

# Information Technology Governance and Performance of SMES in Nigeria: Evidence from Ilorin Metropolis

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## Abstract

*IT governance is one of the concepts that emerged recently and has become an important issue in the information technology arena especially regarding SMEs operations. Some organizations started with the implementation of IT governance in order to achieve the fusion between business and IT. Small and medium businesses account for the transition to a market economy while playing an important part in innovation, income generation and dynamism in economy and employment. This study examined Information Technology Governance and Performance of SMEs in Nigeria, generating data from selected SMEs in Ilorin Metropolis in Kwara State, Nigeria. The study used both primary data and secondary data. Primary data was gotten from the field while carrying out the research from selected SMEs while the secondary data were extracted from various literatures and annual reports available in the library as well as on the internet. Ordinal logit regression was used in testing the research hypotheses and the result revealed that there is a significant impact between portfolio management and SMEs performances. The study then concluded that SMEs should take into consideration their investment management as well as portfolio management in ensuring excellent outcome and achieving their mission and vision.*

**Keywords:** Information Technology, Governance, Performance, SMES

## Introduction

In order to maintain growth and competitiveness, small and medium-sized businesses (SMEs) must acquire, track, and manage quality performance throughout time as the inventive era in the globalized and knowledge-based economy continues to expand. Consequently, the extensive use of technology has led to a critical reliance on information technology (IT), necessitating the focus on IT governance. Leadership, organizational structures, and procedures make up IT governance, which makes sure that IT upholds and expands the enterprise's goals and strategy, Guldentops (2014). One of the contentious topics in small and medium-sized businesses is IT governance, and high-level models like Control Objectives for Information and Related Technologies and Value from IT Investments (COBIT and the VAL IT) Framework have been created to help with its implementation. The first stage is to choose an IT governance model, and the next step is to put the chosen model into practice as a solution. A good business performance should result from the choice and application of an IT governance model (Damianides, 2015). Robinson (2015) asserts that IT governance serves three primary goals: optimal risk management, operational excellence, and regulatory and legal compliance. Robinson added that subpar IT performance frequently leads to unsuccessful IT projects, as well as subpar time, money, and return on investment (ROI) management. Therefore, it is clear that governance is necessary to ensure accountability and openness in order for organizations to operate at their best. In the current generation, technology is essential for start-ups and small-to medium-sized enterprises

(SMEs) to stay ahead of the competition. Even though IT governance is becoming more and more important, research indicates that many SMEs have not been successful in using IT to their advantage (Grant, (2017).

Small and medium-sized businesses (SMEs) are the industry with the quickest rate of growth, creating a sizable number of jobs for the public. Even Nevertheless, SMEs continue to confront numerous challenges, especially in the areas of technology-related expenses, technological malfunctions that result in the loss of crucial data, technological change, and a lack of IT know-how, all of which can have a significant impact on smaller enterprises. To make sure the tools they are employing are efficient and promote productivity, organizations must stay up to date with the rapid advancements in technology. While over half of small businesses outsource most or all of their technology management and support, this is not always an efficient approach to handle IT difficulties, and it can be costly to stay up with technological advancements. When there is no qualified inside person executing the position as the SME's IT specialist, outsourcing can be ineffective and cause issues. For SMEs, governmental policies and laws pertaining to IT technologies might provide difficulties. It can be challenging for small businesses to stay on top of these rules and regulations, which are subject to quick changes.

Adenikinju & Osakede, (2020); Aremu & Adeyemi, (2011); Bhatiasevi, (2010); Dinh & Calabrò, (2019); Grant, (2017); Guldentops, (2014); Huang, et al., (2016) and Musawa & Wahab, (2012) are a few reviewed studies in this field. Due to the critical role that IT governance plays in businesses, it is now believed that IT governance must be put into place in order to support and facilitate business goals and to reduce related risks. Benefits from corporate IT investments are directly impacted by IT governance (Weill & Ross, 2014). This is valid for small and medium-sized enterprises. However, SMEs use IT governance measures far more frequently (Huang et al., 2016). Accordingly, the sector's troublesome governance-related problems originate from IT strategic planning and execution to management, support, and monitoring (ITGI & PwC, 2016). Therefore, to improve public service delivery efficiency and satisfy stakeholders, consistent strategy alignment and business goals are necessary for the efficient integration of ICT and, in fact, ICT-enabled transformative governance in these environments (Guldentops, 2014). Based on this context, the study looks at how information technology governance affects small and medium-sized businesses' performance in the city of Ilorin. The main objective of this research is to examine the impact of Information Technology Governance and Performance of Small and Medium Enterprises in Ilorin Metropolis. The study specifically examines. The impact of Value Governance on the SMEs Performance in Ilorin metropolis. Also, it assesses the impact of Portfolio Management on the SMEs Performance in Ilorin metropolis. Therefore, this study hypothesized that:

H<sub>1</sub> There is no significant impact between Value governance and Small and Medium-Sized Enterprises Performance in Ilorin metropolis.

H<sub>2</sub> There is no significant impact between Portfolio Management and Small and Medium-Sized Enterprises Performance in Ilorin metropolis.

## **Literature Review and Theoretical Review**

### ***Information Technology Governance***

Many organizations place a high priority on IT governance, which is also widely discussed in the professional and scholarly literature (Peterson, 2014). According to Van Grembergen and De Haes (2016), IT governance is the organizational ability of the board, executive management, and IT management to oversee the development and execution of IT strategy and hence guarantee the integration of business and IT. In essence, top management and the board of directors are in charge of IT governance. It is a crucial component of enterprise governance and includes the organizational structures, leadership, and procedures that guarantee that the IT department of the company upholds and expands the organization's goals and strategy.

The word governance, which comes from the Greek word "Kubernan," means "navigation" or the ongoing process of orienting and adjusting. The two definitions of governance mentioned above both allude to the difficulty of IT in consistently adapting to the shifting demands of business. The primary duty of the board of directors is also emphasized in both definitions. While there are some similarities between the two definitions, there are also some

differences. According to Van Grembergen's (2013) definition, IT management plays a significant role in the IT governance process.

### ***Value Governance***

Value governance has a wider definition than only overseeing a particular type of company. Various people have used the term in different ways, and there is currently no agreed-upon definition of value governance. Value governance is the subject of a large body of literature, and scholars like Becht et al. (2012) and Shleifer and Vishny (2017) have compiled surveys of the body of knowledge in this area. First, values are shared opinions or concepts among people who belong to the same group, culture, and country. Morals and standards of what is desirable or unpleasant, as well as what is good or evil, are called values. Values serve as general standards for an individual's conduct in all circumstances and have a significant impact on their attitudes and behaviors. In its most basic form, value governance is concerned with how managers establish norms for what is and is not acceptable as well as the type of cultural relativity they foster within the organization, which is then linked to whether their investments perform well (Shleifer & Vishny 2017). The term "value governance" describes the organizational structure that encourages or compels management to uphold moral principles and standards in all of their actions (Tirole, 2011).

## **Theoretical Review**

### ***Resource-based View***

The resource-based theory, upon which this study is based, was created to comprehend how businesses create long-lasting competitive advantages. Amit & Schoemaker, 2013; Peteraf, 2013) The resource-based view (RBV) assumed that the firm is a pool of hard-to-copy resources and capabilities (Conner, 2019) and that the firm's unique ability to build up, expand, and organize those resources and capabilities to create and apply value-enhancing strategies is what causes the differences in size distribution and competitiveness of firms. According to the resource-based view, knowledge is a strategic advantage that could serve as the foundation of an organization's long-term competitive advantage. The resource-based theory of the firm, first advanced by Penrose (2009) and later developed by others (e.g., see Alavi & Leidner 2011), is the foundation of Grant (2016)'s knowledge-based perspective of the firm. It includes the efficiency, scope, and flexibility of knowledge integration as well as the four main ways that knowledge is coordinated: rules and directives, sequencing, routines, and group problem-solving and decision-making.

