



Chapter I

**Investigating the Relationship
between Strategic Alignment
and IT Business Value: The
Discovery of a Paradox**

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Although business executives remain skeptical about the extent of payoffs from investment in information technology (IT), strategic alignment or the alignment of information systems strategy with business strategy continues to be ranked as one of the most important issues facing corporations. In this paper, we report on the results of a process-level study to investigate the relationship between strategic alignment and IT payoffs. An analysis of survey data from 63 firms finds a positive and significant relationship between strategic alignment and IT payoffs, a relationship that holds for all firms, irrespective of their strategic intent or goals for IT. However, in exploring minor differences in strategic alignment between firms with different goals for IT, we uncovered evidence of an alignment paradox. This paradox shows that while strategic alignment can lead to increased payoffs from IT, this relationship is only valid up to a certain point beyond which, paradoxically,

further increases in strategic alignment appear to lead to lower IT payoffs. Finally, we offer some suggestions for why this paradox might exist, specifically around issues of environmental uncertainty, industry clock-speed, and the need for organizational flexibility.

INTRODUCTION

Although executives continue to voice concern for payoffs from investment in information technology (IT), strategic alignment or the alignment of information systems (IS) strategy with business strategy, has emerged as one of the most important issues facing executives in Europe and America (CSC, 2000; Price Waterhouse, 1996). Although IT business value and strategic alignment are often treated separately, researchers argue that a firm's inability to realize sufficient value from IT is due in part to an absence of strategic alignment (Henderson & Venkatraman, 1993; Prairie, 1996). If, as these researchers suggest, IT payoffs are indeed a function of strategic alignment, then an absence or deficiency in payoffs from IT may point to a misalignment between the business and IT strategies. Equally, if a corporation tries to reposition or change its strategic alignment, consideration may need to be given to any subsequent shift in the value the corporation realizes from IT investment, with downstream implications for firm performance. This question—long debated by academics and IS practitioners—leads to the first and most important question in this paper, namely, what is the nature of the relationship between strategic alignment and IT payoffs, and in particular, does strategic alignment have a positive impact on IT business value?

Although low levels of strategic alignment may undermine payoffs from IT, some researchers sound a word of caution for corporations who try to improve IT payoffs through strategic alignment. For example, Jarvenpaa and Ives (1994) argue that for corporations competing on a global scale, tight fit between the IS and business strategy might reduce strategic flexibility and force a firm down a path from which it cannot escape.¹ If this argument is valid, then there is a point beyond which increased alignment may weaken a corporation's ability to respond to environmental threats and opportunities, with the possibility that a reduction in flexibility may also erode IT payoffs. This would then imply that beyond a hypothetical inflection point, greater strategic alignment could, paradoxically, lead to lower IT payoffs. This leads to our second and final research question in which we ask if there is an *alignment paradox*, such that beyond a certain point, increased strategic alignment could, by limiting a corporation's ability to react favorably to environmental challenges, result in lower payoffs from IT? If our findings support the existence of an *alignment paradox*, then in subsequent research, we may question if IS

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