

Based on a presentation by Michael Vitale, Australian Graduate School of Management

*With the fanaticism of the dot.com world fading, one can begin to question what this movement has left behind. Michael Vitale, dean of the Australian Graduate School of Management, discussed the legacy of the e-world, arguing that the Internet revolution has just begun and that the successful companies of tomorrow will get e-business right by focusing on IT governance. In this discussion, Dr. Vitale presents a holistic approach to IT governance that will allow firms to move the e-business mindset down into the business and begin to take advantage of the efficiencies of e-world.*

### Introduction and Overview

Is the dot.com movement dead? If so, can we look back at the fanaticism and define the legacy it left behind? According to Michael Vitale, the Internet revolution has just begun. We are no longer seeing the grandiose dreams of 20-something innovators without a grounded business plan becoming successful. Instead, the successful and revolutionary companies of tomorrow will be existing companies that will leverage their brands, customers, assets, and knowledge within the e-realm. Getting e-business correct in the Internet revolution of tomorrow will not be about technology; to be successful will rely upon having a governance structure in place that allows a firm to be successful.

### What is Governance?

According to Michael Vitale, IT governance is *the process of making decisions about IT and monitoring IT performance*. As such, governance is not about a structure or a list of decisions that need to be made. Instead, governance is a process or pattern of decision-making. In decision-making, IT makes internal decisions (how to handle internal IT processes) and external decisions (how to handle interactions with the business units). IT also has two time frames: the past/present and the future. Using the time frame and perspective dimensions, there are 4 types of decisions that IT makes:

Perspective	Outward	Accountability	Strategy
	Inward	Monitoring	Policy
		Past & Present	Future
		Time Frame	

1. Who is IT accountable to within the business?
2. How are we monitoring ourselves?
3. What is the strategy needed for IT to support the business?
4. What are the internal policies that are necessary for IT to be successful in the future?

Governance is designed to handle these four types of decisions.

## Structuring IT Governance

Governance thus exists as a process to handle the four types of decisions that need to be made within organizations. Yet, this does not explain what form of governance that IT chooses to utilize. Overall, IT chooses one of four arrangements:

1. Anarchy, where everyone makes a decision
2. Monarchy, or total centralization
3. Feudalism, or total decentralization
4. Federalism, where there are some centralized decisions and some decentralized decisions

Each of the modes is found in organizations and has their own benefit. The most popular choice is federalism, which combines centralized and decentralized decision-making. Firms choosing federalism hope to leverage the benefits of each form and recognize that the patterns of indicators is not totally slanted in one direction within their firm. The table below displays the benefits of centralization and decentralization, along with the indicators that point to the form of governance that a firm should choose.

	Centralization	Decentralization
<b>Benefits</b>	<ul style="list-style-type: none"> <li>•Efficiency</li> <li>• Synergy</li> </ul>	<ul style="list-style-type: none"> <li>•Flexibility</li> <li>• Responsiveness</li> </ul>
<b>Indicators</b>	<ul style="list-style-type: none"> <li>•Smaller firms</li> <li>•Conservative strategies / low cost</li> <li>•Centralized control</li> <li>•Stable industry</li> </ul>	<ul style="list-style-type: none"> <li>•Larger firms</li> <li>•Aggressive strategies / differentiation</li> <li>•Decentralized control</li> <li>•Unstable industry</li> </ul>

## Establishing a Governance Mode

The decision about which mode to choose is the result of three factors:

1. The economies of scope within the corporation, or the amount of product diversification. If a firm produces similar products, the firm is more likely to become centralized, to take advantage of efficiencies of scale; while if the firm produces dissimilar products, the firm is more likely to be decentralized.
2. The structure of the organization. If a firm overall is centralized, IT is more likely to be centralized, while if the firm overall is decentralized, IT also is more likely to be decentralized.
3. The ability of the line managers to understand IT (termed the absorptive capacity). If line managers understand IT, then IT will logically give them some control over IT and decentralize the function. If there is a lack of understanding, IT will maintain control and centralize the department.

