It Governance and Business Alignment in Support of a Divestment Strategy

By Annamaré Wolmarans, Neels Kruger & Neil Croft

Universtiy of Pretoria

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Keywords: business strategy; divestment; IT alignment; IT governance.

GJMBR - G Classification : JEL Code : L19

Strictly as per the compliance and regulations of:
It Governance and Business Alignment in Support of a Divestment Strategy

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Abstract- This paper investigates the role of IT governance and business-IT alignment in company divestment. Divestments are described as strategy’s missing link. Divestment is commonly an affirmation of dynamic volatile internal or external business landscapes and the aspiration is consistently to bolster and underpin the company’s efficacy and performance. Divestiture will oblige enactment of the company business strategy and it thus includes a strategic proportion. Divestment can be a pertinent and lucrative strategy. The successful accomplishment of a divestiture is generally calculated by the dimension of accomplishment in realizing the elemental strategic goal that the company set out to achieve when adopting a divestment strategy. The paper will also highlight the relevance of Information Technology (IT) in a divestment strategy by discussing the habits of an effective IT governance model and the business-IT alignment levels and approaches to support the company’s strategy and goals, even if it is a divestment strategy. IT has a substantial role to fulfill in bringing company divestment to completion. The all-inclusive modification and alignment of the IT panorama is a fundamental concern for the business. The IT department has a fundamental function to fulfill in the disentanglement of systems and IT infrastructure. In order to achieve this goal it is imperative to have the necessary well defined IT processes between business and IT to ensure the smooth execution of the IT divestment process.

Keywords: business strategy; divestment; IT alignment; IT governance.

I. Introduction

According to Kumar and Lai [1] convergence through discretionary divestment has become a popular strategy to counter external environmental changes and to embellish focus on operations. They point out the positive affiliation between better returns on investment and upsurge in operational focuses. Following the product life-cycle concept, divestment is described as one of the strategic alternatives to counter a slumping industry, high volatility and unpredictable prospects on returns. Financial performance and a focus on corporate liquidity requirements could also influence a decision to embark on a divestment strategy.

Business divestment strategies are often a result of a company that needs to reposition themselves with regards to their competitive position in the market. According to Böhm, et al. [2] “solutions to IT challenges are critical for realizing the potential value of the transaction.” IT alignment management should identify the interdependencies and relationships that might exist between the business processes and IT processes. A formal plan needs to be formulated to disentangle the IT systems and infrastructure from the rest of the business processes when a divestment strategy is implemented by a company.

The function of IT alignment management is to converge on the alignment between the business strategy and the IT strategy and for IT professionals to comprehend the role of business [3] becomes even more pertinent when a divestment strategy is implemented. It is cardinal that the IT department ensures the reorientation and enactment of the IT portfolio to cultivate business alignment as a matter of priority. IT alignment management should introduce a better understanding of the most vital aspects of the IT strategy and IT governance framework. Both the IT strategy and governance framework should be adapted to bolster the business strategy resolution in a business ambiance subjected to perpetual modulation and embracement of the business modulations are precariously vital. Because IT is an indispensable constituent inclusive of business in general, the IT environment needs to be managed by way of regulatory conformity. Stakeholder value will be realized and maximized through IT cost governance and the effective management of IT risks and IT availability.

The study will establish the hypothetical logical theories and their associations with and relevance to the function of IT governance and business-IT alignment in business dispossession. Levy & Ellis [4] portray the literature examination as compelling and probable investigative measures subsequent to an “input-processing-output” approach. They define the literature review process as “sequential steps to collect, know, comprehend, apply, analyze, synthesize, and evaluate quality literature in order to provide a firm foundation to a topic and research method.” The literature examination for this research aims to methodically measure theoretical and abstract correlations and reliance between distributed and promulgated research literatures. A compelling literature review will accrue an authentic vindication for choosing this research methodology.
II. IT Governance