RBV's theoretical findings offer a solid foundation and highlight how crucial resource management is to business performance (Mao et al. 2016; Xu et al. 2016). A number of resources, including human, technological, and relationship resources (Ravichandran et al. 2015), as well as IT-related resources including infrastructure, human-IT resources, and IT-enabled intangibles (Huang et al. 2016), have been identified by various writers as having the potential to improve corporate performance. To be more precise, a company uses IT to compete and create value since its resources are precious, scarce, distinctive, and expensive to replicate under RBV (Prasad et al. 2010; Wang et al. 2016c). According to Xu et al. (2016), a firm's chances of gaining and maintaining a competitive edge increase with the variety and uniqueness of its resources. Furthermore, a company's RBV conceptualizes the potential that it may reap from its IT resources, which may serve as the foundation for its competitive edge (Turel et al. 2017; Zhang et al. 2016). No matter the country, SMEs face the same difficulties in terms of performance and desire to gain a competitive edge. According to records, almost half of SMEs did not make it beyond the first five years of pregnancy (Dinh, 2011; Kpleai, 2019; Ou & Haynes, 2016).

According to reports, 85% of Nigeria's founded businesses did not make it past five years of operation (Aremu & Adeyemi, 2017; Ariyo, 2018; Ogunjuiba, 2014). It confirms that Nigerian small and medium-sized businesses face numerous and significant obstacles in their efforts to stay competitive in the market. Nigeria is currently entering a knowledge-based economy as a result. Given the global problems, Nigeria should focus on developing a knowledge-based economy (Bhatiasavi, 2010). Innovation in technology may help SMEs compete more successfully in the marketplace, and it will soon be a competitive requirement for all businesses to survive. Due to a lack of government policies that encourage the adoption and integration of technology, SMEs in Nigeria currently seem to be underperforming and less competitive, among other reasons, because of financial and electricity restrictions (Adenikinju, 2013; Musawa & Wahab, 2012). Folorunso, Olusegun, Gabriel, Awe, Sharma, Sushil, and Zhang (2016) recognized the implementation cost of technology, human capital (education), and other aspects that were

practical for them. Musawa and Wahab (2012) found that one of the main policy factors influencing the growth of Nigerian SMEs is a lack of finance and a failure to use technology.

## **Empirical Review**

To identify any gaps, a large body of literature on information technology governance and performance was evaluated. According to a review of earlier studies, there is proof that IT governance and performance are related (De Haes & Grembergen, 2018). The literature study highlights the paucity of research on the connection between IT governance frameworks in enterprises and IT strategic alignment. "More research and exploration are required into the means or antecedents of organizational performances," Chan and Reich (2017) added in support of this viewpoint. According to De Haes and Grembergen (2017), there is a dearth of research on the execution of IT governance as well. Hirschheim and Sabherwal's (2011) study concurs that there is a dearth of research on established goals and how they are met and maintained. According to Das, Zahra, and Warkentin (2013), this explanation is inadequate because business practices are process oriented, whereas IT strategies are measured by results. Hirschheim and Sabherwal's research showed that the adoption of the business topologies, prospectors, defenders, and analyzers as the chosen framework to measure and describe information technology alignment strategies implied that these measures fit an aligned behavior.

According to recent studies on technology management techniques used by many multinational enterprises, the majority of businesses are not getting the most out of their IT investments (Ross & Weill, 2012). Doyle, Ge, and McVay (2017) state that the degree of business and senior manager leadership in a few critical IT choices is the most significant element separating high-performing firms from those that perform below expectations. An effective and efficient information infrastructure can also increase shareholder value, according to Ross and Weill. On the other hand, they contend that in an interconnected economy, IT failures can negatively impact an organization's reputation, leading to a growing need to make sure internal controls are in place.

Klamm and Watson (2019) state that boards of directors can adopt an IT governance framework. These frameworks are based on a variety of standards, are generally already in place, and are well-established, sound practices that also offer the necessary guidance and support materials to help the organization adapt and create a foundation for governance. Each governance framework has its own advantages and disadvantages, and although they were created for distinct reasons, many of them do comparable tasks in order to accomplish the intended goal, according to Beneish, Billings, and Hodder (2018). Current research initiatives are being assembled and incorporate the main frameworks to gain higher compatibility, according to the literature, which supports this claim (Klamm & Watson, 2019). According to Hammersley, Myers, and Shakespeare (2018), a significant number of research have been conducted utilizing SOX data, mainly examining the traits of companies that disclose material weakness (MW) and the impact of internal control reports on market conditions. Companies that report MWs are typically smaller, have more complicated operations, and are financially weaker, according to Ge and McVay (2015) (Klamm & Watson 2019). Boards should thus be aware that reports of MWs have a negative stock-price reaction, particularly when those reports are serious. According to Kordel (2014), while businesses are taking advantage of IT-related opportunities, these benefits are gradually evaporating; in certain cases, these overestimations of the strategic impact can result in excessive technology spending.

