How Does IT Governance Improve Firm Performance? A Dynamic Capabilities Perspective

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Introduction (1/3)

- IT Governance is viewed as a key to increasing the value of IT investments for firms, ensuring they stay competitive in the marketplace.
  - ITG is an integrated set of organizational structures, processes, and relational mechanisms that enable to direct and oversee an organization's IT-related decisions and actions such that desired behaviors and outcomes are realized [14][15].
- Companies that have good ITG can:
  - Reap up to 40% higher return on their IT investments [2].
  - Get an increase of up to 20% in profits [3].
- While researchers agree that IT Governance (ITG) positively affects business performance, there is still a lack of consensus on how IT Governance improves firm performance [4].

Introduction (2/3)

- The impact of ITG on firm performance has primarily been studied using the Resource-Based View (RBV) :
  - Where ITG is conceptualize has a valuable resource that can lead to sustainable competitive advantage and, therefore, to increased firm performance [5].
- This is problematic because:
  1. RBV offers a limited perspective on firm performance by considering ITG as a single resource.
  2. RBV does not account for today's dynamic and competitive marketplace.

Introduction (3/3)

- We suggest breaking down ITG into two groups of capabilities, i.e., ordinary and dynamic capabilities, and studying the impact of each of those groups on different dimensions of firm performance.
- **Objective**: Adopt a theory building approach to synthesise the literature on IT Governance and develop a new conceptual framework on the impacts of ITG on organizational performance.
  - This is a theoretical literature review in which we build on previous research and propose a new conceptual model to help understand how ITG affects firm performance.

Ressource Based View (RBV) and Dynamics Capabilities

- RBV states that certain resources possessed by an organization are a source of competitive advantage and that they can lead to sustained superior performance. To do so, a resource must abide by four criteria [7]:
  - Valuable
  - Rare
  - Imperfect imitability
  - Non-substitutability
- The dynamic capabilities perspective builds on the RBV theory. However, it argues that the capabilities of the firm must change over time in order to remain relevant in the firm's rapidly changing environment [7].
  - It is defined as follows: "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" [9].

Ordinary and dynamic capabilities

- Moving away from the RBV conceptualization that ITG is one capability, we propose that ITG is rather composed of different capabilities, which in turn can impact different dimensions of business performance.
- IT Governance is composed of two groups of capabilities:
  - Dynamic capabilities, includes [29] :
    I. Sensing capabilities: Ability to identify opportunities outside of the organization.
    II. Seizing capabilities: Ability to mobilize the resources to capture value from those opportunities.
    III. Transforming capabilities: ability to realign the organizational structure and culture.
  - Ordinary capabilities, includes:
    I. Controlling capabilities: Ability to determine how things should be.
    II. Complying capabilities: Ability to meet the determined standards.

Conceptual Model (1/4)

H1 (+): Sensing, seizing and transforming capabilities are positively related to controlling and complying capabilities.

