Researchers show how companies can synchronize digital strategies and investments

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Conventional wisdom in strategy holds that companies need to choose between cost-cutting or revenue growth. Pursuing both strategies at the same time can result in incoherence—or getting stuck in the middle, some argue.

That conventional wisdom, however, is challenged by a new study from the Robert H. Smith School of Business, at the University of Maryland, which suggests that information technology investments can enable firms to pursue dual-focus or ambidextrous IT strategies successfully. In other words, you can walk and chew gum at the same time.

Analyzing the approaches of more than 300 of the Fortune 500 firms, professors Sunil Mithas and Roland Rust find that, at higher levels of IT investment, a dual-focus approach is superior in terms of both profitability and market value.

Mithas, a professor in the department of decision, operations and information technologies, and Rust, distinguished university professor and David Bruce Smith Chair in marketing, utilized data from surveys conducted by InformationWeek of top IT managers.

Notably, many firms already ignore the received wisdom: 90 percent had either a dual strategy or a cost-cutting strategy, with those two approaches divided evenly. The remaining 10 percent had a revenue-growth strategy.

But the main focus of the paper was the relative payoffs of those different approaches. At the mean level of IT investment, about 4.1 percent of revenue, firms with a single emphasis strategy were about as profitable as those with a dual emphasis. However, strategic orientation and levels of investment interacted strongly. The more that a firm invested in IT, the more a dual emphasis strategy paid off in terms of profits.

Firms with a two-pronged digital strategy, revenue growth and cost-cutting, had a clear-cut advantage when it came to market value, as measured by Tobin's Q. At every level of investment in IT, firms with a dual-emphasis strategy had a higher market valuation than those with a single emphasis strategy.

"Overall, the findings imply that at low levels of IT investment, the firm may need to choose between revenue expansion and cost reduction, but at higher levels of IT investment, dual-emphasis in IT strategy or IT strategic ambidexterity increasingly pays off," according to Mithas and Rust.

The findings are important as firms plan and execute their digital strategies. Coverage of Walmart's digital strategy, for instance, has emphasized supposed tension between the company's largely California-based tech team, which has focused on revenue, and the more cost-conscious strategy pursued by managers in Arkansas. The new study suggests that these goals are not necessarily in conflict if firms couple their strategic choices with appropriate investments in IT.

"How Information Technology Strategy and Investments Influence Firm Performance: Conjecture and Empirical Evidence," by Sunil Mithas and Roland T. Rust, is forthcoming in *MIS Quarterly*.

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