# Weill-Ross IT Governance Model

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# Agenda

- **How Key IT Governance Decisions Are Made**

- **Governance Mechanisms**

- **How Top Performers Govern**

- **Recommendations to Guide Effective IT Governance Design**

# Pendahuluan

- Every enterprise engages in IT decision making, but each differs considerably in how thoughtfully it defines accountability and how rigorously it formalizes and communicates decision-making processes.

- When senior managers take the time to design, implement, and communicate IT governance processes, companies get more value from IT.

# IT Decisions

## Pengambilan Keputusan Terkait TI

# Major decision domains

- *IT principles* comprise the high-level decisions about the strategic role of IT in the business.
- *IT architecture* includes an integrated set of technical choices to guide the organization in satisfying business needs.
- *IT infrastructure* consists of the centrally coordinated, shared IT services that provide the foundation for the enterprise's IT capability and were typically created before precise usage needs were known.
- *Business application needs* are the business requirements for purchased or internally developed IT applications.
- Last, *prioritization and investment decisions* determine how much and where to invest in IT.

# Siapa yang bisa bertanggung jawab?

- Bisa di business unit atau functional unit
- Bisa IT
- Bisa senior executive (direktur, komisaris jika perlu) di kantor pusat
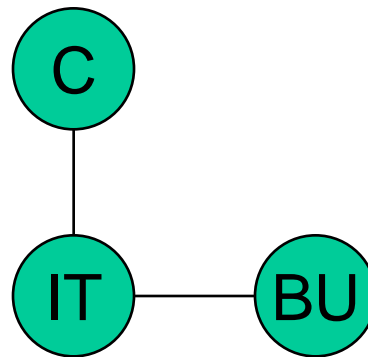
# Governance Archtypes

- Business monarchy
- IT Monarchy
- Federal System
- IT Duopoly
- Feudal
- Anarchy

# Business, IT & Federal

- *Business monarchy* — the most centralized approach — a senior business executive or a group of senior executives, sometimes including the CIO, makes all the IT related decisions for the enterprise.
- In an *IT monarchy,* those decisions are made by an individual IT executive or a group of IT executives.
- In a *federal system,* C-level executives and business representatives of all the operating groups collaborate with the IT department. This is equivalent to the central government and the states working together.
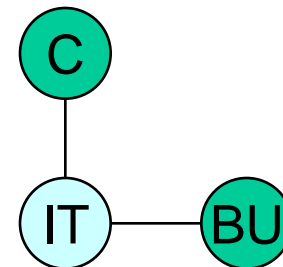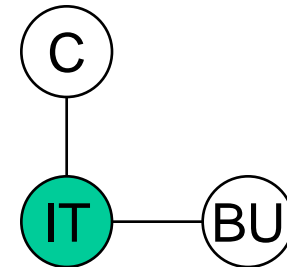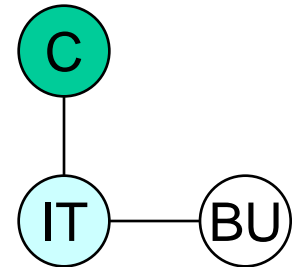
# IT Duopoly, Feudal & Anarchy

- *IT duopoly,* a two-party decision making approach involves IT executives and a group of business leaders representing the operating units.

- In a *feudal system,* business unit or process leaders make separate decisions on the basis of the unit or process needs.

- And, finally, the most decentralized system is *anarchy,* in which each individual user or small group pursues his, her or their own IT agenda.
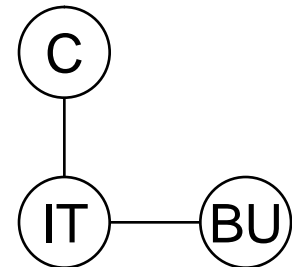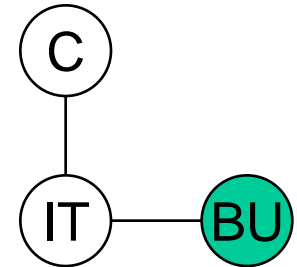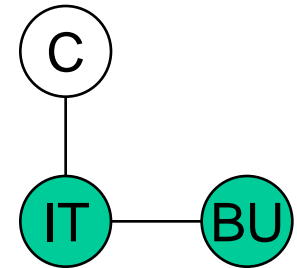
# Kasus UPS

- UPS's governance arrangements reflect the company's commitment to offering total, integrated solutions for customers' global commerce needs.
- Senior management accountability for principles and investment decisions ensures that IT issues are incorporated into the company's strategic decision-making processes.
- The CIO, who is a member of the senior management team, translates principles and investment decisions into IT architecture and infrastructure (such as standards, policies and processes).
- Business unit projects, delivered in the context of business and IT principles, define business application needs in a way that both enhances business unit performance and supports corporate objectives.