The diligent application of information technology has become a conventional company obligation across all industries. The underlying catalyst is convalescent colloquy and commercial virtue. The abrupt velocity of adoption in these technologies has relegated a number of best practice advents to antiquity. Contemporary IT policy makers and business managers countenance unpredictability typified by the absence of pertinent, workable admonishment and standards to govern the company through this unfamiliar business upheaval. Companies could implore governance on a makeshift manner and develop their own foundation, or they could embrace existing governance frameworks which has already matured through the integrated sophistication of global companies and knowledgeable people to be impeccable. Companies will reap a number of benefits when emulating a canonical IT governance framework. An array of canonical IT governance frameworks and divergent evaluation mechanisms for the evaluation of IT’s significance and attainment have emerged. A number of intermediaries evolved into protocols, others into mechanisms or best practices [5].

IT Governance consists of defining the rules and constructing the proficiency to run IT to create value for stakeholders. IT Governance can be redistributed by applying a blend of a number of frameworks, processes and comparative techniques. When composing IT governance for a company, it is imperative to understand that it is dependent on a number of contradictory internal and external circumstances. An imbalance notoriously known as the "IT gap", has been conceived from the difference in comprehension between business and IT management. The result of the "IT gap" culminated in a nonalignment between IT and business prospects and a disorganized IT governance system [6]. A new analogy is needed where IT governance is an essential component of a holistic all-embracing business strategy. Kearney [7] proposes “The 7 Habits of highly effective IT governance” which includes the following:

a) IT is viewed as a strategic business partner

Because IT cost could absorb a large portion (up to four percent) of a company’s revenue and operating expenses it is imperative to treat and manage the company’s IT assets as a portfolio to gain an improved appreciation of how appropriate strategies could be employed by defining the benefits that could be realized to the company. The portfolio procedure enables management to converge on how IT augments to overall business success by providing a better understanding of how resource intensive each technology is with regards to labour and monetary resources. The portfolio approach assists the IT department to communicate the significance and value-add of IT in common business language.

Understanding the IT portfolio is critical when it needs to be downsized. Even through downsizing the IT portfolio the IT department could still be a valued business partner in ensuring that the systems and infrastructure that will stay behind are versatile and robust enough to fulfill more than a single business requirement, are cost effective and do not need specialized support to be maintained.

b) Technology ignorance is not accepted

According to Posthumus et al. [8] “most boards have not yet achieved adequate control over IT and are quite ignorant when it comes to IT spending and strategy.” According to them very few boards appreciate the amplitude to which companies are operationally susceptible on IT systems or how their IT systems play a crucial role in the development of the company’s business strategies. Technology literacy is construed as more than only the aptitude to use a computer. Technology literacy suggests a high level understanding of the complete integrated technological process and its duties and functions within the company.

The repercussion of technology illiteracy range from a quixotic anticipation regarding technology to the ineptitude to actively and intelligently engage in deliberations and decisions on suitable processes and procedures to resolve issues in which technology fulfills a determining role. It boils down to the board of directors understanding that the implementation of new technology will obligate organizational changes, equipping managers on all levels to operate in the new model and training for employees [9].

IT decision makers from business can ill afford the luxury of technology illiteracy when IT disentanglement and downscaling decisions needs to be made. Ill informed decisions could potentially have a detrimental impact on IT cost and operability which will cause unmeasurable harm and serve to be an obstacle in the way of achieving the envisioned strategic goals of divestment.

c) IT has board of director-level oversight and clear executive leadership

As IT can be described as the heart or centre of business operations, IT Governance should be an imperative crucial component of the board’s corporate governance obligation. However, Huff et al. [10] note that “most boards seem to be passive receivers of information about IT as opposed to aggressive, proactive questioners. We saw little board-level concern about the company’s return on its IT investment, for example, or the appropriate level of IT expenditures”. They go further by stating “The risks and opportunities IT presents … may require a level of technical insight that is often absent from the boardroom. The net effect is that many boards are reluctant to deal with IT governance issues”.

