

Alignment of the IT Strategy and Governance Model with a Company's Divestment Strategy

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Abstract: This paper investigates the impact of a company's divestment strategy on the IT governance model and IT-Business alignment and determine the steps that IT and business should take to ensure alignment in order to support a divestment strategy. Divestments and closures are described as strategy's missing link. Many companies will oppose this strategic option because it is cursed with the disgrace of failure. Divestment is an instrument of strategy that companies can apply to consolidate and refocus their business.

The paper will further discuss the importance of the alignment of internal departments, but more specifically the IT department, with the company's business strategy, even if it is a divestment strategy, to support and ensure the achievement of the company's goals and objectives. The augmentation of IT to company achievement is a sphere where the idea of fit between IT and business strategy is particularly relevant. The extensive application of technology has spawned a pivotal dependence on IT which has necessitate an urgency to focus on IT Governance. The purpose of IT Governance is to provide direction and oversight for IT within a company and is described as an important building block in business-IT alignment.

Key words: Business strategy, divestment, IT alignment, IT governance.

1. Introduction

As a result of the downward spiral of the global economy, mining companies have had to optimize their operations and consider divestment and closure of business units. Part of the strategy is to ensure that the company maintains its competitive advantage, improve profitability and is able to strengthen its shareholder value. Coal mining is a highly culminated industry in South Africa and a large number of collieries in some of the prominent coal fields have closed. Mine closure is a reality faced by more South African mines than ever before in the history of the country. Mine closure has the potential to create value for shareholders, improve the company's operating performance, ameliorates corporate governance and expansion of strategic resilience. The term 'mine closure' describes an expansive process relating to the activities emerging from the discontinuation of mining operations [1]. Because of the complexity and inter relatedness of Information Technology systems and infrastructure with the rest of a business units business processes, a divestment initiative should include the steps that need to be taken to "de-integrate" or disentangle the IT infrastructure and IT portfolio from the rest of the company [2], [3].

Information Technology (IT) has an important role to fulfil in accomplishing a mine closure or divestment. The comprehensive adjustment and alignment of the IT panorama is an essential concern for the business.

A pre-closure assessment will facilitate a better understanding of possible limitations or data related issues that might impact or jeopardize a successful mine closure [4]. All the business process and functional departments need to be involved to ensure smooth cooperation with the IT department and assist with the disentanglement of the affected mine. The IT department needs to have processes and procedures in place to ensure information life cycle management and a well-defined archiving solution. Policies and procedures should address retention rules, data, system and IT infrastructure decommissioning, and system retirement [3]. Information Technology has the potential to be either be a promotor of strategy that contributes value, enables growth and revolutionises business or cause of perplexing noise. The company's IT strategy therefore needs to align itself with the business strategy in order to support the company when a divestment strategy is implemented [5].

The research will ascertain the theoretical elemental concepts and their link and applicability to the alignment of the IT strategy and governance model with a company divestment strategy. Onweguegbuzie *et al.* [6] define an effective literature review as *"an interpretation of a selection of published and/or unpublished documents available from various sources on a specific topic that optimally involves summarization, analysis, evaluation, and synthesis of the document"*. The purpose of literature review is to perform as an instrument that enables the researcher to acquire a solid theoretical foundation for the proposed study through methodological scrutiny and integration of literature. An effective literature review should furthermore yield a valid justification for the selection of the research methodology.

2. Literature Review

2.1. Role of IT Governance in Strategic Alignment of Business and IT

Maizlish and Handler [7] defines IT governance as *"the system by which an organization's IT portfolio is directed and controlled."* It provides a set of rules and parameters to align IT activities with the business objectives and goals. IT has emerged as a primary enabler to virtually all business metamorphosis and the application of IT directly influences the achievement of the company's vision, mission and strategic goals. The most pertinent approach to IT governance needs to be guided by strategic considerations and impacted by the company's relative topography in the corporate lifecycle. A spectrum of concepts are available for the implementation of IT governance in a company, but no *'one-size-fits-all'* approach. Depending on the eventuality, one or a combination of approaches may be appropriate to actualize the goal of an IT governance model [8].

