Chapter XIII
Integration Strategies and Tactics for Information Technology Governance

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ABSTRACT

Amidst the challenges and changes of the 21st century, involving hyper competitive market spaces, electronically-enabled global network businesses, and corporate governance reform, IT governance has become a fundamental business imperative. IT governance is a top management priority, and rightfully so, because it is the single most important determinant of IT value realization. IT governance is the system by which an organization's IT portfolio is directed and controlled. IT governance describes (a) the distribution of IT decision-making rights and responsibilities among different stakeholders in the organization, and (b) the rules and procedures for making and monitoring decisions on strategic IT concerns. The objective of this chapter is threefold. First of all, to describe past developments and current challenges complex organizations are facing in governing the IT portfolio of IT applications, IT development, IT operations and IT platforms. Based upon the lessons we've learned from the past, one of the key objectives is to move beyond 'descriptives', and discuss how organizations can diagnose and design IT governance architectures for future performance improvement and sustained business growth. The final objective of this chapter is to provide a thorough understanding and holistic picture of effective IT governance practices, and present a new organizing logic for IT governance.

INTRODUCTION

One morning in 1997, Ralph Larsen, CEO of Johnson & Johnson, called his controller, JoAnn Heisen, to his office for a meeting. Ralph had just launched a corporate-wide cost-cutting campaign to help finance a drive into highly competitive and costly new drug markets. That morning, Ralph wanted Johnson & Johnson's IT organization to be a bigger part of all of that - and to get smarter about how the company was using IT.

Johnson & Johnson was spending millions annually on IT, yet business executives and customers weren't getting the business information they needed, and the business value they wanted. Hospitals, for example, were asking Johnson & Johnson to help them cut their stashes of supplies, but Johnson & Johnson didn't have the Web-based tracking systems needed to deliver on that request. The electronic networks that did exist suffered frequent break-downs. JoAnn recalls "Nobody was talking to each other. And why should they? Nobody asked the business units to talk with each other before, and no one had asked IT how much we were spending on the business." Ralph told JoAnn he wanted to cut IT costs dramatically, but he also wanted to oversight reform.

That morning JoAnn left Ralph's office with a new job—as CIO—and a mission to standardize systems, cut IT costs, and align the IT organization with business strategies, while simultaneously acknowledging the decentralized culture of Johnson & Johnson's numerous business divisions across different countries.

Does the Johnson & Johnson chronicle (Alter, 2001; Scheier, 2001) seem familiar to you? This real-life case illustrates many of the problems and challenges large complex organizations have been facing for over a decade. It's almost cliché that chief executives across the board have experienced many failures and disappointments with IT-enabled business transformations. Expecting strategic value innovation, executives have faced project cancellations, business disruptions, rising customer churn, decreasing shareholder value, and many other disappointments, including loosing their jobs.

In fact, executives today are less concerned about getting 'Amazon-ed', than about getting 'Enron-ed'. Corporate responsibility, business sustainability and governance reform are currently high on the strategic agenda in many companies. The growing scrutiny over shareholder interests, lingering economic growth and corporate performance, have now also prompted renewed soul-searching and interest into the governance of information and Internet-based technologies. Amidst all these changes and challenging responsibilities, governing IT for sustaining business value has become a fundamental business imperative for thriving in the 'old new' economy.

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Boards and business executives have come to recognize that whereas traditionally they could delegate, avoid, or ignore IT decisions, today they cannot conduct marketing, R&D or HR without depending on IT at some point in time. Metaphorically, a 'Speak-See-Hear No Evil' attitude towards IT governance is no longer viable in today's business landscape (Figure 1).

With the dawning of the 21st century, organizations are experiencing a global digital revolution with profound impacts on their business models and electronic business processes, wherein the interdependency between business and IT is intensely reciprocal. This e-business genesis coincides with a business landscape, in which the intensity, unpredictability and diversity of change has accelerated to create a condition of hyper competition (D'Aveni, 1994), in which there is no stable competitive position, bureaucratic hierarchies become a competitive liability, organizational boundaries are being redefined, core competencies develop into core rigidities, and strategic fit is fleeting, all against a backdrop of global economic turmoil and market volatility.