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The role of the board in general is to act as overseer of business compliance, and institute strategic goals and policies. However, the fundamental obligation of the board is to ensure that optimal value is derived from all assets and therefore alignment is of pivotal significance in IT governance. Redistribution of IT governance can be achieved through the application of a miscellany of frameworks, processes and rational mechanisms [11]. The rational mechanisms represent the diligent partnership and cooperative connection amongst business board members, business management and IT management. They are critical important in the IT governance framework and predominant for achieving and preserving business/IT alignment [12].

d) There is no “one-size-fits-all” IT governance model

Da Cunha et al. [13] suggests each company needs to implement its own version of the IT governance best practice based on the company’s own organizational roles and relationship structures needed for the effective governance of its IT investment with regards to policy setting, control, and monitoring as in reality there is “no one size fits all” way to govern IT. IT governance is located at various tiers in the company such as the strategic level, management level and operational level. Each of these components in the IT governance framework serves specific or numerous objectives in the intricate alignment challenge. “There is no “one-size-fits-all” way to implement IT governance models within a company, but rather a range of approaches that have relative merits depending upon the circumstances. In various contexts, one or more of these approaches may be the best suited to accomplish the goal of an IT governance model” [14].

Arcot and Bruno’s [15] study provides support for the assumption that in corporate governance, but more specifically in IT governance regulation one-size-does-not-fit-all. They found that companies that selected to diverge from best practices because best practices did not fit or support the company’s strategy, in most cases outplayed their competition. Paradoxical to popular believe, the devotion and obedience to principles of good IT governance does not guarantee exceptional company performance. Strategic deliberations and the business’s proportionate topography in the business lifecycle should guide the most relevant approach to governance [16].

The IT department requires explicit clear comprehension of the company itself. This comprehension encapsulates prospects of circumscribing the business processes and the information flows that supports them through a variety of systems and infrastructure. It also necessitates a particularized comprehension of roles and obligations, to affiliate the essence of the software systems to the essence of the business, and concentrate on the current business needs. The IT department not only needs to understand the business in which they operate, but also needs to be conversant concerning its own capabilities, significance and value chains. It is paramount that the IT department has an unequivocal understanding concerning the real propulsive force of their purpose, including the propensity of their scaling factors [17].

e) IT is an essential part of corporate planning and strategy

IT governance consist of constituents such as management direction, business composition and methods that will inaugurate an IT organization which will perpetuate and bolster the business strategies and goals. The excerpt of an appropriate IT governance framework will be the first step after which the implementation of the solution will follow. Specialized insight of business and IT methodology, and optimized teamwork, is indispensable to ensure that the chosen framework is adequate and efficient [17].

Bernhardt [18] re-iterates the fact that company investment in IT “requires consistent firm strategies, effective internal and external communication and a careful assessment of risk.” Because IT has such a direct and important ramification on issues such as legal conformity, strategic risks and return on investment it is indispensable for businesses to select and implement the most applicable IT governance framework. As a result of IT becoming an essential and interrelated business asset IT governance can no longer be apprehended in solitude but rather in alliance with corporate governance. Broadbent [19] describes IT assets as “just one asset class among others that companies deal with... But increasingly, if not managed appropriately and well integrated into the business they leave organizations exposed to huge risk and competitive disadvantage.”

The traditional objective deferred for IT has been derivative to business devising and viewed as a distribution instrument which is not indispensable in the formulation of strategy. When setting out to implement a divestment strategy it is critical to establish exemplary harmonized Business-IT-alignment. The IT department need to capitalize on the favorable circumstances to deliver real value to the business. Even though the IT offering will not be contributing an aggressive edge, it will provide benefit and leverage through the implementation and use of sturdy but adaptable technology to support the agile business strategy. The IT alignment plan should be unequivocal in order to aid business in attaining their divestment strategy [17].

