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ALIGNING IT STRATEGY TO BUSINESS STRATEGY IN A MULTI BUSINESS COMPANY

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Abstract

Aligning IT to business needs is still one of the most important challenges for many organizations. In a recent survey amongst European IT managers, 78% indicate that their IT is not aligned with business strategy. Another recent survey shows similar results. The message of Business & IT Alignment is logical and undisputed. But if this message is so clear, how can practice be so difficult? To explore the issues with and approaches to BITA in practice, a focused group discussion was organized with IT managers and CIOs of medium sized and large organizations in the Netherlands. In total 23 participants from trade, manufacturing and financial companies joined the discussions. This paper explores the practice of Business & IT Alignment in multi-business-companies. The parenting theory for the role of the corporate center is used to explain the different practical approaches that the participants in the focused groups took.

Keywords

Business & IT Alignment, Mult-Business-Companies, Corporate Center, Parenting theory.

Introduction

In almost all industries, developments like new technologies, mergers and acquisitions, entrepreneurial initiatives, regulatory changes and strategic alliances create a dynamic business environment. A key success factor for a successful company in such a dynamic environment is an effective and efficient information technology (IT) supporting business strategies and processes. The necessity and desirability of aligning business needs and IT capabilities is examined in numerous articles (Pyburn 1983, Reich and Benbasat 1996, Chan et al. 1997, Luftman and Brier 1999, Maes et al. 2000, Sabherwal and Chan 2001) and its importance well recognized (Cumps et al. 2006). The annual survey on top management concerns by the Society for Information Management (www.simnet.org) ranked ‘IT and Business alignment’ as the No. 1 concern for three years in a row (Society of Information Management, 2003, 2004, 2005).

In a survey by Synstar, 78% of European IT managers indicate that their IT is not aligned with business strategy (Synstar, 2004). Another survey shows similar results (Winmark and BMC Software, 2004). Given the ‘buzz’ around ‘Business & IT alignment’ (BITA) in recent years, these results should be surprising. BITA doesn’t seem to live up to it’s promise (Bloem and Van Doorn, 2004).

This paper explores the practice of BITA in multi-business-companies (MBCs) and provides some insights in the difficulties with putting theory into practice. In the first paragraphs of the paper the definition of BITA is explored. The second part of the paper presents the practical issues that are experienced in aligning IT to business in MBCs. The last part of the paper presents an analysis of the practical approaches to BITA that the CIOs and IT managers in the focus group took, based on the parenting theory of the corporate center. The paper is concluded with a summary of the impact of the role of the corporate center on BITA in MBCs.
Research questions

The research into the issues with BITA in practice is part of a research program that explores the differences of BITA in theory and in practice. With this knowledge the theory on BITA can be further developed.

The first step of the research consisted of a literature review on the topic. This literature review focused on the question how BITA is defined and interpreted?

To explore the differences between the theory and practice of BITA we formed focused discussion groups of IT managers and CIOs of medium sized and large organizations in the Netherlands. In total 23 participants from trade, manufacturing and financial companies joined in three separate groups. The discussions were aimed at exploring the following questions.

- Which issues are faced in aligning IT with business requirements in practice?
- Which actions are taken to align IT with business requirements?

The results of these discussions are reported and analyzed in the second half of the paper. For this paper we focus on the responses by the MBCs represented in the discussions.

Business & IT Alignment

Despite of the apparent importance of aligning IT and business, the majority of publications are rather vague in terms of how to define or practice alignment (Maes et al. 2000). A first question seems to be how to define the word ‘alignment’. Other expressions used in this context are ‘fit’ (Venkatraman, 1989), ‘harmony’ (Luftman et al. 1993), ‘integration’ (Weill and Broadbent 1998), ‘linkage’ (Henderson and Venkatraman 1993), ‘bridge’ (Ciborra 1997) or ‘fusion’ (Smaczny 2001). A second question is whether IT aligns to business or business to IT? Or both? Wieringa et al. (2005) define BITA as ‘the problem of matching IT services with the requirements of the business’, identifying business as leading. This logical, but also traditional, approach is opposed by Poels (2006) who states that BITA implies a ‘mutual influence’ between business and IT.

