

Dynamic IS Governance: An Organisational Springboard

© Glenn McTaggart

October 5, 2006

Executive Summary

For an organisational governance structure to be truly successful, it must be rigid enough to withstand rigour but also poised and ready for change with the flux and transformation of market trends and changing perspectives. Traditional perception of governance tends to conjure up words like bureaucracy and red-tape to some, while others a ratified framework bringing benefit through standard practices and minimal repetition.

Organisation fluidity or 'dynamic capability' is defined by their continuing ability to quickly meet changing market forces that can impact on their goals and objectives. This ability to maintain continual evolution within the organisational model enables sustainability and allows focus in their core industry. However the degree and frequency of change must be decided and accepted by the business. This regularity of constantly modifying the business model depends highly on the industry where the business resides. These entities can be classified as tech-reliant (telecommunications, ICT, etc) or non-tech-reliant (government, service organisations, etc). The higher the reliance on Information Technology (IT), the more dynamic their Information Systems (IS) governance framework should be to continually meet fast-paced change head on.

IS governance upholds and operates in concert with corporate governance. High-level values categorise where flexibility lies and should prioritise the need for change by linking strategy to organisation design, investment and internal capability. This brings accountability to the CIO or ICT Executive in particular in maintain the IS framework under the corporate banner.

In defining the true benefit of dynamism, there will be a balance point between change for competitive advantage and change for the sake of change. Organisations must realise how dependant they are on technology to be able to achieve their annual goals and remain within their defined business scope.

Introduction

The term 'governance' has many connotations for different businesses. Essentially a governance architecture is integrated to centralise data and to assist in the delivering such things like corporate values and business system processes via standardising an approach. These values are normally constructed at corporate level then filtered throughout the company, giving rise to departmental governance systems whereby involving all business units to contribute to the organisations goal. These business units all form the building blocks of how the company does business with all offering differing advantage. The IS or IT department in particular can offer significant value through the use of technology, not only internal to the department but by stretching across the width of the organisation, benefits are achievable in all corners.

Like all forms of technology, the window or opportunity is brief as the digital era continues to strive ahead in leaps and bounds. Depending upon the market, new high-end technology can be outdated from days after it hits the stores to approximately six months at the most. In organisation, dynamic IS departments operate in like fashion. To constantly keep abreast of new technical innovation their staff must follow a dynamic evolution model to meet demand as it arises. A formal mechanism to achieve continuous growth comes in the form of a centralised departmental governance framework (McTaggart 2006).

This report investigates IS governance through the overarching corporate framework, as a potential source organisational dynamic capabilities. Factors such as contribution, foreseeable benefits, crucial role and accountability are brought into perspective to help bring longevity to the business through technology and innovation.

Role and Impact of IS/IT Governance

Typically many people espouse that another word for 'governance' is bureaucracy and it is hard to sway their opinion that proven governance structures can minimize work and streamline processes. To realise these benefits, the business must decide through consultation with ICT, what they will achieve by ensuring their processes and practices are dynamic, flexible and most importantly standardised across the business. It would be negligent for an organisation to implement an ICT governance system without defining at requirements.

A newly implemented governance system should not be a complete rewrite of all business activity, but document current high-level processes and practices. The further this is broken down, the less flexibility and adaptability to change becomes. Through the exercise of defining the business, better practice methodology and *economies of scope* can be realised. Sambamurthy and Zmud (1999) define economies of scope as the sharing of knowledge and resources across multiple products and services. This is one role of a clear IS governance framework – minimising repetition. Once complete, it documents a formal and standardised practice that has been built collaboratively by business and technical stakeholders. Impact on the business can be reduced overheads by the trimming of multiple processes equating to a sharp and ratified work method based on set organisational values in line with corporate intent.

IS governance also clearly defines the way the business will conduct its IT investment portfolio, by identifying methods of acquisition, infrastructure implementation, outsourcing and IT human resources. It is a vehicle in transporting the business through advancements in technology that have been identified together by IS professionals and corporate stakeholders.

