Organizational Profiling: A Path to Effective IT Governance

by Nick Robinson

In these demanding economic times, IT governance is no longer just desirable conduct but an essential tool at senior management's disposal to extract optimum business value from IT. Yet while IT governance may have risen on the corporate agenda, companies are still struggling with its "form and substance." How should companies approach IT governance, and where is the appropriate entry point? While there are numerous prominent frameworks that promote IT governance by embodying best practices, one of the challenges is to position their capabilities in real-world settings.

Among the varying definitions of IT governance, the common tenet is to encourage *desirable behavior* in the use of information and technology. This translates into rendering prudent decisions that ensure the IT strategic direction is clearly defined, tactical plans in support of the IT strategy are prioritized and effectively executed, and outcomes are adequately measured to meet prescribed business goals. Because every organization is unique, companies will differ in how they cultivate an environment conducive to desirable behavior in the use of IT. Therefore, IT governance cannot be implemented according to a one-size-fits-all mold but instead must be carefully architected based on an organization's profile. For an IT governance program to be effective, it needs to be symbiotic with the prevailing culture and carefully interwoven into the organization's operational fabric.

For example, overtly rigorous standards and policies driven through a centralized organization will not work in a company that has a culture of line-of-business autonomy and entrepreneurship. Conversely, a company whose continued competitive survival necessitates standardized processes and performance-rewarded goals will not be served by avant garde, informal management practices. While this may be an oversimplification, it illustrates the need to be aware of the prevailing culture and corporate regime. Governance mechanisms, structures, relationships, and processes must be synergistically fused with the organization if IT governance is to be successful.

IT GOVERNANCE FRAMEWORK

Behavior is not just making a decision, but taking action on it. IT governance comprises a set of formal and informal rules and practices that determine how IT decisions are made, how empowerment is exercised, and how IT decision makers are held accountable for serving the corporate interest. An IT governance program operationalizes mechanisms — in the form of decision-making structures, principles, policies, standards, and procedures — to make sure that transparent and well-informed decisions are rendered and the appropriate action taken.

The core elements of IT governance can be abstracted into a strata model (see Figure 1) that is composed of:

- **Business drivers.** A primary objective of IT governance is to see that the IT strategic direction aligns with the company's strategic business goals. Business drivers are the attributes of business function necessary to support the strategic business needs of the company and shape the IT governance framework.
- **Internal environment.** The internal environment consists of exhibiting leadership and setting the "tone from the top."[1] It is represented in value statements,

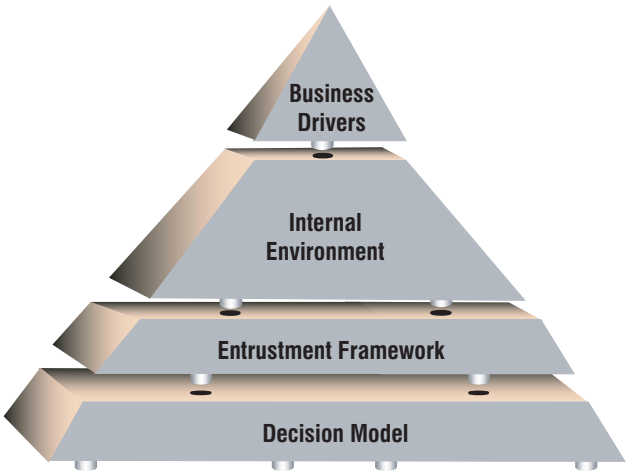

Figure 1 — IT governance framework.

mission statements, and guiding principles. Guiding principles encapsulate the organization's beliefs and philosophies and are enacted by controls in the form of policies, standards, and procedures that guide how decisions will be driven in both the business and IT organizations and at every level of the enterprise (i.e., strategic, tactical, or operational).

IT governance is about deciding and prioritizing *what* things to do, while management is about *how* to do them in an optimal manner.