Another question is whether BITA is a ‘state’ or level that can be achieved or a ‘process’ to get to a certain (higher?) state. The concept of BITA as a ‘state’ is further developed by Luftman (2000), who assesses the BITA maturity level of organizations. Also Reich and Benbasat (1996) ‘measure’ a degree or level of BITA. The process approach to BITA can be found in the methodologies of IT planning developed in the ‘70s and ‘80s (IBM Corporation 1981, Martin 1982). Also Weill and Broadbent (1998) support the process view when they state ‘Alignment is a journey, not an event’.

In this jungle of questions and opinions, Business & IT Alignment delivers well over a million Google hits, Chan (2002) distinguishes two prevailing conceptualizations of the alignment problem. The first one focuses on planning and objectives integration and views alignment as the degree to which the business mission, objectives and plans are supported by the ICT mission, objectives and plans. This view can be found with Reich and Benbasat (1996), Kearns and Lederer (2004) and Hirschheim and Sabherwal (2001). A more holistic conceptualization of BITA can be found with Henderson and Venkatraman (1993). Their widespread framework of alignment, known as the Strategic Alignment Model, describes BITA along two dimensions (Figure 1). The dimension of strategic fit differentiates between external focus, directed towards the business environment, and internal focus, directed towards administrative structures. The other dimension of functional integration separates business and IT. Altogether, the model defines four domains that have been harmonized in order to achieve alignment. Each of these domains has its constituent components: scope, competencies, governance, infrastructure,

![Figure 1. The ‘Strategic Alignment Model’.

Figure 1. The ‘Strategic Alignment Model’.](image-url)
processes and skills. Henderson and Venkatraman pay extensive attention to the different approaches of achieving this alignment. In the model this can be visualized by starting the process of alignment from any one of the four domains. Maes et al. (2000) refine the Strategic Alignment Model by identifying three, instead of two, columns: business, information/communication and technology column, and three, instead of two, rows: strategy, structure and operations. Other researchers added social elements of alignment to the formal methodological elements (Keen 1991, Luftman et al. 1999, Reich and Benbasat 2000, Chan 2002).

In our study we define BITA as:

**Business & IT Alignment is the degree to which the IT applications, infrastructure and organization, the business strategy and processes enables and shapes, as well as the process to realize this.**

In this definition, BITA can express both a ‘state’, the degree of alignment, as a ‘process’, the activities or methodology to reach a certain state of alignment. The definition also implies that BITA covers not just the alignment process aimed at developing, selecting or enhancing IT applications and infrastructure, but also the agreements regarding the management and maintenance of application and infrastructure services. In the Strategic Alignment Model this is shown in the different levels of alignment. The strategic level covers the alignment between business strategy and IT strategy, whereas the operational level covers the alignment between business processes & organization and IT infrastructure & organization.

In the definition ‘business’ is defined by business processes and business strategy and ‘IT’ is defined as IT applications, infrastructure and organization. This view finds support in the methodologies of IT planning mentioned earlier. The question whether IT aligns to business or the other way around is answered as ‘enables and shapes’. This indicates a two-way alignment.

### Practical issues with Business & IT Alignment

The message of BITA is logical and undisputed. IT should support the business and this will be more successful if the IT resources are developed and organized with the business strategy and processes in mind. If this message is so clear, how can the results from the Synstar and Winmark research be explained?

To explore the practice of BITA we formed focused discussion groups of IT managers and CIOs of medium sized and large organizations in the Netherlands. In total 23 participants from various industries (see Table 1) in three separate groups. The discussions were aimed at exploring the following questions.

- Which issues are faced in aligning IT with business requirements in practice?
- Which actions are taken to align IT with business requirements?

Out of the 23 participants, 18 could be classified as MBCs. These companies combined different product-market combinations in a division-type organization. For the purpose of this paper we focus on this group. The participants provided the following considerations.