Corporate governance and IS governance must work in harmony as the first can enable the latter. Aligning the business goals with ICT initiatives are realised through the unified governance systems of corporate and ICT together. In support of this, in a board briefing by

the IT Governance Institute (2003), it is stated that business is critically dependant on IT in managing transactions, information, knowledge, risk and return in understanding the issues and strategic importance of IT. All these facets of IT are weighted with activities that should be defined under a governance umbrella.

Dynamic Capability

A governance framework cannot be pulled 'out of the box' and implemented as the dynamics and intent of any two organisational structures are not the same. Great contrast exists between the fast-paced high-technology arena of Internet Protocol (IP) telephony. An example is where at a major Australian telecommunications entity, investment is high and spending approval for infrastructure and resources are swift with little justification. However speed and fluency of internal decisions on operations and general staffing are slow. Opposites exist in government departments where obtaining approval for any IS investment is marred by long delays and drawn-out processes. However efficiencies are noted in improving customer service offerings and internal operations.

Individual governance systems are built with the core competencies of the business in mind and the particular industry in which they reside. The IT Governance Global Survey 2006 supports this fact and adds that it is due to the differing strategic importance of IT. Various systems are sited in Appendix B. In this example, cutting-edge telecommunications technology is critical in offering customers a product providing *that* competitive edge so more is spent in the area. Government departments essentially deliver a service to the community which is only supported by IT, not dependant.

Flexibility in governance is critical in adapting to market pressures and in keeping on top of technological advancements. However it would be irresponsible for an organisation to implement a framework that remains in a constant state of change. This defeats the purpose of standardised practices and could undermine level of morale and adoption of the new standards. Like all change, it must be defined as essential and critical to occur in ensuring business sustainability.

Balance is crucial in defining a dynamic governance culture; between a framework that moves with the environment but also has sufficient time to crystallise and take hold (Lane 2004). Benefit in governance is medium to long term and with the constant modification of processes, this cannot be properly realised.

Unless initial company value statements undergo a complete revamp, core governance frameworks should remain unwavering and robust, providing of course their supporting systems are well designed and effectual. Flexibility and dynamic capability is in the evolution and refinement of work processes that surround and uphold those core values. An example is shown in Fig1. It is here where users must understand the interactions of the system, to frequently critique, revise and create innovation using the current technologies.

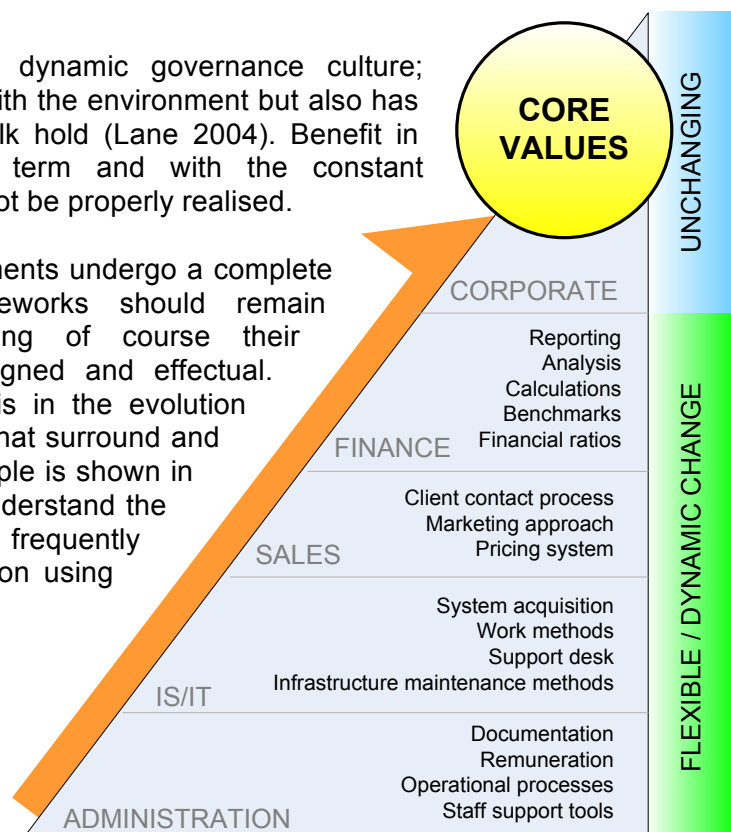


Fig 1: An example of what a typical dynamic organisational structure could look like

