

# Evaluating Business-IT Alignment in the EA Context

AISA Project

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## Research Questions

- Why should we care about business-IT alignment?
- What does business-IT alignment mean?
- How are business-IT alignment and EA related?
- How can business-IT alignment be evaluated?

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## Introduction

- The idea of Business-IT Alignment (BIA) grew together with the rise of IS in organizations in the 70's (Silvius 2007, Luftman & Brier 1999)
  - Methods for IS development (e.g. Business Systems Planning)
- The term has however remained rather vague and unclear, and it is also unclear how to practice BIA
  - Many definitions exist
  - What should be aligned with what?
    - Usually, deals with strategic alignment between business and IT strategies

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## The Importance of Business-IT Alignment (BIA)

- High degree of alignment has been associated with improved business performance by empirical evidence (Chan, Huff et al. 1997; Papp 1999)
    - More efficient IT investments
    - Greater profitability
    - Increased competitive advantage
  - Majority of organizations produce tangible products and services (Symons 2005a)
    - IT has an important role in supporting or enabling the business, but it is not the business itself
    - Many of these organizations consist of multiple business units
- Alignment remains a challenge

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## Definitions of BIA

- “The extent to which the IS strategy supports, and is supported by, the business strategy (Luftman, Lewis et al. 1993)
- “The degree to which the IT mission, objectives, and plans support and are supported by the business mission, objectives and plans” (Reich & Bensabat 1996)

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## More Definitions of BIA

- BIA “refers to applying IT in an appropriate and timely way, in harmony with business strategies, goals and needs” (Luftman 2000)
- BIA is “the continuous process, involving management and design subprocesses, of consciously and coherently interrelating all components of the business-IT relationship in order to contribute to the organization’s performance over time”. (Maes et al. 2000)

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## Consensus on BIA?

- Despite many definitions, there seems to be a kind of consensus what alignment is:
  - “the fit between business strategy, IT strategy, organizational structures and processes, and IT structures and processes”
- Goal of alignment: IT activities that support the activities of the entire business

(van der Raadt et al. 2005)

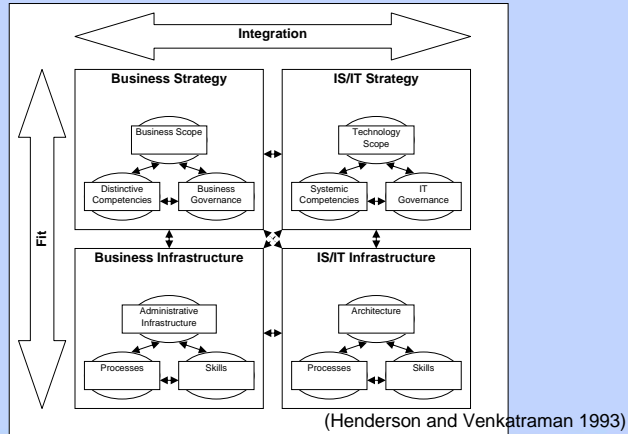
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## BIA Models

- Strategic Alignment Model (SAM) by Henderson and Venkatraman (1993)
  - Defines four alignment domains: business strategy, IT strategy, organizational infrastructure and processes, and IT infrastructure and processes
- Luftman's model (Luftman et al. 1999; Luftman 2000)
  - Builds on SAM
  - Defines 12 components
  - The relationships that exists between the components define the business-IT alignment
- Unified Framework for Alignment (Maes et al. 2000)
  - Builds also on SAM
  - Alignment as a dynamic process
  - Takes all components of BIA into account
  - Levels: Strategy, Structure, Operations

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## Strategic Alignment Model



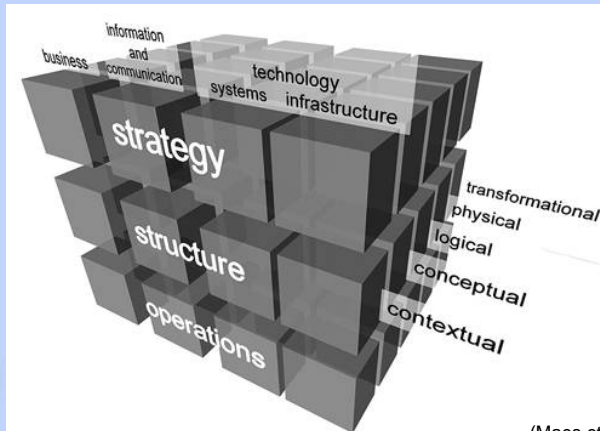
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## Luftman's Model – Twelve Components of Alignment

