

Impact of IS/IT Investments on Firm Performance: Does Stakeholder Orientation Matter?

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Abstract: This research project addresses a central question in the IS business value field: Does IS/IT investments impact positively on firm financial performance? IS/IT investments are seen as having an enormous potential impact on the competitive position of the firm, on its performance, and demand an active and motivated participation of several stakeholder groups. Actual research conducted in the Information Systems field, relating IS/IT investments with firm performance use transactions costs economics and resource-based view of the firm to try to explain and understand that relationship. However, it lacks to stress the importance of stakeholder management, as a moderator variable in that relationship. Stakeholder theory sees the firm as the hub centric to the spokes representing various stakeholders who were in essence equidistant to the firm, and survival and continuing profitability of the corporation depend upon its ability to fulfil its economic and social purpose, which is to create and distribute wealth or value sufficient to ensure that each primary stakeholder group continues as part of the corporation's stakeholder system. Stakeholder theory in its instrumental version, argues that if a firm pays attention to the stakes of all stakeholder groups (and not just shareholders), it will obtain higher levels of financial performance. With this premise in mind, the aim of this paper is to discuss and test the use of stakeholder theory in the IS business value stream of research, in order to achieve a better understanding of the impact of IS/IT investments on firm performance (moderated by stakeholder management). To achieve the expected impact from an IS/IT investment, it is argued that firms need a strong commitment from those stakeholder groups, which lead us to the need of a corporate "stakeholder orientation". When firm financial performance is measured by returns on assets (ROA), returns on investments (ROI) and returns on sales (ROS), the results show that "stakeholder orientation" impact positively in the relation between IS/IT and firm performance, using a sample of Portuguese large companies.

Keywords: IS/IT investments, impacts, financial performance, stakeholder orientation, return on investments, IS business value

1. Introduction

The introduction of IS/IT in organizations is likely to have a significant impact within the organization. IS/IT can be used in restructuring organizational activity, in strengthening the competitive position of the firm (Ward & Peppard, 2002), and to transform entire business processes (Al-Mudimigh et al 2001; Brynjolfsson & Hitt, 1998).

In the 1980s IS/IT was herald as a key to competitive advantage (McFarlan, 1984; Porter & Millar, 1985). Porter and Millar (1985) concluded that IS/IT has affected competition in three ways: it has led to changes in industry structure and competition, it was used to support the creation of new business, and companies using IT outperformed their competition. Earl (1989) suggests that IS/IT has the potential to be a strategic weapon.

Despite increasing expenditure on IS/IT (Ballantine & Stray, 1999; Ryan & Gates 2004, Willcocks & Lester 1999) and the belief that IT has a significant impact on organizational performance (Osey-Bryson & Ko, 2004), the effect of such investments on firm productivity has been unclear (Dasgupta et al., 1999; Farbey et al. 1999) and has given rise to a 'productivity paradox' (Love & Irani, 2004). Many organizations find themselves in a "Catch 22" (See Joseph Heller's 1961 novel) for competitive reasons they cannot afford not to invest in IS/IT, but economically they cannot find sufficient justification for it (Willcocks 1992).

During the past four decades a great deal of attention has focused on the impact of IT investment. However studies have frequently generated controversial or inconsistent results (Kivijärvi & Saarinen, 1995).

After revising the literature in the IS business value field, where the weak use of theory is pointed as a major gap in the field, namely in the first years in which the phenomena as been studied, Transaction Cost Theory (TCT) and Resource Based Theory (RBT) are presented and their use in the IS business field is reported.

However those theories say nothing on the relation with several stakeholder groups who interact daily with the firm, and from which the success of the IS/IT depends. Stakeholder theory is introduced in the next part as