f) IT plays an active leadership role in transformation and innovation

It is hypothesized that the business IT investment is closely affiliated with reciprocal innovation that will warrant and embed business process re-engineering which in turn is a primary unique
characteristic of business prosperity. IT is fundamental as it systematizes, informs and conceives the heartbeat of a company: business critical data. IT is invaluable in the eradication of barriers and stumbling blocks while promoting innovation. Companies implement IT systems and architecture with the ultimate objective to enable the profiteering of opportunities and multiplication of related benefits. The result is increased automation for more effective operations, more efficient business processes and abatement of costs [20]. The goal of IT governance is focusing on operating and revolutionizing IT in order to address current and imminent forthcoming needs and requirements of the business and its customers, to reduce complexity and raise standards. It is essential that IT governance plays an active role in building the company’s IT capabilities in general and support the achievement of IT process maturity in particular [12].

Companies launch organizational restructuring and metamorphosis when a divestment strategy causes the unbundling of business units and commodities. Juhnyoung Lee and Ivan [21] describes organizational restructuring as “a key executive management initiative that attempts to align the technology initiatives of a company with its business strategy and vision”. The intent of business metamorphosis when implementing a divestment strategy is to optimize the company’s profitability and curtail cost and also to facilitate the company in negotiating the re-alignment of implicit values and beliefs, creating a new portfolio of competencies and commodities after the divestment of a business unit. Divestment obligate the company to consider alternative markets, utilize new approaches and reform business processes through adaptation, clarification and amalgamation [18].

g) IT’s impact on the business is measured and monitored

It is a well-known fact that significant and severe IT failures has the ability to create chaos on internal and external levels of the company and could potentially lead to the destruction of customer trust and brand loyalty and ultimately threaten the company’s existence. Businesses should propose the relevant procedures to evaluate and standardize the attributes, and measure the quality and affordability of the IT capability. A divestment strategy necessitates a very small technology footprint with limited impact on employees, is easy to monitor and provides all the necessary functionality.

Tracking and monitoring will enable companies to quantify the IT systems that support profitability and identify systems that are not functioning optimally and needs to be optimized or replaced. Haghjoo [22] describes some of the benefits of effective IT governance as the ability to protect shareholder value, higher ROA from IT, improved ROI, performance improvement and enablement of external compliance to mention only a few. IT governance frameworks endorse benefits such as efficiency, lower spending, optimized regulation of IT infrastructures, commodity and perpetuation superiority in elucidation of IT governance and the enhancement of business culpability, culminating in exceptional yield [23].

III. BUSINESS-IT ALIGNMENT

Business-IT alignment or strategic alignment recognizes the obligation for strategy to devote effort to both external and internal environments. Strategic alignment contemplates the incorporation of IT into business strategy. Strategic alignment is gauged by the degree to which a company exploits systems which underwrites the company’s strategic proclivity [30]. Business and IT strategies could be postulated as harmonized when business goals are vitalized, enabled and sustained by the IT strategies. Strategic alignment is an analysis method which deduces the business direction through a continuous series of metamorphoses impacting both business and IT [24]. It is impossible to conclusively achieve strategic alignment in an ever changing business environment. The objective is the coexistence of the IT strategy and the business strategy. It is thus important for business and IT strategies to co-evolve to ensure collective augmentation during the implementation of a divestment strategy.

Business-IT alignment faces numerous challenges which relates to the lack of knowledge, where on the one hand business executives lack IT knowledge and IT executives do not have knowledge or access to the corporate strategy and IT managers do not understand the key business and industry drivers. IT will be the solution to crucial and eminent business problems. If care is not taken when managing alignment, it has the potentiality to be the source of unwelcomes such as nonalignment as an outcome of contradictory business strategies, provocations adduced by cultural dissimilarities, and the significance of the extent of globalization on IT [25].

a) Business-IT alignment levels

Business strategy relates to which favorable circumstances, market segments, products and services the company will target, and how it will attain superiority over competitors in addressing customer needs. Even when a company pursues a divestment strategy it needs to determine the most appropriate company structure and business processes and services to support the chosen divestment strategy. Maharaj and Brown [26] describe two dimensions of alignment, namely the intellectual and structural dimensions. Firstly the intellectual dimension is defined as “the state in which a high quality set of interrelated IT and business plans exist.” and secondly the structural dimension as “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.” Hiekkonen et al. [27] construe the structural alignment dimension as the “fit between business and IT decision-making structures and organizations.”

