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Does Information Technology Investment Influence a Firm's Market Value? The Case of Non-Publicly Traded Healthcare Firms

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Abstract

Managers make informed information technology investment decisions when they are able to quantify how IT contributes to firm performance. While financial accounting measures inform IT's influence on retrospective firm performance, senior managers expect evidence of how IT influences *prospective* measures such as the firm's market value. We examine the efficacy of IT's influence on firm value combined with measures of financial performance for non-publicly traded (NPT) hospitals that lack conventional market-based measures. We gathered actual sale transactions for 419 NPT hospitals in the United States to derive the q ratio, a measure of market value. Our findings indicate that the influence of IT investment on the firm is more pronounced and statistically significant on firm value than exclusively on the accounting performance measures. Specifically, we find that the impact of IT investment is not significant on return on assets (ROA) and operating income for the same set of hospitals. This research note contributes to research and practice by demonstrating that the overall impact of IT is better understood when accounting measures are complemented with the firm's market value. Such market valuation is also critical in mergers and acquisitions decisions, an activity that is likely to accelerate in the healthcare industry. Our findings provide hospitals, as well as other NPT firms, with insights into the impact of IT investment and a pragmatic approach to demonstrating IT's contribution to firm value.

Keywords: IT payoff, firm valuation, non-publicly traded hospitals, NPT, health care, firm performance, market value