Chapter 1.4
Enterprise Systems Strategic Alignment and Business Value

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ABSTRACT

This chapter is dealing with the alignment of enterprise systems with business strategy and its impact on the business value that enterprise systems generate. Initially the research on the strategic potential of ICT, which constitutes the basic theoretical foundation of the need for strategic alignment of enterprise systems, is analyzed. Then the previous research that has been conducted concerning enterprise systems strategic alignment is critically reviewed. It is grouped into three basic streams. The first of them is dealing with the conceptualization and basic understanding of enterprise systems strategic alignment. The second research stream aims at the development of models and frameworks for directing and assessing enterprise systems strategic alignment. The third research stream examines the impact of enterprise systems strategic alignment on business performance. Finally, an empirical investigation that has been conducted by the authors concerning the impact of enterprise systems strategic alignment on business performance as a guidance for future research on this topic is described. We expect that this chapter will sufficiently inform on strategic alignment, both researchers and practitioners in the area of enterprise systems, so that they can incorporate this highly important concept in their research and practice respectively.

INTRODUCTION

The strategic alignment of information systems (IS) has been ranked as the most important issue that IS managers face in the two most recent formal surveys conducted by the Society for Information Management (SIM) of USA (www.simnet.org)

concerning the key IS management issues (Luftman & McLean, 2004; Luftman, 2005). Also, the strategic alignment of IS has been ranked in very high positions in most of the surveys of the key IS management issues that have been conducted in various countries (e.g. Palvia et al, 2002). Several definitions of IS strategic alignment have been proposed by the relevant literature. According to Broadbent & Weil (1993) as IS strategic alignment is defined the extent to which business strategies are enabled, supported and stimulated by information strategies. Luftman (2000) provides a more detailed definition stating that 'Business-IT alignment refers to applying Information Technology in an appropriate and timely way, in harmony with business strategies, goals and needs. This definition of alignment addresses: 1. how IT is aligned with the business and 2. how the business should or could be aligned with IT' (p.3). Duffy (2002) in an IDC Report states that IT technical people have criticized corporate general management for a lack of interest in the IS function; at the same time general management people have criticized the IT technical people for not understanding the business and for not being profit-oriented, being interested mainly in solving technical problems and not business problems. However, at the same time he remarks that 'However valid both of these criticisms may have been, there is evidence that the gap between the two groups is now narrowing" (p.2), and defines 'IT/Business Alignment' as 'the process and goal of achieving competitive advantage through developing and sustaining a symbiotic relationship between IT and Business' (p.4).

The strategic alignment of enterprise systems consists in the establishment of a bilateral relationship between the enterprise systems planning process and the business/strategy planning processes, which allows:

- The mission, goals, competitive strategy, future directions and action plan of the enterprise, and also the analysis of its external environment (e.g. competition, opportunities, threats) and the analysis of its internal environment (e.g. resources, capabilities, strengths, weaknesses), which are basic elements of its business/strategy plan, to be taken into account for the formulation of its enterprise systems plan,
- And also the capabilities, strengths and weaknesses of existing enterprise systems, the planned enterprise systems, the forms and the extent of information and communication technologies (ICT) usage in the industry and the capabilities offered by existing and emerging ICTs that may interest and influence the enterprise, which are basic elements of the enterprise systems plan, to be taken into account for the formulation of the business/strategy plan.

The basic objective of this bilateral relationship is to exploit ICT in the enterprise in the best possible manner for both supporting and enriching its business strategy, and to take advantage to the highest possible extent of the significant strategic potential of ICT.

This chapter is dealing with the alignment of enterprise systems with business strategy and its impact on the business value that enterprise systems generate. It aims to inform on this highly important issue both researchers and practitioners in the area of enterprise systems, so that they take it into account and incorporate it in their research and practice respectively. In this direction in the following second section of this chapter is reviewed briefly the research that has been conducted on the strategic potential of ICT, which constitutes the basic theoretical foundation of the need for strategic alignment of enterprise systems. Then in the third section the previous research that has been conducted concerning enterprise systems strategic alignment is critically reviewed. In the fourth section is described an empirical investigation that has been conducted by the authors concerning the impact of enterprise