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An Exploratory Study of the Influence of External Stakeholders on the Strategic Alignment of IS Projects

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Abstract:

Strategic IS alignment has typically been explored from the perspective of the individual business organization. For many organizations however effective strategic information systems alignment does not stop at the boundaries of the business, but rather extends to strategic stakeholder groups in the external environment. This paper, consequently, attempts to develop a theoretical framework that reflects this extended scope for strategic alignment – an IS-business-external stakeholder alignment perspective. To accomplish this, the paper examines and compares how and if IS projects at a local community hospital cater to the needs of its internal and external stakeholders.

Keywords: strategic alignment, external stakeholders, information systems

Track: IS Strategy and Implementation

Introduction

The issue of alignment between IS and the business has traditionally been one of the key issues facing IS management…the difficulties in achieving and sustaining alignment have been largely underestimated and the path toward alignment is often treacherous. (Hirschheim and Sabherwal, 2001, p. 87)

The stakeholder concept is deceptively simple. It is “simple” because it is easy to identify those groups and individuals who can affect, or are affected by, the achievement of an organization’s purpose. It is “deceptive,” because once stakeholders are identified, the task of managing the relationships with them is enormous. (Freeman, 1984, p. 246)

Strategic alignment and stakeholder management are among the most difficult challenges faced by organizations today. Because of their importance to organizational success, each of these topics has been and continues to be a subject of intense research. While each of these streams of research has generated valuable insights and managerial guidance, this paper contends that a critical missing element is theory that bridges the two domains. The basic thesis of the research in this paper is that for many organizations, effective strategic information systems alignment does not stop at the boundaries of the business, but rather extends to strategic stakeholder groups in the external environment. The purpose of the research described in this paper is to develop a theoretical framework
that reflects this extended scope for strategic alignment – an IS-business-external stakeholder alignment perspective. As the quotes above indicate, this is not an easy undertaking from either a research or business perspective, but the work in this paper represents a first step in that direction.

Business strategy has typically been studied from the perspective of the individual organization. According to the economic perspective, order and cooperation in society is believed to emerge from the apparently uncoordinated activities of individuals pursuing their own interests in substantial ignorance of the interests of those with whom they are cooperating (Heyne, 1997). The philosophical underpinning for this perspective is Adam Smith’s renowned “invisible hand” theorem which states that people pursuing their own ends in competitive markets promote an important social goal – economic efficiency – that is not actually their intention and that they may not even understand (Browning and Zupan, 1999). Although this viewpoint retains its venerated status as a potent predictor and guide for business decision making, recent scholarship has began to advocate the broadening of this perspective to include the notion of a more deliberate collaboration of individual interests with those whom they interact with. Porter and Kramer (2006), for example, report that increasing pressure from governments, activists, media and other external stakeholders has made corporate social responsibility an inescapable priority for business leaders everywhere.

As important as corporate social responsibility is for business in general it is of special and critical import in service industries like healthcare where the central business mission and function is inextricably and indelibly communal in nature. As just one example, in the setting of a community hospital the hospital cannot achieve its strategic goals without coordinating these goals with those of independent physician practices that may not share or have a common affinity with the hospital’s unique strategic imperatives. Harmonizing individual business strategy with the discordant interests of a disparate, amorphous and shifting group of external stakeholders presents a major conundrum for business managers and strategic decision makers. The perplexity of this problem is of even greater magnitude for IS managers who in addition to attempting to align IS plans with internal business objectives, must now also endeavor to synchronize these plans with those of external stakeholders who may be directly and indirectly affected by the organization’s IT strategy. In the community hospital example, independent physicians are not only key users of the information systems of the hospitals they are affiliated with, but IT infrastructure decisions made by a hospital can affect IS/IT requirements in their private practices.

