FIT3136 : IT Governance

L1: Strategic Contexts of Organisations - 7 Influential Theories

Neoclassical Theory of Firms

- Views a firms as an input/output processes
- Uses resources to create an end product and seeks maximum profit
- Each firm has a single objective to make profit, if profit is not made then the firm goes out of business

Based of the Perfect (Pure) Competition model

- All decisions are made without emotion (perfect people)
- All information is available to make any single decision, the information is free
- No rival company is dominating the market. All firms in the market are equal
- Customers are clear on how much is spent on the product
- Any company can enter the market with no legal restrictions
- Perfect mobility - firms have the same resources available to them (same expertise of managers, materials and other employees)

Criticisms

- Humans are not perfect - can't make decision without emotion
- Managers have different knowledge and expertise
- Business decisions mostly made from incomplete information
- Theory has no insight into the internal organisation of the firm - how decision are made and who has authority in the firm

Implications for IT

- IT systems should not be used to monitor the performance of competition (as there is no real competition) or employees (as they are perfect)
- It is needed for improving efficiency of production

Behavioural Theory of the Firm

- Organisations should be viewed as collections of individuals having multiple goals,
- Individuals operate in a defined structure of authority
- Firm is created for more reasons than profit
    - Reach a satisfactory level of profit
    - Reach other goals (like social goals)

Recognises

- Diversity of employees' motivations therefore, monitoring is needed
- Hierarchy of reporting structure is needed

Implications of IT

- IT systems are required to
    - Measure employee performance
    - Monitor market demand
    - Measure organisational performance