

Chapter 6

Critical Success Factors of IT Strategy

ABSTRACT

In this chapter, the authors discuss the critical success factors of IT strategy holistically across four dimensions of the strategic management process from strategy formulation to planning to execution and to value delivery monitoring, end-to-end. The most basic requirement for the success is that IT must be regarded as being part of the business, devoid of the “us” vs. “them” chasm (separating IT from the business) found in most traditional organizations where IT is viewed as a subservient role performing basically a “back office” function. Case examples are used to illustrate the alignment processes and the resulting business value accrued. Because IT leaders have to manage alignment in all four dimensions in order to maximize the strategic value of information technology deployment, the chapter also examines the evolutionary CIO leadership roles in value creation.

INTRODUCTION

Service firms, such as those in banking, finance, telecommunications, logistics, and retail, are critically dependent on IT to achieve and maintain their competitive advantage. These firms tend to use IT as a business enabler or strategic weapon that focuses on core business processes and product/service development, respectively (Weiss, Thorogood, & Clark, 2006, p. 680). All firms need managerial capabilities to develop and sustain continuous business-IT strategic and tactical alignments in highly dynamic and changing market environments (Tarafdar & Qrunfleh, 2009; Byrd, Lewis, & Bryan, 2006; Bhatt & Grover, 2005).

As discussed in chapter 5, a successful IT strategy must align with the business. In this chapter, the authors further argue that business

alignment should occur at every stage of the end-to-end strategic management process, from strategy setting and planning to detailed program execution and delivery. Moreover, there are many ways in which IT can create value for business. Formulation of business-aligned IT strategy must therefore incorporate the intended strategic role of IT in business as part of the overall strategic intent. Most publications (Luftman & McLean, 2004) on business-IT alignment to date have been centered on one dimension of the alignment issues—e.g. on strategic planning or organizational issues. Recently, Tarafdar and Qrunfleh (2009) have called for the need for studying the alignment at both the planning and execution levels, thus lending support to the end-to-end alignment proposition.

In this chapter, the authors discuss the critical success factors of IT strategy holistically across

four dimensions of the strategic management process from strategy formulation to planning to execution and to value delivery monitoring, end-to-end. The most basic requirement for the success is that IT must be regarded as being part of the business, devoid of the “us” vs. “them” chasm (separating IT from the business) found in most traditional organizations where IT is viewed as a subservient role performing basically a “back office” function.

Case examples will be used to illustrate the alignment processes and the resulting business accrued. Because IT leaders have to manage alignment in all four dimensions in order to maximize the strategic value of information technology deployment, the chapter also examines the evolutionary CIO leadership roles in value creation.

This critical organizational culture requirement of “IT and business acting as one” is founded on the rigor and discipline of IT governance. IT governance is integral to the corporate governance, subject to periodic governance compliance audits by independent external entities. It is therefore a critical business discipline that all enterprises must master. This chapter will briefly describe this function as it applies to the end-to-end process of IT strategy. A more complete treatment will be covered in chapter 12.

IT AND BUSINESS AS ONE

IT is recognized as a critical business discipline because it is central to all business activities of modern enterprises in the creation of customer value. To create business value from IT, business needs to understand the role IT plays, not only in supporting the running of the business in such back-office functions as HR, finance, inventory control, but more importantly the special and competitively differentiated ways that IT plays in delivering products and services to the firm’s end-customers. The integral role that IT has enmeshed into all business functions today means

that IT has become a central nervous system of the business. In particular, information is the blood stream of business which flows through all business functions (processes) supported by the IT nervous system. Business value is created by each business function or process through dynamic consumption (processing) of input information and creation of new output information, which in turn will be ‘consumed’ by another business function (process) as defined by the value configuration of the business (see chapter 1)—information acting much like the blood stream that flows through the human organs to make the human body (the firm) alive and productive. Thus, to be able to achieve a sustainable competitive advantage position in its chosen industry, the firm must treat IT and its management as a critical business discipline. IT and business must act as one integral organism much like *yin* and *yang*, which complements each other to get the right balance to achieve the competitive advantage. Smaczny (2001), in his argument for IT being part of business strategy, refers to this tight integration of IT with business as fusion.

The fundamental principle of all the critical success factors of IT strategy is therefore IT and business acting as one. For example, in a study of 167 South African and Australian companies, Cohen and Toleman (2006) find that a strong business-IT relationship is a significant determinant of IT performance. Acting as one requires each IT task to be aligned with and ‘justified’ by the business function it is designed to contribute, for and based on which its business value is measured (Huang & Hu, 2007). This means the IS/IT strategy, organization, processes, infrastructure, applications, projects, budget, and metrics should all verify their alignment to the business goals, objectives and strategies (Cassidy, 2006). The issue of business-IT alignment has been studied for over 10 years (Avison, et al., 2004; Luftman & Papp, 1995). It is commonly reported in the literature (Avison, et al., 2004) that alignment will allow enterprise to achieve competitive advantage through IT, achieve maximum return on IT

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