

Impact of IT Strategy on Business Strategy in Small Malaysian Enterprises

Hadi Karimikia¹⁺

¹MMU, Seri Kenbangan Selangor, Kl, Malaysia

Abstract. Information technology (IT), in its myriad forms, has a profound impact on information system in organization and management especially in making decisions related to business requirements. IT has significant role to meet business' goals as defined in business plans. IT and business are merged together to an integrated strategy that is expressed as alignment strategy in companies. The main purpose for this paper is to illustrate how IT strategy is impacting on business strategy in small Malaysian enterprises and what factors improve IT strategy's effect on business strategy in small Malaysian enterprises. We have used the interview method to collect primary data from six small enterprises to design the empirical study. As there has seen, business' goals are carelessly formulated in business plans by small firms and business strategy will suffer giving results that are not acceptable to the firms. Firms should define IT strategy explicitly and IT strategy cannot be expressed implicitly which is not documented. Consequently small enterprises' fear of financial risk make IT innovation and decision difficult because an efficient IT strategy performance depends on having right and timely investment and making essential decisions on IT to achieve firms' IT objectives.

Keywords: IT strategy, business strategy, small enterprises, business plan

1. Introduction

IT has been viewed as a supporting player within the overall strategy of the firm and a guiding organizational function. IT is taking significant roles in business processes such as creating new needs, causing new product development or new market development and commanding new procedures. IT has defined a framework in which IT has shown itself as a facilitator, enabler and initiator toward organization roles. IT clarifies business processes and focuses on differentiation of functions, procedures and operations. In addition IT answers 'questions on Why-What-How in business processes. Information technology bridges business cultures to help break down traditional economic and social barriers [1]. Alignment strategy has become one of the most important concepts of information system management executives [2]. Organizations that apply the suitable information technology to formulate IT strategy need to reengineer processes to be in line with the level of its business operation. Small firms are a major component in

⁺ Corresponding author. Tel: 0060-0196890954

E-mail address: hk_peacock@yahoo.com

economic growth and strategy alignment identifies how these small firms achieve their goals and will be matched with their operation in the future [3].

1.2 Problem Statement and Questions

A survey shows small enterprises in Malaysia provide new job opportunities, introduce innovations, stimulate competitions, and assist large companies [4]. But few studies have adequately addressed the impact of IT strategy on business strategy in small enterprises [5] [6]. Small enterprises are lagging behind some researches to identify alignments in their information technologies and businesses [7]. The aim of this paper is how IT strategy influences the business strategy in small enterprises. Followed by the discussion above we have prepared the following research questions: How is IT influencing business strategy and what factors can improve IT strategy's effect on business strategy in small Malaysian enterprises? Answering to this question we need to respond with the following questions: What are the characteristics of IT and business strategy in Malaysian small enterprises? How is IT strategy applied by Malaysian small enterprises? How are information technology strategy and business strategy aligned in Malaysian small companies?

2. Literature Review

The article presents the definitions of small enterprises and describes the importance of business plan, business strategy, IT strategy and the relationship between IT strategy and business strategy.

2.1 Small Enterprises

Small enterprises due to their ease of decision making, organizational agility and strategic adoption have superior ability in planning some specified strategies compared to large enterprises [8]. A Malaysian small enterprise is defined as an enterprise that has more than 5 and less than 50 employees in manufacturing sector with having a turnover less than RM 10 million and more than RM 250,000 and between 5 and 19 employees in service and agriculture sectors with having a turnover less than RM 1 million and more than RM 200,000 [16].

2.2 Business Plan and Business Strategy

There are no exact rules for what should be included in enterprises' business plans even though several authors have explained what contents can be included in the business plans. However, the content changes with enterprises' structure, needs and wants. The business plan can include mission and vision statements, goals, business model and strategy, structure of organization and financial statement as action items [15]. Strategy should be clearly defined as a master plan to cover all parts in the enterprise such as finance, IT and marketing [3]. The strategy shows itself in either two ways explicit or implicit as Porter (2004) stated. Explicit strategies usually develop using of systematic process and ensure all segments in business in which is directed by common goals and understanding. Meanwhile implicit strategies should be inferred from historical business practices such as tacit knowledge. Understanding the five forces of competition model becomes especially important because nowadays industry boundaries have become vague and unknown with developing technology for both small and large enterprises [9].

