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# Strategic actions in information technology investment based on real option theory

Yong Jin Kim <sup>a, 1</sup> ... G.Lawrence Sanders <sup>b</sup>

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### Abstract

The rapid growth of information technology (IT) investments has imposed pressure on management to take into account risks and payoffs promised by the investment in their decision-making. Comprehensive but easily understandable methodologies are needed to solve the complicated evaluation problems resulting from the complexity of new technologies. This paper develops a framework of strategic actions based on real option theory. The paper identifies the basic components of IT values and strategic actions and provides the basis for valuing IT investment in terms of economic and real option value. It also provides IT managers with an easy-to-understand framework to assist in evaluating and justifying IT investments.



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## Keywords

Information technology (IT) investment; Strategic action; Real option theory; Interaction effect; Competitor reaction

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Yong Jin Kim is a PhD student of Management Science and Systems in the School of Management at the State University of New York at Buffalo. He previously worked for Samsung SDS as a consultant in the business and IT consulting division for several years. He participated in large IT projects such as BPR project for Samsung Life Insurance, online accounting systems development project for the Bank of Korea, and business recovery planning project for Korea Financial Telecommunication and Clearing Institute. He also worked for a large Korean company as an assistant manager in accounting division and corporate planning division. Mr. Kim has a bachelor's degree of business administration from Seoul National University and an MBA degree in Management Information Systems from Sogang Graduate School of Business. His research interests are in IS success, e-commerce, and information technology valuation, knowledge management and systems.

G. Lawrence Sanders, PhD is a Professor of Management Science and Systems in the School of Management at the State University of New York at Buffalo. He has taught MBA courses in the People's Republic of China and Singapore. His current research interests are in the ethics and economics of software piracy, systems success measurement, and systems development. He has published papers in outlets such as The Journal of Management Information Systems, MIS Quarterly, Information Systems Research, the Journal of Strategic Information Systems, the Journal of Management Systems, Decision Support Systems, Database Programming and Design, and Decision Sciences. He has also published a book on database design and co-edited two other books.

<sup>1</sup> Tel.: +1-716-645-3281; fax: +1-716-645-6117.

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