1. Business Strategy
    1. Business scope
    2. Distinctive Competencies
    3. Business Governance
  2. Organizational Infrastructure & Processes
    1. Administrative structure
    2. Processes
    3. Skills
  3. IT Strategy
    1. Technology Scope
    2. Systemic Competencies
    3. IT Governance
  4. IT Infrastructure and Processes
    1. Architecture
    2. Processes
    3. Skills
- (Luftman et al. 1999)

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## Unified Framework for BIA



(Maes et al. 2000)

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## Yet Another View to Alignment...

- Alignment is about business management and IT personnel communicating with each other and understanding each other → two “types” of alignment:
  1. IT-to-business alignment:
    - IT personnel has business knowledge and is able to understand the business goals, as well as to create technological solutions to reach those goals
  2. Business-to-IT alignment:
    - Business management knows what IT might offer them and is able to express their needs to IT personnel

(van der Raadt et al. 2005)

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## Challenges in Achieving BIA

- Business-IT alignment is considered a fuzzy target; it is not clear (Luftman 2000; Silvius 2007)
  - How to achieve and sustain the harmony between business and IT (what should be aligned with what)?
  - How to assess the maturity of alignment?
  - What are the impacts of misalignment?
- “One of the major obstacles to achieving strategy alignment is that many organizations do a poor job of communicating their strategy.” (Symons 2005b)
- “The mere act of aligning something (IT strategy) to something else (business strategy) implies that they both already exist and must be forced into some alignment.” (Symons 2002) → alignment comes too late!

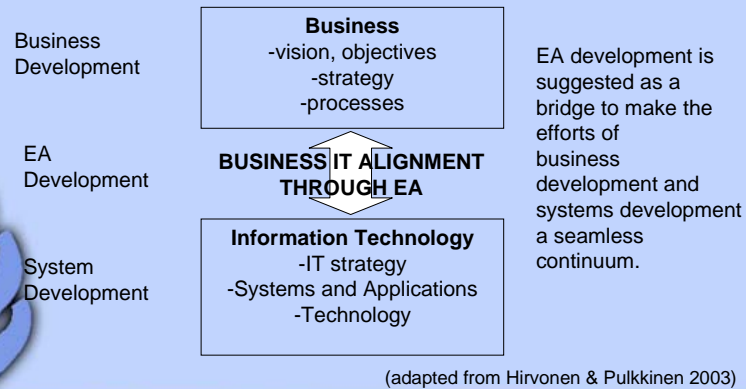
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## BIA & EA – How Do These Concepts Relate?

- EA can be seen as an enabler of achieving business-IT alignment
  - One of the goals for EA work is to improve business-IT alignment
  - EA provides the big picture, procedures and tools to achieve information systems that enable the business to reach its objectives
- Or, can BIA be even regarded as EA work having slightly narrower scope?
  - e.g. Luftman’s way to address alignment is close to EA

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## EA as a Bridge between Business and IT



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## Relationship between BIA and EA Compliance?

- Objects (business, EA, investment, project etc.) between which EA compliance may be evaluated – could these be the objects between which alignment is needed in the EA context?
- Compliance between these objects does not automatically guarantee that there is alignment between these objects?
  - e.g. business and EA may be compliant, but not aligned if the business strategies have been interpreted into EA incorrectly

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## Characteristics of an Unaligned IT Organization

- Reporting structure: IT reports to the CFO or an operational executive with significant non-IT responsibilities instead of reporting to an executive who understands the strategic potential of IT
- Cultural attitude: IT is treated as utility
- Perception of IT service: IT has a history of poor service and high costs
- IT access to business goals and strategy: IT leadership is not aware of business goals or the strategy, at least not detailed enough
- IT planning and project prioritization: there is no process for prioritizing projects or tasks within IT based on business priorities
- Business project prioritization: There is no enterprise-wide prioritization process for business initiatives
- Communication regarding IT's role: the business is not aware of IT's role in any strategic endeavors
- Communication style: IT communicates more effectively with technical staff than business people.