# Analisis UPS

- UPS's IT governance creates strategic control at the top of the company while empowering decision making at multiple organizational levels.
- Senior management works to make IT governance transparent so that everyone understands and follows prescribed processes for proposing, implementing and using IT.
- This limits the role of organizational politics in IT-related decisions and shows in the company's bottom-line performance.

# Governance Mechanisms

Mekanisme-mekanisme tatakelola

# Mengenai Mekanisme Tatakelola TI

- Once the types of decisions and the archetypes for making those decisions are mapped out, a company must design and implement a coordinated set of governance mechanisms that managers will work with on a daily basis.

- Enterprises generally design three kinds of governance mechanisms:

    (1) decision-making structures,

    (2) alignment processes and

    (3) formal communications.

# Decision Making Structures

- The most visible IT governance mechanisms are the organizational committees and roles that locate decision-making responsibilities according to intended archetypes.
- Different archetypes rely on different decision-making structures.
- Anarchies (which are rarely used — or at least rarely admitted to!) require no decision-making structures at all.
- Feudal arrangements rely on local decision-making structures.
- But monarchy, federal or duopoly arrangements demand decision-making structures with the representation and authority to produce enterprisewide synergies.
- Contohnya bukan saja struktur organisasi, tapi juga siapa melakukan keputusan apa.

# Contoh Decision Making Structures

- Steering Committee
- IT Policy Board
- Architecture Committees
- Business Unit CIO
- IT Council at low level (business & IT)
- Process organization
- Business/IT Relationship manager (liason)

# Alignment Process

- Menjamin peran serta semua pihak dalam pemanfaatan TI yang efektif bagi perusahaan

- Jadi, kita tidak bicara seperti *hanya* dengan teknik SPIS (misalnya dengan melakukan cascading business objective menjadi IT objective), tetapi kita bicara mekanisme organisasi yang bisa menjamin terjadinya keselarasan secara inheren (dimana orang yang terlibat dalam proses itu tidak harus "pakar").

# Alignment Process

- Beberapa proses yang penting adalah:
    1. IT Investment Approval Process
    2. Architectural Exception Process
    3. Service Level Agreements
    4. Chargeback
    5. Project Tracking
    6. Formal Tracking of Business Value

# Communications Approach

- A huge barrier to effective IT governance is lack of understanding about how decisions are made, what processes are being implemented and what the desired outcomes are.
- Management can communicate governance processes in a variety of ways:
  1. general announcements,
  2. the institution of formal committees,
  3. regular communication from the office of the CIO or the office of IT governance,
  4. one-on-one sessions,
  5. Working with non-conformist
  6. Intranets, etc.
- More communication generally means more effective governance.

# Mekanisme IT Gov di UPS

1.  An IT steering committee, comprising four top executives who accept primary responsibility for principles and investment decisions,

2.  An IT governance committee of senior IT executives responsible for key architecture decisions,

3.  A formal "charter" process that winnows down the entire enterprise's IT project proposals to those best aligned with strategic objectives

4.  An escalation process to handle exceptions to architecture standards at the appropriate organizational level.

# How Top Performers Govern their IT

# Pengantar

- Tidak ada satu pola IT Governance yang tepat untuk seluruh organisasi

# Kasus Carlson Companies

- Minneapolis-based Carlson Companies Inc. takes a different approach to hybrid IT governance.
- Carlson is a $20 billion, privately owned conglomerate in the marketing, hospitality and travel business.
- It has grown through acquisition, with operating groups in relationship marketing services, loyalty programs (Gold Points Reward Network), hotels (Radisson Hotels and Resorts, Regent International Hotels), restaurants (T.G.I. Friday's Inc.), cruises and travel services.
- Traditionally, each Carlson operating group functioned independently and competed with other operating groups.

