Ideal patterns of strategic alignment and business performance

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Abstract

Strategic alignment or ''fit'' is a notion that is deemed crucial in understanding how organizations can translate their deployment of information technology (IT) into actual increases in performance. While previous theoretical and methodological works have provided foundations for identifying the dimensions and performance impacts of the strategic alignment between IT, strategy, and structure, few attempts have been made to test the proposed theory empirically and operationalize fit systemically. Based on a gestalt perspective of fit and theory-based ideal coalignment patterns, an operational model of strategic alignment is proposed and empirically validated through a mail survey of 110 small firms. Using cluster analysis, it was found that low-performance firms exhibited a conflictual coalignment pattern of business strategy, business structure, IT strategy, and IT structure that distinguished them from other firms.
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1. Introduction

The trend toward globalization and virtualization of the business environment remains unabated and has spawned profound transformations, both internal and external, as most organizations must re-create their value chain and strive for closer relationships with their customers and business partners. In response to or anticipation of changes in their environment, most organizations are deploying information technology (IT) at an increasing rate. Thus, it has raised a fundamental question underlying these transformations:

how can an organization actually translate its IT investments into increased business performance, be it in terms of productivity, increased market share, profitability or other indicators of organizational effectiveness?

Given the complex nature of this question, some researchers surmised that the answer would be predicated upon adopting a contingency theory perspective, whereas IT would influence business performance to the extent that it would be in ''alignment'' or ''fit'' with the strategic, structural, and environmental dynamics specific to each organization. Assuming there is no single best way to invest in IT, theoretical IS contingency frameworks have been proposed, purporting to describe and explain the impact of alignment upon performance. At the empirical level, some

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authors have examined the relationship between strategic and IT management, and between organizational and IT structure. However, studies that have actually operationalized alignment and demonstrated its effect upon organizational performance have been few and far between. Adopting a definition of fit as gestalt, our study examined the impact of the coalignment between business strategy, business structure, IT strategy, and IT structure on business performance in 110 small and medium-sized firms.

2. Theoretical background

The notion of strategic alignment originates from a body of conceptual and empirical work in the organization literature whose fundamental proposition is that organizational performance is the consequence of fit between two or more factors such as strategy, structure, technology, culture, and environment [13]. The contingency relationship that has received the most attention has been the one between organizational strategy and organizational structure [16]; this has been studied extensively in large and small manufacturing and service firms (e.g. [29,31]).

The fundamental view of fit propounded by strategic management researchers and organization theorists is that it involves a search for aligning the organization with its environment and arranging resources to support that alignment [45]. As strategy is the force that mediates between the firm and its environment, it is, in practical terms, the basic alignment mechanism, and the organizational structure must be well suited to it if a significant competitive advantage is to be created. Firms whose strategy and structure are aligned should be less vulnerable to external change and internal inefficiencies and should thus perform better.

Information processing in the context of organizational decision making and uncertainty was used as a framework for better understanding of the fit between strategy and structure [73]. Strategic change creates the need for more information and greater information gathering, interpreting, and synthesis capabilities, which in turn lead to changes in structure [30]. This approach is thus based on the assumption that organizations will be more effective when there is a match between the information-processing requirements

of their strategy and their information-processing capacities.

As shown in Table 1, the principal aim of organizational contingency studies was to identify congruent patterns of strategy and structure, expressed by coupling strategic and structural dimensions such as diversification and centralization. For instance, it was found that an increasing level of product diversity leads multinational corporations to choose a product division rather than a functional division structure [33].

Other organization studies have attempted to relate the information-processing requirements and capacities associated with strategic and structural choices. For instance, a worldwide product division structure is meant to satisfy the greater requirements for product related information processing by facilitating information flows between the head office and the subsidiaries [26]. Conversely, the more extensive information-processing capacity associated with greater structural integration (e.g. through the presence of liaison devices and professional staff) encourages diversification in that it provides managers with more time and objectivity to perceive business opportunities (e.g. through environmental scanning) [61].

The information-processing requirements of an organization are translated into an IT strategy. Researchers have conceptualized this notion in various ways. For instance, IT strategy can be seen as a four-dimensional construct, including competencies, role of IT, systems design and development, and infrastructures [21], whereas the strategic orientation of IS focuses on the firm's application portfolio as a mirror of its business strategic orientation along dimensions of aggressiveness, analysis, defensiveness, futurity, proactiveness, risk aversion, and innovativeness [15].

The organization's information-processing capacity is reflected in its IT structure. This concept has been conceptualized mostly along three dimensions. The first is the IT organizational architecture dimension, which comprises the locus of responsibility of the IT function and the degree of decentralization of the IT organizational structure [11,12]. The second is the technological architecture dimension, encompassing the degree of application and data integration, standardization of the technology, and the nature of hardware deployment [27,28,36,42]. The third is the process and skills dimension, which includes planning