

Chapter III

Strategic Alignment, IT Value, and Organizational Analysis

INTRODUCTION

Over the last several decades, strategy researchers have devoted attention to the question of how corporate elites (i.e., corporate executives and directors) affect corporate strategy. The CEO as a person in position shapes the scope of the firm, while the CIO as a person in another position shapes the scope of IT in the firm. Jensen and Zajac (2004) proposed and tested the notion that while differences in individual characteristics of corporate elites may imply different preferences for particular corporate strategies such as diversification and acquisitions, these basic preferences, when situated in different agency contexts (e.g., CIO, CEO) generate very different strategic outcomes.

Strategy can simply be defined as principles, a broad based formula, to be applied in order to achieve a purpose. These principles are general guidelines guiding the daily work to reach business goals. Strategy is the pattern of resource allocation decisions made throughout the organization. These encapsulate both desired goals and beliefs about what are acceptable and, most critically, unacceptable means for achieving them.

While the business strategy is the broadest pattern of resource allocation decisions, more specific decisions are related to information systems and information technology. How should IS/IT resources be allocated within business organizations? How can business ensure the IS/IT resources will deliver the desired business value? Hann and Weber (1996) see IS/IT strategic planning as a set of activities directed toward achieving the following objectives:

1. Recognizing organizational opportunities and problems where IS/IT might be applied successfully
2. Identifying the resources needed to allow IS/IT to be applied successfully to these opportunities and problems
3. Developing strategies and procedures to allow IS/IT to be applied successfully to these opportunities and problems
4. Establishing a basis for monitoring and bonding IT managers, so their actions are more likely to be congruent with the goals of their superiors
5. Resolving how the gains and losses from unforeseen circumstances will be distributed among senior management and the IT manager
6. Determining the level of decision rights to be delegated to the IT manager.

Empirical studies of information systems/information technology planning practices in organizations indicate that wide variations exist. Hann and Weber (1996) found that organizations differ in terms of how much IS/IT planning they do, the planning methodologies they use, the personnel involved in planning, the strength of the linkage between IS/IT plans and corporate plans, the focus of IS/IT plans (e.g., strategic systems vs. resource needs), and the way in which IS/IT plans are implemented.

In this chapter, we will review the principles of strategic alignment and discuss in detail the various methods for IT value and organizational maturity analysis.

STRATEGIC ALIGNMENT

Alignment between business strategy and IT strategy is widely believed to improve business performance (Sabherwal & Chan, 2001). Therefore, strategic alignment is both a top management concern and also an important characteristic of the attributes of effective CIOs. While the business strategy is the broadest pattern of resource allocation decisions, more specific decisions are related to information systems and technology platforms. IS must be seen both in a business and a technology context. IS is in the middle because IS supports the business while using technology platforms.

Business strategy is concerned with achieving the mission, vision, and objectives of a company, while IS strategy is concerned with use of IS applications, and technology strategy is concerned with the technical infrastructure—both in line with the business strategy. A company has typically several IS applications. The connection between them is also of great interest, as interdependencies should prevent applications from being separate islands. Furthermore, the arrows in the illustration in Figure 3.1 are of importance. Arrows from business strategy to IS strategy and from IS to technology strategy represent the alignment perspective, and they illustrate the *what* before *how*. Arrows from technology to IS strategy and from IS to business strategy represent the extension from *what* to *how* to *what*. This is the impact perspective, representing the potential impacts of modern information technology on future business options.

As described in Chapter II, necessary elements of a *business strategy* include mission, vision, objectives, market strategy, the unique value propositions, and value configuration to achieve the mission, vision, and objectives. It should also include the corresponding

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