Chapter XI
Unexplored Linkages between Corporate Governance and IT Governance:
An Evaluation and Call to Research

Michael A. Borth
The University of Tennessee, USA

Randy V. Bradley
The University of Tennessee, USA

ABSTRACT

This chapter discusses the overall importance of both corporate and IT governance, and demonstrates that IT governance is a very important subcomponent of corporate governance. The authors present a framework, based upon a framework previously presented by Weill and Ross (2004), which should facilitate a strong understanding of the different factors and mechanisms that impact firm governance. A number of interesting empirical results relating to these governance mechanisms are presented within the context of the framework. Finally, the chapter presents a number of examples that link corporate and IT governance. In presenting those linkages, the authors identify a number of areas that should provide fruitful avenues for researchers to explore IT governance as it relates to corporate governance, and vice versa.

INTRODUCTION

The attention given to the topic of corporate governance has increased substantially following a number of high-profile corporate accounting scandals which were uncovered between 2001 and 2002 at companies such as Enron, WorldCom, and Tyco. The discovery of significant management malfeasance at multiple large U.S. corporations shook the confidence of investors in U.S. markets:

the S&P 500 fell 16% in the first six months of 2002 while the tech-heavy NASDAQ fell 36% (Weill & Ross, 2004). There has been a good deal of academic research directed at identifying the effectiveness of corporate governance initiatives, much of which focuses on how corporate boards of directors (BODs) and audit committees carry out their duties to provide effective oversight of, and direction and control to, the organization. Corporate governance research in the accounting and finance literatures focuses on the governance mechanisms which can be instituted to ensure shareholder interest in financial assets.

Information technology (IT) has become an essential element for corporations as they carry out their day-to-day operations, a fact which is supported by corporate spending. IT expenditures exceed 50% of the total capital spending of many organizations (Weill & Ross, 2004). The development and application of good principles to govern the IT function and assets is therefore critical. Unfortunately, there is a surprising dearth of research focused on IT governance in the academic information systems (IS), accounting, or finance literatures. Much of the existing IS literature devoted to IT governance is focused on the rights and responsibilities for decisions related to IT activities (Sambamurthy & Zmud, 1999). A large gap therefore exists between the IT governance literature and corporate governance literature, which is primarily focused at the level of board oversight rather than at the operational level.

The objectives of this chapter are (1) to provide a framework which sheds light on the various factors and mechanisms which affect corporate governance and IT governance, (2) to discuss interesting empirical results relating to these governance mechanisms, and (3) to identify linkages between corporate and IT governance which we believe future academic research should explore further. The first section further reviews some of the governance collapses and accounting scandals which led to increased interest in corporate governance. In the second section, the authors provide a review of the current treatment of topics related to corporate governance and IT governance within the accounting, finance, and IT literatures. Weill and Ross (2004) recognize the similarities between the application of good governance principles to financial assets and to IT assets, and present a framework to link corporate and IT governance. An expanded version of Weill and Ross's (2004) framework which considers additional external influences is provided. In the final section, the authors explore linkages between corporate governance and IT governance, and provides directions and recommendations for future research in the area of IT governance.

BACKGROUND ON THE INCREASING INTEREST IN GOVERNANCE

Researchers in accounting and finance have addressed topics related to the governance of corporations with increasing frequency for over 30 years, but the topic achieved a much broader following in the mainstream media as a wave of accounting scandals were uncovered in 2001 and 2002. The discovery of significant management malfeasance at multiple large U.S. corporations shook the confidence of investors in U.S. markets: the S&P 500 fell 16% in the first six months of 2002 while the tech-heavy NASDAQ fell 36% (Weill & Ross, 2004). The collapse of energy giant Enron in the fall of 2001 is perhaps the most infamous case of financial malfeasance in U.S. history, and the indictment of Enron's auditor, Andersen, led to the uncovering of a number of other high-profile fraud cases, when accounting problems were revealed at several former Andersen clients under the scrutiny of the companies' new auditors. The unprecedented number of high profile accounting scandals shook investor confidence and brought strong pressure to bear on the U.S. government. The government responded in July 2002 with the passage of the Sarbanes-Oxley Act of 2002

Related Content

Analysing the Impact of Enterprise Governance of IT Practices on Business Performance

Steven De Haesand Wim Van Grembergen (2012). *Business Strategy and Applications in Enterprise IT Governance (pp. 14-36).*

www.irma-international.org/chapter/analysing-impact-enterprise-governance-practices/68042

A Business Case Process for IT-Enabled Investments: Its Perceived Effectiveness from a Practitioner Perspective

Kim Maes, Steven De Haesand Wim Van Grembergen (2017). *Strategic IT Governance and Alignment in Business Settings (pp. 1-23).*

www.irma-international.org/chapter/a-business-case-process-for-it-enabled-investments/166887

Analysing the Impact of Enterprise Governance of IT Practices on Business Performance

Steven De Haesand Wim Van Grembergen (2010). *International Journal of IT/Business Alignment and Governance (pp. 14-38).*

www.irma-international.org/article/analysing-impact-enterprise-governance-practices/40956

Business/IT Alignment in Two Sided Markets: A Study of COBIT 5 for Internet Based Business Models

Yannick Bartens, Frederik Schulteand Stefan Voß (2014). *International Journal of IT/Business Alignment and Governance (pp. 27-43).*

www.irma-international.org/article/businessit-alignment-in-two-sided-markets/120024

Profit and Profitability and a Look Through the Lens of Smart Cities

Hamilcar Vaz do Vale (2020). *International Journal of Entrepreneurship and Governance in Cognitive Cities (pp. 1-30).*

www.irma-international.org/article/profit-and-profitability-and-a-look-through-the-lens-of-smart-cities/261761