(Leganza 2003)

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## A Solution: IT and Business Strategy Are the Same Thing?

- CIO as an integral part of the senior management team, having an understanding of the business and how IT can play a role in creating new, innovative products and services consistent with the overall goals of the organization
- CIO working with CEO to make IT strategy and business strategy one and the same

(Symons 2002)

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## How to Evaluate Business-IT Alignment?

- Luftman's Alignment Maturity Assessment Method (Luftman 2000)
- Reich & Benbasat (2000): Social Dimension of Alignment
- Symons's (2005a) practical suggestions for alignment measures
- Chan et al. (1997): Four measurement instruments
- ...

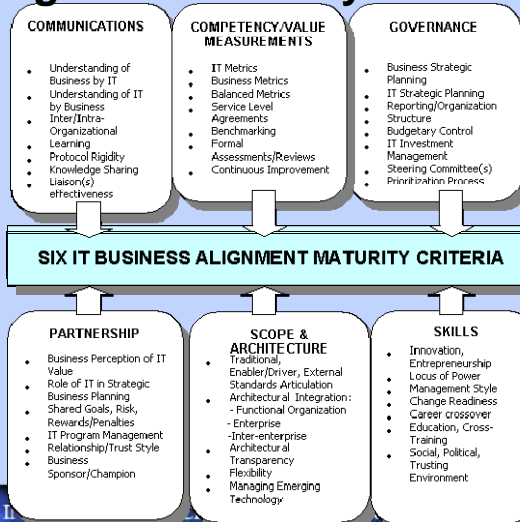
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## Luftman's Strategic Alignment Maturity Model

- Five maturity levels:
    - Initial/ad hoc process
    - Committed process
    - Established focused process
    - Improved/managed process
    - Optimized process
  - Six criteria:
    - Communication maturity
    - Competence/value measurement maturity
    - Governance maturity
    - Partnership maturity
    - Scope & architecture maturity
    - Skills maturity
- (Luftman 2000)

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## Alignment Maturity Criteria



(Luftman 2000)

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## Social Dimension of Alignment

- Social dimension of alignment is “the state in which business and IT executives within an organizational unit understand and are committed to the business and IT mission, objectives and plans”
- Constructs that affect the social dimension of business-IT alignment:
  - 1) Communication between business and IT executives
  - 2) Connection between business and IT planning
  - 3) Shared domain knowledge between business and IT executives
  - 4) IT implementation success
- By measuring these constructs, both the short-term and long-term business-IT alignment can be evaluated

(Reich & Benbasat 2000)

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## Practical Examples of Alignment Measures

- Meetings
  - Number of IT steering committee meetings
  - Number of joint IT and business planning meetings
  - Percentage of IT budget allocated to new initiatives versus sustaining the business
- Projects
  - Number or percentage of current projects that are directly linked to a strategic business goal
  - Number or percentage of projects in which the business unit provided the ROI or the business case as opposed to IT
  - Number or percentage of projects with post-implementation audits to determine if the business case or ROI targets were met
- Budget:
  - Percentage of IT budget for new initiatives (Symons 2005a)

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## IS Strategic Alignment Assessment – Some Examples of Measures

- Dimension: Current Realized Business Unit Strategy
  - Aggressiveness: increasing market share even if it means reduced prices
  - Proactiveness: first to introduce new products and services
  - Innovativeness: creativity and experimentation are strengths
- Dimension: Business Performance
  - Market share gains, sales growth, revenue growth
  - ROI, cash flow, profitability
  - Satisfaction with new product or service development
- Dimension: IS Effectiveness
  - Satisfaction with IS staff and services, e.g. satisfaction with the time required for new systems development
  - Satisfaction with users' participation in systems projects
  - IS increase the efficiency of business operations
  - IS improve decision-making
- Dimension: Realized IS Strategy
  - Systems used in the BU help introducing products and services
  - Systems used in the BU help monitoring changes in the market share

(Chan et al. 1997)

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## Conclusions

- Definition of BIA is still vague
  - Briefly, BIA is the fit between business and IT
- EA can be seen as the enabler of BIA, as a bridge between business and IT
  - Improved BIA is one of the goals of EA work
- BIA evaluation can be seen as a part of evaluating the EA and its benefits
  - Examples of measures to evaluate BIA were presented

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