

IT Governance Framework Applied to SMEs

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ABSTRACT

The need to effectively manage IT resources such that they enhance the business value of firms makes IT governance (ITG) an important issue for both IS researchers and practitioners. The purpose of this paper is to build a conceptual framework for ITG in small and medium-sized enterprises (SMEs). The authors first analyze the main theories applied in ITG research, and confront them with the specificities of SMEs. The authors then highlight the limits of those theories in SMEs context and discuss adaptations needed or alternative theories in such context. The resulting framework is then applied to generate a set of six research propositions on ITG in SMEs.

Keywords: *Governance, Information Technology, Institutional Theory, Institutional Trust Theory, Network Governance Theory, Resource Dependency Theory, SME, Stewardship Theory, Upper Echelon Theory*

INTRODUCTION

Given that some organizations achieve higher performance with their IT investments while others fail to do so (Gattiker & Goodhue, 2004), the issue that matters now is to know under which conditions organizations create value from their IT (Kohli & Grover, 2008).

It has been argued that IT governance (ITG), which “is about controlling the strategic impact of IT and its value delivery to the business” (Zarvić et al., 2012, p. 543) can make the

difference (Nfuka, & Rusu, 2011; Devos, et al., 2012; Wilkin, 2012). The need to effectively manage IT resources so that they can enhance the business value of firms makes of ITG an important issue and yet an uneasy task (Weill & Ross, 2004; Van Grembergen & De Haes, 2010). Indeed, the most important IT challenges faced by organizations now and in the future are less related to technology than to governance (Nfuka, & Rusu, 2011).

The literature related to ITG in particular, and to corporate governance (CG) in general,

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has mobilized and proposed different theories and frameworks to explain the mechanisms of governance. However, most of those theories and frameworks are often criticized as being more appropriate for large enterprises (LEs) and less for small and medium-sized enterprises (SMEs), hence the call for revisiting existing theories and frameworks or for proposing alternative ones with in mind the specific realities of SMEs (Banham & He, 2010). This call is important, all the more so that studies on ITG in SMEs are rather rare (Vogt et al., 2011; Alves et al., 2013). This paucity of studies does not mean, however, that ITG does not exist in the context of SMEs. Previous studies have shown that SMEs use IT in their basic activities and are expanding IT usage in more advanced processes (Raymond & Croteau, 2006; Mardikyan, 2010; Ruivo, Oliveira & Neto, 2012; Sila & Dobni, 2012). As IT users, SMEs have to find ways to allocate IT-related responsibilities and to ensure IT-business alignment for increased business value, brief ways to practice ITG (Luftman et al., 2010). Given the important consequences IT can have on growth and survival of SMEs in a competitive market, we argue that ITG for SMEs is a necessity and must be researched.

The purpose of this paper is to build a conceptual framework for ITG in SMEs. To do so, we proceed in three phases. First, we analyze theories generally applied in ITG literature with in mind the specificities of SMEs, and we bring out salient limits of these theories with regards to the realities of SMEs. Second, we identify adaptations necessary to these theories to account for the SME's realities, and alternative theories better suited to its context. Third, building on the results of the precedent analysis we propose a conceptual framework for ITG in SMEs and related propositions that can be used as hypotheses for future research.

THEORETICAL AND EMPIRICAL BACKGROUND

In the literature, corporate governance (CG) is generally conceptualized with reference

to the rights and responsibilities of different stakeholders in the firm, to the relationships among stakeholders with regards to the decision-making process, resolution of possible conflicts, and control of organizational resources, and to the means for setting corporate objectives and monitoring performance (Turlea et al., 2010). The OECD has proposed the following definition of CG which seems to have gained widespread popularity (Mason & O'Mahony, 2008): "a set of relationships between a company's management, its board, its shareholders and other stakeholders [that] provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined" (p. 32).

ITG has emerged since the 1990s as a conceptualization of steering the use of IT within a company (Zarvić et al., 2012). It is now acknowledged that ITG is the responsibility of top management and an integral part of corporate governance (De Haes et al., 2013). This view is integrated in frameworks such as CoBIT 5 that establish good practices for ITG.

Definitions of ITG in the literature refer implicitly to the principal-agent problem which is central in the dominant agency theory in CG literature. In this perspective, a parallel is made between the alignment of executives' decisions to the owners' interests in CG and the alignment of IT management practices to the firm's needs in ITG. We define ITG as follows: ITG, a responsibility of top-management and an integral part of corporate governance, encompasses the decision rights and the accountability framework for encouraging desirable behavior in the use of IT, and ensuring that IT goals and objectives are realized in an efficient and effective manner (De Haes et al., 2013).

SMES' SPECIFICITY REGARDING CG AND ITG

Early previous studies have pointed out SMEs' specificities (Jennings & Beaver, 1997; Raymond, Bergeron, & Rivard, 1998; Torrès,

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