- **Entrustment framework.** Central to IT governance is the notion of authority, empowerment, and accountability. An accountability framework includes clear assignment of roles and responsibilities for decision making (see Figure 2).
- **Decision model.** A decision-making model helps ensure that IT decisions are coherent and consistent with the corporate direction and aligned with the overall business strategies. This involves the clear assignment of decision rights and defines sequences of actions and decision paths in the decision processes. The decision model ensures clarity of, and accountability for, desired outcomes. Decision authorities are individuals or bodies (e.g., committees or boards) that are empowered to make and ratify decisions regarding the use of IT (see Figure 3).

Synergies between Governance Practices and Management Disciplines

The distinction between governance and management is quite important. Governance means controlling actions or behavior, and it is based on such things as principles, codes of ethics, and values. By contrast, management involves directing or controlling the use of resources (projects, service levels, people, etc.), and it is driven by efficiencies, effectiveness, TCO, ROI, and so on. Whereas the domain of IT management focuses on the effective supply of IT services and products and the management of the IT operations, IT governance faces the dual demand of contributing to present business operations and performance while also transforming and positioning IT to meet future business challenges.[2]

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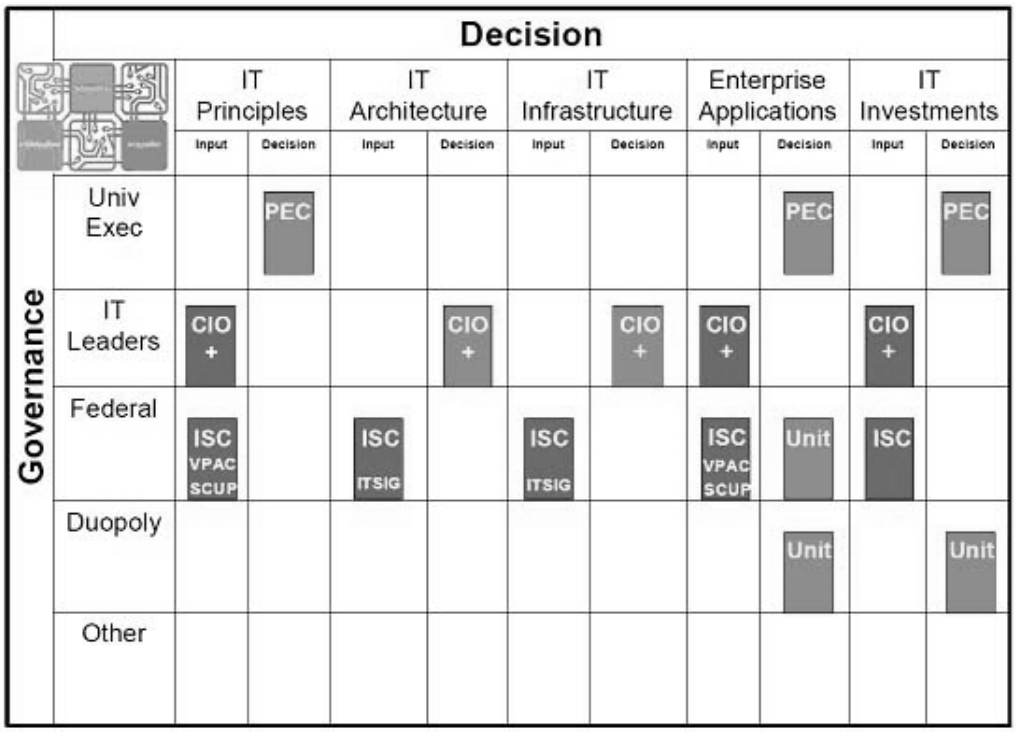

Figure 2 — Example of an entrustment framework.

