Allocating Decision Rights and Accountability

Around 2000, when UPS was moving aggressively into eastern Europe, UPS’s regional head proposed equipping drivers and warehouses with technology different from UPS’s standard handheld device. He could demonstrate that in eastern Europe the nonstandard approach would cost less and be adequate to meet the needs of a less mature market. Then, as now, UPS had an IT decision-making process that reviewed exceptions to these types of standards. In this case, the decision was passed up to senior management, who insisted that eastern Europe adopt standard UPS business processes and technology. Then UPS CEO Mike Eskew explained: “We are a network and we can’t have
some warehouses managing with this system and others managing with that system . . . [When you allow differences] you can’t transfer people and you can’t transfer information.”

UPS was building out a digitized platform providing global visibility into data and standard core processes to meet the needs of its unification operating model. Management was determined to extend that platform and generate benefits. Because of management’s commitment to the digitized platform, whenever UPS changes the functionality of its handheld devices or the systems with which the devices interact, management knows that all parts of the network will still be compatible. UPS has achieved this desired predictability because management has implemented decision-making practices to build, protect, and leverage its digitized platform.

Not every firm needs as much process integration and standardization as UPS’s package delivery business. But every firm, at some level, needs a digitized platform to operate effectively. The only way to deliver a digitized platform—and superior business value from IT—is to design IT decision rights and accountabilities so that daily decisions about IT support the firm’s strategic goals. Otherwise, IT is destined to become an obstacle to long-term success.

We refer to a firm’s framework of IT decision rights and accountabilities as IT governance. For some people, the term governance conjures up visions of bureaucracy or endless committee meetings. We see the opposite. Governance empowers people by providing transparency about decision-making processes and criteria. Effective IT governance minimizes bureaucracy and dysfunctional politics—and it pays off.
Firms with above-average IT governance effectiveness had 20 percent higher profits as measured by three-year industry-adjusted return on assets (ROA).²

**FIVE KEY DECISIONS**

To effectively govern IT, firms must allocate decision rights and accountabilities for at least five decisions:

- **IT principles**: As explained in chapter 2, strategic use of IT requires that management specify the firm’s operating model. *IT principles* refer to the firm’s operating model and any other directives clarifying the role of IT in the firm. Governance should allocate decision rights for determining IT principles—usually to one or more members of the senior management team.

- **Enterprise architecture**: Enterprise architecture refers to the design of the firm’s digitized platform. Governance should specify the people responsible for establishing business process, data, and technology standards and for dealing with requests for exceptions to those standards.

- **IT infrastructure**: Infrastructure is the set of shared IT services available to all parts of the enterprise. Governance allocates responsibility for defining, providing, and pricing IT shared services.

- **Business needs and project deliverables**: New systems and processes emerge from an extended organizational
effort that starts with a business case for a new system and ends, ideally, with a review of the outcomes of that system implementation. Governance allocates ownership for defining the business case, ensuring successful implementation, and delivering the benefits.

- **IT investment and prioritization**: In chapter 3, we discussed the IT funding and prioritization process in depth. Although critical, IT investment and prioritization is only one of five IT decisions that needs to be governed. Here we discuss how it fits with the other four governance decisions.

Firms implement governance through a set of mechanisms: individual roles (e.g., CEO or CIO), committees or teams (e.g., IT steering committee or IT leadership team), and formalized processes (e.g., architecture exception processes or business case review processes). A firm’s governance mechanisms clarify how each of the five decisions will be made and who will be held accountable. Southwest Airlines offers an example of how an IT-savvy firm designs IT governance to fulfill strategic business objectives.

**IT GOVERNANCE AT SOUTHWEST AIRLINES**

Southwest Airlines is a $9.5 billion U.S. airline offering primarily short-haul, point-to-point, low-fare flights. Founded in 1971, Southwest built locally optimal systems until the late 1990s, when CFO Gary Kelly started pushing the use of IT to enhance operational efficiencies and customer service.
When Kelly became CEO in 2004, he worked with CIO Tom Nealon to provide a solid platform of digitized processes for the enterprise.

