

Chapter 5

Strategic Alignment and IT-Enabled Value Creation

ABSTRACT

This chapter describes the principles and methods for producing a business-aligned IT strategy to enable value co-creation with customers. In particular, the authors detail the alignment method and the underlying dynamic process of alignment as they form the critical disciplines that practitioners must master. The chapter also describes the Strategic Alignment Maturity (SAM) model by which management can gauge and continuously improve their organization's strategic alignment capabilities. Finally, the authors discuss in detail the various methods for IT-enabled value creation.

INTRODUCTION

As introduced in chapters 2 and 3, 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 a service business ensure the IS/IT resources will deliver the desired business value and value co-creation with the customers? Hann and Weber (1996) see IS/IT strategic planning as

a set of activities directed toward achieving the following strategic business alignment 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

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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 versus resource needs), and the way in which IS/IT plans are implemented.

Strategic business-IT alignment remains a top priority for CEOs and CIOs alike, despite being a subject of intensive study for over 20 years (Luftman, et al., 2011). There is also a paucity of practical approach (Avison, et al., 2004; Chan, 2002) to guide practitioners in developing a business-aligned IT strategy, which will deliver the planned strategic business outcomes.

This chapter will describe the principles and method for producing a business-aligned IT strategy to enable value co-creation with customers. In particular, we will detail the alignment method and the underlying dynamic process of alignment as they form the critical disciplines that practitioners must master. The chapter also describes the Strategic Alignment Maturity (SAM) model by which management can gauge and continuously improve their organization's strategic alignment capabilities. Finally, the authors discuss in detail the various methods for IT-enabled value creation.

STRATEGIC ALIGNMENT TOWARD CUSTOMER VALUE CO-CREATION

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 1 are of importance. Arrows from business strategy to IS strategy, and from IS to technology strategy represent the alignment perspective, 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 2, 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. In chapter 4 we show that the firm often uses its business strategy and the attendant unique value propositions to shape and define its differentiating service strategy (and associated service concept) on one hand, and select an appropriate business model to generate profit for the service strategy on the other. For completeness, the business strategy should also include the corresponding IS/IT strategy which encompasses knowledge strategy, and our general approach to the use of information, information systems and technology platforms to enable customer value co-creation.

Cassidy (2006) opines that true strategic alignment is achieved when IS/IT strategy is developed concurrently with business strategy, instead of

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