

# Alignment of Business and Knowledge Management Strategy

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## INTRODUCTION

The role of knowledge as a crucial asset for an enterprise's survival and advancement has been recognized by several researchers (e.g., von Krogh, Ichijo, & Nonaka, 2000). Moreover, by having knowledge (intellectual resources), an organization can understand how to exploit and develop its traditional resources better than its competitors can, even if some or all of those traditional resources are not unique (Zack, 1999). Therefore, knowledge management (KM-) strategy has to be solidly linked (aligned) to business (B-) strategy in order to create economic value and competitive advantage.

Several authors clearly indicate the importance of mutually aligning business strategy and KM efforts and how this alignment helps enhance organizational performance (e.g., Earl, 2001; Ribbens, 1997). For example, Maier and Remus (2001, 2002, 2003) propose a process-oriented approach that considers market-oriented factors in a KM strategy. In this approach KM strategies can be described according to the process focus and type of business processes supported (Maier & Remus, 2001). The process focus can extend from a single business process to an organization-wide perspective, including all relevant business processes (core and service). The type of process is related to the identification of knowledge-intensive business processes. In addition, Sabherwal and Sabherwal (2003) empirically found that the cumulative abnormal stock market return (in the five-day event window) due to a KM announcement is positively associated with the alignment between the firm's business strategy and the attributes of the KM initiative announced. They use four attributes to characterize KM initiatives: KM level, KM process, KM means, and knowledge source. KM level concerns the hierarchical grouping of individuals upon which the KM effort described in the announcement is focused. The KM processes (or K-manipulating processes) involve the sharing, utilization, or creation of knowledge, while KM means involve organizational structural arrangements and technologies that used to enable KM processes (Earl, 2001; Hansen, Nohria, & Tierney, 1999). Finally, knowledge source reflects from where the knowledge originates.

However, realizing the importance of aligning B- and KM-strategies in creating value and in gaining competitive advantage is only the first and the easiest step in any KM initiative. The second and almost as important step is to

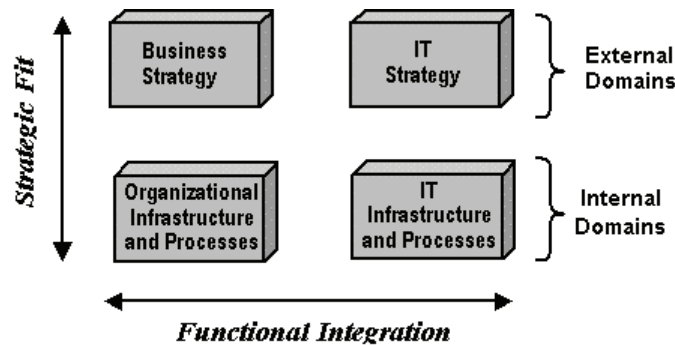
answer how and where to begin questioning (Earl, 2001). In fact this link has not been widely implemented in practice (see Zack, 1999, and the empirical studies cited there), and "many executives are struggling to articulate the relationship between their organization's competitive strategy and its intellectual resources and capabilities (knowledge)" (Zack, 1999). This is due to the lack of strategic models to link KM-strategy (knowledge [K-] scope, K-systemic competencies, K-governance, K-processes, K-infrastructure, and K-skills) and business strategy. As Zack (1999) argued, they need a pragmatic yet theoretically sound model. It has been highly accepted that a pragmatic and theoretically sound model should meet at least two criteria. First, it should explicitly include the external domains (opportunities/threat) and internal domains (capabilities/arrangements) of both B- and KM-strategies and the relationships between them. Second, it should provide alternative strategic choices.

In order to address this issue a "KM strategic alignment model (KMSAM)" is presented. It stems from the premise that the realization of business value gained from KM investment requires alignment between the B- and KM-strategies of the firm and is based on the Henderson-Venkatraman (1993) Strategic Alignment Model for information technology (IT).

## OVERVIEW OF THE HENDERSON-VENKATRAMAN STRATEGIC ALIGNMENT MODEL

The KM strategic alignment model is based on the theoretical construct developed by Henderson and Venkatraman (1993). In their model, business success is viewed as the result of the synergy between four domains. The first two, the external domains, are business-strategy and IT strategy. The strategy domains are described in terms of (business/technology) scope, (distinctive business/IT systemic) competencies, and (business/IT) governance. The second two, the internal domains, are organizational infrastructure and processes and IT infrastructure and processes. Both internal domains are described in terms of (administrative/IT) infrastructure, (business/IT) processes, and (business/IT) skills. This synergy is achieved through two types of relationship:

Figure 1. IT Strategic Alignment Model (Henderson & Venkatraman, 1993)



- **Strategic fit:** Emphasizes the need for consistency between strategy (external domain) and its implementation (internal domain).
- **Functional integration:** Has two modes and extends the strategic fit across functional domains. The first mode, *strategic integration*, deals with the capability of IT functionality both to shape and to support business-strategy. The second mode, *operation integration*, focuses on the criticality of ensuring internal coherence between organizational infrastructure and processes and IT infrastructure and processes.

Figure 1 shows the elements of the IT Strategic Alignment Model (ITSAM).

## KM STRATEGIC ALIGNMENT MODEL

The premise of the original ITSAM is that “the effective and efficient utilization of IT requires the alignment of IT strategies with business strategies” (Henderson & Venkatraman, 1993). In a parallel way, the premise of KMSAM, in which knowledge strategy replaces IT strategy, is that “the effective and efficient use of organizational knowledge requires the alignment of knowledge strategies with business strategies.” Since strategy, whether B-strategy or K-strategy, can be seen as a balancing act between the *external domain* (opportunities/threats) and the *internal domain* (capabilities/arrangements) of the firm (strengths and weaknesses) (Henderson & Venkatraman, 1993; Zack, 1999), the external and internal domains of K-strategy have first to be defined.

### K-Strategy External Domain

In the case of K-strategy, the *external domain* involves three dimensions: *K-scope* (what the firm must know), *K-Systemic competencies* (what are the critical characteristics of the

required knowledge) and *K-governance* (how to obtain the required K-competencies). The first dimension, K-scope, deals with the specific domains of knowledge that are critical to the firm’s survival and advancement strategies. Survival strategies aim at securing current enterprise profitability, while advancement strategies aim for future profitability (von Krogh et al., 2000).

Determining the K-scope can be achieved by constructing a B-domain/K-thing matrix that documents the current and required state of organizational knowledge concerning some or all business domains. The first group of elements that constitutes this matrix includes the list of B-domains ( $B_j$ ). The second group of elements includes the K-things ( $K_j$ ) that describe the current state of knowledge associated with each of the relevant B-domains. To relate this knowledge to enterprise business-strategies, K-things are further classified according to the roles they play in such strategies. Von Krogh et al. (2000) have suggested that there are two types of strategies: survival and advancement. Survival strategies aim at securing current enterprise profitability, while advancement strategies aim for future profitability. Therefore, organizational knowledge, and consequently K-things, is classified into two categories: survival ( $K_s$ ) and advancement ( $K_A$ ). Figure 2 shows the generic form of this matrix.

The second dimension of the K-strategy external domain is K-systemic competencies. The focus of this dimension is the set of utilization-oriented characteristics of knowledge that could contribute positively to the creation of new business-strategy or better support of existing business-strategy. This set includes characteristics such as:

- **Accessibility:** The extent to which organizational knowledge is made available to its members regardless of time or location (Buckman, 1998).
- **Transferability:** The extent to which the newly acquired knowledge can be applied in other contexts, for example, organizational and cultural (Grant, 1996).

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