The Role of IT Governance Practices in Creating Business Value in SMEs

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ABSTRACT

Much has been written about information technology governance (ITG) in larger organizations, wherein control of information technology (IT) is addressed with attention to three core elements, namely structures, processes, and relational mechanisms. These elements focus on governing the size of IT investment, the ubiquity of IT functionality to business processes and the demonstrated value from IT investment. For Small-to-Medium Enterprises (SMEs) it is less apparent how IT is or should be governed, how these core elements may contribute to ITG, and how this all contributes to the creation of business value. Through a survey of small SMEs in the Australian tourist accommodation industry regarding their use of and planning for IT investment to deliver business value, this paper delivers new understanding about SME practices related to governing IT. Findings revealed evidence of some sound practices but the opportunity to achieve greater strategic business value beyond the largely operational value already acquired. The paper concludes by proposing a redefined framework of the core elements of structures, processes, and relational mechanisms that is tailored to an SME context.

Keywords: Business Value, Business Value Creation, Information Technology Governance (ITG), IT Investment, Small-to-Medium Enterprises (SMEs)

INTRODUCTION

Studies that report on Information Technology (IT) use and practice typically focus on the experiences of large organizations (Wilkin & Chenhall, 2010). Herein strategic alignment is seen as pivotal in ensuring there is shared understanding of business/IT objectives, which can lead to better performance in IT governance (ITG) (Bowen, Cheung, & Rohde, 2007). In achieving this, organizations need to develop a unified vision of their business and IT (Bieberstein, Bose, Walker, & Lynch, 2005) and create relevant formal policies and directives (Vayghan, Garfinkle, Walenta, Healy, & Valentin, 2007). As ITG involves change management (Pan, Pan, & Devadoss, 2008), planning needs to take account of existing organizational cultures and contexts (Xue, Liang, & Boulton, 2008). It also requires a priori evaluation of IT investment that includes balanced representation of business and IT people (Bowen et al., 2007), often through an IT steering committee (Vayghan et al., 2007; Weill & Ross, 2005).

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Whilst in large organizations these practices facilitate success and enhance IT investment, their uptake in Small-to-Medium Enterprises (SMEs) is less convincing (Walker, Bode, Burn, & Webster, 2003). Although effective investment in both contexts usually results in IT becoming ubiquitous in the underlying business processes, potentially creating business value and improved performance, there are points of difference between the two. Earlier studies have shown that SMEs tend to adopt a more operational than strategic view of business and tend to be more reactive to immediate demands than longer term goals and budget accountability (Brailsford, 1995; Rangone, 1999; Sexton & van Auken, 1982). Whilst both use IT and off-the-shelf software to facilitate business operations, SMEs often struggle to maximize their potential as this requires changes in the underlying processes in order to optimize business value (Rangone, 1999). Moreover, SMEs commonly function without dedicated IT specialists, which makes realizing the full potential from this experience challenging. These differences make investigation of this in SMEs a fruitful area of research. Thus, the research question was: *what practices are apparent to manage IT investment and operationalization in SMEs and how is this different from ITG used by larger organizations?*

Through a survey that explored the attitudes, experiences and challenges faced by 156 small independent Australian tourist accommodation providers in their pursuit to create business value through IT investment and operationalization, this paper seeks to deliver new understanding about how IT is governed in SMEs to facilitate this. Although research into governance has extended into SMEs (Huse, 2000), research into the application of ITG here is timely.

The definition of what constitutes an SME varies from country to country. Yet there is common agreement about three factors: number of employees, annual sales and fixed assets. Given this study was conducted in Australia, using the Australian Bureau of Statistics definition of an SME, a small enterprise is one that employs less than 20 people, while a medium one employs between 21 and 200. Relative to national and multi-national organizations, the head count in these organizations is small. None-the-less they are important to the national economy, with approximately 130,000 SMEs in Australia, which are mainly privately held. Their annual turnover averages between $2 and $250 million; they pay approximately 15% of the total tax collected with a further 12% of total tax contributed through amounts withheld in payments to employees; and in total they employ more than 26% of people (Australian Taxation Office, 2008). This pattern of significant contribution to economies is evident around the world. In China SMEs account for 60% of industrial output and employ about 75% of the workforce (The American Embassy in China, 2002); in Canada they provide 64% of private sector employment (Industry Canada, 2006); while in the European Union, organizations that employ 250 or less staff provide 67% of jobs outside the financial industry (Eurostat, 2007). This makes SMEs a valuable and relevant research environment for exploring how IT can be used to create and improve business value.

Through exploring these SMEs’ experiences with IT, this study demonstrates that there are differences between the core elements of ITG in larger organizations and those in SMEs. Based on these findings, a redefinition of De Haes and Van Grembergen’s ITG framework (that was formulated for large organizations) is proposed so that it captures the structures, processes and relational mechanisms apparent in the SME context. The paper begins by reviewing earlier literature about SMEs’ use of IT, the meaning of business value and the components of ITG presented in the literature related to large organizations. Next the research method and context are presented. Following this the results from a survey of IT usage and practice in SMEs are presented. The paper concludes with discussion of implications from the study and presentation of the proposed ITG framework for SMEs.
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