IT Governance Wins You the Battle

Arthur D. Little study shows 40% of CEOs and CIOs want to overhaul IT governance.

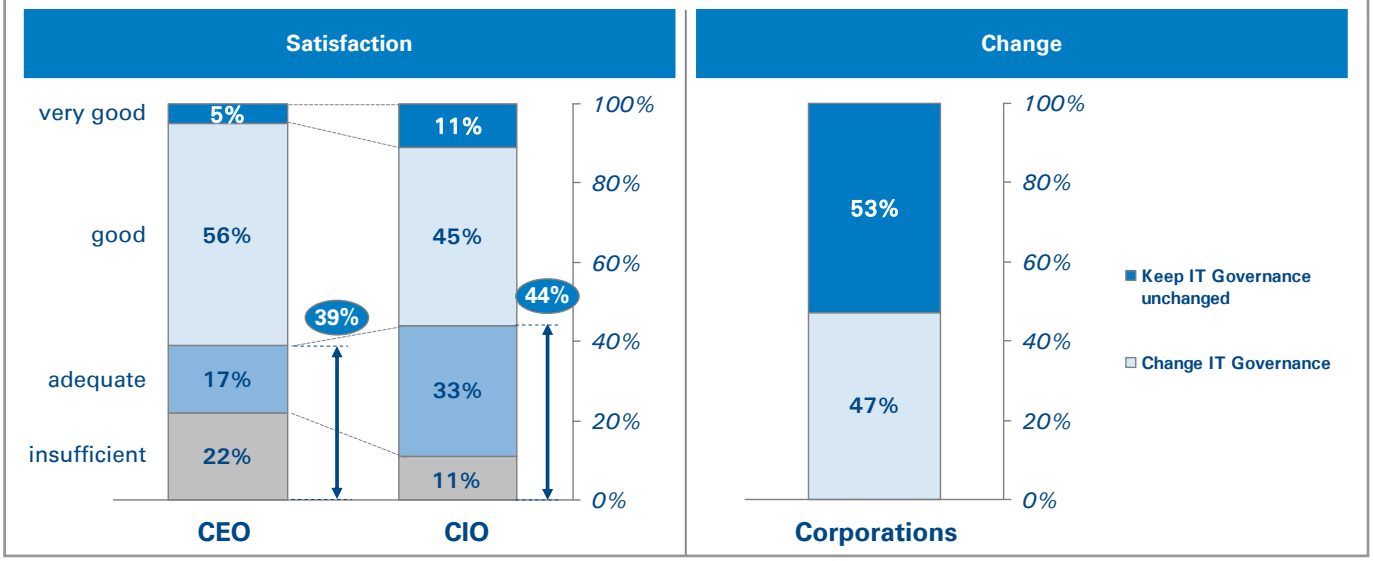
39% of CEOs and 44% of CIOs are not satisfied with their IT governance. This is one of the key findings of the Arthur D. Little IT Governance Study 2009, which shows that many large corporations want to make fundamental changes to the way they organize their business IT. With many having adapted their IT to the economic crisis and with many IT organizations now in hibernation or survival mode, this is the right time for corporations to bring business and IT into alignment and prepare for economic recovery and growth. The Arthur D. Little IT Governance Approach provides a solid basis for optimizing IT governance and, in particular, for improving IT demand management.

The Arthur D. Little IT Governance Study examined IT governance at 63 large corporations. The study found that, as a result of limited satisfaction with existing IT governance, 47% of corporations intend to rework their IT governance, as figure 1 shows.

IT governance: a key management lever for aligning IT and business

Why do so many companies struggle with IT governance? The fundamental complexity of the interaction between IT and business is at the heart of the problem. Business and IT rely on one another, but speak different languages. The typical mismatch of business requirements and the solutions delivered by IT illustrates this. Furthermore, sustainable alignment cannot be achieved through a single good decision, implementation project or sourcing deal, but requires a clear strategy that underpins ongoing decision-making. As one business manager puts it: "In the end, though a joint effort, we rescued our ERP project. But what comes next? There must be a better way than permanent fire-fighting mode."

Figure 1: Study results for satisfaction with IT governance and intention to change



What is needed is an IT organization that takes business's dependence on IT and the complex nature of IT into account, and delivers high performance by design. Shaping such an IT organization by implementing the right IT governance model is a key management task.

