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Chapter XIV

IT Governance as Allocation of Decision Rights

Most scholars seem to agree that a critical part of IT governance is allocation of decision rights. Allocation is concerned with identifying decision makers and decision categories.

Decision Makers and Decision Rights

Weill and Ross (2004, p. 58) use political archetypes (monarchy, feudal, federal, duopoly, anarchy) to describe the combinations of people who have either decision rights or input to IT decisions:

1. *Business monarchy*. In a business monarchy, senior business executives make IT decisions affecting the entire enterprise. It is a group of business executives or individual executives (CxOs), including committees of senior business executives (may include CIO). It excludes IT executives acting independently.

2. *IT monarchy*. In an IT monarchy, IT professionals make IT decisions. It is a group of IT executives or individual CIOs.

3. *Feudal*. The feudal model is based on traditions where the princes and princesses or their designated knights make their own decisions, optimizing their local needs. It is business unit leaders, key process owners or their delegates.

4. *Federal*. The federal decision-making model has a long tradition in government. Federal arrangements attempt to balance the responsibilities and accountability of multiple governing bodies, such as country or states. It is c-level executives and business groups (e.g., business units or processes). It may also include IT executives as additional participants. It is equivalent of the central and state governments working together.

5. *IT duopoly*. The IT duopoly is a two-party arrangement where decisions represent a bilateral agreement between IT executives and one other group (e.g., CxO or business unit or process leaders). The IT executives may be a central IT group or team of central and business unit IT organizations.

6. *Anarchy*. Within an anarchy, individuals or small groups make their own decisions based only on their local needs. Anarchies are the bane of the existence of many IT groups and are expensive to support and secure. It can be each individual user.

Peterson (2004) discusses decision makers and decision rights in terms of centralization vs. decentralization. Over the past decade, organizations have set out to achieve the best of both worlds by adopting a *federal* IT governance structure. In a federal IT governance model, IT infrastructure decisions are centralized, and IT application decisions are decentralized. The federal IT governance model thus represents a hybrid model of both centralization and decentralization.

The discussion of whether to centralize or decentralize IT governance is based on a rational perspective of the organization, in which choices are reduced to one of internal efficiency and effectiveness. This view assumes a system of goal consonance and agreement on the means for achieving goals, i.e., rational and logical trade-off between (a) efficiency and standardization under centralization, vs. (b) effectiveness and flexibility under decentralization.

In general, it is assumed that centralization leads to greater specialization, consistency, and standardized controls, while decentralization provides local control, ownership and greater responsiveness and flexibility to business needs. However, flexibility under decentralization may lead to variable standards, which ultimately result in lower flexibility, and specialization under centralization incurs risks due to bounded rationality and information overload (Peterson, 2004).

A federal approach towards IT governance challenges managers in local business units to surrender control over certain business-specific IT domains for the well-being of the enterprise, and to develop business-to-corporate and business-to-IT partnerships. The potential risk in contemporary business environments is that either centralization or decentralization fit the organization into a fixed structure. The challenge is therefore to balance the benefits of decentralized decision-making and business innovation and the benefits of central control and IT standardization (Peterson, 2004).

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