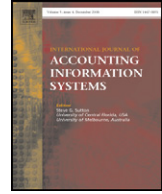




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A capabilities-based approach to obtaining a deeper understanding of information technology governance effectiveness: Evidence from IT steering committees

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ABSTRACT

Given the substantial investment in information technology (IT), and the significant impact IT has on organizational success, organizations consume considerable resources to manage acquisition and use of their IT resources. While various arguments proposed suggest which IT governance arrangements may work best, our understanding of the effectiveness of such initiatives is limited. We examine the relationship between the effectiveness of IT steering committee driven IT governance initiatives and firm's IT management and IT infrastructure related capabilities. We further propose that firm's IT-related capabilities generated through IT governance initiatives should improve its business processes and firm-level performance. We test these relationships empirically by a field survey. Results suggest that firms' effectiveness of IT steering committee driven IT governance initiatives positively relates to the level of their IT-related capabilities. We also found positive relationships between IT-related capabilities and internal process-level performance. Our results also support that improvement in internal process-level performance positively relates to improvement in customer service and firm-level performance.

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1. Introduction

Given the substantial investment in IT, and the significant impact IT has on organizational success (Devaraj and Kohli, 2003; Weill and Ross, 2004; Xue et al., 2008), considerable organizational resources are consumed to manage how IT is acquired and diffused in organizations. Termed IT governance, it is the

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responsibility of the board of directors and executives, and consists of leadership, organizational structures, and processes which ensure that the enterprise's IT sustains and extends the organizations strategies and objectives (IT Governance Institute, 2007).

The importance of effective management of organizational resources has been prevalent for a long time. It has received renewed attention amid recent spectacular collapses, and spate of corporate scandals with the likes of Enron, WorldCom, and Tyco. The crises in confidence in the corporate sector resulted in unprecedented enactment of legislation, the Sarbanes Oxley Act (SOX) the most notable. Management of IT resources has also seen its share of failures, collapses, and unfulfilled expectations. Major enterprise resource planning (ERP) systems were never completed, e-business initiatives were poorly conceived, and data mining experiments that generated plenty of data but few valuable leads (Weill and Ross, 2004). Today, the corporate world, through mandatory requirements, and self-regulation, has moved forward in managing its resources. IT resources continue to claim a major portion of investment funds, and its governance consumes considerable resources to ensure its effective and efficient management. However, is this increasingly pricey venture effective, and if so, how do we measure it?

Various arguments suggest which IT governance arrangements work best (e.g., Sambamurthy and Zmud, 1999; Weill and Ross, 2004; Xue et al., 2008). Prior research on information systems structure and IT governance decisions rights (e.g. Bowen et al., 2007; Brown, 1997; Brown and Magill, 1994; Sambamurthy and Zmud, 1999), and pre-decision activities (Xue et al., 2008), greatly contributes to our understanding of how organizations control their IT investment decision making. Our understanding of the effectiveness of such initiatives, however, is less concrete. Assessing the level of effectiveness in delivering four objectives of cost, growth, asset utilization, and business flexibility (Weill and Ross, 2004), compliance with legal and regulatory requirements (Bowen et al., 2007), and the perceived overall effectiveness of IT governance (Goodhue and Thompson, 1995) has been considered to assess the effectiveness of the IT governance initiatives.

In IT context, the firm's IT-related capabilities differentiate the value-creating potential of the acquired IT across firms (Melville et al., 2004; Ray et al., 2005; Wade and Hulland, 2004). The resource-based view of a firm conceptualizes that the capabilities that firms accomplish from their IT resources are the source of their competitive advantage (Bharadwaj, 2000; Ferguson et al., 2005; Wade and Hulland, 2004). Evaluation of firm's efforts to manage the IT resources should then also be in terms of its relationship with the capabilities that a firm is able to develop and sustain. These capabilities enhance firms' business processes, a first focal point of IT impact (Barua et al., 1995; Jeffers et al., 2008; Tallon, 2007). Since substantial financial resources are consumed in acquiring and managing IT resources, mapping process-level benefits to firm-level outcomes is also essential (DeLone and McLean, 2003). Fig. 1 below presents the conceptual framework of a capabilities-based approach to assessing firm's IT governance initiatives.

The objective of this study is to obtain a deeper understanding of the effectiveness of firm's IT governance initiatives. We accomplish this by considering whether firms' governance initiatives relate to their IT-related capabilities. We also consider the impact of the capabilities on the measures of business value. We consider the impact of firms IT steering committee driven IT governance initiatives on their IT

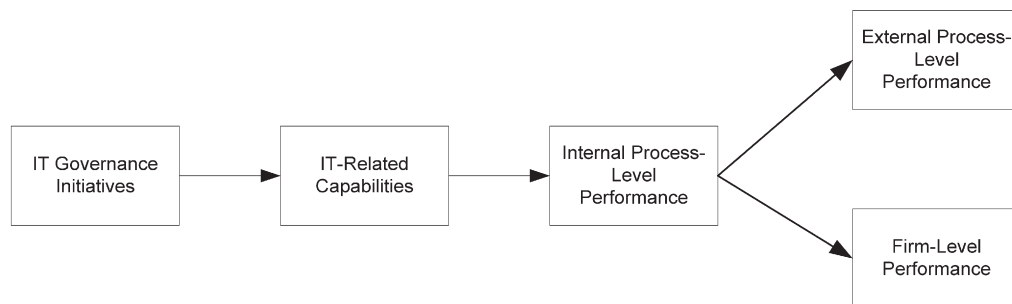


Fig. 1. Conceptual model.

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