Balancing IT governance is the key

Of course, IT governance alone cannot address all challenges. However, Arthur D. Little's experience indicates that it is the most important factor influencing the effective alignment of business and IT.

IT governance comprises two components:

- The structure of IT activities ("how are they organized?") and
- The role and power model applied to IT activities ("who does what – and is allowed to?").

If one of these components is not clear, business and IT cannot cooperate effectively. "Clear" means well defined, well understood and consistently adhered to.

The Arthur D. Little IT Governance Approach distinguishes three classes of IT activity, each with unique characteristics and potential for improvement: strategy, demand management and supply (see figure 2).

- IT supply functions deliver IT services and products. They have become relatively professional in recent years and in advanced companies are working without severe problems (although still with some potential for savings). Improvements that can be achieved include the application of reference process models such as ITIL, the consolidation of services across business lines and the introduction of service level management.
- The IT strategy arena is complex and far from routine. However, many companies have also raised the level of professionalism in this area by introducing approaches and methodologies developed either by themselves or by consulting firms. Within advanced companies at least, there are few easy wins remaining in relation to IT governance.
- Our experience shows that, compared with IT supply and IT strategy, IT demand management is generally in greater need of improvement. Demand management involves analysing, defining and prioritizing the business demand for IT. It is usually here where the key to the successful alignment of IT and business is hidden. IT demand management has to bridge the gap between the business's strategic direction and its demand for IT services and products on the one side and the supply of these products and services on the other. Therefore, any friction between ideas and feasibility, business and IT, business lines and headquarters or regions and headquarters becomes apparent here. To cope successfully with the challenge requires:
- A careful balance between centralization and decentralization and the role of IT and business (as described below)
- Clear interface with the customer
- Clear responsibility for delivery and control
- The alignment of IT customers within the business with IT sales management.

Positioning the company to tailor IT governance

The Arthur D. Little IT Governance Approach maps a business's IT activities onto an IT role map and an IT structure map. Both maps have two dimensions. Figure 3 shows how the maps define IT governance with relevance for strategic or top management.

Figure 2: IT activity model (first and second level)