Pereira and Da Silva [9] re-iterate the fact that company investment in IT is dependent on constant and invariable company strategies, compelling internal and external communication and a vigilant risk assessment. They go further by warning that the selection of good IT governance are becoming incrementally more complex because IT has such a direct and instantaneous effect on matters such as legal compliance, strategic risk and return on investment. The consequence of IT's interrelatedness is that IT governance can no longer be conceived in isolation from the other essential assets of the company. It is postulated that the IT investment made by a company is intimately associated with correlative innovation that enables and supports business process re-engineering which in turn is a key distinctive characteristic of economic growth. IT is instrumental in the destruction of hurdles and obstacles while facilitating innovation. It is thus essential for companies to introduce the necessary procedures to assess and regulate the quality and cost effectiveness of the IT capability [10].

Hagen [11] describes effective IT governance as *"a long journey"* and claims that companies that set out to understand the path can envisage and effectuate success. IT governance can be described as a building block of strategic alignment. Debreceny [12] affirms that *"[a] core dimension of ITG is strategic alignment between the information technology function and other functions in the organization"*. Inadequate execution of the IT

governance framework will derail strategic IT alignment. The role of IT governance is to safeguard the achievement of strategic alignment, but more importantly, to continuously evaluate and measure alignment to ensure sustained strategic alignment [8], [13].

2.2. IT and Business Alignment

Effectuating calibration between the needs of non-IT departments within the company and service rendition by IT is a major constituent of IT governance. The purpose of the alignment of IT governance and strategic business-IT alignment is to endorse the accomplishment of business goals on a strategic, structural, tactical and operational level and to ensure complete synthesis and integration between business and IT [13]. According to Hiekkänen *et al.* [14] the conception of alignment has its origin and lineage in the “design school” of strategy, where the fundamental constituents are the measures of conformance amid a company’s inherent structure and its extrinsic situation. IT alignment is defined by Luftman, *et al.* [15] as “*the extent to which the IS strategy supports, and is supported by, the business strategy*” and Maes, *et al.* [16] redefines IT alignment when they compiled their unified framework as “*the continuous process, involving management and design sub-processes, of consciously and coherently interrelating all components of the business – IT relationship in order to contribute to the organisation’s performance over time.*”

Alignment is valuable not exclusively in the development of strategies but also in their execution. Execution is promoted by aligning and adapting indispensable systems, processes, and verdicts within the company, consisting of accolade systems, information systems, resource distribution, corporate culture, and company aspirations and antecedence. Peppard and Breu [17] describe business-IT alignment as “*a process of bricolage, improvisation and tinkering*” and construe that although “*alignment thinking is theoretically and conceptually consistent*” most companies underestimate the difficulties they will encounter when trying to sustain business-IT alignment over a longer period of time.

Two mind-sets on Business-IT alignment prevail in existing literature. The first inclination describes alignment as an “end state” where component models evolve to facilitate the antecedents and the consequences of alignment. The second inclination describes alignment as an ever changing “process” where the goal of alignment is rarely accomplished as a result of the dynamic environment in which the company operates. Baker and Jones [18] conclude that fusion between these two alignment sentiments is needed to better understand alignment. According to them an “end state” of alignment prevails and advancement toward the end state can be measured and evaluated. However alignment is also a process to support business in a compelling progressive business environment.

Notwithstanding the acknowledgment that strategic IT alignment is a process and not a result, its origin is still unduly regulated and little intuitiveness is available for the preservation of a flexible and ongoing process of modification and change between business-IT strategies. Alignment will grow from a primary ad-hoc process to a well-established convergent process if maintained and preserved over an extended time period. No matter whether alignment is considered from a business-driven perspective (IT enabled) or from an IT-driven perspective, the main goal is to warrant that the company strategies transform conjointly. If not managed carefully, alignment has the potential to give rise to baneful situations such as the misalignment as a result of inconsistent business strategies, IT deceleration and the challenges presented by cultural differences and the impact of the extent of globalisation on IT [19].

