

## Chapter 2

# Analysing the Impact of Enterprise Governance of IT Practices on Business Performance

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### ABSTRACT

*Enterprise governance of IT (EGIT) is about the definition and implementation of processes, structures and relational mechanisms that enable both business and IT people to execute their responsibilities in support of business/IT alignment and the creation of business value from IT-enabled business investments. In this field, practice-oriented guidance like COBIT and Val IT are often promoted as broad frameworks to implement enterprise governance of IT, but very little academic research is available that empirically supports the assumption that implementing EGIT practices, as defined by COBIT and Val IT, improve business performance. This article explores the relationship between Enterprise Governance of IT practices and business performance, and finds little support to identify a direct link between EGIT practices and business performance. However, clear empirical evidence is revealed demonstrating that the implementation of EGIT practices impacts the achievement of specific IT goals, which in turn impacts the achievement of specific business goals. A three-layered cascade is proposed to demonstrate the impact of EGIT practices, through IT goals, on business performance.*

### INTRODUCTION

In many organisations, information technology (IT) has become crucial in the support, sustainability and growth of the business. This pervasive use of technology has created a critical dependency

on IT that calls for a specific focus on enterprise governance of IT (EGIT). Enterprise governance of IT is an integral part of enterprise 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 of business/IT alignment and the creation of busi-

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*Table 1. Definitions of IT governance*

<p><b>“IT governance is the responsibility of executives and the board of directors, and consists of the leadership, organizational structures and processes that ensure that the enterprise’s IT sustains and extends the organization’s strategy and objectives” (ITGI, 2003).</b></p>
<p>“IT governance is the organizational capacity exercised by the board, executive management and IT management to control the formulation and implementation of IT strategy and in this way ensure the fusion of business and IT” (Van Grembergen, 2002).</p>

ness value (Van Grembergen & De Haes, 2009). However, investing in enterprise governance of IT practices is often perceived as costly and complex, while its return in value on short and long-term is difficult to measure in tangible (financial) outcomes (Bowen et al., 2007). This research explores whether adopting EGIT practices positively impact business performance. By offering this evidence, business and IT management may find it easier to defend EGIT initiatives. Additionally, the results of this research may contribute to this relatively new domain of knowledge and theory building and it may assist practitioners by providing more guidance on how EGIT can be implemented in practice.

## **FROM IT GOVERNANCE TO ENTERPRISE GOVERNANCE OF IT**

The concept of IT governance, as it is understood these days, emerged during the late nineties. Gartner introduced the idea of “Improving IT governance” for the first time in their Top-ten CIO Management Priorities for 2003 (ranked third). Some years before that, in 1998, the IT Governance Institute ([www.itgi.org](http://www.itgi.org)) was founded to spread the IT governance concept. In academic and professional literature, articles mentioning IT governance in the title began to emerge from 1999, for example Sambamurthy and Zmud (1999) with “Arrangements for information technology governance: A theory of multiple contingencies”, and Van Grembergen in (2000) with “The IT balanced scorecard and IT governance”. In the past decade, many academics and practitioners

conducted research and developed theories and best practices in the emerging knowledge domain. This resulted in a variety of IT governance definitions of which some are formulated in Table 1.

Both definitions clearly make reference to the importance of aligning business and IT, as one of the ultimate goals of IT governance. This reveals that the concepts of IT governance, as we understand them now, may have emerged during the late nineties, but it should be noted that many of the underlying elements, such as business/IT alignment, attracted attention many years before (e.g., Strategic Alignment Model from Henderson & Venkatraman, 1993).

After the emergence of the IT governance concepts in the late nineties, the concept received more attention. However, due the focus on “IT” in the naming of the concept, the IT governance discussion mainly stayed as a discussion within the IT area while of course one of the main responsibilities is situated at the business side. It is clear that business value from IT investments can not be realized by IT, but will always be created at the business side (Thorp, 2003; ITGI, 2008; Van Grembergen & De Haes, 2009). For example, there will be no business value created when IT delivers a new CRM application on time, on budget and within functionalities and if afterwards the business is not integrating the new IT system into its business operations. Business value will only be created when new and adequate business processes are designed and executed enabling the sales people of the organization to increase turnover and profit. This discussion raised the issue that the involvement of business is crucial and initiated a shift in the definition, focusing on

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