A review of IS literature reveals a dearth of theory related to how businesses should, could or would coordinate IS projects with both the internal strategic imperatives of the organization and those of external stakeholders. This paper describes an exploratory case study to investigate these questions. The study, currently in progress, examines and compares how and if IS projects at a local community hospital consider, or cater to, the needs of its internal and external stakeholders.
Strategic Information Systems Alignment – The ‘Missing’ External Stakeholder

Strategic information system (IS) alignment has been defined in the literature as the degree to which the IS mission, objectives, and plans support and are supported by the business mission, objectives and plans (Reich and Benbasat, 1996). The importance of aligning information systems (IS) plans with business strategy has been widely reported in the literature (e.g., Neiderman et al., 1991; Reich and Benbasat, 2000; Chan et al., 2006). Hirschheim and Sabherwal (2001) suggest that the keen interest in strategic IS alignment could be attributed to its demonstrated impact not only on IS success but also on overall organizational performance (Jarvenpaa and Ives, 1993; Reich and Benbasat, 1996; Chan et al, 1997). Despite the general acceptance of the import of strategic IS alignment, several authors have pointed to a paucity of empirical research into the antecedent factors that influence this alignment (Luftman et al., 1999; Hirschheim and Sabherwal, 2001; Chan, et al., 2006). Of the few studies that address the factors affecting alignment most, if not all, address strategic alignment from the traditional vantage point of an individual organization and its unique objectives. Chan et al. (2006), for example, examine how the process of alignment varies across different industries and for different strategies, but nevertheless focus their comparison on the strategic concern of the individual organization considered independently of strategic concerns of external stakeholders. Similarly, Kearns and Sabherwal (2006), whose research model is adapted in this paper as a framework for exploring the role of external stakeholders in strategic alignment, explore the process of alignment from the standpoint of a single organization by examining how the organizations planning behaviors and top management level knowledge of IT effect strategic alignment in different contexts.

IS alignment literature’s focus on the individual organization can be attributed to its roots in the general area of strategic management which has traditionally directed its energies on studying the processes by which an individual firm obtains and maintains a narrowly defined competitive advantage over its competitors in the marketplace. Seminal IS papers like King (1978) and Ives and Learmonth (1984) were instrumental in broadening the scope of IS research from a predominantly data processing and operational efficiency perspective to one that examined the potential impact of IS on competitiveness or overall organizational effectiveness. At around the same time leading general management strategy scholars (McFarlan, 1984; Porter and Millar, 1985; Cash and Konsynski, 1985) published influential works highlighting how IS was transforming the competitive landscape and reported on the strategic implications of this revolution for individual organizations. This acted as a springboard for subsequent research that looked into how individual organizations should adapt (or “align”) their strategic plans to the increasingly IS dependent environment.

One of the first IS papers to explicitly and empirically explore the alignment construct was Brown and Magill (1994) who examined IS organizational design decisions for a decentralized, centralized and hybrid IS function within the context of organizational alignment. Sambamurthy and Zmud (1999) conducted a similar study, but
expanded the study to examine the multiple contingencies ("reinforcing", "conflicting" and "dominating") that influenced IS organizational design and its ensuing alignment with business plans. Chan et al. (1997) further helped to charter the course for future research in alignment by developing a conceptual model that proposed formal links between business and IS strategy, alignment and performance. The model measured business strategic orientation, IS strategic orientation and related these constructs to perceived IS effectiveness and business performance. Another early landmark in the strategic alignment literature was the Sabherwal et al. (2001) paper which presented alignment as a dynamic process marked by periodic transformations of alignment patterns within an organization making it necessary to subject universalistic claims about alignment to longitudinal considerations. While each of the above formative studies added new dimensions and insights to notion of strategic IS alignment, a common thread that runs through all these articles is the overriding focus on the unit organization and its single cohesive business strategy. None of the studies considered the influence or impact of external stakeholders.

Stakeholder Theory

The subject of stakeholder consideration has been discussed broadly in general management literature since Freeman (1984) formally introduced stakeholder theory to the corporate world. Since then, as Mitchell et al. (1997) record, the stakeholder approach to understanding the firm in its environment has been a powerful heuristic device aimed at broadening management’s vision beyond a narrow focus on its stockholders and profit maximization to including the interests and claims of non-stockholding groups (or its “stakeholders”). Freeman’s landmark definition of stakeholder broadly defined a stakeholder in an organization as any group or individual who can affect or is affected by the achievement of the organization’s objectives. In this definition virtually anyone and almost everyone could potentially be a stakeholder. Stakeholders would also vary depending on what and who defines what is at stake. This complexity makes stakeholder identification a subjective and nebulous undertaking that is difficult for managers to come to terms with and apply in practice. To resolve this concern, several attempts to establish a normative definition have been reported in the literature. As Mitchell et al. summarize this endeavor, stakeholders have been classified as primary or secondary; as owners or non-owners; as capital owners or less tangible asset owners; as actors or acted upon, as in voluntary or an involuntary relationship with firm; as rights-holders, contractors, or moral claimants; as resource providers to or dependents of the firm; as risk-takers or influencers; and as legal principals to whom agent-managers bear a fiduciary duty. To sort out this smorgasbord of definitions, Mitchell et al. propose a comprehensive typology that classifies stakeholders based on their attributed possession of one, two or all three of the following attributes: (1) the stakeholder’s power to influence the firm, (2) the legitimacy of the stakeholder’s relationship with the firm, and (3) the urgency of the stakeholder’s claim on the firm. As described below, Mitchell’s framework is used in this project as a coherent and operational means of capturing the stakeholder construct.
Research Framework