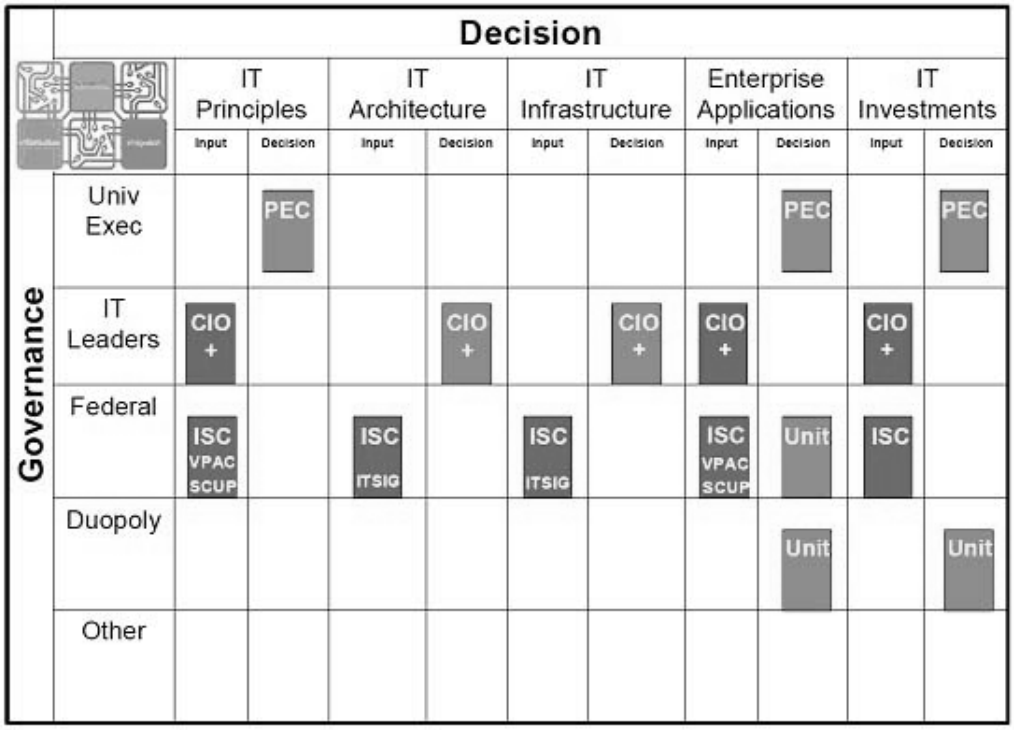

Figure 3 — Example of a decision model.

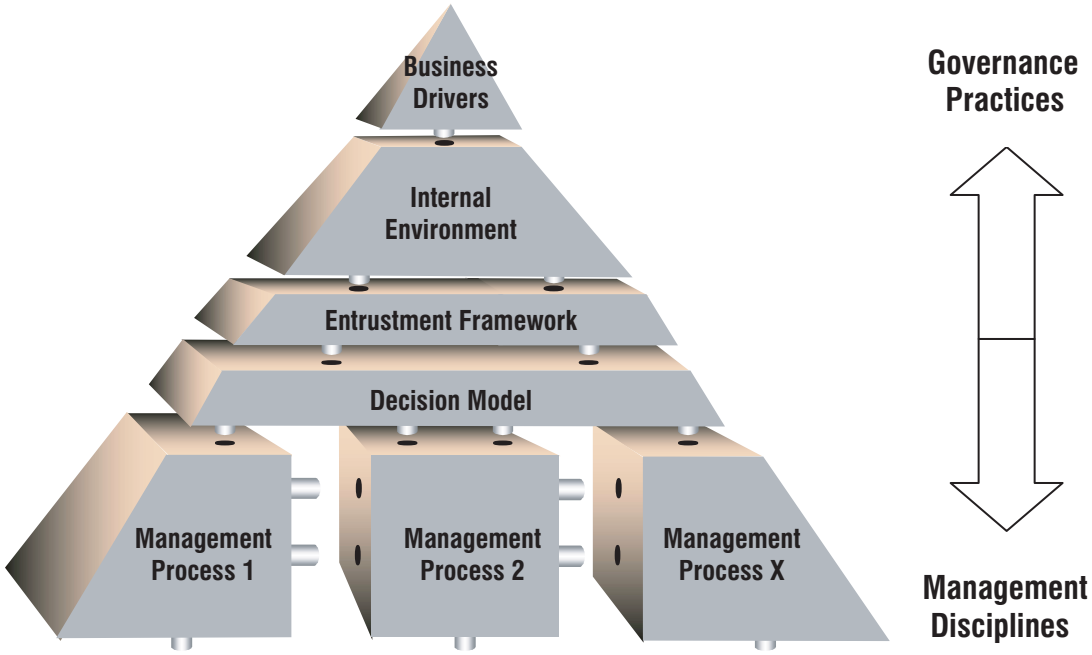

Figure 4 — The interrelationship of IT governance practices with management disciplines.

