The Impact of IT Governance on IT Capability and Firm Performance

Peiqin Zhang
Texas State University
McCoy College of Business Administration
601 University Drive, San Marcos, TX 78666
p_z13@txstate.edu

Kexin Zhao
University of North Carolina at Charlotte
Belk College of Business
9201 University City Blvd, Charlotte, NC 28223
kzhao2@uncc.edu

Ram L. Kumar
University of North Carolina at Charlotte
Belk College of Business
9201 University City Blvd, Charlotte, NC 28223
rlkumar@uncc.edu

Abstract

Drawing upon the resource-based theory of IT business value research, a firm’s ability to effectively integrate and deploy IT resources in combination with other resources, can create unique competitive advantage and intangible assets for a company. This study aims to investigate the impact of IT governance on IT capability, and the effects of both IT governance and IT capability on firms’ sustainable competitive advantage. We hypothesize that both IT governance and IT capability are positively related to firm performance, and IT governance is positively linked to IT capability. A research model is proposed.

Keywords: IT governance, IT capability, IT business value, firm performance

Introduction

In this paper, we examine the impact of IT governance on IT capability, and effects of both IT governance and IT capability on firms’ market value creation and sustainable accounting performance. A firm’s IT capability refers to its ability to mobilize and deploy IT-based resources in combination or co-present with other resources and capabilities (Bharadwaj 2000).

The relationship between IT capability and firm performance has been studied by prior literature (Bharadwaj 2000; Santhanam and Hartono 2003; Muhanna and stoel 2010), which concludes that firms with superior IT capability achieve superior firm performance. IT business value research (Barua and Mukhopadhyay 1995; Mukhopadhyay 1995; Bharadwaj et al. 1999; Bharadwaj 2000; Santhanam and Hartono 2003; Brynjolfsson and Hitt 2000) examines the impact of IT on business value and organizational performance. However, research to examine the effects of IT governance on IT capability is limited (Lim et al. 2012), and the information systems field lacks studies that simultaneously investigate the impacts of both IT governance and IT capability on firms’ market value creation and sustainable accounting performance. To fill this gap, we intend to answer the following research questions in this study:
1. How is IT governance linked to IT capability?

2. How do both IT governance and IT capability impact firm performance?

To answer these questions, we draw upon and integrate three research streams to develop our model: (1) Studies that investigate the impact of IT capability on firm performance (Bharadwaj 2000; Santhanam and Hartono 2003; Wang and Alam 2007; Muhanna and stoel 2010). (2) Studies that examine the effects of corporate governance and IT governance on firm performance (Brown and Caylor 2006; Boritz and Lim working paper; Lunardi et al. 2009). (3) Study that examines the role of senior IT executives and IT governance on IT capability (Lim et al. 2012). IT business value literature (Barua and Mukhopadhyay 1995; Mukhopadhyay 1995; Bharadwaj et al. 1999; Brynjolffson and Hitt 2000) helps us understand how investment and innovation in IT impact firms’ business performance. IT capability literature (Bharadwaj 2000; Santhanam and Hartono 2003; Wang and Alam 2007; Muhanna and stoel 2010) illustrates that IT capability is an important factor differentiating competitive firms from less competitive firms. IT governance literature (Amstrong and Sambamurthy 1999; Bassellier et al. 2003; Li et al. 2007) provides us a guideline with a theoretical basis to investigate firms’ IT resources and their ability to effectively integrate and deploy IT resources in combination with other resources to create unique competitive advantage.

Using a sample of U.S. firms ranked by Information Week based on their technology strategies and practices, we examine the impact of IT capability on firm performance. In particular, we examine how IT governance and IT capability help to achieve firms’ competitive advantage using both a market value measure and a sustainable accounting performance measure. In addition, we study how IT governance affects IT capability.

This study contributes to accounting information systems (AIS) and management information systems (MIS) literature in several ways. First, this is the first study to investigate the impact of IT governance on IT capability. Second, our study contributes to the IT business value literature by simultaneously examining the differential effects of IT governance and IT capability on firms’ sustainable accounting performance and market valuation. Third, our study also contributes to the AIS literature with a comprehensive measurement of IT governance. Fourth, our study represents one of the few studies that empirically test the resource-based theory in the IT governance domain.

The rest of the study is organized as follows. The next section provides the literature review. The subsequent section introduces the theoretical background and develops hypotheses. The following section describes the variables and presents our research model. Then, the proposed research methods and data collection procedures are illustrated. The final section discusses the expected contributions and implications of the study and provides some concluding comments.

