THE CRITICAL ROLE OF STRATEGIC MANAGEMENT AND INFORMATION TECHNOLOGY OUTSOURCING

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This paper explores the literature about strategic management in an attempt to illustrate and propose a change in management strategy for the 21st century global organization. The expected benefits of a global company depend on its capabilities to predict surrounding changes in the environment while maintaining an accurate reading on the pulse of internal stakeholders. Benefits derived from an outsourcing management decision, and subsequently, the extent of such a decision, could limit or determine an organization's future existence. Four steps are identified in order to arrive at a level of strategic management in which IT alignment with the business could be determined as a strength or weakness depending on the organization's maturity level. Striking a balance between the organization's needs while maintaining a core set of principles coupled with an informed decision-making process highlight the proposed model for arriving at an outsourcing decision.

INTRODUCTION

Managing a business requires a clear strategy to execute business plans and policies in a consistent manner to achieve goals (Mintzberg, 1990). Planning, articulating goals, devising policies, and executing these elements make up the components of management. The difference between traditional management and strategic management determines the level of success that organizational leaders can achieve. Organizations learn and should move through developmental phases to arrive at a level of mature strategic management and planning (Gluck, Kaufman, and Walleck, 1982). However, not all organizations that pass through the phases arrive at the desired outcome, depending upon the strategic management processes used. *Strategic management* and *strategic planning* are frequently used keywords in management literature. While these concepts are not the same, they are tightly integrated (Ansoff, 1991; Mintzberg, 1990).

Some researchers believe that even though strategic management and strategic planning are related, strategic planning is not part of strategic management, a view that is not shared by many (Thompson, Fulmer, & Strickland, 1990). For example, Cesnovar (2006) argued that strategic management "originates from strategic planning as a technique for managing all important aspects of a company's environment" (p. 227). Thus, strategic planning is the cornerstone of strategic management (Humayun-Kabir, 2007). Strategic management starts with planning and takes a comprehensive approach to the organization. Ultimately, the objective of strategic management is to fulfill organizational goals through strategy formulation, implementation, and evaluation across the organization in a synergistic manner (Humayun-Kabir, 2007). This process solidifies the company's capabilities and competitive advantage among business rivals to ensure sustainability and success.

Despite the popularity of the concept, researchers do not seem to agree on a single definition for strategic management. Mintzberg (1990) argued that strategic management depends on how strategy is implemented and formulated and the role management plays in the process. Strategic management is about "choosing the right place for defining a unique position, making clear trade-offs, a tighter fit; it involves a comprehensive approach to managing all important aspects of the company's internal environment" (Cesnovar, 2006, p. 229). Gluck et al. (1982) defined strategic management as a process that evolves from strategic planning and links "strategic planning and decision making with the day-to-day business of operational management" (p. 10). Strategic management incorporates the entire organization and business as a whole (Cesnovar, 2006; Gluck et al., 1982). Bryant (1997) stated that strategic management is a tool that enables leaders to identify issues and challenges that face the business in order to maintain and sustain a competitive position for the organization.

Bryant (1997) contended that strategic management "combines strategic planning with the implementation and evaluation of progress" (p. 28) through continuous measurement and evaluation. These steps are interrelated and integrated, thereby enabling management to navigate successfully the course of the business. Strategic management is the responsibility of senior leadership, which includes creating a match between the organization's mission, core competencies, and environment and transforming that into a living culture for the whole organization (Cesnovar, 2006).

Strategic planning functions as the decision framework that leaders utilize through formalized strategies that have been successfully used by academics, professionals, and policy makers to chart a strategy for the future of their organizations. Ansoff, Declerck, and Hayes (1976) stated that strategic planning is concerned with identifying the strengths and weaknesses of an organization and determining how those can be used against external threats and for opportunities. Humayun-Kabir (2007) defined strategic planning as a "systematic process, which can provide a long-term direction to achieve organization's goals, objectives, actions, and priorities" (p. 7). Strategic planning focuses on the product, whereas strategic management focuses on the implementation of the plan. Therefore, strategic management and strategic planning are not yearly events, but rather a well-integrated process that combines the enterprise as a whole for both internal and external business processes.