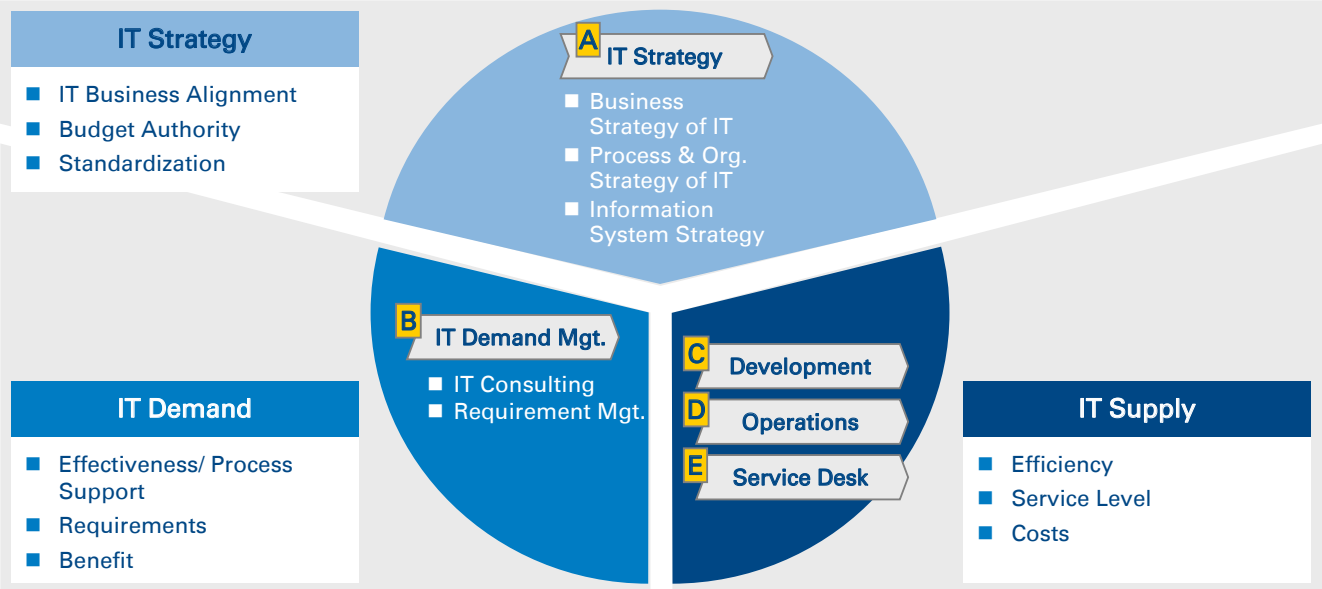
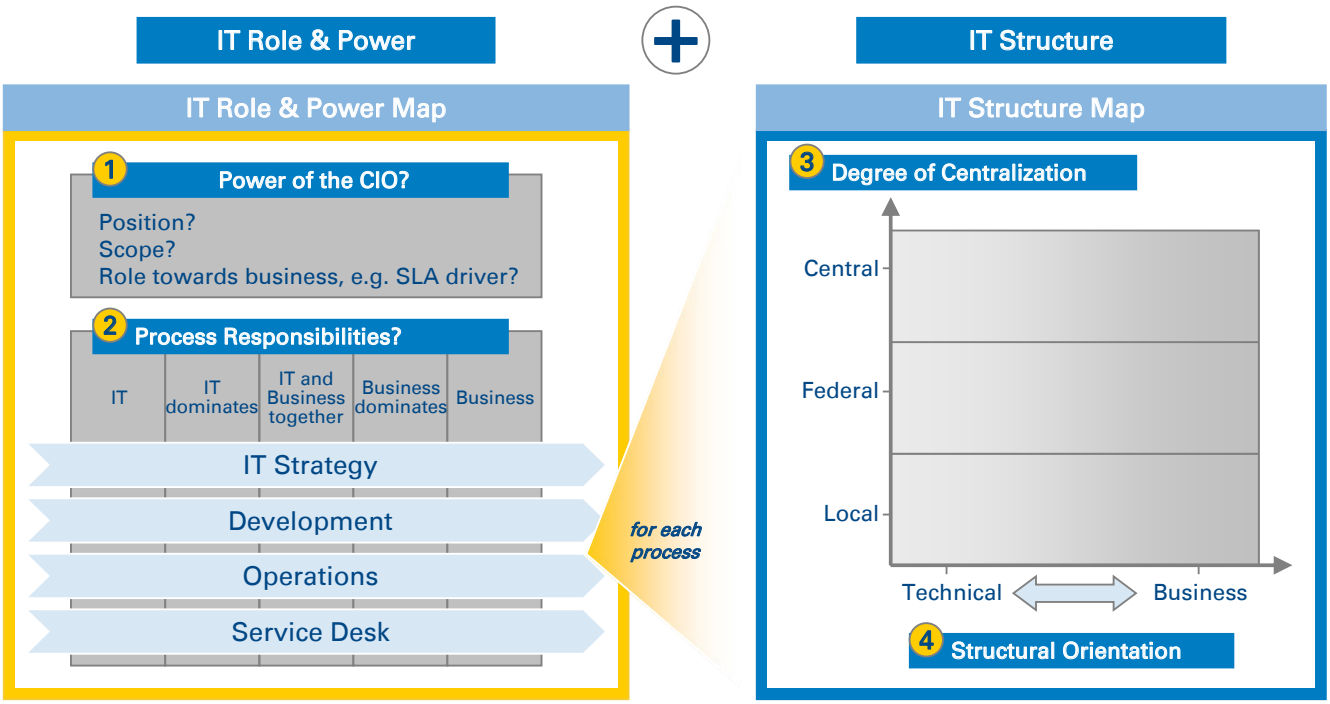