Although business leaders agreed that enterprise systems and processes would be valuable, they struggled to define those processes. To support enterprise thinking, Southwest created seven strategy teams. These strategy teams, with names like Low-Cost Carrier, Best Place to Work, and Best Customer Experience, meet twice a month to define enterprise priorities for implementing the strategy. The top thirty leaders of the company each sit on two or more strategy teams so they can inform their colleagues of services and needs within their own functional area while learning about the operations of other functional areas. The teams propose enterprise IT projects, which are reviewed by the firm’s executive committee in establishing project priorities. Around 80 percent of Southwest’s technology projects are aligned with one of the strategy teams.

To ensure that individual projects deliver on their business objectives, Southwest has implemented a tollgate process. The tollgates are monthly reviews of each project’s progress and objectives. The tollgates bring together IT and non-IT people who are responsible for resolving any technology and business issues that could hinder project delivery or business value.

One of the tollgates involves a review of the technology that the project team proposes to use to support the new system. In the review process, a group of IT professionals, known as the architecture working group, works with application developers and business people to make sure proposed technologies
are either architecturally compliant or the project justifies an excepti
tion to standards.

Table 5-1 provides a high-level chart of Southwest’s account-
ability framework for its five governance decisions. Southwest
has specified one person or group of persons ultimately account-
able for each decision, but the governance design also assigns
some specific decisions to other individuals or teams within a
decision area. Overlapping participation on decision-making
bodies helps to coordinate the five IT decisions to provide con-
sistency in the firm’s strategic pursuits.

Management’s commitment to building a digitized plat-
form in support of customer service and operational effi-
ciency has made Southwest the United States’ largest (in terms
of passengers flown) and most profitable airline. In October
2008, while most U.S. airlines were reporting losses, Southwest
reported its seventieth consecutive quarterly operating profit.

**IT GOVERNANCE OBJECTIVES**

Southwest’s governance fulfills two critical IT governance
objectives: (1) promote desirable behavior in the management
and use of IT, and (2) formalize organizational learning about
IT and digitized processes. When governance achieves these
objectives, firms make consistent progress on their IT savvy
journey and IT becomes a strategic asset.

**Promote Desirable Behavior in the Management and Use of IT**

We tend to assume that we can motivate desirable behavior
through appropriate organizational structures and incentive
### TABLE 5-1

**Southwest Airlines’ governance**

<table>
<thead>
<tr>
<th>Accountable party</th>
<th>Decision</th>
<th>IT principles</th>
<th>Enterprise architecture</th>
<th>IT infrastructure strategies</th>
<th>Business need and project deliverables</th>
<th>IT investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>Accountable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIO</td>
<td>Accountable</td>
<td>Accountable for technology standards</td>
<td></td>
<td>Accountable</td>
<td>Leads tollgate reviews</td>
<td></td>
</tr>
<tr>
<td>Executive committee(^a)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy teams(^b)</td>
<td>Accountable for process and data standards</td>
<td></td>
<td></td>
<td></td>
<td>Accountable for enterprise priorities</td>
<td></td>
</tr>
<tr>
<td>Business leaders</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Accountable for team’s priorities</td>
<td></td>
</tr>
<tr>
<td>Architecture working group(^c)</td>
<td>Conducts compliance reviews</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher interpretation of Southwest’s governance design.

\(^a\) includes CEO and CIO
\(^b\) includes business leaders
\(^c\) reports to CIO
systems. But in most firms that’s not enough. Enterprisewide objectives are often in conflict with subunit objectives. Individuals don’t always understand how their behavior affects firmwide performance. They focus on the local objectives they understand and can achieve. One role of IT governance mechanisms is to encourage desirable behaviors that organizational structures and incentive systems cannot or do not motivate.