3. Analysis and Discussion

The importance of IT management’s presence in the company’s business unit divestment efforts needs to be understood and accepted in the context of the benefits that could potentially be leveraged through IT de-integration. Early participation and cooperation between business and IT will broaden communication,

highlight potential areas of opportunity, operational threats, financial liability and risks. Implementing a divestment strategy necessitates the establishment of an IT governance model to support divestment and define the roles and responsibilities necessary to manage the IT de-integration efforts. According to Weill and Woodham [20] “[d]esigning an effective IT governance structure requires understanding the competing forces in a large organization and creating harmony among business objectives, governance archetype and business performance goals”. Effective IT Governance implements mechanisms that will embolden an attitude coherent with the company’s mission, strategy, values and culture.

Adopting the IT governance model will ensure alignment between business and IT with regards to understanding the company’s strategic objective or intent with the divestment strategy and business understanding the effort and expenses required from an IT perspective to de-integrate the IT component of a business unit. IT Governance is described as the “*vehicle to implement strategic change*” [20]. When a company understands the strategic value of IT in implementing a divestment strategy, their strategic approach should be one where they ensure an IT architecture and platform that is well suited to divestments. In following this approach, a company ensures a smooth transition to support the IT carve-out process during a divestment strategy. As a definite link between IT strategy and business strategy alignment in divestments has been established, it can be argued that the level of alignment maturity is a key contributor to the outcome of divestment efforts. The lack of alignment between IT and business strategy can also potentially be an inhibitor in realising the full envisioned benefit of the divestment effort. There are a number of factors directly affecting alignment when implementing a divestment strategy.

3.1. Environmental Uncertainty

Factors outside the company’s jurisdiction also affect alignment, such as environmental uncertainty. Environmental uncertainty represents the intensity of change and volatility in the company’s external environment, and the value and applicability of available information on the prevailing context of the environment, probable significance of the situation, and the strategic choices available. IT has the capability to empower the company during uncertain periods and provide extended flexibility and adaptability. Companies operating in unstable environments are presumed to enlarge their investment in IT and to place greater trust in IT. Managers in these companies are expected to increase their focus on business and IT strategies and alignment of strategies [15].

IT has the capability to empower a company in uncertain environments through IT application to enhance information conversion and transformation capabilities [15]. The company’s change agenda sketches the disposition of the needed modifications to business processes and the IT landscape. A roadmap cataloguing and portraying the step by step process to execute infrastructure and system changes with particular detail regarding each individual technology, depicting priorities and time lines. By understanding the significance of items on the business portfolio and how they will impact technology will enable IT to align their portfolio roadmap accordingly to ensure the reaping of benefits through a combined implementation programme between business and IT. After establishing the technology roadmap to support and align with the business portfolio the next steps will be to convert and transcribe the technology roadmap into execution plans by defining and implementing the delivery framework. The final step in the process is to measure if business has reaped the intended IT benefits and ensuring proper alignment between business strategy and the IT function [13].

3.2. IT’s Understanding of Business

The conventional function reserved for IT has been secondary to business planning and seen simply as a deployment tool and not essential in the construction of strategy. When embarking on a divestment strategy it is imperative to ensure optimal synchronised Business-IT alignment and for the IT department to realize

that real opportunity exist for them to make a difference. Although the IT contribution is now less likely to provide competitive advantage, it is probable the best advantage will be obtained from the implementation and use of robust but agile technology and thus supporting a flexible and adaptable business strategy. IT needs a straightforward and authentic alignment plan to support business in realising their divestment strategy [13].