ELEMENTS OF STRATEGIC MANAGEMENT

Bryant (1997) provided a concise description of the four steps the strategic management process involves. Details on these steps are discussed in the following section. The first step entails gathering data to assess the current state of the business or organization. The second step involves making decisions and developing strategies. Steps 3 and 4 focus on the implementation, monitoring, and evaluation of the strategies (Bryant, 1997).

Step 1: Planning, Assessment, and Analysis of the Current Situation

Strategic planning involves a thorough analysis of the business and environment (Bryant, 1997). The goal of strategic planning is to determine the strengths, weaknesses, opportunities, threats, issues, and challenges of the business and the changing business landscape. This comprehensive analysis requires a continuous process to ensure the accuracy and currency of the state of the business from market, customer, competitive, and internal perspectives (Bryant, 1997). An analysis of the market involves collecting and analyzing information about demographics, buying habits, income changes, social characteristics, and economic trends. Market analysis helps to identify issues and potential threats, as well as opportunities, so the organization can respond to them and stay ahead of the competition (Bryant, 1997). Next, customer analysis focuses on priorities, satisfaction, and concerns to help the organization identify new trends, challenges, and opportunities so the appropriate resources can be allocated to meet them (Bryant, 1997). Competitive analysis compares organizations and their value proposition to competitors to determine where they are and if a competitive position exists on value, quality, and cost basis. Internal analysis is concerned with knowing the current state of the business, its resources, strengths and weaknesses, as well as workforce satisfaction, skills, and overall attitudes and commitment to the firm's goals and objectives. Employing techniques such as SWOT (Strengths, Weaknesses, Opportunities, and Threats) analyses and Balanced Scorecards is essential at this stage to glean a comprehensive understanding in order to determine proper strategies (Bryant, 1997).

Step 2: Decision Making and Strategy Development

The first step in formulating a strategy is to collect data and determine priorities for the business based on the SWOT analysis. The accuracy of these analyses determines how accurately the strategy will achieve the desired future state of the business. The organization's vision should guide all strategic planning and management decisions. Bryant (1997) stated that the vision should be "clear, concise, and easily understandable. It should be memorable and should easily generate commitment and enthusiasm" (p. 30). Vision in organizations is established in one of three approaches: by the executive officer, by a senior leadership task force, or by a bottom-up, team approach. Based on the vision, the designated party establishes measurable, clear, and explicit objectives which represent a milestone by which success can be measured (Bryant, 1997). After determining the vision, goals, and priorities, the right strategies to accomplish these goals are developed. These strategies involve monitoring modifications to the current structure and delivery of products, services, policies, and roles (Bryant, 1997).

Step 3: Implementation

According to Bryant (1997) implementation is the most difficult step and where most plans fail. Successful implementation of a strategic plan requires time and funding allocation, as well as clear determination on accountability and responsibilities. Leadership commitment, budget linkage, organization's communication structure, and a mature culture are considered success factors for successful implementation.

Step 4: Measurement and Evaluation

Arriving at strategic management by following the previously stated steps is only successful if it can be measured (Bryant, 1997). Progress towards organizational goals can be measured by changes in the environment, new trends, or challenges. Continuous evaluation of the entire process helps keep the organization aware of its current state. This is a process of continuous change and adaptation to the environment as new trends, issues, or challenges are identified and the process is repeated and started over in a circular model.

Dibrell, Down, and Bull (2007) identified four dimensions to strategic planning: routinization of process, strategy process-content alignment, managing flexibility, and establishing strategic norms. Firms using one routine approach to strategic planning in response to the changing environment are left with a rigid process that lacks the ability to respond successfully to the changing environment. Dibrell et al. (2007) asserted that a strategy balanced between emergent and deliberate models depends on the context of the strategy pursued. The authors advocated a contingency theory approach where the effectiveness of the organization is dependent on the relationship between the organization and its variables and where the firm wants to position itself in the competitive market. Dibrell et al. emphasized that planning flexibility is "essential to the speed at which managers can adapt their strategic plan to changes in their competitive environment" (p. 28). The authors concluded that in a dynamic organization, good execution is equally appreciated as good strategic decision and is described as action-oriented norms (Dibrell et al., 2007).