IT GOVERNANCE REFERENCE MODEL

The IT Governance Institute[3-4] has grouped the IT governance and management disciplines into six domains (see Figure 5):

1. **Value realization** ensures that IT generates demand for the products and services offered by the organization. This translates into coherent business and IT strategy alignment.
2. **Value delivery** ensures that IT acquires, provisions, and deploys technology solutions on a timely, cost-effective, and high-quality basis to meet the needs of the business.
3. **Performance management** ensures that the performance and quality of IT services are adequately defined, monitored, and measured.
4. **Value management** ensures that organizations maximize value by optimizing the benefits of investments throughout their economic lifecycle within defined risk tolerance thresholds.
5. **Resource management** ensures optimal use and allocation of IT resources and capabilities in servicing the needs of the enterprise, maximizing the efficiency of these assets, and minimizing their costs.
6. **Risk management** ensures the practices of risk identification, quantification (likelihood and impact), and mitigation are effectively deployed across the organization. The influence of risk management permeates all aspects of the reference model

ORGANIZATIONAL PROFILING

Good governance is outcome and value focused. It helps an enterprise realize its goals and reap business benefits. It also helps to mitigate risk and improve team effectiveness by enabling effective measurement and control and promoting good communication. Good governance does not consist of a set of shackles and controls that stifle creativity. Although it is based on repeatable measures, good governance should provide a context for guiding entrepreneurialism, quality achievement, and efficient execution. To be accepted by practitioners, governance measures must have demonstrable value.[5]

Every organization has a unique "personality profile" that reflects three interrelated dimensions:

1. **Culture** — the manner in which a company characterizes itself; the company's unique identity
2. **Business model —** how the organization will create value for its customers.

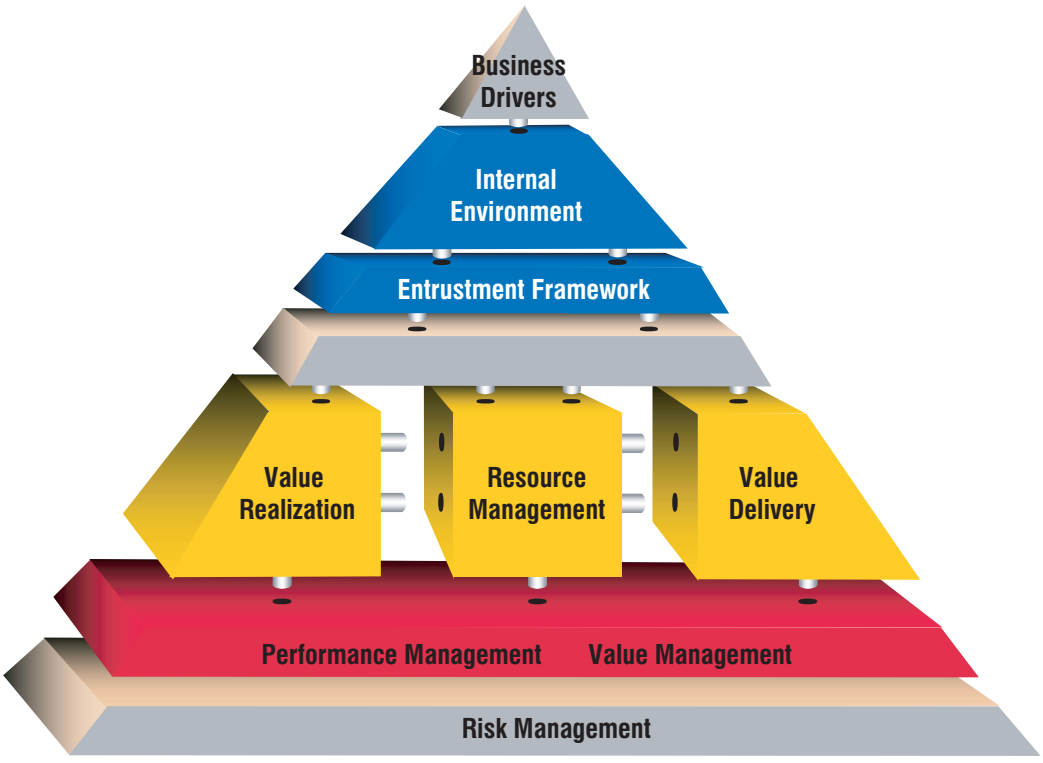

Figure 5 — IT governance reference model.

