Chapter 56

IT Governance Practices of SMEs in South Africa and the Factors Influencing Their Effectiveness

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ABSTRACT

The higher failure rate in SMEs is attributable factors including poor leadership, management and governance. Although IT adoption is prevalent in SMEs, not much is known about its governance. This research investigated IT governance practices in 67 SMEs in selected industries and provinces in South Africa. The findings revealed both sound and poor practices. SMEs with centralised IT departments had better practices, e. g., IT strategic investments; closer interactions among IT and business managers; and training of employees. The other SMEs managed IT opportunities poorly, e. g., irrationally IT investment decision-making; poorly defined IT roles and responsibilities; and noncompliance with IT legislations. It was also found that firm size, industry type and location influenced IT governance practices. Larger SMEs had more effective practices and there were differences in IT resource management among provinces. However, age of a firm and years of IT usage did not have much influence.

INTRODUCTION

The importance of SMEs cannot be over-emphasised. Various authors have highlighted their contribution to job creation, poverty alleviation, socio-economic growth and in promoting flexibility and innovation (UNDP-APDIP, 2007). However, compared to larger firms, SMEs have a higher failure rate. Bowler, Dawood, and Page (2007) report high failure rates of SMEs in South Africa. Similar problems have been reported elsewhere in Africa. According to Kazooba (2006), while Uganda continues to have a high

Total Early Stage Entrepreneurial Activity (TEA), the discontinuation rate of these SMEs is also high compared to other African countries. Many of these researchers attribute these failures to poor leadership, poor management and governance.

Interest in governance and survival of small enterprises has developed over the years (Steger, 2004; Kazooba, 2006; Ekeledo & Bewayo, 2009). It is widely established that successful development of the SME sector in Africa and other developing countries requires strategies aimed at developing a combination of entrepreneurial, technological and managerial competencies (Beyene, 2001; Ekeledo & Bewayo, 2009). According to the OECD (2004), IT can improve resource management, communication and business operations within SMEs. Although conducive policies and decreasing cost have contributed to a significant increase in IT adoption in SMEs, IT investments are still poorly governed and have not resulted in the anticipated increased performance. This highlights the need for governance mechanisms to protect investments in IT and the interests of shareholders or stakeholders providing the resources (King, 2002; King 2009; Calder, 2005).

The ITGI (2006) contends that SMEs can derive the same benefits from IT governance as larger organizations. Jain (2009) argues that in the current global crisis, SMEs can achieve long-term growth by optimising IT, governance, and risk and compliance measures. Notwithstanding the potential benefits, developments in the field have concentrated almost exclusively on larger firms. Little is still known about how IT is governed in SMEs or how SMEs can be assisted to improve these practices. The findings from large firms may not be generalised over SMEs as SMEs have different IT requirements. They tend to adopt a more operational than strategic view of business and are more reactive to immediate demands than longer term goals (Kyobe 2008). Furthermore, Csaszar and Clemons (2006) observe that IT governance studies are predominantly qualitative and anecdotal, making it difficult to generalise findings and to advance normative judgement. Buckby, Best and Stewart (2009) also maintain there is a noticeable paucity of empirical and quantitative research in IT governance in general, and in SMEs in particular. The purpose of this research was to investigate the factors which contribute to effective IT governance practices in this sector in South Africa. In the following sections present a review of literature on IT governance, IT governance research in SMEs and the factors which influence IT governance.

LITERATURE REVIEW

Since the advent of IT, researchers and practitioners have been preoccupied with its governance and contribution to business performance. The objective of any form of governance is to set and control strategies to ensure that business goals are accomplished. This involves developing overall strategies, establishing structures through which decision authority may be delegated to management, and ensuring that managerial activities are consistent with achieving these strategies.

Domains of IT Governance

There is no universally accepted definition of IT governance. Due to the complex nature of the discipline, different definitions emphasise different aspects, and this divergence has permeated both research and practice (Webb, Pollard & Ridley, 2006). The overarching objective of IT governance is to manage risk and maximise IT value (ITGI, 2003; Jordan & Silcock, 2005), which may be accomplished through strategic alignment, resource management and performance management (Webb *et al.*, 2006). According

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