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Aligning with new digital strategy: A dynamic capabilities approach

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ABSTRACT

Prior IS research has not fully addressed the aligning process in the highly dynamic context of digital strategy. To address this gap, we conduct a longitudinal analysis of a B2B company's journey to enact its B2C digital strategy, using the dynamic capabilities approach. We found that as an organization shifts towards a digital strategy, misalignments between the emergent strategy and resources give rise to tension. Our study resulted in the development of an aligning process model that is comprised of three phases (exploratory, building, and extending) and generalizable organizational aligning actions that form the organization's sensing, seizing, and transforming capacities. These aligning actions iteratively reconfigured organizational resources and refined strategy in order to respond to both changes in the environment and internal tensions. We also recognized that there are challenges to alignment, and conceptualized them as paradoxical tensions. This provided insights as to how such tensions are triggered and how they can be addressed. Finally, by applying the dynamic capabilities approach to aligning, we also show that alignment is not separate from such capabilities, but that aligning is enacted through the sensing, seizing and transforming capacities and their attendant aligning actions.

1. Introduction

Information Technology (IT) alignment continues to be an important topic in information systems (IS) research and practice because it has been shown to positively impact performance (Gerow, Grover, Thatcher, & Roth, 2014; Renaud, Walsh, & Kalika, 2016). Alignment may be even more challenging today as contemporary organizations, in response to environmental dynamism and digital innovations, undergo tremendous change in their operational and strategic models (Coltman, Tallon, Sharma, & Queiroz, 2015; Fonstad & Subramani, 2009). In particular, organizations have increasingly digitized their operations and processes (Bharadwaj, Sawy, Pavlou, & Venkatraman, 2013; El Sawy, 2003). This has important implications for alignment. It is no longer just a matter of alignment between IT functional strategy with the firm's business strategy (Bharadwaj et al., 2013; Coltman et al., 2015); instead, there is a blurring of the distinction between business and IT strategies, leading to a fusion between them in the form of digital strategy (Galliers, 2011).

Alignment in the context of digital strategy is challenging for several reasons. First, organizations find it difficult to fully articulate their digital strategies upfront in the face of environmental dynamism. Alignment is therefore a continual process of aligning to the moving target of emerging strategy. Second, digital strategy is inherently multi-functional (Bharadwaj et al., 2013) and alignment

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requires the simultaneous development and reconfiguration of IT and business resources across multiple organization processes.

While prior research has typically treated alignment as an event or end-state (Benbya & McKelvey, 2006), more recent research has called for a focus on the aligning process rather than on alignment (Karpovsky & Galliers, 2015; Wilson et al., 2013), and to understand the role of actions taken over time to align strategy and resources (Chan & Reich, 2007; Coltman et al., 2015; Marabelli & Galliers, 2017). Karpovsky & Galliers (2015) have identified individual actions in aligning. This paper examines the aligning process at the organizational level, and seeks to answer the question of how the aligning process unfolds through organizational actions in a digital strategy context.

We find dynamic capabilities a useful approach to examine the aligning process, as it focuses on the actions taken by organizations to change their resources in order to adapt to changing environments (Eisenhardt & Martin, 2000; Peteraf, Di Stefano, & Verona, 2013; Teece, Pisano, & Shuen, 1997). Drawing on the view that dynamic capabilities are composed of both broad organizational capacities and specific actions that work together to effect organizational change, we developed a framework of aligning actions for our analysis. The prior IT alignment research also noted that there are usually challenges to aligning that reflect the tension between prior and new resource commitments. We drew on the paradox literature to further conceptualize these challenges to aligning and its relationship to aligning actions (Smith & Lewis, 2011).

We conducted a longitudinal study of a European sports fashion company that shifted from a pure business-to-business (B2B) model to augment it with an Internet-based business-to-consumer (B2C) digital strategy over a five-year period. Our study resulted in the development of an aligning process model that is comprised of three phases (exploratory, building, and extending) in which specific organizational aligning actions, within each of the broader categories of sensing, seizing, and transforming dynamic capacities, iteratively reconfigured organizational resources and refined strategy in order to respond to both changes in the environment and internal tensions. Our discussion explicates the critical role of aligning actions throughout the aligning process as well as its complex relationship with tensions that emerged during the aligning process. We found interesting insights into the paradoxical nature of such tensions and how aligning actions can effectively address these tensions so that the aligning process can continue.

In the following section, we present the relevant literature on IT and business alignment. We explain how the dynamic capabilities approach, supplemented with an understanding of tensions from the paradox literature, provides a useful framework for the study of the aligning process. We then describe our methodology, and present our findings. We conclude with a discussion of the results and implications for research and practice.

2. Theory

2.1. IT and business alignment

IT alignment is important because it has been found to be associated with performance (Bergeron, Raymond, & Rivard, 2004; Chan, Huff, Barclay, & Copeland, 1997; Croteau & Bergeron, 2001; Gerow et al., 2014; Kearns & Sabherwal, 2007; Oh & Pinsonneault, 2007; Sia, Soh, & Weill, 2016; Zahra & Covin, 1993). IT alignment continues to be of interest to practitioners and researchers, as evidenced by a recent special issue on alignment and its high ranking in a recent survey of practitioners (Coltman et al., 2015; Renaud et al., 2016).

Traditionally, there have been various definitions of alignment, with some focusing mainly on the fit between business and IT strategies (e.g., Reich & Benbasat, 1996). However, Henderson and Venkatraman (1993) in their seminal strategic alignment model, define alignment not only as fit and integration between business and IT strategy, but also between business and IT infrastructure and processes. Tallon (2008) further strengthens the argument for the value of strategy-resource alignment by noting that the integration of IT and business processes can be causally ambiguous and hence the source of superior performance.

Recent developments in practice and research have identified the need to further evolve our understanding of alignment. In particular, environmental dynamism (El Sawy, 2003) arising from digital innovation and interconnectedness of global business has led organizations and researchers to pursue the notion of digital strategy (Sia et al., 2016). Unlike the traditional view that considers IS and business as two distinct structures to be aligned, digital strategy explicitly recognizes the embeddedness of IT throughout the organization and that IT strategy is integrated with business strategy (Bharadwaj et al., 2013; Galliers, 2011). Thus, digital strategy is inherently transfunctional, as IT is pervasive in functions such as operations and marketing. Hence, researchers argue that there is a fusion of IT and business strategies – in contrast to the traditional view of IT as a "functional level strategy that must be aligned with the firm's business strategy" (Bharadwaj et al., 2013 p. 472). Environmental dynamism also means that organizations may not be able to fully articulate their digital strategies upfront. The dynamism and complexity of the business and technology environment suggest that digital strategy is emergent, iterative, and influenced by evolving organizational capabilities (Galliers, 2011).

How then is IT alignment achieved in a digital strategy context, where strategy is an emergent fusion of business and IT, and where organizational capabilities evolve constantly? Recent research that has argued for a general shift of focus to the aligning process rather than on alignment (Karpovsky & Galliers, 2015; Street, Gallupe, & Baker, 2017; Wilson et al., 2013) provides a helpful perspective. Taking a process approach to alignment is consistent with other views. Several researchers noted that alignment is not an event (Hirschheim & Sabherwal, 2001) nor an end-state (Benbya & McKelvey, 2006), but rather a journey of continuous adaptation and change. Mithas et al. (2013, p. 513) also note in the context of digital strategy that dynamic synchronization is needed between business and IT to gain competitive advantage. Other recent work in alignment also found that strategy is implemented via a series of processes that occur over time (Queiroz, Coltman, Sharma, Tallon, & Reynolds, 2012; Tallon, 2008).

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