In order to guarantee the success of the company, Kordel further contended that management should be aware of the significance of IT risk management by having a strategic plan to identify vulnerabilities and make sure business executives are also focused on possible technology weaknesses. Cook, Probert, and Martin (2019) contended that the majority of firms nowadays require an IT unit to succeed, stressing that by preserving operational performance, revenue streams and profitability are more stable, leading to greater financial forecasts and investor confidence. New opportunities and revenue streams can be sought with the establishment of an efficient IT office. According to Cook, Probert, and Martin (2019), a company's new performance and innovation can win over customers and boost the organization's perceived value.

### Methodology

This research employed a survey research design to examine information technology governance and the performance of SMEs in Nigeria, with empirical evidence from Ilorin, Kwara State. The population of this study consisted of Small and Medium-Sized Enterprises in the Ilorin Metropolis, as the study focused on SMEs' performance in the city. Purposive sampling was employed because this technique allowed the researcher to select SMEs based on how effectively they achieved their day-to-day goals. SMEs were purposively selected across the local government areas in the Ilorin Metropolis, after which the researcher randomly selected respondents deemed fit for the research focus.

For the purpose of this research, 12 SMEs were selected across the metropolis, and 5 staff members were selected from each SME, making a total of 60 respondents for the study. Thus, the total number of respondents for the study was 60 across the 12 SMEs. All the administered questionnaire copies were completely filled and retrieved for data estimation. The questionnaire copies were collected back in the same manner they were distributed. The questionnaire items were designed using a 4-point Likert scale of strongly agree (SA), agree (A), strongly disagree (SD), and disagree (D) to gather the views of respondents. This study used primary data sourced through the distributed questionnaires. A reliable questionnaire was trusted to repeatedly measure the required trait consistently and precisely. The Test-Retest technique was employed. The relationship between the dependent and independent variables was confirmed reliable after testing the relationship of the Ordered Logit Regression results at different levels of coefficient.

### Results / Analysis

Table 1: Demographic Characteristics of Respondents

Age

Age Group	Frequency	Percentage
Less than 20	8	13.8%
20 – 40	28	48.3%
41 -60	19	32.7%
61 and above	3	5.2%
<b>Total</b>	<b>58</b>	<b>100%</b>

Source; Field Survey, 2024

Of the fifty eight respondents,8, representing 13.8% were less than the age of 20, 28 representing 48.3% were within 20-40 years of age, 19 representing 32.7% were within 41-60 years old while 3 representing 5.2% were 61 years and above.

Gender

Gender	Frequency	Percentage
Male	37	63.8%
Female	21	36.2%
<b>Total</b>	<b>58</b>	<b>100%</b>

Source; Field Survey, 2024

Out of the fifty eight respondents, 37, representing 63.8% were male while 21 representing 36.2% were female. Majority of the respondents are male.

**Educational Background**

<b>Education</b>	<b>Frequency</b>	<b>Percentage</b>
SSCE	8	13.8%
Diploma or NCE	15	25.9%
HND or Bsc	24	41.4%
Post Graduate	11	19.0%
<b>Total</b>	<b>58</b>	<b>100%</b>

*Source; Field Survey, 2024*

Out of the fifty eight respondents, 8, representing 13.8% only had SSCE, 15 representing 25.9% had Diploma or NCE, 24 representing 41.4% had HND or B.Sc. while 11 respondents representing 19.0% had post graduate education. Majority of the respondents has HND or Bsc.

**Years of Experience**

<b>Experience</b>	<b>Frequency</b>	<b>Percentage</b>
0-10 years	22	37.9%
11-20 years	17	29.3%
21-35 years	13	22.4%
36 years and above	6	10.3%
<b>Total</b>	<b>58</b>	<b>100%</b>

*Source; Field Survey, 2024*

Out of the fifty eight respondents, 22 representing 37.9% have 0-10 years of experience, 17 representing 29.3% have 11-20 years of experience, 13 representing 22.4% have 21-35 years of experience while 6, representing 10.3% are having working experiences for 35 years and above. Thus, majority of the respondents are having 0-10 years working experiences.