INTERCONNECTIVITY OF STRATEGIC MANAGEMENT ELEMENTS

Strategic management steps, or elements, are tightly interconnected and often integrated (Gluck, Kaufman, & Walleck, 1980). The output of each step is an input to the subsequent step, and together they form the foundation for strategic management. As a matter of fact, these steps evolve into strategic management after the organization reaches a certain level of maturity and awareness about itself, its capabilities, and the surrounding environment. In this manner, executing each and every step of strategic management successfully determines the level of strategic management success (Gluck et.al, 1980). Because of the integrated relationship among these different elements, researchers have defined different phases that the organization passes through prior to arriving at the level of strategic management. In the following sections, these phases will be described along with a detailed look in how IT strategy can be interconnected with strategic management (Gluck et.al, 1980).

PHASES OF STRATEGIC MANAGEMENT

Gluck et al. (1980) examined formal planning and strategic performance and how formal planning and strategic decision-making processes are integrated. The authors concluded four phases exist that describe the evolution of strategic planning into strategic management.

Phase 1: Basic Financial Planning

Gluck et al. (1980) stated that formal planning originates from annual budgeting endeavors. At this stage, business strategies exist but are not formalized. The chief operating officer (COO) and top management determine the strategic direction of the firm. In essence, they form a think tank based on their experience and business expertise about their own business and the surrounding environment (Gluck et al., 1980). Organizations at this phase are not complex in nature.

Phase 2: Forecast-based Planning

Gluck et al. (1980) argued that the increased complexity of organizations necessitates more documented processes and strategies. Increased business offerings, needs and requirements, and complex economic systems "far exceed the intellectual grasp of any one manager" (Gluck et al., p. 155). In this system, the complexity of the enterprise forced management to analyze previous trends to forecast the long-term future of the business. To complement the need for more near forecasts, managers utilize forecasting tools such as trend analysis and regression models. However, this annual exercise that many businesses follow creates a static and inflexible routine. Quick shifts and changes of the market are difficult to respond to, and the complexities of the economic system and increased pressures from competitors have proven that this system is not optimal (Gluck, et.al. 1980).

Phase 3: Externally-oriented Planning

As leaders become dissatisfied with the static planning mode proliferated in phase 2, a new planning era starts. In this phase, planning becomes focused on understanding business drivers and change factors within the marketplace (Gluck, et al., 1980). Strategic business units (SBU) are formed to provide better control over factors affecting the business. Planners provide alternate strategies based on risk and gain for management to choose from. Strategic planning becomes the product of the thorough examination of customers, competitors, and market trends in a comprehensive "situational analysis of the business environment, the competitive situation, and competitive strategies" (Gluck et al., 1980, p. 14). While this phase provides a convenient environment for managers, it is not comprehensive to the entire business as a whole. SBUs show conflicting strategies, and the overall strategy for the business is absent.

Phase 4: Strategic Management

Gluck et al. (1980) labeled Phase 4 as the strategic management phase, where strategic planning is combined with management into a single process that characterizes firms as managed strategically. The increased sophistication of the business operating environments, product offerings, expanded customer base, and increased number of partners and suppliers necessitates effective strategic planning. However, Gluck, et al. (1980) argued that it is not only the sophistication of planning techniques that characterizes strategically managed corporations, but "rather the thoroughness with which management links strategic planning to operational decision making" (p. 158). Strategies and policies are formed after careful consideration of strategic plans at the department level as well as the business level. Customer level analysis, as well as environmental and competitor level analysis, are combined to devise business policies. Strategies are formed to show how they can be executed to achieve the desired outcomes.

While Gluck, et al. (1980) presented an interesting phased approach to strategic management, this is essentially a retrospective look that describes an evolution of phases that organizations pass through to arrive at the strategic management level. Firms may not necessarily end up at the strategic management phase even if they pass through this process. In contrast, Bryant (1997) presented strategic management in a circular model with continuous evaluation. The Gluck et al.'s (1980) model is more of a horizontal representation that does not allow for such flexibility. Such a limitation is likely to produce a trap for organizations when they reach Phase 4. The changing environment, trends, challenges, and capabilities are likely to be overlooked if they are not examined over time in conjunction with continuous feedback from the market and the surrounding factors.