1) Intellectual Alignment

Altameem et al. [28] describe strategic planning for information systems and technology as “an important activity for helping organization to identify strategic applications and to align an organization’s strategy with effective information systems to achieve organization’s objectives.” When implementing a divestment strategy, intellectual alignment entails the compilation of business and IT plans that are aligned with the strategy. A strategic plan is an instrument that postulates direction and should enunciate definitive goals and illustrate the process that needs to be followed as well as the resources needed to achieve them. A strategic plan is customarily fixated on the activities and investments to produce income from a particular program or service [29].

When implementing a divestment strategy, the business plan will comprise of information on the process and procedures to down scale the business and withdraw from the competitive environment. There will typically be no expectations of income or revenue from products. The only revenue that will be generated will be from the disposal of assets.

2) Structural Alignment

According to Nassim and Robert [30] structural alignment “stresses the importance of structural fit between IS and the business, specifically in the areas of IS decision-making rights, reporting relationships, provision of IS services and infrastructure, and the deployment of IS personnel.” The objective of structural fit is to ensure that both the business and IT organizational structures endorse organizational goals and objectives [31]. The IT organizational structure needs to be downsized in accordance to the business organizational structure when divesting from business units as the existing software systems and IT infrastructure will be reduced to the bare minimum necessary to support a business unit that is no longer operational and which is not generating an income.

IV. Analysis and Discussion

The significance of the involvement of the IT department to support and optimize the company’s business unit divestment endeavor needs to be appreciated and sanctioned in the ambience of the conceivable benediction obtainable through IT de-integration. Primordial reciprocity between business and IT will converge possible spheres of contingency, operational impediments as well as financial obligations and threats. Actualizing a divestment strategy postulates the formulation of an applicable IT governance model which will contribute to an optimized divestment were the accountabilities and responsibilities of all the involved parties are clearly defined to support the IT de-integration exertions. Compelling IT governance establishes instruments and structures to inspire a meaningful alignment stance towards the company’s vision, strategy, values and culture [32].

IT governance are potentially the “vehicle to implement strategic change”. When the strategic value of IT in a divestment strategy is well comprehended, the strategic resolution should be aimed at establishing an IT architecture and platform that is pertinent to divestment. This modus operandi will safeguard a velvety transformation to aid the IT de-integration evolution during a divestment strategy. As a clear relationship between IT and business strategy alignment in divestment has been conclusively proved, the argument persist that the degree of alignment capability will be an essential contributor towards the result of divestment efforts. The inadequacy of alignment between IT and business strategy has the ability to be an impediment or obstacle in the achievement of the unabridged advantage of the divestment effort [32].

V. Conclusion

The intention of IT Governance is to be the source of guidance and control for IT within a company and is construed as a valuable constituent in business-IT alignment. IT should be contemplated as a strategic business asset which has the potential to revolutionize core business processes and slingshot the company into a position of market leadership in any industry. IT is an indispensable constituent of corporate planning and strategy and has a precipitous significance on matters such as legal conformance, strategic risk and return on investment. When the business endorse the strategic significance of its IT investment the implementation of a divestment strategy will lead to the enactment of an IT governance model that will bolster divestment and aid the delineating of roles and responsibilities for the favorable detangling of IT systems and infrastructure.

An explicit interconnection between the IT strategy and business strategy alignment prevail when a divestment strategy is implemented. When the business endorses the strategic value of its IT investment the implementation of a divestment strategy will traverse in the enactment of an IT governance framework that will uphold divestment. Numerous antecedents will influence business-IT alignment when a divestment strategy is implemented. These antecedence comprise of environmental ambiguity, alignment between business and IT planning, IT’s comprehension of business, business conversion and IT management acumen.

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