Chapter 5
The Role of IT Governance and Managing IT Investment on Firm Performance

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ABSTRACT

Although the multifaceted effects of managing or governing IT have been taken into consideration in both practice and theoretical debate, the mechanism through which these bring firm performance is yet unclear and limited. Drawing on the resource-based theory and the process theory, this chapter aims to systematically review the antecedents of business-IT alignment on the firm performance context. The findings of this study show that the business-IT alignment is derived from IT governance practices and managing IT investment to achieve firm performance. This study proposes that the firm performance cannot be attained by merely investing in IT; instead, firms should focus on effective management of IT practices and strategically align their business and IT strategies.

1. INTRODUCTION

An enormous growing body of IS literature has examined the relationship such as IT investment - firm performance (Ali, Green, & Robb, 2015; Kim, Xiang, & Lee, 2009; Peppard, Ward, & Daniel, 2007), IT spending - firm performance (e.g., Melville, Kraemer, & Gurbaxani, 2004; Paul P Tallon, 2007), and business-IT alignment - firm performance (Bergeron, Raymond, & Rivard, 2004; Cragg, King, & Hussin, 2002; Ilmudeen, Bao, & Alharbi, 2019; Preston & Karahanna, 2009; Sabherwal & Chan, 2001), leading to a key conclusion that firms with superior IT management and alignment commonly achieve greater firm performance. Drawing on the above studies, we cogitate to understand that the unavoidability of management of IT investment and IT governance to attain superior firm performance. Nevertheless,

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the examination of how the management of IT investment and IT governance derive firm performance is still inadequate.

The IT governance has a direct impact on how IT is managed within the organization and includes the implementation of IT management techniques and procedures in conformity with well-known IT strategies and policies (Bowen, Cheung, & Rohde, 2007). It is obvious that IT-enabled investments can bring enormous rewards, but only with the right governance and management processes and full commitment from all management levels. The business value of IT resources makes IT Governance a significant concern for both IS researchers and practitioners (Bergeron, Croteau, Uwizeyemungu, & Raymond, 2020). In particular, how the various management levels like board members, executive management, and operational management will be involved in this process. the effective IT governance helps to ensure that IT supports business goals, optimizes business investment in IT, and manage IT-related risks and opportunities (Williams, 2012). The limited views on IT governance no longer resemble with what is happening in the real world, where firms are executing a portfolio of different governance mechanisms (Boh & Yellin, 2006).

In prior studies, the notion how the performance outcomes and the significance of managing IT's impact on firm performance have been called for further studies in numerous ways (Ilmudeen & Yukun, 2018; Turel, Liu, & Bart, 2017; S. P.-J. Wu, Straub, & Liang, 2015). Example, it warrants empirical studies with either mediation or moderator model to elucidate whether IT generates business value directly or indirectly with firm factors (Cao, Wiengarten, & Humphreys, 2011). Likewise, the managing IT and business-IT alignment can be understood as complementary and deeply embedded concepts (Tiwana & Konsynski, 2010; S. P.-J. Wu et al., 2015). However, realizing and fostering business-IT alignment has continued a pervasive management concern (Luftman, Lyytinen, & ben Zvi, 2015); that warrants researchers to consider alignment in a fresh approach (Coltman, Tallon, Sharma, & Queiroz, 2015). The prior studies evidence that the business-IT alignment is crucial to allow firms to maximize the benefit of IS investments and derive the value to the firm performance (Chan, Huff, Barclay, & Copeland, 1997; Papp, 1999; Sabherwal & Chan, 2001). Despite of its significance, the business-IT alignment has stayed elusive for many firms (Luftman et al., 2015; Preston & Karahanna, 2009; Paul P Tallon, 2007). Nevertheless, it is not well understood if and how some contextual factors shape to drive business – IT alignment on firm performance context.

Realizing and nurturing business-IT alignment has received a significant management concern, that permits scholars to think alignment in a fresh approach (Coltman et al., 2015). However, the literature absences to prove that how the management of IT investment together with business-IT alignment derive firm performance yet vague. IT governance is worried with both governing of IT and governing through IT (C. L. Wilkin & Chenhall, 2019). Similarly, prior studies proved that the business-IT alignment is vital to allow firms to exploit the benefit of IS investments and derive the value to the firm performance (Chan et al., 1997; Papp, 1999; Sabherwal & Chan, 2001). The past studies (e.g., Ilmudeen & Yukun, 2018; Turel et al., 2017; S. P.-J. Wu et al., 2015) have called for additional investigations on the importance of managing IT investment and business-IT alignment on firm performance context. These drawbacks motivated to conduct a compressive review investigation for this chapter organization. This chapter is drawn on the below theories that elucidates the utmost necessity of managing IT and business-IT alignment to realize superior firm performance.