Figure 3: Maps and dimensions of IT governance



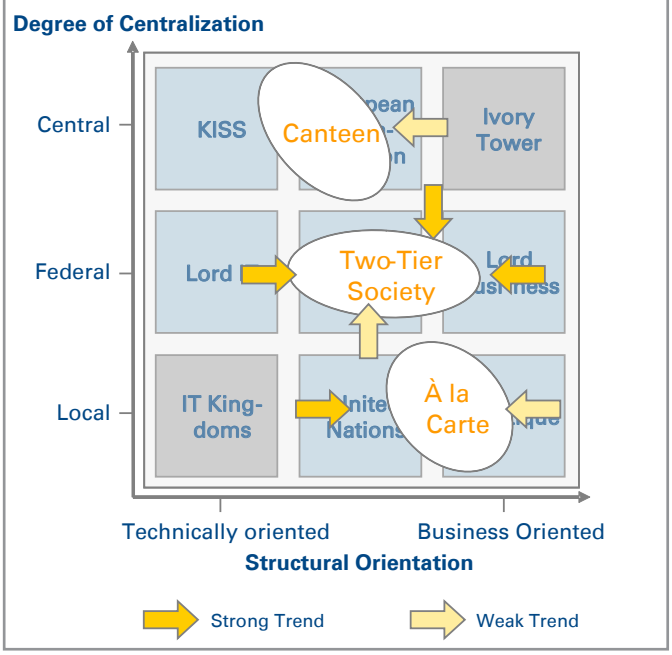
The maps cover the basic strategic choices available for developing tailored IT governance. Thus, the Arthur D. Little IT Governance Approach provides a proven framework for top management to position their company and to discuss and develop strategic options.

Best practices

Figure 4 shows best practice positions in the IT structure map and illustrates that corporations opt for different approaches depending on their specific economic situation and their business strategy.

- **"Canteen":** Companies that are less complex in terms of product diversity or companies with a very strong cost focus opt for a centralized IT model. A typical example is a no-frills air carrier. With this approach, business requirements can generally only be satisfied by standard offers. Usually the central IT department is technically structured e.g. split into ERP, other server services, desktop services and network. Standardization and cost focus are the guiding principles, supporting a strategy of cost leadership.
- **"A la carte":** Very heterogeneous companies or holdings go for decentralized models. Common examples are finance holdings or highly diversified beverage corporations. Every business division has its own, almost fully dedicated IT organization and the client is king except in the case of technology standards. Typically, this organizational design supports a differentiation or focus strategy.
- **"Two-tier society":** Large and complex corporations tend to favour a demand/supply split. A large car manufacturer, for instance, might split a decentralized IT demand management organization from a centralized IT supply organization. The first serves the various businesses, such as passenger cars, trucks and finance. The second centralizes and bundles IT production. The rationale behind this is to ensure that IT demand management and the IT strategy function reflect as far as possible the heterogeneous nature of the business divisions, while at the same time concentrating IT production to reinforce corporate standards in strategy setting processes, project management or technical platforms.

Figure 4: Best practice positions in the structure map



Centralized IT departments should in general be structured according to technical areas whereas decentralized units should be structured according to business lines. Arthur D. Little's study shows a strong correlation between a positioning inside the appropriate best practice cluster and satisfaction with IT governance. Thus, it is clearly not sufficient to discuss the degree of centralization separately from the structural orientation as most structural approaches do.

The first step towards shaping the IT organization is to ensure the company's position within the IT structure map is aligned with its specific economic and strategic situation. In the following steps, the model is refined at deeper levels (e.g. business segments or IT divisions). In parallel, roles and responsibilities are also refined. Only at a much more detailed level are process definitions (e.g. for budgeting or incident management) added, based on reference models or best practices. Ultimately, this approach optimizes the alignment of IT and business, offering business the best value from IT by minimizing conflict and potential failure.

Conclusion

Top management should use IT governance to achieve the sustainable and optimal alignment of IT and business. The roles and responsibilities of IT are critical, as is IT structure. Key points are:

- The positioning and role of the CIO in relation to the executive bodies and the extent to which the CIO is included in strategic business decisions and business process management
- Sharing of responsibility between business and IT for the relevant IT processes
- Tailoring the IT structure to reflect the degree of centralization within the business and its structural orientation
- Considering a split between demand and supply for complex corporations
- Paying special attention to generally immature, but very important, demand management
- The "one size fits all" IT organization does not exist, which means IT governance is a top management task
- It takes a comprehensive approach to be able to discuss IT governance on a strategic level
- The economy will be highly disruptive for a number of years. Only aligned and balanced IT organizations can respond effectively to the downturn and support the growth that will accompany the recovery.

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