

Understanding the Association between IT Governance Maturity and IT Governance Disclosure

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ABSTRACT

IT governance (ITG) provides a toolbox for companies to realize maximum value from IT. Firms implement ITG via frameworks, such as COBIT or VALIT, which list processes to align business and IT strategies, deliver IT services and comply with regulations. While there exists evidence that companies with mature ITG processes outperform their competitors and that signaling ITG maturity to external stakeholders has a positive impact on firm value, little research has focused on the relationship between IT governance maturity and disclosure of related information. This study examines the association of COBIT and VALIT maturity on IT governance disclosure. The authors posit that overall maturity in COBIT and VALIT have a positive impact on IT governance disclosure. Our results indicate that there exists a positive impact for COBIT maturity and most of its domains on disclosure, while the impact of VALIT maturity on disclosure is mostly insignificant.

Keywords: COBIT, Frameworks, IT Governance Disclosure, IT Governance Maturity, VALIT

1. INTRODUCTION

Since the introduction of the personal computer to the business world in the early 1980s, advancements of information technology have produced plenty of opportunities for businesses to increase their efficiency and outperform their competitors (A. S. Bharadwaj,

2000). The major obstacle for organizations to realize these opportunities has been to gather value from IT investments. The concept of IT governance, which has gained momentum in the recent years, offers a potential solution to this problem. It enables firms to gain real value from their IT investments, by providing frameworks, processes and evaluation criteria

DOI: 10.4018/ijitbag.2014010102

to manage IT resources (ITGI, 2003). Weill & Ross (2004) showed that there exists a relationship between effective IT governance and superior firm performance. Acknowledging that communication of IT related information is relevant to external stakeholders, still many firms fail to signal their IT governance maturity to external stakeholders (Joshi, Bollen, & Hassink, 2013). As a result, firms might forgo opportunities to retain stakeholder confidence and improve firm value.

In this study, we investigate the relationship between IT governance maturity and IT governance disclosure¹. Specifically, we examine the association of COBIT and VALIT frameworks to the disclosure of different types of IT governance related information. Our univariate analysis suggests that firms with a higher level of COBIT maturity are associated with higher disclosure on IT governance. We do not find any association between implementation of VALIT and IT governance disclosure. This study makes three contributions to the body of IT governance literature. First, it adds to the general understanding of the relationship between IT governance maturity and disclosure of associated information. Understanding the mechanisms behind this relationship helps researchers, managers and external stakeholders to evaluate governance maturity of firms without having access to classified information. Second, more specifically it enriches our knowledge concerning the impact COBIT and VALIT exercise on disclosure of governance related information. Third, it adds to the existing literature on IT governance, which in turn might help to bring new insights to the topic such as IT governance disclosure.

The remainder of the paper is organized as follows: Section 2 provides a review of prior literature and the research question. Section 3 presents the research design, sample collection and data analysis approach. The results and discussion are presented in Section 4. Finally, Section 5 contains a summary of our results, mentions limitations of the study and lists suggestions for future research.

2. BACKGROUND AND RESEARCH QUESTION

2.1. IT Governance Disclosure

A review of current IT governance literature provides several definitions of IT governance. Weill & Ross (2004) describe IT governance as “specifying the decision rights and accountability framework to encourage desirable behavior in using IT”. The IT Governance Institute (2003) specifies it as “an integral part of enterprise corporate governance and addresses the definition and implementation of processes, structures and relational mechanisms in the organization that enable both business and IT people to execute their responsibilities in support for business/IT alignment and the creation of business value from IT-enabled business investments” (De Haes & Van Grembergen, 2009a). In this study, we employ the definition of De Haes and Van Grembergen (2009a) as to conceptualize IT governance and its mechanisms discussed in this study.

Current IT governance literature shows that there exists a relationship between ITG and superior business performance (Bhattacharjya & Chang, 2007; Simonsson, Johnson, & Ekstedt, 2010; Weill & Ross, 2004). Among the work, which has focused on the correlation between ITG and business value, the publications of Weill and Ross (2004) have been especially popular. The authors found that top-performing enterprises gather value from IT in multiple ways, i.e. by aligning business and IT strategies, requiring accountability for IT costs and benefits, and leveraging the lessons learned from prior implementation of IT assets. Turning the evidence for positive effects of ITG upside down, Bharadwaj, Keil, and Mähring (2009) show that a lack of these principles can have significant negative consequences. The authors found that firms, which experience unforeseen IT-related failures, face a 2% abnormal drop of their stock price over a two-day window. This is an important insight, as it shows how absence of sufficient ITG can actually destroy firm value.

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