The impact of managing IT on business-IT alignment and firm performance: an empirical study

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Abstract

Purpose – *Though prior studies have attempted to explore the various effects of managing information technology (IT) investment on firm performance, the mechanism through which management of IT impact on firm performance rests less clear. The purpose of this study is to examine the impact of managing IT and business-IT alignment on firm performance.*

Design/methodology/approach – *Drawing on the resource-based theory and process theory, this study examines how managing IT impacts business-IT alignment and firm performance. The primary survey of 182 responses from IT and business managers from Sri Lanka was empirically examined.*

Findings – *The findings reveal that managing IT has a positive and strong impact on business-IT alignment and firm performance. Further, business-IT alignment partially mediates between managing IT investment and firm performance relationships.*

Research limitations/implications – *Today, businesses have invested a massive amount of money in IT investment, and the return on this investment is always a serious concern for managers and industry practitioners. This study finding proposes meaningful insights on managing IT, business-IT alignment and firm performance.*

Originality/value – *This study opens up the black box on the above nomological linkage and contributes to the literature by extending the theoretical lenses while suggesting insightful and practical implications.*

Keywords *Alignment, Firm performance, Managing IT investment, Val-IT*

Paper type *Research paper*

1. Introduction

Despite the prior research that examined the multifaceted effects of managing information technology (IT) investment on firm performance (Prasad *et al.*, 2010; C.L. Wilkin *et al.*, 2016), the mechanism through which managing IT brings firm performance is yet unclear. Though the business firms have invested a significant amount of money in IT investment, for managers and executives the payoff from IT investment is often a major concern (Kim *et al.*, 2009; Mithas and Rust, 2016; Peng *et al.*, 2016; C.L. Wilkin *et al.*, 2016; Xu *et al.*, 2016). Regardless of the growing amount of IT investment, managing IT and making IT investment decisions have become increasingly difficult due to ambiguous cost relationships, unpredictable payoffs, rapid technological changes and ever-changing market conditions (Bowen *et al.*, 2007; Prasad *et al.*, 2010; Son *et al.*, 2014). IT can have a positive effect, no effect or even a negative effect on performance, in relation to how well IT is managed and governed (Turel *et al.*, 2017).

Managing IT entails the activities such as planning, organizing, controlling and directing an organization's use of IT (Y. Wang *et al.*, 2015). Managing IT has received significant concern among information system (IS) scholars and executives (Ilmudeen and Yukun,

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