In order to categorize the stakeholders in this study this paper will adopt the framework devised by Mitchell et al. (1997) illustrated in Figure 1 below. The model describes three classes of stakeholders depending on their possession of one, two or three of following three attributes: Power, Legitimacy and Urgency.

The three classes are as follows:

1. Latent Stakeholder (Dormant, Discretionary, Demanding) – possess 1 attribute
2. Expectant Stakeholder (Dominant, Dangerous, Dependent) – possess 2 attributes
3. Definitive Stakeholder – possess all three attributes

Figure 1. Stakeholder Typology (Source: Mitchell et al., 1997)
The second element of the research framework is shown in Figure 2. This model incorporates external stakeholders into the model developed by Kearns and Sabherwal (2006) and will be used to examine whether or not stakeholders represent a significant antecedent factor that would influence the business impact of IS. This model is a conceptual starting point for this study and will be elaborated depending on the findings of the study.

Research Design

The research strategy for the initial investigation of business-stakeholder-IS alignment is an exploratory case study. A case study research study was selected for this study because it facilitates a broad and rich understanding of the complex issues related to stakeholder influence on the strategic alignment of IS projects. A 763 bed community hospital with a medical staff of 900 community physicians and about 3000 staff was selected as the site for this study because this organization’s interactions with its external stakeholders are critical to its function and these external stakeholders are also significantly impacted by IS decisions. The implementation of an electronic medical
record (EMR) system in the hospital, for example, potentially affects the various physicians that have privileges at the hospital, the patients, government accreditation agencies, health insurance plans and internal stakeholders such as nurses. In-depth, semi-structured interviews will be conducted with IS project managers as well as IS staff involved in the implementation of IS projects in order to determine the different categories of both internal and external stakeholders. Subsequent interviews will be conducted with representatives of these stakeholder groups to gain insights into how IS alignment with these stakeholder groups’ influences the business impact of IS. The study will involve an anticipated total of about 25-30 interviews with IS personnel and IS project stakeholders. The data analysis will consist of coding interview transcripts using concepts from the research framework to understand the participants’ experiences and to discover categories, relationships, and patterns. New concepts/codes will also emerge during the coding process. The research findings of this study will be reviewed with project participants to validate the interpretations that will be presented in this paper.

**Potential Contributions of the Study**

The goal of this research is to contribute to existing theory on IS strategic alignment by broadening the scope of this field of inquiry to include external stakeholders. Specifically the objective of this exploratory study will be to determine whether or not IS-Stakeholder alignment at the hospital is sensitive to stakeholder salience or the different classes of stakeholders. In addition, it will identify whether there are different levels of alignment within the internal structure of the organization. Similarly, it will seek to discover if alignment varies with the different external stakeholders. The analysis will then compare internal to external alignment in order to ascertain whether or not there is a significant difference in the alignment with these two different contexts. Ultimately, the goal of the study is to develop a narrative of what impact IS-Stakeholder alignment (or absence thereof) has on project outcomes in the case study organization. Based on the study findings, another important contribution of this exploratory research will be to demonstrate whether the concept of stakeholder alignment merits further investigation, and, if so, what directions future research should take.

**Research Progress and Schedule**

As indicated in the paper, the literature review, initial conceptual framework and research design for the study have been completed. Participation of the case study organization has been secured, and an initial set of key informants have been identified. Interviews and data analysis will be completed by July 1, and, if accepted, the study findings will be presented at AMCIS 2007.
References