For example, an architecture review process aligns individual projects with the enterprise’s objectives for a digitized platform. That way, individuals need not fully comprehend how their individual initiatives affect enterprise objectives. The governance process reconciles the local initiative with the enterprise’s long-term plan. Of course, management doesn’t want an IT group to force compliance with a standard if an exception can introduce valuable change to the firm. Thus, architecture working groups like Southwest’s and UPS’s usually escalate to senior managers the few exception decisions that they believe could have long-term strategic implications.

Governance should surface and institutionalize natural tensions. Take, for example, the pressure IT professionals feel to ensure the reliability and security of the firm’s technology environment. How can they minimize downtime and security breaches? Limit access; take no risks; avoid change. Business leaders, on the other hand, feel constant pressure to seize strategic opportunities and build efficiencies. How do they do that? Experiment; demand data access for themselves and their customers; rapidly implement new system capabilities. The goals of these two groups are both potentially value-adding, but they will often be in conflict. A set of governance mechanisms, such
Allocating Decision Rights and Accountability

as senior management strategy committees, disciplined project methodologies, and architecture reviews, exposes and helps resolve these valuable tensions to the benefit of the enterprise.

**Formalize Organizational Learning About**

**IT and Digitized Processes**

Governance should help firms learn so that they stop making the same mistakes over and over again. Southwest’s tollgate process engages stakeholders in system delivery and implementation. This not only improves outcomes on the current project, but also gives them valuable experience in recognizing what goes right and wrong in delivering projects. This learning from experience is the essence of what makes a firm IT savvy.

Post-implementation reviews (PIR) support organizational learning. PIRs help management recognize when their expectations for the benefits and costs of a new system are realized—and when those expectations were unrealistic. PIRs are valuable when they foster learning—they are not a useful governance mechanism when they simply assign blame for failures. By involving key stakeholders over the entire life cycle of development, implementation, and post-implementation review, a project methodology with intermittent reviews keeps a project on track for timely delivery and significant business benefits.

An architecture review process also supports learning. Architecture reviews help an organization learn how to effectively use standard technologies to meet business needs. Just as important, the review process identifies when standards are outdated or no longer adequate for addressing the business needs of the firm.
IT governance should always encourage desirable behavior and formalize organizational learning about IT and digitized processes. However, there is no single optimal governance design. As firms move through the four stages of the IT savvy journey, their governance objectives—and thus their governance design—evolve. In particular, a business transformation imposes unique requirements for IT governance.

**IT GOVERNANCE FOR BUSINESS TRANSFORMATION**

Chapter 4 described the four stages of the IT savvy journey. When a firm enters the third stage, it attempts to build a digitized platform. The data and process standards that firms implement in this stage fundamentally transform their operations. A business transformation requires governance designed to lead change and clarify new business processes and expectations. Campbell Soup Company illustrates how well-designed project-level governance guides a firm through the transformation from locally optimized business processes to enterprise thinking.

**Governance at Campbell Soup Company**

Founded in 1869, Campbell Soup Company is an $8 billion global manufacturer of soups, baked snacks, beverages, and chocolates. In May 2004, following a successful three-year effort to develop a solid IT infrastructure, Campbell embarked on a $125 million, three-year project to implement an ERP and introduce common processes and shared data across Campbell’s twenty-two North American businesses.
Dubbed Project Harmony, Campbell’s transformation effort focused on standardizing three core business processes across the firm: make-to-ship, account-to-report, and order-to-cash. By standardizing and integrating these three processes, Campbell created a global supply chain and reduced operating costs. Management articulated project goals in terms of total delivered cost (TDC), the total cost of making product and delivering it to customers. Employees throughout the firm were charged with flat TDC, meaning that annual costs would stay the same regardless of inflation.

Management recognized two major challenges associated with the transformation project: (1) process design—Campbell wanted to optimize its three core processes while meeting the individual needs of the twenty-two businesses—and (2) process adoption—Campbell’s people would need to learn new behaviors supporting an enterprise, rather than local, view of business success. To address these two challenges, management created new roles and accountabilities.