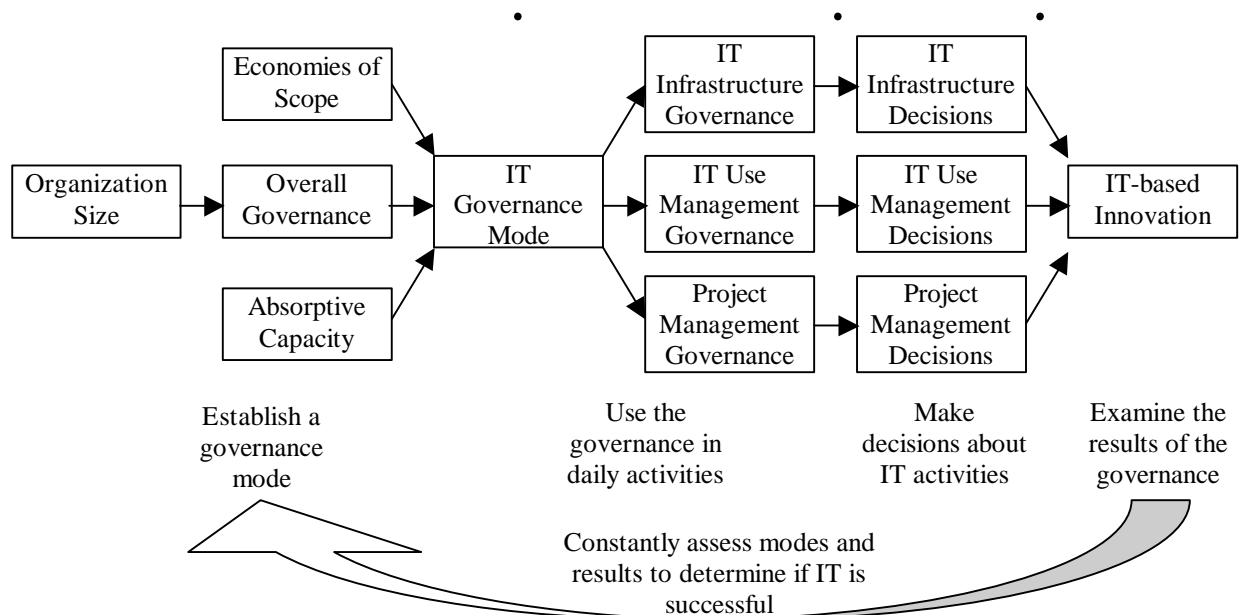
IT analyzes each of these three areas. Based upon this analysis, the department chooses one of the 4 arrangements for their overall IT governance mode.

### Using the Governance Mode for Daily Activities

After deciding upon the overall arrangement, IT analyzes what needs to be accomplished on a daily basis and how to make decisions in those areas. Overall, IT completes three major tasks on a daily basis:

- 1) IT infrastructure management, or handling problem associated with hardware and software platforms, annual enhancements to these platforms, the nature of network and data architectures, and the corporate standards for procurement and deployment of IT assets
- 2) IT use management, or addressing applications prioritization and planning, budgeting, and the day-to-day delivery of operations and services
- 3) Project management, or blending knowledge of IT infrastructure capabilities and capacities with knowledge associated with knowledge associated for the conceptualization, acquisition, development, and deployment of IS applications

A governance choice influences how each of these tasks are accomplished. So, after establishing an overall governance structure and defining how these tasks are accomplished and decisions are made, the result of IT governance is an atmosphere where IT is used to stimulate innovation within a corporation. This becomes the ultimate result of governance. Simply put, IT governance helps to create an atmosphere of IT-based innovation. Yet, there is a constant analysis that firms use to determine if their governance is properly supporting the firm. If all of these governance elements are taken together, a view of governance emerges. The figure below depicts the result.