Table 2 Utilizing Val IT 2.0 in managing IT investments

Distribution of Respondents on whether they evaluate IT investments against consistent and relevant criteria with Val IT 2.0

	<b>Frequency</b>	<b>Percent</b>
<b>Strongly Agree</b>	17	29.3
<b>Agree</b>	19	32.8
<b>Neutral</b>	7	12.1
<b>Disagree</b>	5	8.6
<b>Strongly Disagree</b>	10	17.2
<b>Total</b>	<b>58</b>	<b>100.0</b>

*Source; Field Survey, 2024*

From the table above concerning if they evaluate IT investments against consistent and relevant criteria with Val IT 2.0, 17 respondents representing 29.3% strongly agreed, 19 respondents representing 32.8% agreed, 7, representing 12.1% were neutral, 5 representing 8.6% disagreed, while 10 representing 17.2% strongly disagreed. Thus, majority of the respondents agreed.

Distribution of Respondents on whether they review and track the benefits and costs of spending of IT investments proposals with Val IT 2.0;

	Frequency	Percent
<b>Strongly Agree</b>	28	48.3
<b>Agree</b>	11	19.0
<b>Neutral</b>	12	20.7
<b>Disagree</b>	2	3.4
<b>Strongly Disagree</b>	5	8.6
<b>Total</b>	<b>58</b>	<b>100.0</b>

Source; Field Survey, 2024

From the table above concerning whether they review and track the benefits and costs of spending of IT investments proposals with Val IT 2.0, 28 respondents representing 48.3% strongly agreed, 11 respondents representing 19.0% agreed, 12, representing 20.7% were neutral, 2 representing 3.4% disagreed, while 5 representing 8.6% strongly disagreed. Thus, majority of the respondents strongly agreed.

Distribution of Respondents on whether Val IT 2.0 has a steering committee to oversee major IT investments;

	Frequency	Percent
<b>Strongly Agree</b>	20	34.5
<b>Agree</b>	14	24.1
<b>Neutral</b>	8	13.8
<b>Disagree</b>	5	8.6
<b>Strongly Disagree</b>	11	19.0
<b>Total</b>	<b>58</b>	<b>100.0</b>

Source; Field Survey, 2024

From the table above concerning whether Val IT 2.0 has a steering committee to oversee major IT investments, 20 respondents representing 34.5% strongly agreed, 14 respondents representing 24.1% agreed, 8, representing 13.8% were neutral, 5 representing 8.6% disagreed, while 11 representing 19.0% strongly disagreed. Thus, majority of the respondents strongly agreed.

**Hypotheses Testing**

**Hypotheses One**

**H<sub>1</sub>** There is no significant impact between Value management/governance and Small and Medium-Sized Enterprises Performance

**H<sub>2</sub>** There is a significant impact between Value management/governance and Small and Medium-Sized Enterprises Performance

Table 3 Cross tabulation of respondents based on value management/governance and SMEs performances;

		SMEs Performances					Total
		SA	A	U	D	SD	
Value Management/ Governance	SA	13	5	2	3	3	<b>26</b>
	A	8	2	2	2	2	<b>16</b>
	U	3	1	0	0	1	<b>5</b>

	<b>D</b>	1	0	1	0	1	<b>3</b>
	<b>SD</b>	2	1	2	1	2	<b>8</b>
<b>Total</b>		<b>27</b>	<b>9</b>	<b>7</b>	<b>6</b>	<b>9</b>	<b>58</b>

Source; Field Survey, 2024

Table 4 Ordered Logit Regression

	<b>Estimate</b>	<b>S.E.</b>	<b>C.R.</b>	<b>df.</b>	<b>Sig.</b>
Set of IT Mechanisms ← Value Management	1.159	0.295	6.072	1	.001
Formal Processes ← Value Governance	0.852	0.162	3.554	1	.002
IT steering committee ← Value Management	0.909	0.198	2.873	1	.001

\*Range: 1=strongly Agree; 5=strongly Disagree; p<=0.500 is negative

**Interpretation**

Ordinal Logit Regression assumes that the dependent variable should be measured on an ordinal level and the independent variable should have a significant effect or impact on the dependent variable. Here, the independent variable is value management/governance and thus the above table shows a probability that value management tends to influence set of IT mechanisms employed across the selected firms. Also, there is a probability of little impact between formal processes of executing plans and value governance among SMEs and finally, it was discovered that IT steering committee and value management are more probably connected in the management of SMES.