STRATEGIC MANAGEMENT AND INFORMATION TECHNOLOGY STRATEGY

The strategic decision-making process is concerned with business plans and implementation outcome. Gluck et al. (1982) stated that the key responsibility of planners "is not so much to chart the future as it is to lay out for management the key issues that face the company" (p. 13). Management decisions are based on fully understanding these issues, evaluating alternatives against reward and risk, and choosing the best alternative that delivers the best value for the organization. Understanding these issues is a subtle process that can be achieved by employing one or many of the common analysis tools such as gap analysis, sensitivity analysis, contingency analysis, SWOT analysis, portfolio analysis, and contingency planning (Gluck, et al. 1982). A mature information technology strategy is essential in conducting these analyses. The organization must have a reliable information infrastructure and leaders who understand business needs and requirements. Kahraman, Demirel, and Demirel (2007) emphasized the impact of advancements in information and communication technologies on all aspects of business.

STRATEGIC MANAGEMENT AND TECHNOLOGY OUTSOURCING

Having an IT strategy that is aligned with the business strategy enables strategic management to perform its duties in achieving corporate goals. By the same token, having strategic management in the organization provides guidance for IT leadership in selecting the right vendors, investing in the right technologies, and implementing the right systems that fit with the overall corporate strategy. McFarlan (1984) grouped IT applications into a four matrix portfolio: key operations that sustain business operations, support applications to enhance business performance and increase efficiency, strategic applications that increase business competitive advantage, and high potential applications that could help businesses capitalize on rising opportunities.

Henderson and Venkatraman (1999) introduced the Strategic Alignment Model (SAM) to help assess the level of maturity and strategic alignment between IT and the business. Strategic alignment is so important that many chief information officers (CIOs) consider it the number one priority on their agenda (Luftman & Kempaiah, 2007). Henderson and Venkatraman defined alignment as the degree of fit and integration among business and IT strategy and infrastructure. Campbell, Kay, and Avison (2005) defined alignment as business and IT working toward a common goal. Chan and Reich (2007) explained that "[s]trategic alignment refers to the degree to which the business strategy and plans, and the IT strategy and plans, complement each other" (p. 300).

Outsourcing is one of these strategic decisions that could be an enabler or a hindrance to the strategic function of an organization. True alignment between IT and the business in which strategic management steps are followed could increase value, solidify business position, and advance the firm towards its goals. Hirschheim and Sabherwal (2001) suggested different outsourcing strategies depending on the Information Systems (IS) strategy implemented. While outsourcing fits defenders IS strategy model as IT is considered a commodity, insourcing (80% of IS is internal) fits prospectors when IT is a differentiator, and selective sourcing (outsourcing is only limited to certain and specific areas) is aligned with analyzers where a balance is needed (Hirschheim & Sabherwal, 2001).

Decisions to outsource are on the rise. Changing requirements, intensifying competition, and increasing compliance regulations are making outsourcing a viable and attractive alternative for organizations. The rising cost of in-house IT and the demanding business environment for expanded skill sets and talents are forcing CIOs to make outsourcing decisions to meet these demands. While the outsourcing alternative seems an immediate solution, researchers warn of its consequences.

Murray and Crandall (2006) predicted that 50% of all IT outsourcing ventures will fail. A common reason for this grim picture is failing to meet needs and specifications and underestimated costs. The risk associated with outsourcing grows exponentially as the firm outsources more of its core systems. Outsourcing decisions demand intense and through examination in light of all business aspects, strategies, and goals (Ward & Peppard, 2002). While risk exists, true value could be achieved as well. Stewart (2001) reported on a successful example from Texas Health Resources where their decision to outsource the interface engine was governed by a steering committee comprised of employees from all business units.

Much research has been conducted on developing the right strategic IT strategy towards outsourcing and how strategic management plays a role in this process. Kohli and Devaraj (2004) implemented four factors to measure IT contribution to the total business value proposition: alignment, involvement, analysis, and communication. Khan, Currie, and Guah (2003) introduced a model to address contracts, infrastructure, quality, confidentiality, and culture. Smith and McKeen (2004) presented outsourcing success factors and outlined a strategic management framework which focuses on sourcing strategy, risk management, governance, and cost structure. Fjermestad and Saitta (2005) introduced a strategic management framework that addresses alignment with business strategy, management support, culture, infrastructure, contracts, strategic partnership, governance, and economics. The circular representation of this model fits with the continuous nature of strategic management. This very nature sets Fjermestad and Saitta's (2005) model apart from the other models and allows for an evolving strategy that takes into consideration the changing environment. Traditional models only linked the IS functions with the organization without considering the external environment.