3. **Operating environment –** the means by which value can be realized to sustain the business model

Below I examine each dimension more closely to show how culture, business model, and operating environment work together to create a unique profile of the organization.

Culture

We can define culture as a shared set of assumptions, beliefs, values, and behaviors of a community or group that guide thoughts, perceptions, judgments, and actions. Corporate culture starts with an understanding of the board's disposition and the role it plays in the corporation. Culture includes the leadership style, management philosophy, behavioral patterns, and established values and norms. Furthermore, communication style and protocols for socialization and institutionalization need to be fully understood. Other aspects of the cultural profile include management's span of control, influence, and propensity to accept risk.

The human element of IT governance cannot be underestimated. This is underscored by the ratification of human behavior as a key principle in the recent ISO/IEC standard.[6] It is essential to establish a cultural and operating climate that is conducive to, and promotes, effective IT governance.

Business Model

The business model articulates how the organization will create and sustain value for its customers. It shapes the company's attitude toward and tolerance of risk, as well as the importance of complexity, innovation, and agility of the organization.

In their book *The Discipline of Market Leaders*,[7] authors Michael Treacy and Fred Wiersema introduce a conceptual model as a means for companies to attain and sustain market leadership. They coin the term "value disciplines" to differentiate the various forms of derived business value. Value disciplines encapsulate the company's business orientation and are instrumental in shaping its business model and attaining competitive advantage. The three categories of value disciplines are as follows:

1. Operational Excellence

Operational excellence emphasizes efficiency and reliability. Organizations that focus on this discipline typically lead the industry in price and convenience. Such companies are characterized by:

- Operations that are standardized, optimized, and simplified.
- Tight control and centralized planning, leaving few decisions to the rank and file
- The use of proven industry practices and techniques
- Management systems that focus on integrated, reliable, high-speed transactions and compliance with industry practices

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Product/Service Leadership

Product/service leadership focuses on continuous product innovation and rapid commercialization, with an emphasis on:

- A business structure that is loosely knit, ad hoc, and ever-changing to adjust to the entrepreneurial initiatives and redirections that characterize working in unexplored territory
- A culture that encourages individual imagination, accomplishment, out-of-the-box thinking, and an entrepreneurial mindset
- Management systems that are results-driven, measure and reward new product success, conduct feasibility studies, and allow experimentation

Customer Intimacy

Customer intimacy puts the spotlight on the cultivation of relationships, customer service, and responsiveness. This value discipline is characterized by:

- Core processes that focus on solution development (helping the customer understand exactly what is needed), results management (ensuring the solution gets implemented properly), and relationship management
- A business structure that delegates decision making to employees who are close to the customer
- A culture that embraces specific rather than general solutions and thrives on deep and lasting client relationships
- Management systems that are geared toward creating results for carefully selected and nurtured clients

The business model is pivotal in defining a company's strategies and what constitutes IT-derived value. This drives the capabilities that IT should provide in delivering the appropriate business benefits. Top-performing firms' business strategies gravitate toward maximizing profitability or sustainable revenue growth and typically follow one of four approaches:

1. **Opportunists** focus strongly on innovation for potential market opportunities. They embrace risk and emphasize growth.
2. **Innovators** take fewer risks than opportunists, but they adopt promising opportunities by leveraging market information and improved decision making while working toward operational efficiencies.
3. **Differentiated defenders** compete by offering higher-quality products and services at premium prices. They balance innovation and market stability.
4. **Defenders** compete in stable markets on the basis of low cost by focusing on internal efficiency and control. They are late adopters that move to new products or markets only after their viability has been proven. They focus on process efficiencies and leverage best practices.

To ensure the success of the IT governance program, it is vital that the underlying mechanisms mesh with the organization's DNA.

