Chapter XIV

Strategic Alignment for Electronic Commerce

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ABSTRACT

The dynamic nature and flexibility of electronic commerce increases the importance of the alignment of business strategy and information technology further. This chapter presents an extension of the strategic alignment model with an integration of the external domains of business and information technology strategy, thus keeping the focus on the competitive environment and shifting the responsibility for information technology to top management level. The application of the proposed hypothesis through a framework of the competitive environment is demonstrated within the context of the retail banking industry.

INTRODUCTION

This chapter investigates the relationship between business and information technology strategy of organizations in the new economy transformed by electronic commerce and on-line distribution. The following discussion of suitable reactions to these trends for strategy formulation is based on Henderson and Venkatraman’s strategic alignment model. The model is adjusted to reflect the requirements imposed by the new economy. Subsequently, the impact of emerging electronic distribution on the strategic environment in general, and the competitive environment in particular, is formalized in a staged industry framework. The application of this framework in conjunction with the revised strategic alignment model is then demonstrated for the on-line retail banking industry.

On-line distribution will lead to dramatic changes in the competitive environment over the next few years. Information technology and telecommunication networks provide new opportunities to reach consumers more efficiently. However, if firms neglect the challenges associated with these opportunities, they risk losing customers and giving up competitive
advantages to faster competitors. While consumers will enjoy the freedom of open networks and standards, companies struggle to incorporate the Internet challenge into their corporate strategy. Organizations have to respond to the success and the potential of on-line distribution. The implementation of open standards and resulting areas for differentiation and competition will change industry structures and entry barriers. Thus, the optimal alignment of the business strategy with the information technology strategy becomes a critical success factor for organizations of all sizes.

**STRATEGY ALIGNMENT FOR ELECTRONIC COMMERCE**

The analysis of suitable alignment models leverages the existing strategic alignment model by Henderson and Venkatraman. However, the substantial advancement of information technology in the electronic commerce era necessitates a revision of the strategic alignment model to reflect the increasing requirements on strategy formulation in the new economy. These necessary changes are directed at the analysis of the external domain for both the business and the information technology area and are presented in detail a bit later on.

**The Strategic Alignment Model for Information Technology**

The impact and importance of information technology on a firm’s competitive advantage (Porter & Millar, 1987) and the corporate strategy formulation (Keen, 1991; Scott Morton, 1991) has been acknowledged by academia and practitioners for some time now. Despite doubts about the strength of productivity gains through information technology innovation (Strassman, 1990), information technology management theory and practice focused on "shaping" and "reengineering" business functions (Hammer & Champy, 1993; Venkatraman, 1994).

Henderson and Venkatraman (1999) proposed the "Strategic Alignment Model" as a theoretical framework for the alignment process between information technology and corporate strategy. Subsequently, the Strategic Alignment Model has been empirically applied and revised by several other authors (Luftman, Lewis & Oldach, 1993; Papp, 1995).

As emphasized in Henderson and Venkatraman’s work, and even more important in electronic commerce, is the inherently dynamic nature of strategic alignment. The evolutionary nature of electronic commerce requires organizations to constantly adjust their strategies, business processes, and deployed information infrastructure and applications (Bauer, Glasson & Scharl, 1999). Clearly, the "compressed" Internet time leads to added pressure for the adoption of a strong position on strategic alignment. In terms of a subject description of strategic alignment, Henderson and Venkatraman (1999) propose: "… a strategic fit between the position of an organization in the competitive product-market arena
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