At the highest level, four senior executives took responsibility for IT principles: the CIO, the CFO, the president of Campbell North America, and senior vice president for global supply chain. At their biweekly meetings, these executives reviewed progress and provided resources to ensure that Project Harmony met targets. All requests for deviations from standard had to pass through this team, which severely limited the number of exception requests. The sponsor team also identified projects to put on hold to maintain focus on Project Harmony implementation.

At the next level, an experienced IT executive was named project leader. He headed the operating committee, which
included a technical lead, an IBM project lead, Campbell’s leader for change management, and three experienced senior managers, each of whom led one of the three process teams. The operating committee met weekly to make decisions on the interdependencies among the process areas as well as to ensure that the overall program remained on track.

The project team comprised sixty Campbell people and seventy consultants also reported to the project leader. The project team was charged with implementing the system. Three process advisory groups advised the process teams. The advisory groups were chaired by senior executives.

Finally, deployment teams in each of the twenty-two businesses were responsible for timely implementation and change management at the individual sites. Recognizing the magnitude of the changes and heavy resource requirements, the deployment teams staged or killed most other change initiatives, including product rollouts, pricing changes, and new promotion efforts.

The sponsor team and operating committee worked with deployment teams to enable learning across the twenty-two locations. As each site implemented Project Harmony, the deployment team from the next site was on hand to learn critical success factors and potential stumbling blocks. Meanwhile, senior leadership emphasized that the goal of every manager was not just the success of the current implementation but also the success of the next one.

Campbell management designed the chart shown in figure 5-1 to clarify decision-making rights and accountability for Project Harmony. These decision makers led Project
Harmony to an on-time and on-budget completion and exceeded business performance expectations. In 2007 Campbell generated shareholder returns of 16.2 percent, compared with an average of 7.7 percent earned by S&P’s packaged food index.

Project Harmony’s success was due, in part, to the centralization of accountability in the four-person executive team. These executives held themselves accountable for articulating project principles, establishing the high-level enterprise architecture, delivering project benefits, and deciding on implementation priorities. But they also implemented governance mechanisms for coordinating the decisions of everyone involved with Project Harmony. The efforts of all the teams and working groups contributed to achieving project objectives. That coordination is a particular challenge in IT governance.

**USING MECHANISMS TO BRIDGE STAKEHOLDER PERSPECTIVES**

While IT governance necessarily assigns strategic decisions to senior executives, governance must also ensure that IT decisions made at the top of the firm are consistently applied by decision makers at lower levels of the firm. Six stakeholder groups make decisions affecting how IT is managed and used. These six groups, shown in the shaded rectangles in figure 5-2, are the IT and business leaders at the enterprise, business unit, and project levels.

To help you establish, review, or rationalize your IT governance, consider the following five IT governance mechanisms. These mechanisms are used by top-performing firms
## FIGURE 5-1

### Project Harmony decision-making rights

<table>
<thead>
<tr>
<th></th>
<th>Project mgmt</th>
<th>Basic design and process/control changes within process area or workstream</th>
<th>Major process/control changes within process area</th>
<th>Cross-process/cross workstream</th>
<th>Deployment decisions</th>
<th>Business unit organization and policy changes</th>
<th>Company organization and policy changes</th>
<th>Scope/budget change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sponsor group</strong></td>
<td>Notify</td>
<td>Notify</td>
<td>Decide&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Notify/Decide&lt;sup&gt;b&lt;/sup&gt;</td>
<td>Notify</td>
<td>Decide&lt;sup&gt;c&lt;/sup&gt;</td>
<td>Decide&lt;sup&gt;d&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td><strong>Process advisory group</strong></td>
<td>Notify</td>
<td>Notify</td>
<td>Decide</td>
<td>Consult</td>
<td>Notify</td>
<td>Notify</td>
<td>Consult (scope)</td>
<td></td>
</tr>
<tr>
<td><strong>Operating committee</strong></td>
<td>Consult</td>
<td>Notify</td>
<td>Notify</td>
<td>Consult</td>
<td>Notify</td>
<td>Consult</td>
<td>Consult</td>
<td></td>
</tr>
<tr>
<td><strong>Program management office (PMO)</strong></td>
<td>Notify</td>
<td>Consult</td>
<td>Identify</td>
<td>Recommend</td>
<td>Recommend</td>
<td>Recommend</td>
<td>Recommend</td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> Decide with input from PMO