#### Table 1. The MBC participants in the discussions.

<table>
<thead>
<tr>
<th>Type of industry</th>
<th># of MBC participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3</td>
</tr>
<tr>
<td>Process industry</td>
<td>1</td>
</tr>
<tr>
<td>Trade</td>
<td>2</td>
</tr>
<tr>
<td>Financial services</td>
<td>4</td>
</tr>
<tr>
<td>Professional services</td>
<td>3</td>
</tr>
<tr>
<td>Retail</td>
<td>1</td>
</tr>
<tr>
<td>Trade</td>
<td>3</td>
</tr>
</tbody>
</table>
A fuzzy target

While trying to align IT with business, many CIOs experienced ‘business’ as a quite fuzzy target. With what ‘business’ should IT align? According to the ‘Strategic Alignment Model’, and the definition of BITA we provided, a first answer should be: business strategy. In practice business strategy is unfortunately not often a clear target. Strategies depend on the views and beliefs of individuals and are therefore vulnerable to personal changes. Another reason for changes in strategies is the fact that organizations must be able to be responsive to developments in their competitive environment. ‘Business agility’ is considered a company virtue. Business strategy therefore cannot be a steady ‘target’. It is a destiny that is never reached. Strategy provides direction for a journey, not a destiny.

Figure 2. Business Strategy is not a clear target.

On the second level of the Strategic Alignment Model, the alignment is aimed at the business processes and organization. The organization provides only limited information about the business requirements. It is focused on hierarchical structure, but not on information content. An additional problem is that in many organizations the organization structure is not very stable. Departments and job titles change frequently. The business processes tend to be more stable. In the development of IT applications they provide an important basis for the analysis of the information requirements. A problem however is that there are multiple views of the business processes, all with different goals and different content. For example the process descriptions in the quality handbooks do not provide a sufficient basis for the IT analyst to work from because of lack of methodology, incompleteness and focus on activity. As a result of this most IT development projects will build their own process models according to their own modeling conventions.

Alignment versus Economies of Scale

The economic downturn of the last years forced many companies to cut back on IT costs. A widely used approach to cost
savings was the utilization of economies of scale. Standardization of IT suppliers, systems, components and configurations proved to be a practical way to save a significant percentage of the IT budget.

The first area of IT that was standardized was the IT infrastructure and the generic applications like email, calendar and the office suite. This area is not very specific to the business and could easily be standardized. The second wave of standardization hit the IT service management processes. The standardization of service levels and organization had, in some organizations, a relation with the business, which led to decentral additions to a central service level agreement.

The next step in IT standardization aimed at standardizing the configuration and versions of standard software packages in use (e.g. ERP and CRM). In this wave the effect on the business was much stronger, since it hit the information systems supporting the core processes of the organization. In the urge for standardization, the ambition to align IT with business needs as best as possible loses from the ambition to realize cost savings.

The balance between optimally aligned (‘unique’) and optimally standardized is a delicate one. Figure 3 illustrates this balance as found in the participating companies and shows that there is quite some variance in the ‘aligned zone’. The CIOs in the discussions agreed that the exact border between uniqueness and commonality was not always rationally deducted from the business requirements. Also aspects like history, culture and balance of power are factors of influence.

**Multiple businesses**

It appeared that the majority of the participating companies in the study (18 out of the 23) could be classified as MBCs. An additional practical issue for these CIOs was that the IT had to serve different business divisions with different businesses. These business differed in business characteristics, business cycles, market growth, market typology, etc. and therefore differed in their business needs.

![Figure 4. BITA in a multi-business-](image)

The 1-to-1 relationship between IT and business, assumed in formal IT planning and BITA methodologies, appeared in the MBCs to be a n-to-1 relationship. Each business division has its own business requirements, but the IT requires standards to be cost-effective.

**Business & IT Alignment in practice**

Base on the second question to the discussion groups, Which actions are taken to align IT with business requirements?, the following list of BITA practices could be developed.

- Create an overview *(all participants)*
  A first action for all CIOs was to establish an overview of current IT applications, assets, budgets and resources. For most CIOs their starting situation was one of IT anarchy as a result of the uncontrolled implementation of the personal computer as an important IT platform and the economic growth in the ‘90s. Providing an overview is a prerequisite for creating awareness about the cost of IT.

- Create buying power *(17 out of 18 participants)*
  A ‘quick-win’ for the CIOs was the centralization of IT procurement contracts in order to organize the organization’s buying power. This action usually created an immediate visible return that brought the CIO the
respect of senior management. Another practical benefit of centralized procurement contracts is that it helps the CIO to get and maintain the overview mentioned above.