Operating Environment

An organization's ability to achieve growth and profits is modulated by both external and internal considerations. Industry segmentation is a significant external factor. The profiles of companies exposed to a highly regulated environment — for example, financial services companies or utilities — will differ from those of companies with less rigorous compliance mandates. A study by the IT Governance Institute (ITGI)[8] examined the priority of business and IT goals of global organizations. Although there was a high degree of consensus regarding a suite of key business and IT goals, their individual importance varied significantly according to industry sector.

An internally driven factor is the company's operating environment, which is encapsulated in its operating model. The operating model defines how standardized business processes should be established across entities (business unit, region, and function) and the level of integrated business processes across those entities (i.e., the extent to which information is standardized and shared).[9] The size of an organization is also an ingredient in the IT governance equation. Economies of scale allow larger companies to deploy standardized processes to drive down cost.[10]

Each operating model embodies a different approach to achieving growth and profits and helps define the role IT should perform in providing value to the business. Supporting a specific operating model requires cultivating the appropriate behaviors in the enterprise.

The business model, in concert with the operating model, strongly influences the role of IT. Technology tends to be either a service provider or business value generator. Where IT is regarded as a service provider, it must see that IT operations meet the service-level expectations and fulfill ROI projections. Where IT is considered a business value creator, technology's role is to meet future business challenges by enabling the business model for growth and increased revenue.

Larger organizations with disparate lines of business can benefit from a hybrid operating model that supports both coordinated and business unit–controlled delivery of IT capabilities. In this model, capabilities are defined as unique, common, or companywide.

STYLE PATTERNS

Establishing and sustaining an effective IT governance program can be characterized as a blend of behavioral science coupled with systematic process analysis. To ensure the success of the IT governance program, it is vital that the underlying mechanisms mesh with the organization's DNA.

Empirical studies linking IT structure (governance framework) and organizational competitive strategy[11] found that organizations with a conservative "defender" competitive strategy were more likely to adopt a centralized IT governance structure than similar organizations with a more aggressive competitive strategy. Research[12] on the style of IT governance and its effect on governance practices has compared the performance of centralized and decentralized approaches. While there was no simple formula, top performers on growth favored decentralized IT governance approaches. Greater dividends can be achieved through a centralized arrangement if the primary motive was profit.

When defining the most suitable IT governance approach for a given company, there are few absolutes. There are, however, generalized "style patterns" that

are predicated on the company's personality profile. They depict the orientation of governance mechanisms that are conducive to cultivating certain behavioral traits. Style patterns highlight the relative level of emphasis and rigor for governance practices and management processes that mesh with an organization's profile.

ESTABLISHING AN ENTRY POINT

The urgent need for IT governance is often self-apparent. Weaknesses in risk management may have been identified during the execution of internal audits or by regulatory authorities. Risk and control assessments performed by corporate information security may have highlighted a lack of consistent policies and procedures. Alternatively, the business and IT may not be on the same page — a symptom of poor alignment between business and IT strategies. Each instance points to specific areas of IT governance that require immediate attention.

Another important factor, the change driver, can highlight areas of IT governance that require attention. A change driver is an event or trigger that provides the impetus for IT governance. Change drivers surface in various forms but are typically rooted in three tactical themes: operational excellence, security and risk management, or regulatory compliance. They may also take on a more strategic form, such as a merger/acquisition or transformation initiative.

The requirement for IT governance may be found at a more holistic level. Executives and senior leaders may wish to benchmark the general condition of IT governance across the enterprise. A logical first step would be to perform a gap analysis to ascertain the current state of IT governance within the organization. At a macro level, this review would assess the IT organization to determine whether the key elements of an IT governance framework are in place. Such a review will help the organization gain insight into the level of coherence of the framework and its effectiveness in achieving