**Literature Review**

A large body of research has explored the impact of IT capability on firm performance. The pioneering empirical study by Bharadwaj (2000) suggested a link between IT capability and firms’ accounting-based measures of current performance. This study contends that IT capability creates unique competitive advantages and intangible assets for a firm and firms with a high IT capability achieve and sustain superior performance based on profit- and cost-based performance measures using data in the early 1990s. Similar to Bharadwaj (2000), a subsequent analysis by Santhanam and Hartono (2003) controlled for prior financial performance, and concluded that firms with superior IT capability exhibit superior current and sustained firm performance when compared to average industry performance.

Based on post year 2000 (Y2K) data, more recent studies have investigated the impact of IT capability on firms’ competitive advantage with mixed results. Wang and Alam (2007) explored the relationship between IT capability and firm valuation, future earnings uncertainty and financial analysts’ forecast accuracy, and found that IT capability is value-relevant and provides incremental explanatory power for firm valuation beyond traditional accounting information. Muhanna and Stoel (2010) used two unique archival data sets representing the immediate pre-Internet (1992-1994) and the post-Internet (1999-2006) commercialization eras to examine the effects of IT capability and IT spending on market value and actual accounting performance, and concluded that IT capability is value-relevant, and is positively associated with actual future earnings; However, Masli et al. (2011) considered the structural shifts in the return from IT capability over time, and examined the impact of superior IT capability on firm performance over
the 1988-2007 period. Their findings suggested that firms with superior IT capability are able to attain higher firm performance levels until 1999. However, such performance advantage disappears in the post-1999 time period. Hence, it is necessary to better understand the impact of IT capability on firms’ market valuation as well as sustainable accounting performance in the post-Internet eras.

A further investigation of the role of IT capability on firms’ competitive advantage is needed. In this study, we attempt to reconcile these seemingly conflicting results and advance our understanding of the association between IT and firm performance by proposing and testing a model that focuses on market valuation as well as firms’ sustainable accounting performance. A key distinguishing feature of our study is that we simultaneously examine the effects of both IT governance and IT capability on firm performance. In contrast, prior studies have focused on investigating the effects of each of these two IT-related factors in isolation from each other.

The most similar study to ours is a recent paper by Lim et al. (2012) who investigated the impact of the role of IT executives on the relationship between IT capability and firm performance. They concluded that there is a positive relationship between hierarchical power of senior IT executives and the likelihood that a firm will develop superior IT capability, and that the contribution of IT capability to a firm’s competitive advantage is much stronger in firms with powerful senior IT executives. However, Lim et al. (2012) only studied IT executives’ role. In contrast, in our paper, we construct a comprehensive measurement of IT governance, in addition to IT executive’s role, we also include other important factors (outside auditor oversight and IT leadership importance).

Theoretical Background and Hypotheses

The resource-based theory (RBV) has been used in IT business value research to answer the question of IT business value and competitive advantage from IT (Mata et al. 1995; Powell and Dent-Micare 1997; Bharadwaj 2000; Wade and Hulland 2004; Ray et al. 2005). Drawing upon RBV theory, a firm’s ability to effectively build, integrate and deploy IT resources in combination with other resources, can create unique competitive advantages and intangible assets for a company (Bharadwaj 2000; Santhanam and Hartono 2003). The primary purpose of this study is to investigate how IT governance and IT capability affect the firms’ market value and sustainable accounting performance. The reason that we use both market value measure and sustainable accounting performance measure is described in the section of variable definitions. To accomplish this, RBV theory, therefore, seems well positioned to inform examinations of the relationship between IT governance, IT capability and firm performance.