- **Install a project authorization process** *(14 out of 18 participants)*
  A relatively simple action to increase the planning and control cycle of IT is the tightening of the project authorization process. By requiring clear business cases, the CIO could strengthen the involvement of business managers in the preparation of IT projects. The project authorization process provided the CIOs the opportunity to create an overview of projects, next to the earlier mentioned overviews of IT assets, resources and applications.

- **Develop (technical) standards** *(12 out of 18 participants)*
  With the increased quality of information provided by the CIO, the awareness of the actual IT situation grew with senior management. The fact that this actual situation most of the time was one of suboptimal solutions, lacking standards, overlapping projects and huge numbers of applications, combined with the tighter budget constraints in recent years, built a foundation on which the CIO could act. Starting with the more technical side of IT most CIOs developed a set of technical standards for hardware, network, server platforms, databases, development platforms, etc. These standards are a low-interest topic for business managers, but provided an opportunity for the CIO to create economies of scale and to gain control.

- **Rationalize the application portfolio** *(5 out of 18 participants)*
  A next step for most CIOs and a actual challenge for the frontrunners is the cleaning-up of the application portfolio. Most organizations use between 200 and 2000 different software applications or versions. It is estimated that a rationalization of the portfolio could save between 10% and 35% of the IT budget for maintenance and enhancement. This action however relates very much to the business process, which makes it complex. The 'aligned zone' in figure 3 is therefore quite complex.

![Table 2. The BITA practices by the MBC participants in the discussions.](image)

Not all practices were adopted by all participants. This is illustrated in Table 2. It should be mentioned that these practices illustrate the actions taken by the corporate center in the MBCs.

### Business & IT Alignment in a multi-business-company

As becomes clear from the alternating pattern of BITA practices above, the practical organization of BITA differs from company to company. These differences call for an explanation.

Following the definition of BITA we provided, a first potential explanation ought to be found in the business strategy of the organizations. Several authors (Das et al. 1991, Sabherwal and Chan 2001, Hirschheim and Sabherwal 2001) identify three distinctive business strategy styles: Defenders, Analyzers and Prospectors. Each of these three styles implies a certain set of IS measures that fit the strategy, thereby explaining what should be an ‘aligned’ behavior. This explanation however proved to be unsatisfactory in explaining the BITA practices in these NBCs. One reason for this is that the strategies explain IS strategy measures and not BITA practices. The BITA practices are process oriented whereas the IS measures are result oriented. Results however can be reached through different processes. The business strategies therefore did not explain the BITA practices as such. Another reason why business strategy styles could not explain the BITA practices in the MBCs is the
fact that in an MBC these business strategies differ by business division. Where one division can be a defender, another one can be a prospector. This inherent character of MBCs therefore requires an alternative view on the alignment process. This alternative view is provided by the role and added value of the corporate center in these companies. In corporate strategy this challenge is addressed as the ‘quest for parenting advantage’. The background of this ‘quest’ is that the parent ‘has no automatic right to exist’. To justify its existence, the parent has to demonstrate that its business units perform better in aggregate than they would as a series of individual, stand-alone identities. For BITA this means that the IT efficiency that can be obtained by standardizing resources and services has to pay-off for the business units individually. Campbell et al. (1995) even goes one step further by stating that a good parent company not only has to add value to a business unit, but that it has to add more value than any other potential parents.

In Campbell’s views two dimensions can describe a continuum of ways in which the centre could influence the business units.

- The extent of the planning influence exerted by the centre on the strategic planning processes of the organization, that defined the extent to which the strategy was centralized.
- The type of control influence exerted by the centre on the businesses within the group in order to meet plans, ranging from tight short-term financial controls through to more broadly defined and longer-term strategic controls.

Using these dimensions they identified three management styles, or stereotypes, which companies tend to follow which range along the continuum from financial control, though strategic control to strategic planning as illustrated in Figure 5.

**Financial Control style**

In the financial control style the corporate centre exerts tight financial control through demanding short-term targets but with low planning influence concentrating a budgetary process. The centre can be characterized as acting largely like a corporate shareholder or investment banker within a group of largely autonomous business units. In practice, the centre negotiates capital bids with the business units, so exerting little planning influence on the details of plans beyond their financial implications. The autonomy of the business units is stressed in terms of determining the details of the individual competitive strategies. In contrast, the centre sets clear “single line” targets for each business unit and exerts strong financial control through regular performance appraisals. There is little coordination between the business units so opportunities to exploit synergies might be missed and the centre may be able to offer very little help beyond finance. The emphasis upon the short-term may mean that some strategic issues might not be fully confronted and, although the business units are responsible for developing their own strategies, tight controls can limit flexibility and creativity.

