

Chapter 6

IT Governance: An Alignment Maturity Perspective

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ABSTRACT

Aligning Information Technology (IT) and business has been a persistent and pervasive problem for over three decades. Studies show that one of the essential components for organizations seeking to improve their alignment maturity is IT Governance. This paper demonstrates the relationship between IT Governance and business performance. The Strategic Alignment Maturity Assessment (SAM) framework is applied as the foundation for relating IT Governance to company performance and to overall alignment maturity. Based on this research model, IT strategic planning, IT budgeting, and IT reaction capacity demonstrate strong contribution to the overall IT Governance maturity score. Furthermore, IT Governance has a significant impact on company performance. Although these results underscore the importance of IT Governance in alignment maturity, there is no silver bullet and the other five SAM components (Communications, Value, Partnership, Technology Scope, and Skills) must also be addressed.

INTRODUCTION

Low alignment maturity between business strategy and Information Technology (IT) strategy is one of the main reasons why enterprises fail to exploit the full potential of their IT investment, and why

IT business alignment has been such a persistent and pervasive conundrum (Luftman & Kempaiah, 2008; Luftman et al., 2006; Luftman, 2009). In fact, companies with lower alignment maturity tend to demonstrate lower overall company performance, e.g., lower Return on investment (ROI), lower profits, etc. (Luftman & Kempaiah, 2007; Luftman 2009). To improve company performance, busi-

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ness IT alignment should be regularly reexamined. One important aspect of this reexamination is the consideration of the role IT Governance plays in organizational decision making processes (De Haes & Van Grembergen, 2009).

IT Governance should be part of the overall corporate governance process. It is comprised of the management processes, procedures, and policies established to provide decisions and direction to the IT services and resources, including considerations regarding risks, compliance, and performance. IT Governance is the responsibility of the strategic, tactical, and operational “owners” of IT resources on behalf of the stakeholders who expect discernible value. The IT Governance Institute’s definition of IT Governance includes the leadership and organizational structure and processes that ensure that IT sustains and extends the organization’s strategies and objectives (The IT Governance Institute, 2009). The growth of outsourcing, continuous regulatory changes and the high rate of IT project failure affecting organizational performance have brought increased deliberation to IT Governance (Luftman, 2000; Luftman & Kempaiah, 2008; Nash, 2005; Rigoni et al., 2006; Sledgianowski, 2004). An important consideration related to IT Governance is how IT investment decisions are made at the strategic, tactical, and operational levels, and who makes them; for example what projects to pursue and how to allocate financial and human resources.

One model that has received exceptional receptivity among researchers and practitioners is Luftman’s (2000) Strategic Alignment Maturity Model (SAM). This model combines descriptive and prescriptive aspects of alignment that generate a roadmap that practitioners and consultants can follow to attain higher levels of IT effectiveness which in turn helps organizations attain better business performance (Luftman, 2009). SAM combines six different organizational components into a strategic alignment maturity score: Communications, Value Measurements, IT Governance, Partnership, IT Scope, and Skills. Each of those

components is comprised of elements or indicators used to measure the component. Using Structural Equation Modeling (SEM), this paper focuses on the IT Governance component and the question of governance pertaining to IT investment decisions. In particular, the purpose of this paper is to investigate the impact (see Figure 1):

1. Of the individual elements of IT governance on the IT Governance component
2. That IT Governance has on the overall strategic alignment maturity score
3. Of IT Governance on business performance

A benchmark repository of 250 global 1,000 organizations is investigated to identify the role IT Governance plays in IT business alignment, as well as its impact on organizational performance. Partial Least Square (PLS 3.0 software) was applied to analyze and validate two relationships: (1) the relationship between IT Governance and its elements; and (2) the relationship between IT Governance and organizational performance.

The remainder of the paper is structured as follows: the next section explores IT-Business Alignment, SAM and IT Governance, followed by a section describing the research approach and methodology. The fourth section presents the research results, followed by the research limitations, conclusions, and suggestions for future research.

IT-BUSINESS ALIGNMENT, SAM AND IT GOVERNANCE

The first strategic alignment model that gained attention from both practitioners and scholars was the Henderson and Venkatraman model (1993). Since its introduction in the early 1990s, this framework has been the focus of constant improvements (e.g., Maes et al., 2000) used this model as a starting point and created a model called the Unified Framework for Alignment). However, those and other known strategic align-

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