OUTSOURCING RISK AND MITIGATION STRATEGY

Hoffer, George, and Valacich (2008) stated that "understanding the business and how it functions is still the key to successful system development" (p. 4). This understanding is the initial step in strategic management as a comprehensive picture is drawn about the business as a whole. Risk management is a key factor in devising a successful outsourcing decision in the organization. Risk assessment and management of an enterprise plays an essential role in that effort. Determining a successful governance, compliance, and risk management (GRC) policy within the organization is one of the activities strategic management is actively doing in the second step of strategic management in which an acceptable level of risk is determined. Prior to developing this acceptable risk portfolio and earlier in the process, Hall and Liedtka (2007) stated that outsourcing should be evaluated in the analysis phase of strategic management to determine if it is the best alternative for the business. Gerth and Rothman (2007) stated that "IS organizations of the future are going to have to excel at selecting the right vendors and managing globally distributed processes performed by their vendor partners" (p. 108).

Compliance with new regulations such as the Sarbanes-Oxley Act (SOX) and the Health Insurance Portability and Accountability Act (HIPAA) has increased the demands on businesses to outsource (Hall & Liedtka, 2007). Businesses want to speed compliance with these regulations due to their complexities and costly consequences for failure to comply. Hall, and Liedtka (2007) reported on numerous companies that outsourced part or all of their IT operations as a direct result of SOX requirements. Outsourcing might seem attractive for speedy compliance; however, Hall and Liedtka (2007) contended that it may actually increase the likelihood of failing to achieve compliance if strong controls are absent. SOX places specific responsibility on top management for oversight and verification of these systems to ensure sound accounting reporting and financial practices (Hall & Liedtka, 2007). Failure to follow appropriate procedures entails "negligent enablement lawsuits" (Power & Forte, 2005, p. 3). Firms are still held accountable for these systems, and responsibility cannot be outsourced (Rustad, 2007). Oversight for systems that are located on a different continent within a different culture and political system might not be feasible. Therefore, agreed upon policies, standards, and procedures are essential to maintain control and perform oversight.

Strategic management steps can be critical to the survival of a technology outsourcing organization in the global environment. Fjermestad and Saitta (2005) defined strategic partnership as "the collaborative efforts of both a vendor and client in the attainment of a mutually beneficial goal" (p. 51). This new relationship model extends the *fee for service* model into forging a lasting relationship that integrates vendors with clients. Cost reduction is no longer the main driver behind outsourcing. On the contrary, organizations are seeking alternatives that extend their capabilities to enhance their value propositions and service delivery to their customers (Beasley, 2007). New goals define the outsourcing process, such as agility in supporting emerging business needs, reducing time to market, and increasing innovation (Fjermestad & Saitta, 2005). This new relationship implies that both vendors and clients have a strong understanding of their businesses and that a long-lasting relationship is intended. It also implies that there is a commitment to achieve high customer satisfaction (Fjermestad & Saitta, 2005). Kaiser and Hawk (2004) coined the term *co-sourcing* to indicate the highest level of outsourcing relationship where a vendor complements the client's IT capabilities.

Kim and Kim (2008) stated that the critical factors to devising an outsourcing strategy are quality of service and quality of information systems. Gerth and Rothman (2007) argued that businesses choose to outsource due to operations shifts that result from a changing landscape. These operational changes include: decreasing cost structure, increasing innovation, leveraging information assets, and creating an agile business. The initial outsourcing decision was concerned with reducing costs. However, more recently, businesses are choosing outsourcing alternatives to increase business offerings, create a competitive advantage, and improve business position among competitors. Fjermestad and Saitta (2005) stated that "the goal of IT outsourcing is to gain competitive advantage for the business" (p. 43). Vendors as well as organizations could use the Capability Maturity Model (CMM) to help ensure quality outcome (Fjermestad and Saitta, 2005). Vendors could use this model to convince prospective clients of their quality readiness while clients could use the same model to measure vendors' level of maturity and quality ranking. Fjermestad and Saitta (2005) identified that clients achieved better value and a wider range of expertise to help expand the business using this model.