Financial Motivation

One of the key blockers in implementing a governance system is that there is no obvious or quantifiable method in which to obtain a return on investment. Unlike integrating a new piece of equipment into a production line or a software application to automate tasks, Net Present Value of the organisation would seem unaffected.

Not so much in private companies is the advantage of having a stable governance system is obvious; however in a survey conducted by the Australian Stock Exchange (ASX) in 2005, it was found that 80 percent of private investors and 75 percent of organisations use governance information in analysing or reviewing their investments. These results solidify the importance of formal reporting. In the same way corporate governance provides detailed financial statements to the public, an IS governance system can provide an approval process for gaining funding, quantifies budget and tracks resource investment. To guide business, the ASX and Standards Australia have also published their own principles of corporate governance (app A and C).

IS supports corporate governance in developing the required company statements that can help justify capital and operational expenditure for process or strategic intentions, by linking design and investment to organisation capability. Whether the organisation is private or public, Weill and Broadbent (2002) support this concept for design in stating that governance gives executives a framework for decision-making.

To this end and in paving the way for Australian businesses, the Federal government has had a strong commitment in sending a clear message of the importance of an effective IS framework by a decision to increase IT spending last year by 20 percent to a figure of AU\$5 Billion (Bajkowski 2005). With these significant sums of public money being invested, the future of organisations in Australia has been identified to be very much reliant on ICT input in accord with corporate accountability.

Accountability

Organisations however must realise that with the adoption of and implementation of an ICT governance system, certain accountabilities are demanded and expected. This responsibility lies squarely on the shoulders of the CIO or executive of the ICT division (33 percent agree as per the IT Governance Global Survey 2006). The Project Management Institute (2006) reference a survey commissioned by Optimize magazine to define the CIO. It was revealed that the top measure of performance was in increasing customer satisfaction, with the target group rating satisfactory IS governance at only 45 percent. It would seem that executives are still maturing in the IS governance stakes. In contrast to these results the IT Governance Global Survey (2006) discovered that the key driver for an ICT governance framework was better cost management confirming again that governance frameworks are built and implemented to suit organisational need.

Governance can also provide a safety net and protection for innocent users in all levels of authority against possible litigation. In recent cases such as the Enron (Munzig 2003) and the HIH collapses, the public has seen how governance fails, dramatically. Legislation now holds these executives accountable for their performance. Governance frameworks have one benefit; they can make transparent business processes and spread the accountability across divisions. Broadbent (2003) stated that IT governance is all about assigning decision rights and creating an accountability framework. While the CIO or ICT Executive still remains the single point of accountability, individual risk of malice is reduced.

It could be argued that accountability in governance can slow decision-making and constricting market and product adaptability and the pace of change. In essence the resistance in adopting and signing off on a governance framework shows the inability of the organisation to accept progressive change and individual dynamic responsibility.

Summary

Like all traditional business units such as sales and marketing, finance and operations, IS must receive equal attention in driving business change through their internal capabilities. These capabilities must be in-sync with dynamic change by offering a clear and bureaucratic-free path for decision-making with authority to acquire infrastructure and resources in delivering strategic intent.

Dynamic IS governance suits a dynamic organisation that is reliant on technology and innovation for sustainability. It can allow the entity to respond rapidly and succinctly to market forces and competitors to keep them a step ahead. This can deliver consistent wins summing to greater organisational-wide benefits delivery. IS holds more visible benefit with the tech-reliant organisations where change occurs frequently and without relent. Flexibility and change in service orientated organisations is less obvious and incremental at best. Nonetheless a dynamic IS governance mentality can not only drive improved customer service through the rapid adoption of new technology and processes but also give the user of the system a fresh model for continuous improvement and learning for themselves.