IT governance and firm performance

According to previous literature of the impact of corporate governance structure on firm performance (Daily and Dalton 1993; Brown and Caylor 2006), we expect that there is a linkage between IT governance and firm performance since firms with stronger IT governance may carve out competitive advantage in driving technology decisions and remaining costs under control. IT governance is an integral part of corporate governance, and is implementing processes, structures, and relational mechanisms in the enterprise that enable both IT and business person to execute their responsibilities in support of IT/business alignment and the creation of IT business value (Grembergen and De Haes 2009; Wilkin and Chenhall 2010). Weill (2004) indicates that all organizations have IT governance. Firms with effective governance have actively designed a set of IT governance mechanisms (e.g., committees, processes, IT organizational structure, etc.) that encourage behaviors consistent with the firms’ strategies and values (Weill 2004). Good IT governance draws upon corporate governance principles to manage and use IT to achieve superior firm performance. Boritz and Lim (working paper) have examined the relationship between IT governance and firm performance, and suggests that IT governance mechanisms contribute to improved firm performance after taking into account their impact on IT internal control material weaknesses. IT assets have been embedded in an organization’s daily operations and strategies, such as transactions, processes, services and analysis. Studies suggest that a big portion of the business value generated by IT comes from complementarities between IT and organizational practices (Brynjolfsson and Hitt 2000; Basu and Jarnagin 2008). Effective IT governance differentiates the organizations’ assets in use of IT, while ensuring compliance with the firms’ overall mission, vision and principles. Therefore, we believe that firms’ with effective and efficient IT governance may maintain unique assets in human IT resources such as IT skills and experience, IT-enabled resources such as IT knowledge assets.
and IT processes, and are more likely to have competitive advantage to achieve superior firm performance.

We consider three aspects of IT governance mechanisms: oversight (outside committees), leadership IT background and IT leadership importance. We believe that for firms with good oversight function, their outside and independent boards are more likely to effectively monitor the inside boards and leadership in using IT to realize IT/business alignment. Executive leadership has long been embraced as necessary for corporates to fully explore the benefits of IT (Freeman 1969; O'Toole 1966; Rockwell 1968; Chatterjee et al. 2001). Bassellier et al. (2003) state that the set of IT-related experiences that executives possess enables them to exhibit IT leadership in their area of business. IT experience increases their understanding of IT, which in turn enables them to increase their leadership in the IT domain. Top Managers, executives, board of directors and committee members are more likely to assume leadership in regard to IT when they have the appropriate IT experience and knowledge (Bassellier et al., 2003). Thus, we argue that firms with leadership IT background (e.g. IT skills and IT experience) may have unique human IT resources in using IT to create business value of IT. We also argue that firms with IT leadership importance, say, consider the critical role of IT leadership such as CIO position and compensation, longer tenured CIO, and IT strategy committee, are more likely to be motivated to make efficient IT investment, implementation and maintenance, and have stronger IT organizational structure to achieve business value of IT investment. As a result, it may achieve superior firm performance. Therefore, we propose the following hypotheses:

**H1a:** IT governance will be positively associated with the firms’ market valuation.

**H1b:** IT governance will be positively associated with the firms’ sustainable accounting performance.

### **IT capability and firm performance**

The definition of IT capability varies. Bharadwaj defines IT capability as “its ability to mobilize and deploy IT-based resources in combination or co-present with other resources and capabilities” (Bharadwaj 2000, pp. 171). Lim et al. refer to IT capability as firms’ ability to integrate, build, and reconfigure IT with organizational and managerial processes in order to align with a rapidly changing competitive environment (Lim et al. 2012). Wang and Alam (2007) point that IT capability depends on how a firm uses IT investments with other resources in innovative ways to create unique competitive advantages and intangible assets, such as technical and managerial skills, knowledge-based assets, customer orientation and synergy (Wang and Alam 2007). In this study, we refer to IT capability as firms’ ability to innovatively implement and deploy IT resources in the process of business to obtain IT/business strategies and create distinctive advantage.

Organizational intangible assets have been recognized as important drivers of firms’ competitive differentiates (Bharadwaj 2000). Organizations and IT users care more about whether IT investment creates intangible resources such as increased markets and sales, and bring business value for the firms. Building on RBV theory, firms’ IT capability is valuable, rare, inimitable, and/or non-substitutable (Wernerfelt 1984; Newbert 2007; Lim et al. 2012). We believe that firms with superior IT capability are more likely to have compatible IT infrastructure, stronger human IT resources, and effective intangible IT-enabled resources. Therefore, such firms are much better at building and integrating innovative firm-specific IT resources with other business resources and managing the technical and market risks associated with the deployment and use of those resources. In addition, due to the stronger human IT resources comprising the technical and managerial IT skills, firms with superior IT capability are better able to make the right decisions about IT spending, IT investment and IT development, and they are more likely to turn those IT investments into true value in terms of enhanced productivity and efficiency, improved marketing reflections, increased product quality/differentiation, and improved customer service, and so on (Bharadwaj 2000; Muhanna and Stoel 2010). As a result, it will enhance firms’ sustainable earnings and earnings potential, and improve firms’ ability to deploy IT for strategic goals. This expectation in turn should be reflected in the firm’s sustainable accounting performance and market value. This leads to the following hypotheses:

**H2a:** IT capability will be positively associated with the firms’ market valuation.

**H2b:** IT capability will be positively associated with the firms’ sustainable accounting performance.
**IT governance and IT capability**

IT governance involves a set of mechanisms for ensuring the attainment of necessary IT capabilities (Loh and Venkatraman 1992; Henderson and Venkatraman 1993; De Haes and Grembergen 2005; Brown and Grant 2005). IT governance affects a firm’s capability to leverage IT synergies across business units (Gu et al. working paper). Thus, we propose that there is a relationship between IT governance and IT capability since IT governance has a positive impetus to achieve firms’ superior IT capability.

Firms with stronger IT governance are more likely to have the business and IT knowledge needed to nurture organizational learning. Daily and Dalton (1993) stated that outside board members may enhance the firm’s reputation due to their own experience, accomplishment, and exposure. In addition, outside board members are aligned with the notion of resource independence theory indicating that the effectiveness and efficiency of the firm relies on the ability of key organizational members to act as boundary spanner and oversight function (Pfeffer and Salancik 1978; Daily and Dalton 1993). Therefore, we believe that firms with stronger oversight function, their outside board members (e.g. big 4 audit committees), are more likely to oversee the inside board members for IT activities and may enhance firms’ ability to integrate IT resources in combining with other resources. In addition, if firms have more independent directors, they may have stronger monitor function to help them reduce firms’ IT-related risks and lead to sustainable IT capability.

IT Governance Institute indicates that IT governance is as critical at the board and management level as corporate governance, and provides frameworks to assist enterprise leaders ensure that IT supports business goals and maximizes IT investment, with appropriate management of risks and opportunities (Wilkin and Chenhall 2010). Firms whose leadership teams have more IT experience and knowledge are more likely to have ability and skills to deploy IT innovations. For example, given the fast growing of technical innovation for information systems, if firms’ top management has IT experience, they are more likely to implement and infuse new technology to improve firms’ productivity and promote firms’ competence.

In addition, with operational dependence on IT, CIO and IT strategic committee who have the fundamental knowledge about IT (including IT risk, expense and competitive risk) manage critical corporate information assets (Nolan and McFarlan 2005). Therefore, firms with IT leadership importance (e.g. CIO position and compensation, tenured CIO and IT strategy committee, etc.) are more likely to drive technology decisions and effectively manage critical corporate information assets, and result in superior capability to integrate their IT into business operations. Thus, we propose the following hypotheses:

*H3: IT governance will be positively associated with IT capability.*

**Variable definitions and research model**

Based on the hypotheses, firm performance is affected by firms’ IT governance and IT capability. IT governance also plays a role in firms’ IT capability. The research model is shown as Figure 1.
Dependent variables (Firm performance measurements)

We measure the firm performance in this study from both accounting performance and market value perspectives. Two measures of firm performance makes this paper more comprehensive compared to other studies such as Lim et al. 2012. We believe that IT capability and IT governance are not only linked to actual sustainable future earnings, they may also be associated with market expectations of future earnings. This is an improvement from previous studies which take one measurement into consideration. We use two measures of firm performance: Average return on assets (AROA) and Tobin’s q. Return on assets (ROA) identifies a companies’ ability to generate profits from its assets, and has been widely used in previous studies (Hitt and Brynjolfsson 1996; Tam 1998; Barua et al. 1995; Rai et al. 1997; Floyd and Wooldridge 1990; Bharadwaj 2000; Dehning and Stratopoulos 2002). However, ROA measure only focuses on the current year profitability. To capture the long-term and sustainable profitability, we use the average of ROA over three years as the measure of sustainable accounting performance. The consideration of multiple years into the future allows for a possible time lag between investments in IT or IT capability and realization of potential value (Muhanna and Stoei 2010). It is an improved measurement of firms’ sustainable accounting performance. Average ROA over three years (AROA) is calculated as \( \frac{ROA_t + ROA_{t+1} + ROA_{t+2}}{3} \).