<sup>b</sup> Notify/Decide with input from PMO

<sup>c</sup> Decide with input from PMO

<sup>d</sup> Decide with input from PMO
<table>
<thead>
<tr>
<th>Project team (process area teams)</th>
<th>Notify</th>
<th>Identify/recommend/decide</th>
<th>Identify/recommend</th>
<th>Identify/recommend/decide&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Identify</th>
<th>Recommend</th>
<th>Identify</th>
<th>Identify</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business deployment team</td>
<td>Notify</td>
<td>Notify</td>
<td>Notify</td>
<td>Notify</td>
<td>Decide&lt;sup&gt;b&lt;/sup&gt;</td>
<td>Decide</td>
<td>Consult</td>
<td>Notify</td>
</tr>
</tbody>
</table>

Source: Campbell Soup Company.

a. Basic cross-process decisions will be resolved through cross-process teams as assigned by PMO; major cross-process decisions with alternate viewpoints will be resolved by the sponsor group.
b. Sponsor group decides issues affecting overall deployment approach and schedule; each deployment site makes master planning decisions related to business activities and deployment/cutover activities within the overall schedule and project requirements.
c. May require approval of CEO for major organization or policy changes.
d. Major scope or budget changes may require approval from the board of directors.
to coordinate the decisions of the six stakeholder groups. Our research has found that firms without these IT mechanisms have worse governance and business performance.4

- **Senior management committee:** Not surprisingly, IT-savvy firms consistently engage senior executives in IT decision making. A senior-level committee is often responsible for IT principles and overall IT spending and prioritization. The composition of the senior management IT steering committee usually includes some or all of the firm’s top executives,
Allocating Decision Rights and Accountability

including the CEO, COO, CIO, CFO, and business unit heads. These senior executives can bridge organizational entities, such as business units and functions. Most of the firms we describe in this book have this type of committee, including EMC, BT, Southwest Airlines, State Street Corporation, and UPS.

- **IT leadership team:** Large firms usually invest substantial IT decision-making responsibilities in the IT leadership team. Chaired by the CIO, this team is composed of either the CIO’s direct reports, or, in more diversified organizations, the IT heads of the business units and shared services. These executives are often involved in decisions related to enterprise standards, IT infrastructure, and shared services.

- **Business-IT relationship managers:** Large firms generally have relationship managers responsible for linking business and IT. These people act as liaisons to ensure that business users benefit from firmwide IT services while also representing the needs of the business in other IT decisions. Most of the IT-savvy firms described in this book have business IT relationship managers or similar roles. Their efforts typically engage individuals a level below the senior management team and thus support effective implementation of decisions related to business process design, standards compliance, business case development, reuse of systems and data from other parts of the firm, and the tracking of IT value.
• *Management/oversight of IT projects and service:* The difference between hoping that a project is delivered on time, on scope, and on budget and actual value realization is typically a matter of disciplined project methodology and oversight. Responsibility for designing project methodology and oversight often rests with a project management office (PMO). Effective implementation depends on stakeholders at all levels of the firm.

  Management and oversight of IT services is equally important, because in most firms, IT services account for about twice the budget of new IT projects. The key IT services provided across the firm must be specified and managed for unit cost and quality—part of the IT infrastructure and architecture decisions. For example, Intel produces a catalogue of IT services and their unit costs. Each year Intel benchmarks its IT unit cost and quality with a peer group of companies. The results are reported in the IT department’s annual report, published on the Web. This transparency helps demonstrate how IT adds value every year and helps fine-tune how the services are managed and architected together into a platform. Managing IT services also involves planning for future needs. This requires that the IT unit assess demand against capacity for each service.