Finally, it should be noted that governance brings medium to long term benefits; and balance and rate of change should be sort when defining how dynamic an IS governance framework should be. Care must be taken in ensuring responsibility does not restrict the speed of decisions and individuals are supported by the business through the evolution. This degree of change and success can be measured by user adaptability and quantified achievable benefits that are realised through the application of a dynamic governance culture.

References

- Australian Stock Exchange (ASX) 2006, *Corporate Governance Council Market Research Report, Key Highlights*, March 2006
- Australian Stock Exchange (ASX) 2003, *Principles of Good Corporate Governance and Best Practice Recommendations*, March 2003
- Bajkowski J 2005, *Government ICT spend swells to \$5 billion*, Computerworld 2006, viewed April 2006, <http://www.computerworld.com.au/index.php/id;67551102;fp;16;fpid;0>
- Broadbent M, 2003, *The Right Combination*, CIO magazine, April 11, 2003
- Deliverables* 2006, PM Network, September 2006, Vol 20, No.9, p.16, Project Management Institute (PMI), PA, USA
- IT Governance Institute 2003, *Board Briefing on IT Governance, 2nd edition*, IL, USA
- IT Governance Institute / PriceWaterhouse Coopers (PwC) (2006), *IT Governance Global Status Report 2006*, IL, USA
- Lane D, 2004, *CIO Wisdom - Best Practices from Silicon Valley*, Prentice Hall, NJ, USA
- McTaggart G, 2005, *Centralised ICT Governance Unites an Organisation*, AGSE Hawthorn, Australia
- Munzig P, 2003, *Enron and the Economics of Corporate Governance*, Department of Economics, Stanford University, Stanford, CA, USA
- Sambamurthy V and Zmud R, 1999, *Arrangements for Information Technology Governance: A Theory of Multiple Contingencies*, MIS Quarterly Vol.23, No.2, pp261-290, June 1999
- Standards Australia 2005, *Corporate Governance of information and communications technology*, (AS8015-2005), Standards Australia, Sydney, NSW
- Weill P and Broadbent M, 2002, *Building IT Infrastructure for Strategic Agility*, MIT Sloan Management Review, USA

Appendix A: The Australian Standard of ICT Governance Principles

Principle 1—Establish clearly understood responsibilities for ICT

Ensure that individuals and groups within the organization understand and accept their responsibilities for ICT.

Principle 2—Plan ICT to best support the organization

Ensure that ICT plans fit the current and ongoing needs of the organization and that the ICT plans support the corporate plans.

Principle 3—Acquire ICT validly

Ensure that ICT acquisitions are made for approved reasons in the approved way; on the basis of appropriate and ongoing analysis. Ensure that there is appropriate balance between costs, risks, long term and short term benefits.

Principle 4—Ensure that ICT performs well, whenever required

Ensure that ICT is fit for its purpose in supporting the organization, is kept responsive to changing business requirements, and provides support to the business at all times when required by the business.

