

IT Business Alignment and Credit Process Performance: Empirical Results and Practical Implications

OPERATIONAL IT BUSINESS ALIGNMENT AS A PREREQUISITE FOR BUSINESS PROCESS PERFORMANCE

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Introduction

For decades, IS research has tried to contribute to our understanding of how IT is linked to organizational performance. In this contribution conforming to recent Information Systems research literature and based on existing literature on the Resource-based View and IT business alignment we propose that the interplay between the IT and the business domain is an important argument in explaining the value contribution of IT. We employ a process-level perspective to avoid aggregation problems. The

basic premise of this paper is that IT only creates value through business activities whereas business resources are able to directly contribute to value. Thus, we take a business-centric view to understand IT resources in relation to and from the viewpoint of the business domain and not as IT resources per se, thereby identifying a firm's organizational IT capital as the relationship between the IT and the business domain.

Theoretical Grounding

We integrate key findings from the Resource-

based View of the firm (RBV) (e. g. Barney 1991) and alignment literature (e. g. Henderson and Venkatraman 1993) to understand both the linkage between the business domain and the IT domain through a process of alignment as well as the sustainability of this process under environmental changes. The alignment model is depicted in Figure 1.

Study Composition

Our theoretical considerations were validated using five qualitative studies and one quantitative survey. The qualitative studies are case studies in banks designed to get a deep understanding of the interplay between IT and business resources in the context of business process. The quantitative field survey was carried out on the top 1,000 German banks and focuses on the credit process for small and mid-size enterprises (SME), emphasizing the operational interaction. Addressees of both the qualitative studies and the quantitative survey were the chief credit officers of each bank. Overall, 136 analyzable questionnaires were returned (response ratio of 13.6%) covering about 21% of the total assets of these banks.

Results

The results (see: Wagner and Weitzel 2006) show that operational IT business alignment is a key prerequisite of both IS usage and IT flexibility that are key mediating variables in the relationship between operational IT business alignment and business process performance.

Exemplarily, Figure 2 represents descriptive statistics for two indicators. The left figure

depicts whether the IT unit is seen as an equal partner to the business unit. This corresponds to one dimension of operational IT business alignment. The right figure shows the assessment of the business unit regarding the timely reaction to business requirements by the IT unit which in turn affects process performance. Summarized, the results of the study indicate that there is a substantial lack in the operational IT business alignment and that it has a major impact on business process performance.

But how can IT business alignment be achieved in practice?

First of all providing a reliable basic IT service to bank's business units is important for getting a good reputation which is the basis of increased interaction between business units and IT unit. The basic IT service has to be invisible to the users. Typical services of this kind are network services, data center operations, and desktop services. Whether the basic IT services are provided by the firm's own IT personnel or whether these are outsourced is not important for the users as long as the service is reliable and has sufficient quality.

Moreover, fostering IT business alignment mostly affects the IT personnel at the business interface. In particular, for this group of IT personnel management should consider the following issues to increase the IT business alignment:

- First, the business should have the primacy where IT is concerned. Our study suggests that IT can only be of value through business activities and revealed IT business alignment to be an important concept,

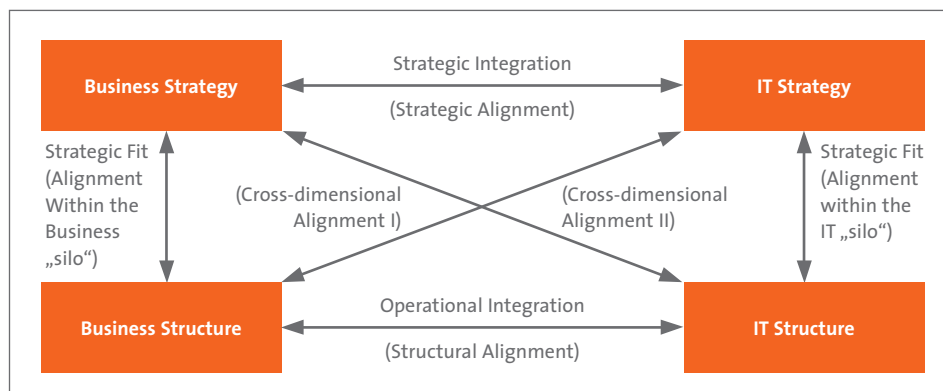


Figure 1: Alignment Model

including, for example, shared domain knowledge regarding the business as a strong component. Therefore, it is preferable that IT is managed by a business manager, at least a business-literate manager, instead of a solely technologically literate one. Similarly, in a study by Gordon and Gordon (2000) it was shown that IT could not succeed unless the IT processes were owned by the business units.