## Enter Electronic Commerce

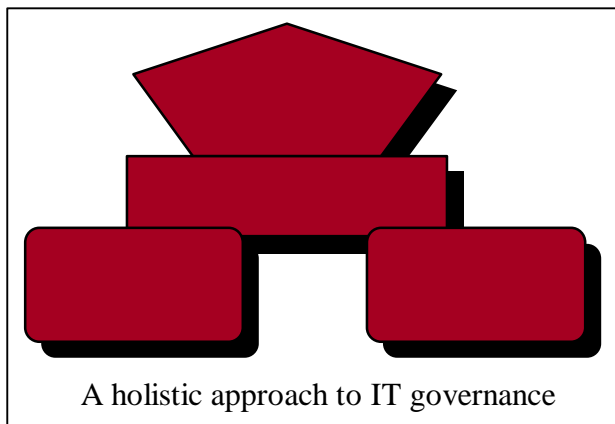
If this were a presentation that was being done before the dot.com days, the discussion would be concluded. However, electronic commerce has introduced a new battle over governance in the contemporary organization. Yet, the impact of e-commerce is two-directional. Consider the following:

- Electronic commerce promises to reduce coordination costs and decompose hierarchies into potential markets. With these economic impacts, IT needs to become more flexible. As was noted previously in the table discussing centralization versus decentralization, a benefit of decentralization is flexibility. Thus, on one hand, it would appear that electronic commerce would lead to IT becoming more decentralized.
- Companies migrating into the e-world find that there is a deluge of data underlying all successful e-business companies. This vast amount of data needs to be accessed across the organization with a periodically refreshed enterprise system. A broad system further allows for stable infrastructure standards and competitive capabilities. A system reflecting these properties is longer and slower than building a maverick or stopgap solution (which most unsuccessful e-commerce companies attempted). However, the only firms capable of handling such a vast project are those with centralized forms of governance that can format and provide all of the information across the organization.

These two opposing views show that electronic commerce is exerting a dual pull: one toward centralization and one toward decentralization. As was previously discussed, in a situation where there are two pulls, the natural result is federalism. Thus, the legacy of the dot.com world is that governance is still important and that federalism will still remain a dominant form of governance. However, what should a structure equipped to govern on Internet time look like?

## Governing on Internet Time

To govern on Internet time requires a holistic approach to IT governance. Using a holistic



approach, there is a senior executive committee overseeing an IT and e-business steering committee. The IT and e-business steering committee is made up of two parts: an e-business team or function and the IT function. Eventually, most researchers believe that the distinction between e-business and business will dissolve and the functions of an e-business team will dissolve into the business units and e-business will become business as usual. However, for now, a holistic approach will allow a contemporary firm to prepare itself for an e-revolution.

### **Do I have this now?**

To assess if you possess a holistic approach to IT governance, answer five questions:

1. Do we have transparent IT decision making to all in the firm?
2. Do we have clear IT accountabilities?
3. Do we have acceptable and actionable IT measurements?
4. Do our IT outcomes contribute to the overall performance of the organization?
5. Do we have a low governance overhead?

Answering these five questions affirmatively indicates that a firm is able to effectively govern IT on Internet time.

### **What do I do if I am unprepared?**

Unprepared firms should take 4 steps in order to begin the transition into a governance mode that will allow them to leverage the opportunities in an e-world:

1. Analyze cases of governance failures. If a project fails “for governance reasons,” analyze why and how it happened. Do not allow this to become the excuse for all IT failure.
2. Start with desired outcomes and measures and work back. What are you trying to accomplish with IT? How will we measure this? Then, work backwards from the end and determine what to do to achieve the desired results.
3. Consider the current and future use of IT in the firm. Determine where the firm is headed and what IT can do to help it get there.
4. Build in a review. Constantly review to determine where you are headed and if you have been successful.

### **Summary**

The dot.com failures of yesterday mean that opportunities exist for tomorrow. While the first wave of revolution is complete, the next step is for established firms to determine where to find the promises of tomorrow. The first phase toward achieving this goal is to examine IT governance structures to see if you are prepared to govern on Internet time. Firms need to realize that IT governance is about sharing IT decision rights across the organization and then monitoring IT performance. The sharing and monitoring is not focused on the outcome, but on the process. This then becomes the true legacy of the dot.com world: leveraging brands, customers, assets, and knowledge within the e-realm using a governance structure that will allow a firm to be successful in the Internet revolution.

### **For more information:**

Michael Vitale’s book with Peter Will, *Place to Space: Migrating to eBusiness Models* can help to give you the insight and confidence to operate successfully in the e-world. Additional information can be found in the book and online at: [http://www.hbsp.harvard.edu/hbsp/prod\\_detail.asp?245X](http://www.hbsp.harvard.edu/hbsp/prod_detail.asp?245X)