Chapter 9
The Relationship between Business Strategy, IT Strategy and Alignment Capability

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ABSTRACT

A key factor for in company’s success in a dynamic environment is effective and efficient information technology (IT) supporting business strategies and processes. Research has shown that organizations that successfully align their business strategy and their IT strategy outperform their non-aligned peers. This chapter explores the relationship between business strategy, IT strategy, and alignment capability. The author found no conclusive relationship between business strategy and IT strategy. Each business strategy can be supported by all IT strategies, but certain combinations provide a better fit than others. He also found no conclusive relationship between business strategy and alignment capability either. However, the author found a clear relationship between IT strategy and alignment capability. The chapter explores this relationship further in a dual case study of two organizations having distinctly different IT strategies. One organization sees IT as an enabler for the business processes with mainly an internal impact, whereas the other organization sees IT as a driver for business innovation that can create competitive advantage in the marketplace. Based upon an assessment of their alignment capabilities, the author found that the company with the innovative IT strategy scored a distinctly higher alignment capability than the company with the essential IT strategy. Although this conclusion may not be surprising, it provides further evidence for the statement that a more progressive IT strategy pairs with a better alignment of business and IT.

INTRODUCTION

The necessity and desirability of aligning business needs and IT capabilities is examined in numerous articles (Pyburn 1983; Reich & Benbasat, 1996; Chan et al., 1997; Luftman & Brier, 1999; Maes et al., 2000; Sabherwal & Chan, 2001) and its importance well recognized (Cumps et al., 2006). In a review of over 150 studies into business and IT alignment (BIA) however, Chan and Reich
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(2007) show that many different perspectives on and aspects of BIA exist. Although Henderson and Venkatraman are often credited for launching ‘alignment’ as a new concept for the fit between business and IT in their Strategic Alignment Model (Henderson & Venkatraman, 1993), the challenge of fitting IT solutions to business requirements is not new. Together with the rise of information systems in organizations, the need for alignment of its use with business processes and strategy grew. As a response to this challenge, methodologies of IT planning and system development were developed. Amongst others: Business Systems Planning (IBM Corporation, 1981), Information Systems Study and Information Engineering (Martin, 1982). These methodologies of information systems planning (ISP) can be regarded as early appearances of BIA (Chan & Reich, 2007). As these early methodologies were developed in the 1970s and 1980s, at a time when the use of IT in organizations was relatively new, it is not surprising that they were designed for building foundations for the development of large bespoke information systems. The methodologies therefore focused heavily on the methodological analysis of the organization’s business processes and data (Silvius, 2005).

Some researchers (Lederer & Sethi, 1988; Earl, 1993; Segars et al., 1998) suggest that the methodological focus in the development of ISP methods, failed to identify the broader set of practices that influenced the use and effectiveness of ISP, such as the level of participation, the ownership of the project or the focus of the planning exercise. Consequently, Earl (1993) suggested a strategic information systems (SISP) approach that combines method, process and implementation, as the most complete way of planning IT systems and investments. The most significant differences between SISP, and the ISP methodologies described earlier, were its explicit emphasis on strategic alignment and competitive impact (Doherty, et al., 1999). In the Strategic Alignment Model (Figure 1) this is visualized by the top layer of factors. Strategic BIA refers to the alignment of business strategy, plans and priorities and IT strategy, plans and priorities (Chan & Reich, 2007). Several authors confirm that organizations that successfully align their business strategy and their IT strategy outperform their non-aligned peers (e.g. Chan et al., 1997; Irani, 2002; Kearns & Lederer, 2003). The relationship between business strategy and IT strategy is therefore a relevant area of concern.

Figure 2 illustrates the relationships this chapter aims to explore. First the alignment of business and IT strategies will be explored (relationship 1). Hereafter the relationships between business strategy and alignment capability and IT strategy and alignment capability will be explored (relationships 2 and 3). We sill elaborate on this last relationship in a dual case study of two financial services companies. The chapter concludes with some limitations and suggestions for further research.
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