Principle 5—Ensure ICT conforms with formal rules

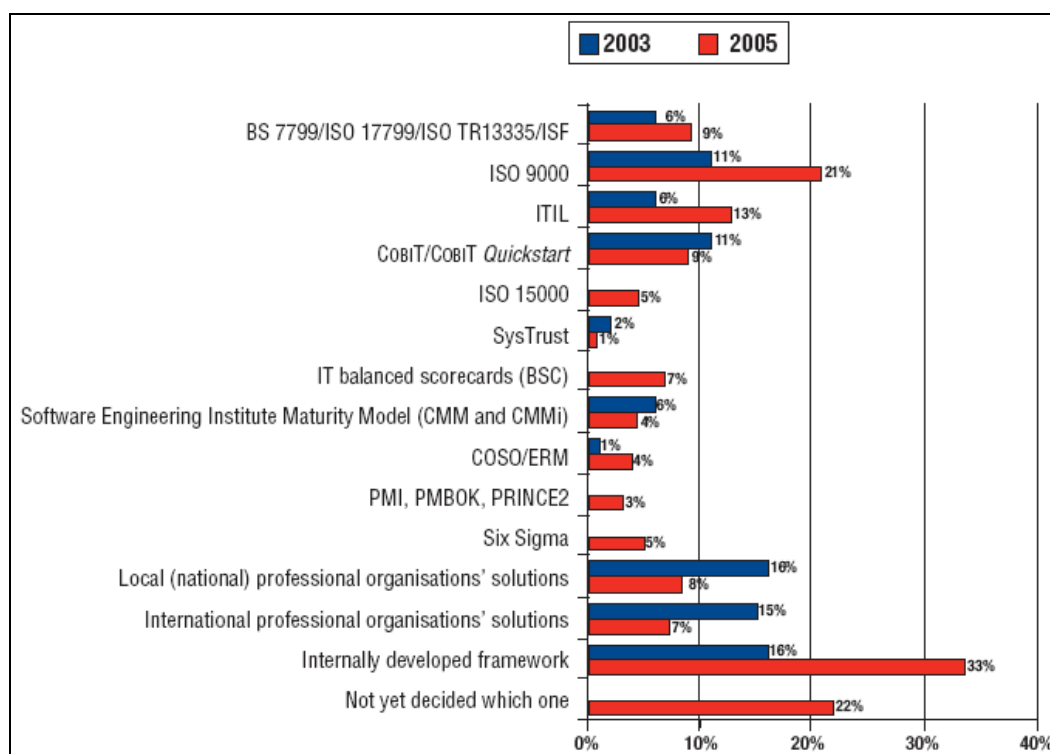
Ensure that ICT conforms with all external regulations and complies with all internal policies and practices.

Principle 6—Ensure ICT use respects human factors

Ensure that ICT meets the current and evolving needs of all the 'people in the process'.

Appendix B: Other Popular IT Governance Frameworks

Below is an extract from the IT Governance Institute survey on selected IT Governance frameworks considered for use.



Source: IT Governance Global Status Report 2006

Appendix C: ASX Essential Corporate Governance Principles

1. Lay solid foundations for management and oversight

Recognise and publish the respective roles and responsibilities of board and management.

2. Structure the board to add value

Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

3. Promote ethical and responsible decision-making

Actively promote ethical and responsible decision-making.

4. Safeguard integrity in financial reporting

Have a structure to independently verify and safeguard the integrity of the company's financial reporting.

5. Make timely and balanced disclosure

Promote timely and balanced disclosure of all material matters concerning the company.

6. Respect the rights of shareholders

Respect the rights of shareholders and facilitate the effective exercise of those rights.

7. Recognise and manage risk

Establish a sound system of risk oversight and management and internal control.

8. Encourage enhanced performance

Fairly review and actively encourage enhanced board and management effectiveness.

9. Remunerate fairly and responsibly

Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.

10. Recognise the legitimate interests of stakeholders

Recognise legal and other obligations to all legitimate stakeholders.

Exert from ASX 2003, Principles of Good Corporate Governance and Best Practice Recommendations

The information within this document is written in good faith and represents the opinions of the author only. No direct reference or inference is made to any individual or organisation that would intentionally place them in scorn or ridicule.

Please note that all content including but no limited to, text, concepts, ideas, images, recordings, video and designs are protected by international copyright law. You are welcome to re-use any of these items only when the author provides prior written approval. Contact details are below.

Glenn McTaggart has been involved in delivering change via programs of work for over ten years. He provides professional services that explore new and proven approaches in linking organisational change and transformation with the value of effective program and project management concepts. For further information on the content of this paper and discussion on how Glenn can assist your project organisation please contact the author today.

Kind regards,
Glenn McTaggart
e glennmctaggart@gmail.com