The Theory and Practice of IT Governance Maturity and Strategies Alignment: Evidence From Banking Industry

Mojtaba Rees Safari, Antai College of Economics and Management, Shanghai Jiaotong University, Shanghai, China
Qingquan Jiang, Xiamen University of Technology, Xiamen, China

ABSTRACT

Information technology (IT) is considered as a major and strategic part in development of banks business, and banks using IT as a competitive advantage. Nowadays IT governance is as a constituent part of governance in banks. Key role of information and communication technology (ICT) in bank growth and development is obvious to top managers, but what needs to be considered carefully is the alignment of business strategies with IT strategies. This article intends to investigate the significant differences of IT governance maturity among the Iranian Banking Industry (publicly-owned and privately-owned). To achieve these implications, an IT governance framework and COBIT 4.1 were employed, using data from 17 large publicly-owned and privately-owned banks. The results indicate that privately-owned banks have a higher maturity rank in alignment of business strategies with IT strategies compared to publicly-owned banks.

KEYWORDS

Banking Industry, COBITE 4.1 Framework, IT Governance Maturity, IT Strategies, Strategies Alignment

INTRODUCTION

Currently, ICT as a wondrous manifestation of technology has significant impact on manufacturing firm’s performance and on the service industry (Kizia & Pederson, 2012; Mirbaha, 2008; Mohamed & Singh, 2012). ICT through components such as cost reduction in product improvement, cheaper distribution channels, direct savings, reduction in time of supply, high quality and favorable services, innovation in production, entry into new markets, and increased market share, has led to improvement of firm competitiveness (Belu 2012; Imran, Abdul, Abdullah, Naveed, & Ehsan 2012). But adaptation and development of this new technology in business and entities itself require the availability of an appropriate set of conditions and factors whose absence, in many developing countries such as Iran, have limited the utilization of this new technological advantage (Ayed Mouelhi, 2009; Chen & Zhu, 2004; Dangolani, 2011; IDC, 2002). Studies have shown that, values obtained from investment in ICT depend on factors such as type of governance, management style, and competitive environmental. On the other hand, IT has indirect benefits, these are employee knowledge promotion, quality improvement, more coordination and better response that have no direct impact on profitability in the

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short term (Eyadat & Kozak 2005; Li, 2007; Matteucci & Sterlacchini 2004). For instance, it has been shown that companies that appropriated IT governance structure for effective decision making have been able to obtain higher return from investment than their competitors who did not (Lapao, 2011; Lunardi, Becker, Maçada, & Dolci, 2013). Nowadays, companies and firms are using technology in developing, managing and exchanging intangible assets such as information and knowledge. This information has to be secure, accurate, reliable, and provided to the right person at the right time and place for the firm to be successful (Steven De Haes & Van Grembergen, 2015). Because of the pervasiveness and dependence on IT in organizations, the importance of an alignment between IT units and the business strategic direction has increased (Kiiza & Pederson, 2012). This alignment is the primary goal of IT governance.

According to investigations (Dangolani, 2011), Iranian banks, in order to maintain their position in the competitive environment, engaged in enormous investment in ICT. However, the type of ownership and governance, and the non-competitive banking industry in Iran have caused the banks not to pay much attention to the effective use of ICT as a competitive advantage. For this case, investing in IT will not reduce costs and increase efficiency. The aim of current study is to evaluation and comparison of Iran’s banks IT governance maturity in the alignment of business strategies with IT strategies. Based on the governance structure of the banking industry (private and public) is explored. Additionally, the difference between IT governance maturity in the Iranian public and private sector bank is investigated using IT governance framework and COBIT 4.1.

This paper contrasts IT governance in the private sector with that in the public sector in Iranian banking industry, basing on available literature. It starts by defining the IT governance and then, considering the role of the ownership in IT governance, and discussing the idea of IT and business alignment in relation to its contribution to IT governance. The paper further highlights the implications of sector differences to IT governance approaches.

THEORETICAL BACKGROUND

IT Governance

IT governance, by deploying information through the application of technology has been recognized as a critical factor for the achievement of corporate success and it is widely accepted that the benefits generated by organizational IT investments directly are influenced by IT governance (Mirbaha, 2008; Ribeiro & Gomes, 2009). IT governance is part of corporate governance, in fact, it is the responsibility of the organization’s top executive to ensure that IT supports the goals and objectives of the organization by using variety of structural mechanisms, processes and mechanisms for communication. Fundamentally, IT Governance is concerned on how IT is delivering value and the management of IT risks, which was driven by strategic alignment between business and IT, resource management and performance management (ITGI, 2006).

IT governance has been treated as an important component of businesses. The growing interest of companies in the subject has been justified by the reflection of the changing role and relevance of IT within organizations, and consequently, the need to ensure it is properly managed. IT governance applies concepts borrowed from corporate governance to strategically drive and control IT, particularly in relation to two key-issues: the value IT delivers to an organization, and the control and mitigation of IT-related risks (Lunardi et al., 2013). The definition of IT Governance in the literature differ considerably depending upon the perspective of researchers. However, these definitions all focused on the same issue, the alignment of IT with business (De Haes, 2007; Ribeiro & Gomes, 2009). This issue is synonymous with IT strategy and encompasses strategic integration between future IT and future enterprises. Consequently leading to the question as to whether an enterprise’s investment in IT is in harmony with its strategic objectives (intention, current strategy and enterprise goals) and thus building the capabilities necessary to deliver business values (harmonized alignment) (Larsen, Pedersen, & Viborg Andersen, 2006; Mekawy, Rusu, & Ahmed, 2009). The main goal with the
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