Given the autonomy of the business units in this style, it can be expected that BITA is a task of the business units with no influence from the centre. This implicates that none of the BITA practices discussed earlier would be deployed in this control style.

**Strategic Control style**
The strategic control style fits between the other two, with tight strategic controls set by the corporate headquarters, but with a two-way planning process characterized by a dialogue between the business units and the centre. Here the role of the centre can be described as being the strategic shaper concerned with shaping the behavior of the business units and the context in which they operate. This style therefore seems to require some homogeneity between the business units in terms of their strategic characteristics so that the centre can have a good feel and understanding for each. In practice, the centre exerts moderate planning influence, setting the overall balance of the strategy but agreeing the final business plan jointly with the business units. In contrast to the financial control style there is less emphasis on short-term financial targets, but the centre is still likely to exert tight control of broader measures through performance assessment and short-term constraints on issues like employment levels. The centre may also provide expertise to the business units as a service.

In this style it can be expected that the corporate centre is involved in BITA in order to allow information linkages between business units and to support economies of scale. This last goal however will not be imposed on the business units in a restrictive way. Typical BITA practices in this control style would be ‘develop (technical) standards’ and ‘create an overview’ as groundwork for the information linkages, and ‘create buying power’ to support economies of scale.

**Strategic Planning style**

The strategic planning style places the emphasis upon strategy and longer-term objectives within a cooperative and flexible management approach. The centre exerts an extensive planning influence within strategy formation process but the control influence is flexible with less on short-term targets and a wider range of measures. The style has been labeled the master planner approach, which highlights the way in which the centre controls the strategy process, whilst the business units are responsible for implementation of the top-down plan. In practice, the centre exerts a strong leadership role within the extensive strategic planning process. The organizational structure is likely to be complex, with coordinating committees and other processes designed to draw a wide range of views into the planning process. The centre can also draw on strong central staff functions to advise and provide economies of scope in central services. Whilst the businesses are involved in the planning process, even detailed budgets are likely to be set by the centre after consultation. In contrast, the range of controls used to monitor performance is likely to stress strategic as well as financial targets.

In this style it can be expected that the corporate centre centrally steers the BITA process in order to achieve economies of scale, allowing less freedom of action for the business units. Typical BITA practices in this control style would be ‘create buying power’, ‘install a project authorization process’ and ‘rationalize the application portfolio’. Paradoxically, although more people are involved in the BITA process, this is a top-down approach so motivation and ‘ownership’ of the final strategy can be low.

<table>
<thead>
<tr>
<th><strong>MBC Management Style</strong></th>
<th><strong>Adequate organization of BITA</strong></th>
<th><strong>Adequate BITA practices</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Create an overview</strong></td>
<td><strong>Create buying power</strong></td>
</tr>
<tr>
<td><strong>Financial Control</strong></td>
<td>Decentralized process No involvement of the corporate centre</td>
<td>No</td>
</tr>
<tr>
<td><strong>Strategic Control</strong></td>
<td>Influence of the corporate centre aimed at creating linkages Economies of Scale are a secondary goal</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Strategic Planning</strong></td>
<td>Corporate Centre steers BITA process Economies of Scale are an important goal</td>
<td>Yes</td>
</tr>
</tbody>
</table>
The fit between MBC management styles and the organization of BITA is summarized in table 3. In this table also the adequate BITA practices are shown with each style. This overview provides three models for organizing BITA in MBCs.

**Concluding remarks**

The input provided by the participants in the discussion groups made it clear that aligning IT to business needs in the practice of MBCs is not as straightforward as implied by the methodologies. The different needs of different business divisions provide a continuous balancing of central standardization goals and decentral alignment to business needs. The key to this balance is the role of the corporate center in the MBC. Parenting theory provides some guiding insights into the models that can be deployed in the organization of BITA in MBCs.

**Literature**

Bloem, J. and Doorn, M. van., ‘Realisten aan het Roer, Naar een prestatiegerichte governance van IT’ (in Dutch.,) 2004, Sogeti VINT