# Perkembangan Tahun 2000an

- Chairman and CEO Marilyn Carlson sought to change that competitive relationship to a collaborative one.
- CIO Steve Brown, who reports directly to the CEO, was given responsibility for defining the role of IT for the integrated enterprise.
- Toward that end, Brown articulated two key principles.
  1. First, application development could continue to take place within operating groups, but
     - applications would be presented to users through a shared portal, and,
     - where necessary, data would be shared across business units.
  2. Second, Carlson would have a shared IT infrastructure.

# Decision Making Structures at Carlson

1. **Carlson Technology Architecture Committees** (CTAC), which reside in each operating group and take responsibility for meeting the unique needs of each individual business;
2. **Enterprise Architect Organization** (EAO), a team of business unit IT representatives that sets corporatewide standards guiding the development efforts of all the operating units;
3. **IT Council**, made up of the CTOs and CIOs of each operating group, which meets monthly to talk about new technologies and ways technology can be leveraged across Carlson;
4. **Carlson Shared Services Board**, the business unit CIOs and CFOs, who meet to identify opportunities to provide shared IT and financial services to the company; and
5. **Investment Committee**, a subset of the Executive Committee, which renders final judgment on all large Carlson Companies investment projects.

# IT Governance at Carlsons

|  |  | DECISION | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
|  |  | IT Principles | | IT Architecture | | IT Infrastructure Strategies | | Business Application Needs | | IT Investment | |
|  |  | Input | Decision | Input | Decision | Input | Decision | Input | Decision | Input | Decision |
| **GOVERNANCE ARCHETYPE** | **Business Monarchy** | Chairman and CEO | | | | | | | | | Invest. comm. |
|  | **IT Monarchy** | | CIO | | CIO EAO | | | | | | |
|  | **Feudal** | | | | | | | All business leaders | Business CIOs Some business leaders CTAC | | |
|  | **Federal** | | | CTAC | | | | | | | |
|  | **Ducpoly** | | | | | EAO CEOs of business units | IT council CSS board | | | IT council CSS board CIO | |

☐ Most common pattern for all firms.

# Analisis Carlsons

- With some responsibility for IT decisions being more centralized (investment, for example) and some less centralized (such as business application needs),
- Carlson's governance arrangements attempt to
  - maximize opportunities to leverage shared services while
  - minimizing constraints on the unique needs of related but distinct operating requirements across diverse business units.

# Weill-Ross Model (2004)



Weill & Ross, Sloan School of Management, MIT
*"Specifying the decision rights and accountability framework to encourage desirable behaviour in the use of IT."*

# Governance Lessons From Leaders

| | PERFORMANCE | | |
|---|---|---|---|
| | **PROFIT** | **ASSET UTILIZATION** | **GROWTH** |
| **Strategic Driver** | Profitability via enterprisewide integration and focus on core competencies | Efficient operation by encouraging sharing and reuse | Encourage business unit innovation with few mandated processes |
| **Key Metrics** | ROI/ROE and business process costs | ROA and unit IT cost | Revenue growth |
| **Key IT Governance Mechanisms** | ■ Enterprisewide management mechanisms (e.g., executive committee)<br>■ Architecture process<br>■ Capital approval<br>■ Tracking of business value of IT | ■ Business/IT relationship manager<br>■ Process teams with IT members<br>■ SLA and chargeback<br>■ IT leadership decision-making body | ■ Budget approval and risk management<br>■ Local accountability<br>■ Portals or other information/ services sources |
| **IT Infrastructure** | Layers of centrally mandated shared services | Shared services centrally coordinated | Local customized capability with few required shared services |
| **Key IT Principles** | Low business costs through standardized business processes | Low IT unit costs; reuse of standard models or services | Local innovation with communities of practice; optional shared services |
| **Governance** | **More centralized** | **Blended** | **More decentralized** |
| | **E.g., Monarchies and Federal** | **E.g., Federal and Duopoly** | **E.g., Feudal arrangements; risk management emphasis** |

# Thank You