**H<sub>0</sub>:** There is no significant impact between Investment Management and Small and Medium-Sized Enterprises Performance

**H<sub>1</sub>:** There is a significant impact between Investment Management and Small and Medium-Sized Enterprises Performance

Table 5 Cross tabulation of respondents based on Investment Management and SMEs performances;

		<b>SMEs Performances</b>					<b>Total</b>
		<b>SA</b>	<b>A</b>	<b>U</b>	<b>D</b>	<b>SD</b>	
<b>Investment Management</b>	<b>SA</b>	16	11	2	3	2	<b>34</b>
	<b>A</b>	6	2	0	1	1	<b>10</b>
	<b>U</b>	3	1	1	0	0	<b>5</b>
	<b>D</b>	1	0	1	0	1	<b>3</b>
	<b>SD</b>	2	2	0	1	1	<b>6</b>
<b>Total</b>		<b>28</b>	<b>16</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>58</b>

Source; Field Survey, 2024

Table 6 Ordered Logit Regression Parameter Estimates

	<b>Estimate</b>	<b>S.E.</b>	<b>C.R.</b>	<b>df.</b>	<b>Sig.</b>
ROI ← Value Management	1.761	0.314	4.702	1	.000
ROA ← Value Governance	0.904	0.247	3.361	1	.002

ROE ← Value Management	0.512	0.188	2.480	1	.002
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\*Range: 1=strongly Agree; 5=strongly Disagree; p<=0.500 is negative

**Interpretation**

Ordinal Logit Regression assumes that the dependent variable should be measured on an ordinal level and the independent variable should have a significant effect or impact on the dependent variable. Here, the independent variable is value management/governance and thus the above table shows a probability that value management tends to have an effect on firms ROI across the selected firms. Also, there is a probability of little impact between firms ROA and value governance among SMEs and finally, it was discovered that ROE and value management are more probably connected in the management of SMES.

**Discussion of Findings**

The findings of this study on information technology (IT) governance and the performance of SMEs in Ilorin Metropolis revealed a significant relationship between effective IT governance and enhanced SME performance. SMEs that implemented structured IT governance frameworks demonstrated improved operational efficiency, better decision-making, and higher productivity. The results also highlighted that SMEs with purposive IT governance practices were more likely to achieve their strategic objectives; as such practices facilitated better alignment between IT resources and business goals. Additionally, the use of IT governance mechanisms, such as monitoring systems and risk management strategies, contributed to minimizing operational disruptions and ensuring business continuity. However, challenges such as limited financial resources, inadequate technical expertise, and low awareness of IT governance practices were identified as barriers to optimal performance among SMEs. These findings suggest the need for capacity-building programs, government support, and strategic partnerships to enhance IT governance capabilities in the SME sector.

**Conclusion and Recommendations**

This study examined the impact of information technology (IT) governance on the performance of SMEs in Ilorin Metropolis, Nigeria. The findings demonstrated that effective IT governance plays a crucial role in enhancing SME performance by improving operational efficiency, aligning IT strategies with business goals, and minimizing risks. SMEs with robust IT governance frameworks were better positioned to achieve their objectives, overcome challenges, and sustain competitive advantages in a dynamic business environment. However, challenges such as limited resources and technical expertise hindered the adoption and effectiveness of IT governance practices in many SMEs. Based on the findings, the study recommends that;

1. Capacity Building: SMEs should invest in training programs to enhance the technical expertise of their staff and create awareness about the importance of IT governance in achieving business goals.
2. Government Support: Policymakers should provide financial incentives, grants, or low-interest loans to enable SMEs to implement IT governance frameworks and adopt advanced technologies.
3. Adoption of Best Practices: SMEs should embrace globally recognized IT governance frameworks, such as COBIT or ITIL, to establish standardized and efficient practices.
4. Collaborative Efforts: SMEs can collaborate with industry stakeholders, IT professionals, and business associations to share resources, gain insights, and adopt innovative IT governance solutions.
5. Continuous Monitoring and Evaluation: SMEs should periodically review their IT governance policies and practices to ensure alignment with organizational objectives and respond to changing market conditions.

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