In addition, we use Tobin’s q as market value of firm performance, which is a forward-looking, risk-adjusted, and less susceptible to changes in accounting practices. Tobin’s q has been widely used to represent the market expectations of future firm performance and can be more likely to capture and represent IT contribution to intangible value (Bharadwaj et al. 1999; Masli et al. 2011; Lim et al. 2012). Consistent with previous literature (Chung and Pruitt 1994; Masli et al. 2011; Lim et al. 2012; Bharadwaj et al. 1999), Tobin’s q is a ratio of market value to book value of total assets, and is calculated as:

\[
\text{Tobin’s q} = \frac{\text{MVE} + \text{PS} + \text{DEBT}}{\text{TA}},
\]

where MVE = market value of equity = (closing price of share at the end of the fiscal year)*(number of common shares outstanding);

PS = liquidating value of the firm’s outstanding preferred stock;

DEBT = (current liabilities – current assets) + (book value of inventories) + (long term debt), and TA = book value of total assets.

Therefore, both AROA and Tobin’s q serve as the dependent variables in this study.

Independent variables (IT capability measurements)

IT capability superiority: we use the top ranking of the annual IW500 as a proxy for firms that have superior IT capability. We code a firm as 1 if it appears in the top ranking as “IT leaders” in IW500; otherwise we code it as 0.

Independent variables (IT governance score)

IT governance: we construct the IT governance matrix, which is developed upon the corporate governance literature (Brown and Caylor 2006) since IT governance is one aspect of corporate governance. According to the literature, G-index and E-index seem to be two of the most widely used corporate governance measures. G-index is constructed by the data collected by IRRC. Basically they are the composite measures of 24 corporate governance provisions that each company has. E-index is constructed by 6 measures out of 24 measures. However, corporate governance elements collected by IRRC is one dimension of corporate governance, which is about shareholder's right and conflict between managers and shareholders. Both G-index and E-index focus on external governance (Brown and Caylor 2006). In addition to external governance, we try to capture internal governance related to managers/board of directors’ IT-related characters. Therefore, we follow the Gov-Score constructed by Brown and Caylor 2006, and construct ITGOV-score representing both internal and external IT governance. Gov-Score is more relevant to what we intend to achieve in this paper. Gov-Score is created as a summary governance measure based on 51 firm-specific provisions representing both internal and
external governance. Similarly, we construct ITGOV-score based on both internal and external IT governance factors including oversight, leadership IT background, and IT leadership importance. This construct is also related to the definition of IT governance. IT background and importance are factors since they are driving force for effective and efficient IT governance to help to ensure the fusion of business and IT. The reason we include oversight factors in our measurement is because the board effectiveness in its monitoring function is determined by its independence, size, and composition (insider and outsider) (John and Senbet 1998), and the oversight function is to control the formulation and implementation of IT strategy.

**Control variables**

Based upon a review of prior studies on IT investment and firm performance, we control for firm size, earnings and possible halo effect of prior performance which may have impact on firms’ IT capability superiority. We include one-year sales growth rate (SG) in our model to control for future earnings growth. Market-to-book value ratio (MB) is included to control for future growth potential. In addition, we control for advertising (ADV), research and development (R&D), and capital (CAP) expenditures that are potentially value-relevant intangible assets not included on the balance sheet, and might be associated with firm performance. The definition and description of the variables in our model are summarized in Table 1.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Observable measures</th>
<th>Definition and description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobin’s q</td>
<td></td>
<td>A ratio of market value [(fiscal year-end market value of equity) + (liquidating value of the firms’ outstanding preferred stock) + (current liabilities)-(current assets) + (book value of inventories) + (long-term debt)] to book value of total assets.</td>
</tr>
<tr>
<td>AROA</td>
<td></td>
<td>Average return on assets over three years.</td>
</tr>
<tr>
<td>IT Capability</td>
<td></td>
<td>1 if the firm is ranked as “IT leader” in the IW500; 0 otherwise.</td>
</tr>
<tr>
<td>superiority</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ITGOV</td>
<td>Big4</td>
<td>1 if auditor is a big four, 0 otherwise.</td>
</tr>
<tr>
<td></td>
<td>INDBRD</td>
<td>Percentage of independent directors on the board.</td>
</tr>
<tr>
<td></td>
<td>CEFOIT</td>
<td>1 if the CEO or CFO has IT-related experience; 0 otherwise.</td>
</tr>
<tr>
<td></td>
<td>MGMTIT</td>
<td>Percentage of top management with IT-related experience.</td>
</tr>
<tr>
<td></td>
<td>BRDIT</td>
<td>Percentage of Board of directors with IT-related experience.</td>
</tr>
<tr>
<td></td>
<td>COMMIT</td>
<td>Percentage of audit committee members with IT-related experience.</td>
</tr>
<tr>
<td></td>
<td>CITO</td>
<td>1 if company has CIO or CTO position; 0 otherwise.</td>
</tr>
<tr>
<td></td>
<td>CITOYR</td>
<td>Number of years (s)he has been the position in the company.</td>
</tr>
<tr>
<td></td>
<td>InCIOCOMP</td>
<td>The natural log of the CIO salary and bonus in the year of disclosing ITMWs and/or the preceding year.</td>
</tr>
<tr>
<td></td>
<td>CIOTMTCOMP</td>
<td>The ratio of the CIO salary and bonus to the average salary and bonus of the non-IT executive.</td>
</tr>
<tr>
<td></td>
<td>ITSTRCOMT</td>
<td>1 if company has IT strategic committee; 0 otherwise.</td>
</tr>
<tr>
<td>Control</td>
<td>SIZE</td>
<td>Firm size: the natural logarithm of the total assets of the firm.</td>
</tr>
<tr>
<td>variables</td>
<td>AGE</td>
<td>Firm age: the log of the number of years the firm has CRSP.</td>
</tr>
</tbody>
</table>
Proposed Research Methodology