2.3 IT Strategy and Business Strategy

Over past decade information technology (IT) has simultaneously progressed with global development and IT has become an inseparable process from organization's process [10]. The key success factor for a successful industry in dynamic business environment is how IT can be efficient and effective to support business strategy and business process [11]. Since the traditional planning failed to prepare a practical alternative for aligning IT to business requirements the modern IT planning has become more practical and less formalized [12]. Previously traditional IT strategy focused on data analysis and structure but the modern IT strategy shows a concentrate on the business strategy of the organization. However obtaining more efficiently the system needs business involvement of professionals in IT planning and making commitment for the IT plan. Modern IT planning clarifies the importance of business and IT alignment (BIA) that it is still new in practice. Chan (2000) acknowledges two important aspects for BIA; firstly plans, objectives and

visions must be merged in business and secondly IT must be equipped in alignment of business' mission, objective and plans. Consequently the holistic conceptualization of BIA can be derived from Henderson and Venkatraman (1993) that is known as the Strategic Alignment model. The conceptual framework shows four harmonized domains to explain each scope, competencies, governance, infrastructure, processes and skills for each IT and business strategy, organization and information system infrastructure and process. Therefore Luftman represents multidimensional alignment in the BIA maturity model that is based on Henderson and Venkatraman (1993)'s the Strategic Alignment. The maturity of the alignment of IT and business and a mature alignment between IT and business needs the balanced development of six factors including communication, value measurement, governance, partnership, scope and architecture, skills [14].

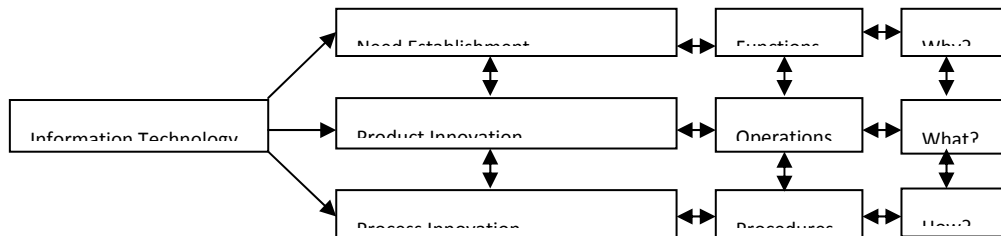


Fig.1: Chan's framework

First the framework can answer to the Why-What-How questions in the business process of the logical view. Second aspect attends to the organizational functions, operations and procedure. Finally observing IT's impacts on organization leading to how IT causes the establishment of a requirement or necessity, a product innovation and a process innovation [1].

3. Research Methodology

The qualitative method requires understanding of situations and events and this method focuses on people's mind and fantasy. Interviews help researchers to collect or generate data quickly and pursue results as soon as possible. We need semi-structure interviews to conduct our research because we have opportunity to ask more questions and invite respondents to share their ideas in the interview. In our research the strategy is to make two groups of questions. First group is on business strategy and business plans and second group is IT strategy. The interview covers four main areas: general data, company data, business plan and strategy and IT strategy. The respondents are small Malaysian enterprises' CEOs. There are six small Malaysian enterprises in the service sector which are chosen for interviews to get good results from the empirical findings.

4. Empirical Findings

The analysis is performed based on the main question in research questions: How is IT influencing business strategy and what factors can improve the IT strategy's effect on business strategy in small Malaysian enterprises? And then we have to analyze them into the following themes: business plan and business strategy, controlling IT, IT capabilities and impact of IT strategy on business strategy. We analyzed our collected findings in the analysis part with comparing the empirical findings to theoretical study. We chose the six enterprises and asked our questions from CEOs. Figure1 shows a brief of empirical findings. In figure below, business plan is evaluated with Goodale's five items; business strategy clarifies the difference of explicit and implicit strategy. IT strategy explains how enterprises identify and use IT requirements and establishments accorded to Chan (2000) framework.