• *Tracking business value of IT:* Post-implementation reviews (PIRs), which provide a formal process for
Allocating Decision Rights and Accountability

tracking the value of IT, are particularly valuable for increasing organizational learning about how to generate value from IT. Some firms, such as BT, have moved to midproject reviews every ninety days. To increase accountability, every ninety days each program undergoes a review against the objectives and metrics determined in the plan. If the program does not meet these objectives and metrics, it will typically be cancelled by BT’s finance team. To make sure incentives are aligned, bonuses are paid to the teams based in part on the project’s ninety-day review of performance against plan.

Figure 5-2 maps how these five mechanisms help bridge the six key stakeholders. Map your key governance mechanisms to assess how well you are driving consistent IT decisions and values involving your six stakeholders. If you detect any gaps, you can bet that IT is not generating the strategic value you want.

Most IT and business executives tell us they are not satisfied with their IT governance. That’s understandable. We’ve already noted that you need to design IT governance mechanisms to address five key decisions, and those governance mechanisms need to coordinate the six stakeholders who make IT decisions. There’s more! You need to regularly review your governance practices to make sure they adapt to business changes, particularly increased diversification or globalization. Your governance should reflect your firm’s IT maturity on your IT-savvy journey. State Street Corporation provides an instructive example of how to mature and globalize IT governance.
GLOBAL IT GOVERNANCE AT STATE STREET CORPORATION

State Street is a leading provider of financial services to institutional investors, including investment servicing, investment management, and investment research and trading. State Street’s customers—asset managers, hedge funds, insurance companies, collective funds, mutual funds, pension funds, and nonprofit institutions including endowments and foundations—use State Street services to deliver value to their clients, control costs, launch new products, and expand globally. State Street’s more than twenty-eight thousand employees work in twenty-six countries serving customers in over one hundred markets. The firm’s 2007 revenues of $8.4 billion represented an annual increase of 17 percent per year for five years with 18 percent annual increases in earnings per share. As of December 31, 2007, State Street had $15.3 trillion in assets under custody.5

State Street’s products and services are highly IT-enabled, so the firm has typically allocated 20 percent of operating expenses to IT. Historically, State Street had been a set of autonomous business units (e.g., investment management, pension funds), each focused on developing value for their customers. When David Spina became chairman and CEO of State Street in 2001, he faced a slumping market and a changing industry. To increase customer service while wringing greater value from the firm’s assets, he articulated a new strategy of “One State Street.”

State Street revamped IT structure and governance to enable its new strategy. At the highest level, State Street created,
the IT executive committee (ITEC), comprising the COO, the CAO, the CIO, and senior executives from State Street’s various business units. ITEC established the IT principles supporting the firm’s operating model and prioritized the enterprisewide IT budget accordingly. ITEC considered the firm’s strategic objectives and monitored the resources and progress of the projects through an enterprise-wide IT budget and activity tracking system.

To define an IT strategy that delivered the requirements of both the business units and the enterprise, the CIO’s staff consisted of twelve direct reports, half of whom headed up enterprise services, while the other half were responsible for business unit relationships. Enterprise services were delivered according to carefully designed service-level agreements and chargeback. The service-level agreements forced decision makers at multiple levels to surface and resolve the natural tensions between enterprise services and business unit demands. The CIO also created an IT leadership group of all IT senior vice presidents. This group met regularly to identify enterprise synergies and to implement IT strategy. An Office of Architecture within IT took on responsibility for implementing standards and monitoring architecture compliance.

These mechanisms, which State Street implemented in 2002, promoted learning and helped the firm adopt the “One State Street” strategy. Figure 5-3 describes how these mechanisms coordinated the six key stakeholders’ perspectives.6 As State Street has become increasingly IT savvy, however, the firm has fine-tuned its governance mechanisms. For example, the firm outgrew the need for ITEC as a stand-alone committee to
deal with IT issues. In 2006 ITEC was disbanded. Instead, former CIO Joseph Antonellis championed IT issues at meetings of the Executive Operating Group, a small group of senior executives headed by CEO Ron Logue.