The IT department will need an unambiguous understanding of the company itself. This understanding includes aspects of mapping the business processes as well as the information flow that supports them through the various software systems and IT infrastructure. It further entails a detailed understanding of roles and responsibilities, to match the nature of the company's systems to the nature of its business, and focus on what exactly makes the business tick now. Over and above understanding the business, the IT department needs to be knowledgeable regarding its own resources and value chains and inter dependencies between the components and services. It is fundamental that the IT department has a clear comprehension of what the true driving force of their IT function is as well as what the disposition of their scaling factors entail [21].

3.3. Organisational Transformation

Companies embark on organisational transformation when a divestment strategy leads to the unbundling or carve-out of business units and assets. Juhnyoung Lee and Ivan [22] describes business transformation as *"a key executive management initiative that attempts to align the technology initiatives of a company with its business strategy and vision"*. The aim of business transformation when embarking on a divestment strategy is firstly to improve the company's profitability and reduce cost and secondly to assist the company to deal with and re-align tacit values and beliefs, building a new portfolio of personnel skills and products after the divestment of a business unit. Divestment forces the company to investigate new markets, deploy new approaches and optimize business processes through simplification, standardisation and consolidation [23].

3.4. IT Management Sophistication

According to Gregory [24] technology management "addresses the effective identification, selection, acquisition, development, exploitation and protection of technologies needed to maintain a stream of products and services to the market." Phaal *et al.* [25] affirm that technology management is related to "stablishing and maintaining the linkages between technological resources and company objectives". Technology management can thus be described as a "multifunctional and multidisciplinary field" as it addresses all the conditions of integrating technological concerns into business decision-making and is undeviating applicable to core business processes, inclusive of strategy, modernisation and new product development and operations management.

3.5. Connection between Business and IT Planning

Planning can be described as regimen and foresight to anticipate obstacles and opportunities within an unmanageable and complex environment and has been classified as one of the most eminent and influential IT management issues. The goal of business and IT planning processes is to prompt continuous and ongoing interaction between business and IT executives to optimize the management of technology associated strengths and weaknesses. This evolving and continuous communication provides the foundation for business-IT alignment [15]. As IT planning has become more prevalent, it has become apparent that IT strategies need to be forged in simultaneous and in alignment with the business strategies if competitive advantage is to be secured from IT investments or divestment. For IT planning to add value, it needs to understand the business objectives, business obstacles and how business operates [26].

4. Conclusion

The purpose of IT Governance is to provide direction and oversight for IT within a company and is described as an important building block in business-IT alignment. IT has become a fundamental component of corporate planning and strategy and could have an abrupt impact on issues such as legal compliance, strategic risk and return on investment. When deciding on and implementing an IT Governance model, it is imperative for the board and executive leadership to realize that no “one size fit all” IT governance model will maximize their business-IT alignment efforts and that IT should form an integral part of corporate planning and business strategy. It is thus essential that the impact of IT on the business be quantified and observed.

A definite link exist between the IT strategy and business strategy alignment when a divestment strategy is implemented. When the company acknowledge the strategic value of its IT investment the implementation of a divestment strategy will lead to the adoption of an IT governance model that will support divestment and assist in defining the roles and responsibilities for the successful de-integration of IT systems and infrastructure. A number of factors will impact business-IT alignment when a divestment strategy is implemented. These factors include environmental uncertainty, alignment between business and IT planning, IT’s understanding of business, organisational transformation and IT management sophistication.

Erratic diversity is an inevitable component of operating in the current emerging economy. There is limited allowance for error and an abundance of opportunities to reap reward from aberrations of competitors. If internal processes are not aligned and animosity is at the order of the day, the probability of the company being agile enough to exploit and reap benefit from favourable circumstances are limited. Business and IT ought to be compelled to function and strategize in unity or be abate and crippled by their dissidence.

The focus of this research is on the South African coal mining industry only, and focus on the impact that a divestment strategy will have on the alignment of the IT strategy and governance model. However, it can be anticipated that many conclusions might be applicable to other mining and business sectors as well. Further work will include the examination of the existing IT Governance frameworks and standards to determine if they could be implemented or adopted to serve as an IT divestment managerial and governance framework in mine closures.

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