Enterprises' Name	Type of Business	Business Plan	Business Strategy	IT Strategy
CGD	IT	Well-Designed in five items	Explicit	Successful in implementing a Why-What-How
MD	Distribution	Imperfect	Implicit	Use IT to implement consignment and JIT strategy
MRS	Finance	Well-Designed	Explicit	Imperfect IT strategy
RCL	Consulting	Poorly written	Implicit	Create KM
BD	Catering Service	Action Plan missed	Implicit	Facebook
RMS	Immigration	Action Plan and Strategy need to be changed	Explicit	Effective internet strategy and good understanding of Why-What-How

Fig.2: IT strategy, business strategy and business plan in six small enterprises

4.1 Impact of IT Strategy on Business Strategy

Venkatraman and Henderson (1993) mention that the key success factor for a successful industry in dynamic business environment is how IT can be efficient and effective in supporting business strategy and business process. According to Luftman (2007), there are six factors mixed with Venkatraman theory as shown in figure2 to identify alignment of IT and business.

Six factors	Enterprises	Explanation
Communication	CGD, BD	Knowing the importance of staff contribution in business and IT department
Value Measurement	None of the enterprises	Has no an evaluation and assessment system of IT result
Governance	Only RMS	IT governance to monitor IT outputs
Partnership	None of the enterprises	has no idea about partnering in both IT and Business department
Scope & Architecture	None of the enterprises	Has recognition for identifying needs and requirements in Business and IT
Skills	BD,CGD	Uses internal IT professionals and skilful staff.

Fig.3: Alignments in six small enterprises

5. Analysis and Conclusion

The structure of the analysis is easily understandable if we follow the three concepts which are business plan, business strategy and IT strategy. These three definitions enlighten our knowledge to be able to analyze the empirical data with the theoretical study.

It is very important that a written IT strategy and explicit IT strategy influence the success of business's process. It seems in Malaysia there is not enough awareness of effect of a written IT strategy on business strategy. In fact, small Malaysian enterprises do not know how IT strategy can improve their business and how an explicit IT strategy influences their business. So, a written IT strategy is an important issue for enterprises which are willing to be better than their competitors. The three of the six enterprises have incomplete written IT strategy but all decisions are implicit. The rest of the three enterprises have no written IT strategy and all plans and decisions are made by managers' mind. The three of the six enterprises use an incomplete explicit strategy among the rest of small enterprises in our research. Other enterprises use an implicit strategy. It is a big mistake we think IT is a goal for companies while IT is a supportive power for companies to achieve their main goals. So it seems there is no relation between business and IT strategy in small Malaysian enterprises. An important reason of lack of IT applications in small organizations is originated from enterprises' fear of financial risk for investing on innovative IT applications.

The characteristics describe Malaysian small companies with two issues implicit and explicit strategy in both business and IT strategy. In our research, none of the six enterprises follow Ward and Preppard (2002) thinking presented in literature review. The strategies that companies use in IT and business are not aligned together. The companies do not let IT strategy fit their business strategy because they have not understood the importance of alignments in both of IT and business.

An important issue we found in our empirical study is that IT strategy has lagged behind the business strategy in the six small Malaysian enterprises. According to Chan (2000), IT provides an intellectual comprehending of interconnectedness of roles. The framework can clarify the Why-What-How processes in the business process and IT interference and penetration. Two enterprises seem to have a logical view on Chan (2000) in knowing IT strategy and their businesses. But it still is not enough for those companies which think IT can improve their processes. As a result, all CEOs agree that IT is a supportive strategy affecting decision making but there is a lack of a comprehensive interconnectedness of roles in those researched companies.

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