In 2008, Joe Antonellis became State Street’s vice chairman. The new CIO, Chris Perretta, is leading IT governance refinements to focus on global issues and business process optimization. State Street’s governance is being fine-tuned to incorporate its increasingly distributed operations, which include business process servicing in India and new-product
Allocating Decision Rights and Accountability

development in China. Perretta is restructuring IT into three building blocks: corporate (e.g., IT leadership, IT portfolio management, and IT security), shared services (e.g., strategic sourcing, offshore services, data services, and infrastructure), and business-aligned services (e.g., new initiatives, business IT relationship management, and client integration). He is designing decision rights and accountability for each building block to achieve a balance between local business innovation and global economies of scale.

In the next stage of the firm’s IT savvy journey, executive vice president Robert Kaplan is leading a new breakthrough effort called Model Office. His multifunctional team is identifying and standardizing the core set of global business processes at State Street. This effort will require creation of twenty virtual Centers of Excellence, each responsible for the delivery of critical business processes (e.g., trade processing), which will be optimized across several geographical centers servicing all of State Street’s global operations. These new governance mechanisms will help State Street coordinate decision making in an increasingly global business. New governance mechanisms usually take time to master, but they are essential to a firm’s ability to promote desirable behavior and facilitate ongoing learning.

CREATING TRANSPARENT IT GOVERNANCE

For effective IT governance, you and your colleagues must all understand how the key IT decisions in your firm should be
made. Think about the way financial decisions are made in your firm. The decision rights and accountabilities (i.e., governance) for financial decisions specify how you and your colleagues make a capital investment, who sets the budget, who is responsible for business profitability, what gets audited, and so on. What percentage of your firm’s senior managers could accurately describe the way key financial decisions are made? Ninety-five percent? Higher? It’s hard to imagine doing business without everybody understanding how key financial decisions are made and how people are held accountable.

What percentage of your senior management colleagues could describe how key IT decisions are made and how people are held accountable? In our research, the average answer is 45 percent.7 For many firms, particularly less IT-intensive and small to medium-sized firms, the number is 25 percent or lower. This is an important metric because the higher that percentage, the more bottom line impact we see from IT—in fact, it’s one of the best indicators of IT value that we have.8

To conclude, here are five important principles from our research to guide your IT governance work:

- **Lead the effort to set or clarify your operating model:** Your operating model specifies which decisions will be global and which will be local. By making the operating model—and accompanying desirable behavior—clear, you as a senior executive can delegate many IT decisions.

- **For transparency, draw up IT governance on one page and use it to communicate decision-making**
Allocating Decision Rights and Accountability

 accountability:  Map your IT governance mechanisms and the individuals responsible for them using one of the figures in this chapter. Make it your goal to get the percentage of senior executives who understand how IT decisions are made to 95 percent.

•  Keep the number of governance mechanisms small: Some firms introduce a new mechanism in response to every problem. The result is uncoordinated—and ineffective and confusing—IT governance. Assign someone (typically the CIO) the responsibility for designing and implementing a coherent set of IT governance mechanisms.

•  Play to your strengths: Rebecca Rhoads, global CIO of Raytheon, advises implementing IT governance that overlays “whatever makes your company great.” Wherever possible, overlay IT decisions onto strong governance mechanisms used for other assets (e.g., operating committee, capital expenditure process, business process teams, project management office) rather than establishing IT-specific mechanisms. You will need some IT-specific mechanisms, but keep those to a minimum (e.g., IT leadership team, business-IT relationship managers, and management of IT projects and services).

•  Learn from exceptions: If there is a good reason for an exception, such as building a new system that doesn’t use the firm’s current technology standards, grant it
and learn from it. Make the exceptions process fast and easy, and make it require political capital so it’s not used frivolously.

By clarifying IT decision rights and accountability, you create the management capability to progress along the IT savvy journey. In the next chapter, we’ll describe the opportunities you’ll create as you become more IT savvy.