- Second, a strategy implementation process should be employed to ensure the clear deduction of plans and procedures from the strategy. A strategy implementation process requires for example, the following steps plus corresponding feedback loops: Creating a business strategy and articulating what the major issues are (e.g. growth by mergers); deducing strategic IT topics and explaining how these topics support the business strategy; deducing IT plans from these topics and ex-

plaining how these plans support the topics, deducing an IT portfolio from the topics; assigning projects to the portfolio, implementing the projects. Each step requires a process of alignment with the business to ensure the correct deduction and the detection of changes in business priorities.

- Third, IT business alignment arises not only out of formal mechanisms but predominantly out of informal ones. Formal mechanisms influence the development of informal mechanisms unless there are organizational inhibitors. These impediments such as insufficient management support must be remedied to foster the development of informal mechanisms.
- Fourth, at the service delivery side of IT, another managerial recommendation is to create internal service level agreements (SLA). The reason is to foster communication and the flow of knowledge that is

important for alignment. In addition to providing the foundation for quality measures of IT services, the process of SLA development itself can be a substantial step towards understanding business necessities and the role of IT and thereby reducing complexity and mitigating risks.

- Fifth, the relationship with the business should be fostered by an increase of shared domain knowledge. This item has several aspects.

- a) CIO-level: Business executives should ask how IT could support them and IT should be involved in business planning.
- b) Mixed work bios: Another way to promote business knowledge in IT is to increase the proportion of IT personnel who have previously worked in business units. Additionally, these employees might have a business education background.
- c) Organizational function: It might be necessary to create special organizational units (e.g. liaison role) to foster information flow.
- d) Organizational design: In particular the creation of communities of practice is also considered an important catalyst for knowledge creation and knowledge sharing.
- e) Formal contacts: One step to improve knowledge flows could be regular meetings as a platform for communication about business and IT items; not only at top level.

- Sixth, despite all alignment efforts a sufficient budget for IT is also necessary, because it signals the commitment of the business to IT and enables innovations.

Conclusion

The importance of the operational IT business alignment is well supported by the data that we gathered from banks – and it proved very influential to the business process performance. Results of this study show that it is important to integrate knowledge across the business domain and the IT domain to gain a performance impact. IT business alignment focuses on the ability to extract knowledge from the IT domain and apply it within the business domain to fully exploit IT and to take advantage from IT opportunities – and vice versa.

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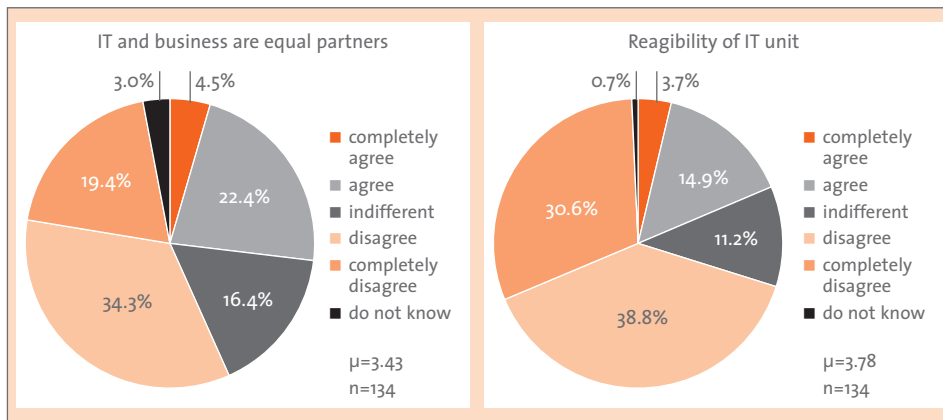


Figure 2: IT unit as an equal partner to the business unit – assessment of the business unit regarding the timely reaction to business requirements by the IT unit