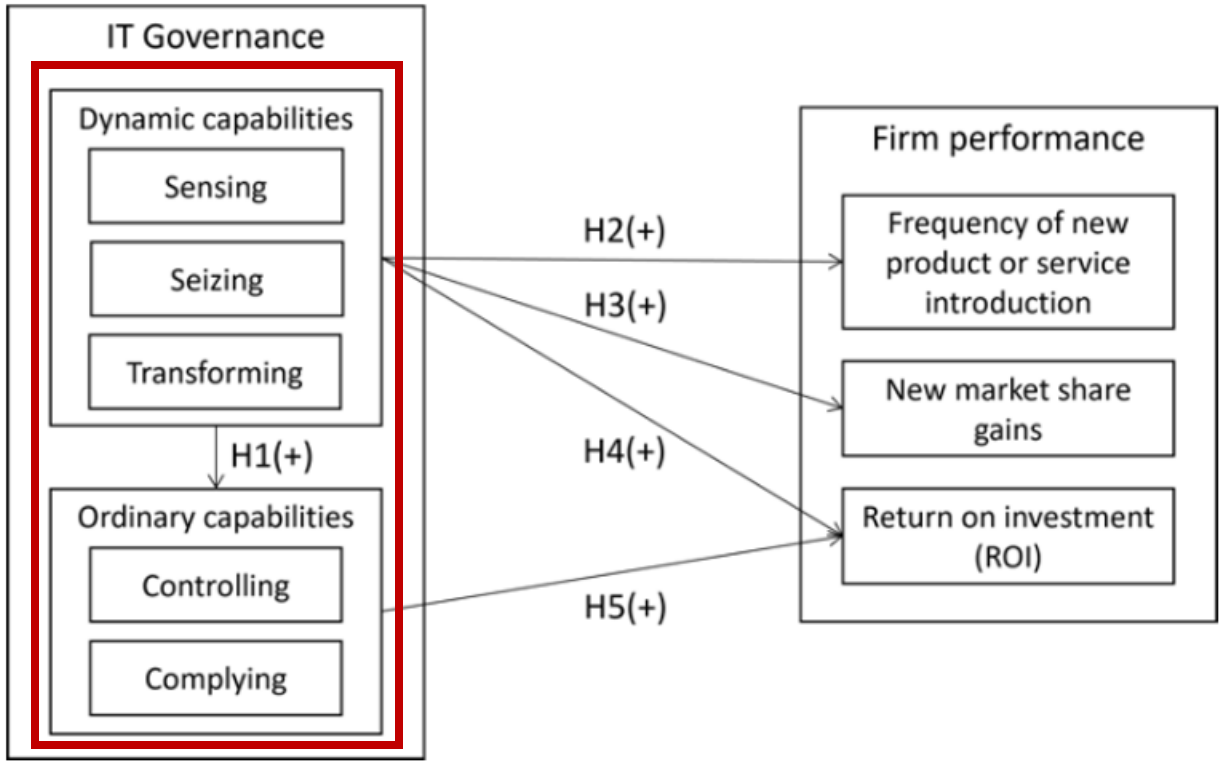

Figure 1. Conceptual Model.

Conceptual Model (2/4)

H2 (+): ITG sensing, seizing and transforming capabilities are positively related to the frequency of new product or service introduction.

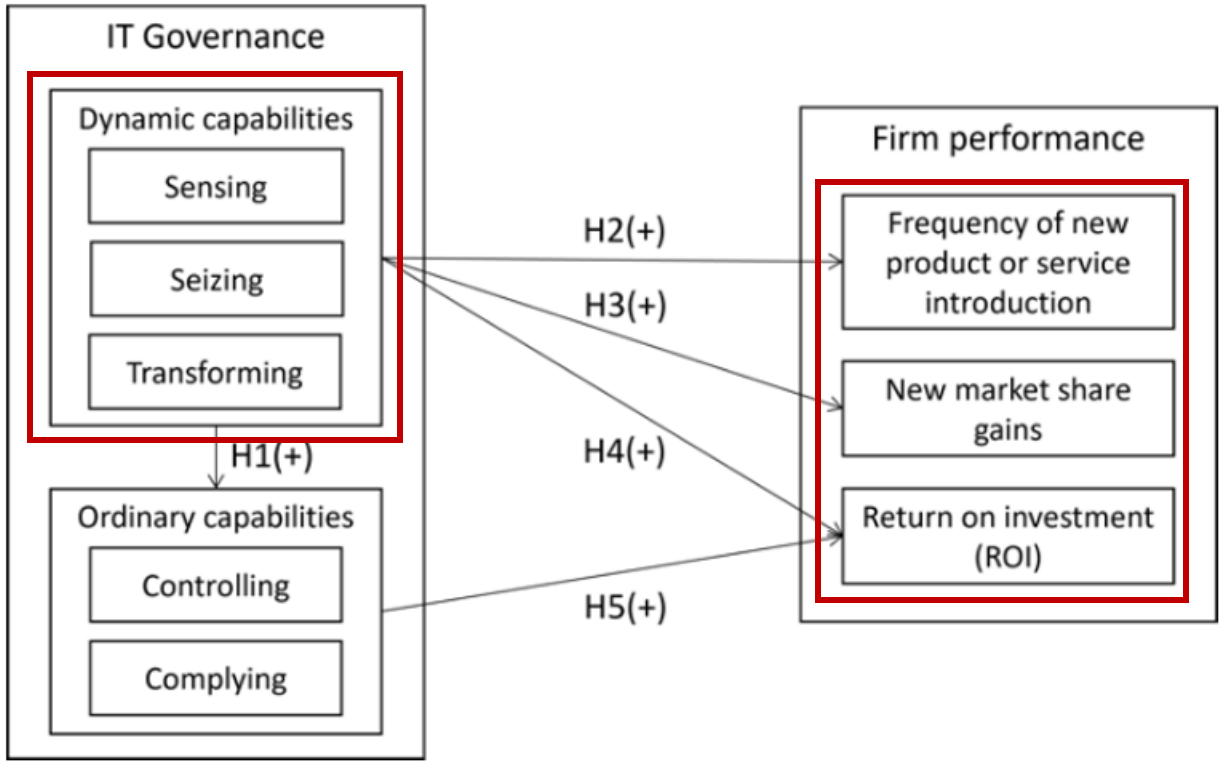

Figure 1. Conceptual Model.

H3 (+): ITG sensing, seizing and transforming capabilities are positively related to market share gains.

H4 (+): ITG sensing, seizing and transforming capabilities are positively related to financial performance.

Conceptual Model (3/4)

H5 (+): ITG controlling and complying capabilities are positively related to return on investment.