Data sources and collection

Following the prior studies (Bharadwaj 2000; Santhanam and Hartono 2003; Muhanna and Stoel 2010, Lim et al. 2012), *InformationWeek* 500 (IW500) annual ranking index will be used in this study to identify firms with superior IT capability. *IW500* is a ranking system for IT investment and innovation, published annually by Information Week. *IW500* ranks firms by the quantity of a firm’s technology or service investments as well as the quality of the firm’s innovative use of IT resources (InformationWeek 500 1995, Wang and Alam 2007). The companies listed on the *IW500* are public firms with revenue greater than $250 million. In this study, due to the availability and feasibility of data collection, we use a more recent data set from the period 2009-2010 to test our hypotheses regarding the value relevance and sustainable accounting performance of IT capability and IT governance. We follow Santhanam and Hartono (2003)’s study, and use top ranking firms that rated annually as leaders since we argue that firms rated in the top rankings may have more innovative investment in IT resources, and stronger ability to integrate their IT resources with other resources to realize business strategies. We generated a total of 248 firms with superior IT capability. We select 248 control firms from Compustat data by matching the firm size and industry, and it results in 496 firms as our total sample.

We collect financial data from annual Compustat database, such as firms’ total assets, earnings, and book value of equity, etc. We retrieve firm stock data from CRSP database and obtain IT governance data from the combination of proxy statement, firms’ website, and Mergent Online database.

Two-stage econometrics methods

A two-stage econometric method will be used to test the chain hypothesis that IT governance will affect firms’ IT capability superiority, and in turn drives firm performance. Since IT capability firms are ranked by the quantity of a firm’s technology or service investments as well as the quality of the firm’s innovative use of IT resources based on surveys, there are some unobserved variables (omitted variables), for example, firms’ strategies and standards, which are likely to be correlated with our explanatory variable of IT capability. Therefore, IT capability can be an endogenous explanatory variable. To control for endogeneity, two-stage estimation will be used in our study.
Expected contributions and implications

IT investment has become increasingly important in strategic decisions making for organizations, and IT business value remains one of the most interesting questions for researchers and practitioners. Prior studies have argued that IT capability, a firm’s ability to effectively integrate IT resources together with other organization resources, can create unique competitive advantages and intangible assets for an organization (Bharadwaj 2000; Santhanam and Hartono 2003; Muhanna and Stoel 2010). In this study we propose coupling IT governance with IT capability to evaluate their impacts on firm performance using both market-based firm valuation framework and sustainable accounting performance measurement.

This study is expected to make several contributions to the growing literature on the business value of IT capability. First, this study documents that IT capability adds to a firm’s forward-looking measure of firm performance and sustainable accounting performance beyond prior accounting performance. Second, this study also fills a void in prior literature by examining how IT governance affects IT capability. Third, this study extend the prior studies by simultaneously investigate the impacts of both IT governance and IT capability on firms’ competitive advantages. Finally, in this study we demonstrate a new way to construct a comprehensive measure of IT governance using secondary data.

This study should also be of interest to professionals that guide boards and executive management and leadership teams in making IT investment decisions and using IT to create business value.

References


InformationWeek 500. 1995. Results are Deeper than Money, Available at: www.informationweek.com/iw500.