Regardless of the stated goal of the outsourcing strategy, outsourcing should address a pressing need for the business and help position the business to capitalize on a future rising opportunity. Managing the outsourcing contract becomes a factor in successfully cultivating these goals. Gerth and Rothman (2007) argued that "without well designed business processes, well defined requirements, a solid architecture and strong project management, it is virtually impossible for offshore development activities to be successful" (p. 107). The outsourcing vendor has an inherent responsibility towards the outsourcing venture. Gerth and Rothman maintained that "[s]olution delivery organizations also must be able to successfully and seamlessly execute solution delivery process over multiple locations, time zones and cultures in a virtual model" (p. 107). Kimzey and Kurokawa (2002) concluded from a study of U.S. and Japanese firms that outsourcing allowed firms to create new products and offer new services that would not have been possible without outsourcing, thus broadening the scope of strategic planning. Outsourcing enabled companies to shorten "cycle times and reduced development costs, so that companies could gain competitive advantage" (Kimzey & Kurokawa, 2002, p. 43).

These positive results were possible because of a strategic management framework that evaluates, analyzes, and guides the outsourcing decision making in the global environment. Instead of becoming a hindrance or a risk, outsourcing became a transformation and a value creation tool that enabled the business not only to do its business, but to embark on new avenues and increase their value propositions and product offerings.

CONCLUSION

Strategic management evolves in the organization from strategic planning to encompass the entire organization and to cover all aspects of the enterprise. Having a comprehensive picture of the organization provides a great advantage to management to set the course and achieve goals. Strategic management evolves from traditional annual financial planning and informal strategies, through prediction and forecasting and externally oriented planning, before arriving at the strategic management level.

Four steps are identified in order to arrive at the mature level of strategic management. Planning assessment and analysis determines the current state of the business with its strengths, weaknesses, opportunities, and challenges (Gluck et al., 1980). Accurate assessment devises the right strategies, policies, and vision about the future in the second step. Step 3 is concerned with implementing these strategies according to set policies (Gluck et al., 1980). Only by continuous evaluation of these policies and strategies and by frequently analyzing the organization's capabilities, which is Step 4, is the organization able to survive and compete and is therefore labeled as strategically managed firm (Gluck et al., 1980).

IT alignment with the business within the framework of strategic management is both a strength and a capability in organizations managed strategically. Both risks and opportunities are evaluated and decisions are taken in line with the overall business goal. Outsourcing is a strategic option for the business in order to extend its capabilities when it is evaluated along with all business aspects, weaknesses, threats, challenges, alternatives, and rising opportunities. Devising the appropriate strategy to manage outsourcing from formulation of the contract through implementation and the evaluation phase is essential to reap the benefits of outsourcing. Managing outsourcing risks, assigning roles and responsibilities, determining level of service, quality level, deliverables, and creating an involving and engaging strategic fit with the outsourcing vendor are critical success factors that determine the return on investment and create a competitive advantage in the global environment.

Author Biography

Riyad J. Naser received his Ph.D. in Management of Information Systems at Capella University in 2012. Dr. Naser also holds a Master of Science in the Management of Information Technology and an MBA from Case Western Reserve University. He currently serves as an adjunct faculty member at Grand Canyon University. Dr. Naser teaches multiple courses in the Health Care Informatics, Health Care Information Systems and Technology, Healthcare Information Systems, and Operation Management. Professionally, over the past 17 years, Dr. Naser has worked in different roles in leading academic institutions and led a variety of projects. Dr. Naser served as an administrative director of Research Information Systems at Case Western Reserve University for 12 years. He also served in the capacity of director of Research Information Systems at the University of Kansas Medical Center. Until recently, Dr. Naser was working for Vanderbilt University as senior project manager of Health Information Systems where he led different enterprise wide projects across the University Medical Center. Dr. Naser is currently working for Naser and Naser Consulting as president and CEO. He has a number of publications and presentations on many of the projects he participated on or helped develop.

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