Chapter VIII

Governance Knowledge

Introduction

In many organizations, information technology has become crucial in the support, sustainability and growth of the business. This pervasive use of technology has created a critical dependency on IT that calls for a specific focus on IT governance. IT governance consists of the leadership and organizational structures and processes that ensure that the organization's IT sustains and extends its strategy and objectives (Grembergen, et al., 2004).

IT governance matters because it influences the benefits received from IT investments. Through a combination of practices (such as redesigning business processes and well-designed governance mechanisms) and appropriately matched IT investments, top-performing enterprises generate superior returns on their IT investments (Weill, 2004).

IT governance can be defined as specifying decision rights and accountability framework to encourage desirable behavior in the use of IT (Weill & Ross, 2004). This is the definition we will use here.

Other definitions of IT governance are, for example: (i) an embodiment of the structures and processes that ensure that IT supports the organization's mission. The purpose is to align IT with the enterprise, maximize the benefits of IT, use IT resources responsibly and manage IT risks, (ii) a structure of relationships and processes to direct and control the enterprise in order to achieve its goals by adding value while balancing risk versus return over IT and its processes, (iii) the responsibility of the board of directors and executive management. It is an integral part of

enterprise governance and consists of the leadership and organizational structures and processes that ensure that the organization's IT sustains and extends is strategies and objectives, and (iv) IT governance is the system by which an organization's IT portfolio is directed and controlled. IT Governance describes: (a) the distribution of 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 (Peterson, 2004a).

IT governance has attracted substantial attention in recent years (e.g., Chin, et al., 2004; Grembergen & Haes, 2004a, 2004b; McManus, 2004; Meyer, 2004; O'Donnell, 2004; Peterson, 2004a, 2004b; Rau, 2004; Read, 2004, Robbins, 2004; Trites, 2004; Weill & Ross, 2004, 2005). Here we will discuss IT governance in terms of resource mobilization, allocation of decision rights as well as strategic alignment.

IT Governance as Resource Mobilization

According to the resource-based theory of the firm, performance differences across firms can be attributed to the variance in the firms' resources and capabilities. The essence of the resource-based theory of the firm lies in its emphasis on the internal resources available to the firm, rather than on the external opportunities and threats dictated by industry conditions. A firm's resources are said to be a source of competitive advantage to the degree that they are scarce, specialized, appropriable, valuable, rare and difficult to imitate or substitute.

A fundamental idea in resource-based theory is that a firm must continually enhance its resources and capabilities to take advantage of changing conditions. Optimal growth involves a balance between the exploitation of existing resource positions and the development of new resource positions. Thus, a firm would be expected to develop new resources after its existing resource base has been fully utilized. Building new resource positions is important if the firm is to achieve sustained growth. When unused productive resources are coupled with changing managerial knowledge, unique opportunities for growth are created (Pettus, 2001).

The term resource is derived from Latin, resurgere, which means, "to rise" and implies an aid or expedient for reaching an end. A resource implies a potential means to achieve an end, or as something that can be used to create value. The first strategy textbooks outlining a holistic perspective focused on how resources needed to be allocated or deployed to earn rents. The interest in the term was for a long time linked to the efficiency of resource allocation, but this focus has later been expanded to issues such as resource accumulation, resource stocks and resource flows (Haanaes, 1997).

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