

Executive Judgment in E-Business Strategy



Valerie Baker

University of Wollongong, Australia

Tim Coltman

University of Wollongong, Australia

INTRODUCTION

One of the main strategic challenges for organizations today is to effectively manage change and stay competitive in the future. Change appears to be the only constant in contemporary business and is present in every industry and in every country (Brown & Eisenhardt, 1998). Moreover, the key area of importance, current within many organizations, is how to effectively leverage technology within such a complex and dynamic business environment (Sauer & Willcocks, 2003). The alignment or fit approach, which has its roots in contingency theory, has long been promoted as the way to get high returns from technology investment. However, the realization of advantage from the Internet and related e-business technology investment has long been a source of frustration for corporate executives. Impressive performance returns by companies such as Dell Computers, Cisco Systems and General Electric illustrate that returns can be achieved by linking the Internet and related e-business technologies to firm strategy. These companies have shown that successful management of their IT investments can generate returns as much as 40% higher than those of their competitors (Ross & Weill, 2002). Yet, many executives view the Internet and related e-business technologies with intense frustration. They recollect investment in the great speculative bubble of the 1990s and excessive expenditure on year 2000 (Y2K) compliant systems (Keen, 2002). They recall high profile examples of botched enterprise resource planning (ERP) systems that have consistently run over time and budget and report that customer-relationship management (CRM) initiatives were largely a flop (Reinartz & Chugh, 2002). Unfortunately, it is not yet clear how firms should go about capturing the potential that exists in e-business, as few normative frameworks exist to guide practitioner investment.

BACKGROUND

One area of scholarly activity where consistent advances have been made regarding the determinants of firm performance is in structural contingency theory. Here, the contingency factor (i.e., environment-structure) has enabled predictions

to be made in a relatively unambiguous manner (Donaldson, 1995). Applied to an e-business setting, contingency theory argues that performance increases can be expected whenever information technology is applied in an appropriate and timely way, in harmony with business, environmental and organizational conditions. Consider a typical scenario where an executive wants to make a strategic investment in information systems. They have two choices: (1) a system to support backend operations using ERP technology, and (2) a CRM support system. How do they prioritise between these competing investments? Contingency literature would argue that it depends upon the organization's strategy and decision-making information requirements (Chandler, 1962; Child, 1972; Galbraith & Kazanjian, 1986). Manufacturing excellence strategies associated with companies like Carrefour or Ford Motor Company would get greater value from ERP systems. Customer intimacy strategies at companies like CitiBank or IBM Global Services would benefit most by customer feedback systems.

As simple as this observation may appear, the application of alignment has proven elusive. Despite 20 years of effort and investment in consulting advice, CIOs are still struggling with the same set of alignment problems. A recent survey by CIO Insight (Patterson, 2001) highlights the point that only 34% of organizations considered the link between their IT priorities and their enterprise strategy to be "strong." While these statistics reflect the difficulties of coordinating complex organizations, they provide evidence that most managers are not using the basic tools of alignment that have been developed over several decades of research.

Priem and Cychota (2000) equate the process of alignment between IT strategies and business goals with executive judgment. The literature regarding judgment theory argues that firm success can be explained by the judgments executives make concerning the current state of the environment and the vision of the organization. In uncertain times, where market pressures and time constraints dominate the business landscape senior manager's perceptions, skill and vision often form the basis on which strategic choices regarding IT investments are made. For example, it takes little more than a browsing of the management section of the local bookstore—blazoned with titles such as *Inside the Minds: Leading CEOs*—or a visit to the local news agent to pick

up a recent copy of *Forbes*, *Fortune* or *Business Week* to recognize the importance that publishers and managers place on the philosophies and actions of even some of the least successful or most unlikely of management leaders. Perhaps more relevant is that often the appointment of “higher quality CEOs” leads to immediate stock market reactions and greater long term performance. One such example was the reappointment of Steve Jobs as CEO of Apple Computer. Jobs has been widely praised for his skill in judging the commercial potential of convergent Internet technologies and his return to the company was considered instrumental in its reversal of bad fortunes (Stevens, 1997).

