT is a means to the business end. Thus, as discussed in previous chapters, IT strategy is part of the business strategy and it focuses on the direction and the paths the IT organization, process, systems, and people must take in helping implement the business strategy. The basic principle of IT strategy is therefore very simple—every directional intent, every technical path, and every technical standard and architectural principle it prescribes, and every process model and operating guideline it recommends must be accounted for by ensuring the business outcomes they produce are in line with the business strategic objectives. Thus, as described in Chapter IV, the key to producing a high quality business-

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