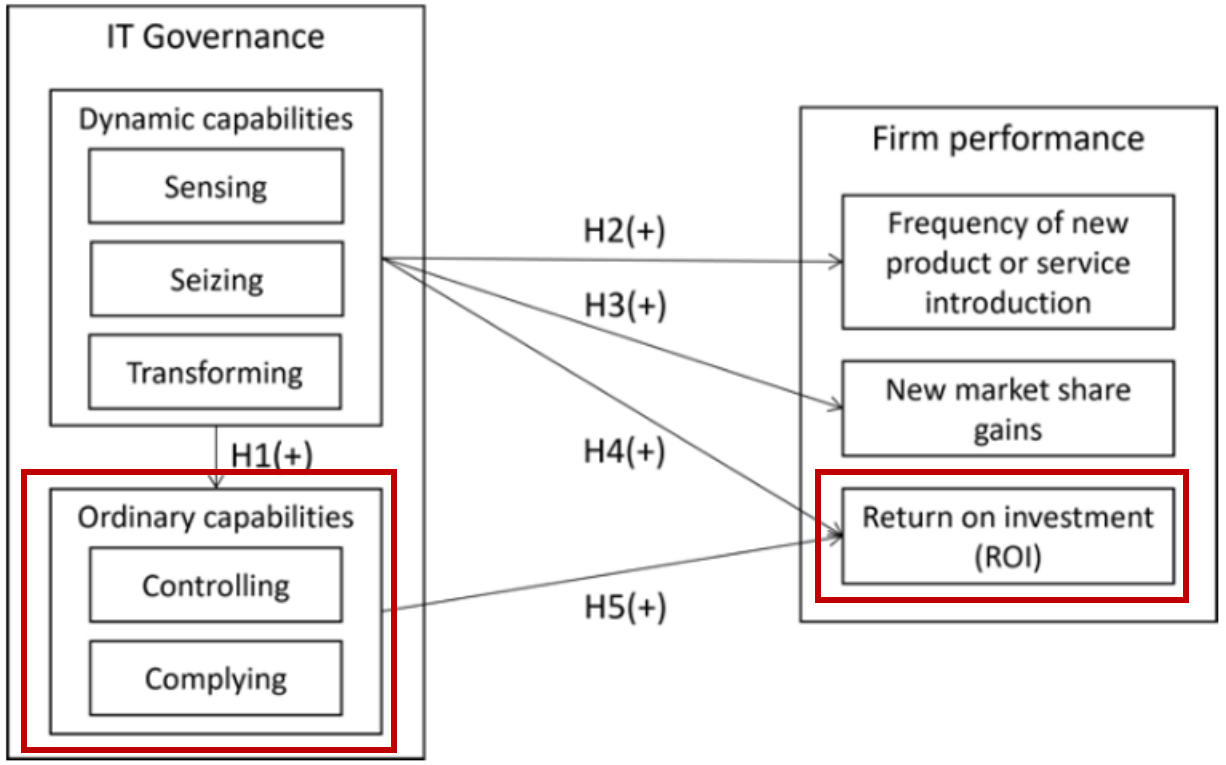

Figure 1. Conceptual Model.

Conceptual Model (4/4)

- While literature suggests that a good ITG has sensing, seizing and transforming capabilities, it's impossible to assume that all firms are equally good at governing IT:
  - That is why it is crucial to distinguish both groups of capabilities.
  - For example: A firm that simply uses a framework such as COBIT engages in a form of ITG [5]. However, the use of such framework without dynamics capabilities will result in a failure to leverage all benefits associated with IT Governance

Research Avenues (1/2)

TABLE I. CONSTRUCT OPERATIONALIZATION PROPOSITION

Capability	Proposed ITG mechanisms	Ref.
Sensing	IT strategy committee at level of board of directors	[31][32]
	Strategic information systems planning	[31][32]
Seizing	Architecture steering committee	[32][33]
	Portfolio management	[32]
Transforming	Project governance methodologies	[32]
	IT project steering committee	[32][33]
Controlling	IT Governance framework (e.g., COBIT)	[31][32]
	IT budget control and reporting	[32][33]
Complying	IT audit committee at level of board of directors	[32]
	IT steering committee	[31][32]

Research Avenues (2/2)

- Further empirical research is needed to validate our hypotheses and build on the model:
  - To validate the proposed conceptual model, we suggest conducting surveys
  - Partial Least Squares (PLS) would be the method applied to analyze the collected data.
- The present proposal involves two components :
  I. Testing of the effect of both dynamic and ordinary capabilities.
  II. Testing of the individual effects of each of the five capabilities identified in the model.

Conclusion

- ITG undoubtedly leads to superior organizational performance, the mechanisms involved are not yet fully understood.
  - This is especially true when considering the RBV perspective of ITG.
- We believe that breaking down ITG into different capabilities is a good step toward reaching a deeper understanding of how ITG improves firm performance and how organizations can maximize the potential benefits of their ITG.
  - Our model will advance research on the impact of ITG on organizational performance.

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