The corollary here is that judgment is an essential skill for setting the overall direction of the organization. In turbulent environments, often the context of e-business, quick trade offs need to take place, as the strategic direction of the firm enables it for the future. This being the case management discretion becomes increasingly important, as decisions are made “on the fly” with little information or understanding of the decision problem. Management play a vital role in “trading off” elements of organization control, that is, structure for better adaptation, a view supported by complexity theory (Brown & Eisenhardt, 1998). This theory views strategy as a process which constantly changes, and thus needs a type of structure or execution method that is dynamic and will allow the organization to be ready for the future.

Thus, although judgment appears to be important to organizational success, scholars have largely ignored executive intentions and no empirical link between executive choices and firm outcomes has been established. Instead, strategic outcomes are presumed to be due to strategic choice (Preim & Harrison, 1994). This omission may account in some part, for why practitioners continue to pay little attention to the large amount of published work concerning the antecedents of strategy and performance. This concern provided the motivation for a special issue of the *Academy of Management Journal* (AMJ, 1998, p.746) that sought greater understanding of the way knowledge is transferred between academics and practitioners. The issue again surfaced in a recent issue of the *Academy of Management Executive*, providing evidence that practitioners still typically turn to sources of information other than academics or the scientific literature when searching for ways to improve performance (Ford, Duncan et al., 2003).

FUTURE TRENDS

Clearly, we need greater understanding of the conditions which lead executives to make strategic choices if we are to develop research that has an impact on practitioners.

Existing research into the change process and the implementation of e-business related technology is limited because it fails to measure the link between strategic choices and firm outcomes. As we have suggested, the judgments that

executives make provides important insight into how IT strategic change or e-business change is approached given different situations and organization contexts.

Peterson (2002) suggests that it is the processing of information and the judgments that are made by top management that leads to critical decisions being made about how firms deal with IT-related strategic change. As the business environment rapidly changes, the variance in possible outcomes ranges from failure to unparalleled success. These differences can largely be explained by the “mythical relationship between technology ecology, human nature, decision cycles, IT and the speed and veracity of their interactions” (Peterson, 2002, p.485). Executives process information about these relationships and form critical strategic judgments regarding the future direction of their organization through its e-business strategy.

Managers face conditions such as dynamic markets, casual ambiguity and path dependence that make it extremely difficult to predict the outcomes of their IT strategic investments. As this illustration suggests, it is imperative that managers have in place strategies to cope with changes as they occur. Faced with external environmental changes (e.g., new rates of Internet adoption, killer mobile commerce applications, etc.), managers need to be able to adjust their strategic choices accordingly “just as water shapes itself according to the ground, an army should manage its victory in accordance with the enemy. Just as water has no constant shape, so in warfare there are no fixed rules and regulations” (Sun Tzu in Hussey, 1996, p.208)

What Sun Tzu highlights is the requirement that strategies be flexible in order to manage strategic change. Mintzberg, Ahlstrand, and Lampel (1998) describe this as an emergent strategy, where rather than pursuing a strategy, an organization makes decisions based on the situation, effectively testing the market as they go.

Thus strategic decisions regarding IT management need to be a mixture of both deliberate and emergent strategies. “Real-world strategies need to mix these in some way: to exercise control while fostering learning” (Mintzberg et al., 1998, p.11). The importance of strategic alignment between the organization and its environment becomes even more critical given recent environmental turbulence and the evolving importance of technology and e-business to competitive advantage.

Executive Judgment and Strategic Alignment

Priem and Cychota (2000) state that understanding judgments by strategic leaders is essential to determine the role of mental processes in strategy development and how these strategies and processes affect firm performance. They suggest that a number of theoretical platforms commonly found in the strategy literature provide a solid platform from which we

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