Table 1 — Style Patterns for Governance Mechanisms

Business Strategy	Business Drivers	Role of IT	Process Standardization	Process Integration	Risk Tolerance	Governance Orientation
Opportunists	Market penetration Revenue growth	• Agility to accommodate rapidly changing business strategies • Culture of IT-enabled innovation • Responsive to changing needs of the business	Low	Low	High	Decentralized
Innovators	Sustainable revenue growth	• Enable business by providing information for improved decision making and new products and services	Med/High	Low/Med	High	Decentralized, Hybrid
Differentiated Defenders	Time to market ROI, VAR	• Work jointly with the business to plan and deliver new capabilities that are in alignment with business strategies	Low/Med	Med/High	Med	Centralized, Hybrid
Defenders	Profit Asset utilization	• Meet business needs while pursuing low-cost orientation • Leverage cost-saving approaches (e.g., outsourcing, offshoring)	High	High	Low	Centralized

Table 2 — Style Patterns for Governance Practices and Management Processes

Business Strategy	Value Realization	Value Delivery	Risk Management	Resource Management	Performance Management	Value Management
Opportunists	IT-enabled innovation (R&D)	Agile application development	Risk awareness	Shared infrastructure Vendor management	Success and goal measures	Localized project management
Innovators	Business and IT strategy alignment	Informal system development process IT architecture standards	IT risk assessment model	Service-level management Knowledge management	Performance indicators	Localized project planning and prioritization
Differentiated Defenders	IT governance processes IT steering committee	IT architecture board IT architecture policies	IT and security risk management framework	Standardized infrastructure Normalized customer data	Balanced Scorecard Baselines	Centralized project prioritization planning
Defenders	IT principles IT strategy committee	Enterprise IT architecture Standardized system development lifecycle	Integration of IT and enterprise risk management	Modular and component technologies	Continuous process improvement QA program	Program portfolio management Centralized funding

the desired goals. Any gaps that surface can be followed by a capability maturity review to provide greater insight into what actions need to be taken.[13]

A FEDERATED APPROACH

For the IT governance practitioner, there are many well-established frameworks to leverage. These frameworks typically embrace sound industry practices and are a synthesis of collective wisdom derived from a community of experts. Industry frameworks of best practices prove very useful enablers by providing the foundation of a governance program. For an IT governance program to be effective, however, it must be tailored and architected to shadow an organization's "personality."

Each of the leading practice frameworks exhibits relative merits and strengths. Each tends to have been designed to serve a specific aspect of IT, and this shapes the construct and content. Nevertheless, many share the same domains and similar concepts even if the nomenclature is somewhat different. There are ongoing initiatives to normalize the leading frameworks to provide more consistency,[14] and the trend of driving toward greater compatibility is likely to continue.

Furthermore frameworks are not necessarily mutually exclusive. Components of different frameworks can coexist and complement each other. This federated approach can be particularly attractive when the remediation efforts point to necessary improvements in diverse areas of governance; for example, business technology alignment and vendor service-level management. In these instances, COBIT and ITIL can be synthesized together in a unified framework.

SUMMARY

IT governance cannot be approached in a haphazard manner. There is no turnkey solution or vanilla procedure that will magically embed IT governance into an organization. While not prescriptive, IT governance is

top-down and principles-based. To be successful, it requires structured, systematic thinking and an understanding of an organization's personality traits. It further requires ownership and sponsorship at the senior management/executive level. It is essential that business and IT senior and operational management create awareness and involvement for the IT governance initiative.

Investing up-front effort to understand the various facets and idiosyncrasies of a company's personality will help clarify the style of governance that will harmonize with, and be supported by, the corporate culture, the business model, and the operational environment. It will also help determine what industry framework(s) can be used to craft a robust IT governance program. Failure to invest in the required effort will generate pushback and discontent from stakeholders and will inevitably weaken the effectiveness of IT governance within the organization.

ENDNOTES

[1]"Enterprise Risk Management — Integrated Framework." COSO, 2004.

[2]Peterson, Ryan R. "Integration Strategies and Tactics for Information Technology Governance." In *Strategies for Information Technology Governance*, edited by Wim Van Grembergen. Idea Group Inc., 2004.

[3]COBIT. IT Governance Institute (ITGI), 1996-2009.

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[8]"Understanding How Business Goals Drive IT Goals." ITGI, 2008.

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[13]"IT Governance and Process Maturity Research Report." ITGI, 2009.

[14]"Aligning COBIT 4.1, ITIL V3 and ISO/IEC 27002 for Business Benefit." ITGI, 2008.

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