IT GOVERNANCE: DRIVEN BY CHALLENGES OF CORPORATE GOVERNANCE

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ABSTRACT:
IT Governance has emerged as a phenomenon which can result in higher efficiency and stronger competition for the business organization. The given paper reviews IT governance as an integral part of corporate governance. This paper seeks to review "why" it is necessary for any organization to focus on IT Governance five domains' (as stated by ITGI) for prudent governance mechanism in corporate sector. This study is an attempt to give insight about IT Governance relevance in overcoming challenges being faced by organizations which restrain them from having sound corporate governance. The paper emphases that IT Governance ensures alignment of IT and business goals and henceforth, objectives are met and also IT risks are mitigated. IT governance drives IT resource management and judiciously measures performance; such that IT delivers value to make the organizations grow and sustain in the competitive era of business world.

INTRODUCTION:

Nowadays, the Information Technology (IT), and its management, is recognized as one of the major drivers for boosting the current economic environment. Broadbent and Weill (1997) in their study confirm an increase of awareness by the management and executives into considering the IT as an important and strategic factor to support organizations to be more productive.The role and impact of IT on organizations have significantly changed since 1970s. IT has evolved from its traditional "back office" role toward a "strategic" role being able to support dynamic business environment and to shape new business strategies (Keen, 1991; Venkatraman, 1991). Literature on IT Governance indicates that most of the managers and executives agree on necessity of considering IT as an "organizational strategic player" (Boynton, et al., 1994; Orlikowski and Barley, 2001; Sambamurthy, 2000; Venkatraman and Henderson, 1998). As organization's strategy changes over time, IT has to undergo changes too. Organizations seek to mirror their corporate governance mechanism in the activities of their key subunits – as IT function – in order to lower their organizational coordination costs (Blau and Schoenherr 1971; Galbraith 1967; Lawrence and Lorsch 1969). Several researches reveal the fact that the mode of corporate governance significantly influences the mode of IT governance: organizations that have centralized their corporate governance also tend to centralize their IT governance, whereas organizations that have decentralized their corporate governance tend to decentralize their IT governance (Applegate et al. 1996; Brown and Magill 1994; Olson and Chervany 1980; Tavakolian 1989).

Consequently, the organizational need of formal IT governance emerges. Many articles in the IT literature discuss and theorize the concept of IT governance, using different perpectives of analysis such as business and IT alignment (Armstrong and Sambamurthy, 1999; Bakos and Treacy, 1986; Henderson and Venkatraman, 1992; Lederer and Mendelow, 1987; Lederer and Sethi, 1988; Luftman, et al., 1999; Reich and Benbasat, 1996; Tavakolian, 1989),relationship between Chief Executive Officer and Chief Information Officer (Feeny, et al., 1992), IT management and IT use (Boynton, et al., 1994), IT function (Agarwal and Sambamurthy, 2002), and the role of IT (Sambamurthy, et al., 2003; Kaarst-Brown, 2005).

IT governance reflects the broader corporate governance principles (Weill and Ross, 2004). As corporate governance goal is to align actions and choices of managers with the interests of stakeholders (Hawley and Williams, 1996; Letza, et al., 2004; Shleifer and Vishny, 1997), IT governance goal could be to align actions and choices of IT managers with the interests of stakeholders. IT governance is recognized as an extension of corporate governance. The IT Governance Institute indicates that corporate governance is the "methodology by which a corporation is directed, administered and controlled. Whereas IT governance supports achieving corporate objectives, strategy, direction, administration and control, using appropriate IT investment and resource management" (ITGI, 2003).

INFORMATION TECHNOLOGY:

Information technology (IT), as defined by the Information Technology Association of America (ITAA), is "the study, design, development, implementation, support or management of computer-based information systems, particularly software applications and computer hardware." IT deals with the use of electronic computers and computer software to convert, store, protect, process, transmit, and securely retrieve information.

Today, the term information has ballooned to encompass many aspects of computing and technology, and the term has become very recognizable. IT professionals perform a variety of duties that range from installing applications to designing complex computer networks and information databases. A few of the duties that IT professionals perform may include data management, networking, engineering computer hardware, database and software design, as well as the management and administration of entire systems. When computer and communications technologies are combined, the result is information technology, or "infotech". Information technology is a general term that describes any technology that helps to produce, manipulate, store, communicate, and/or disseminate information. We need to use information technology for effective corporate governance. In corporate sector, this is referred to as Management Information System (or MIS) or simply as Information Services. The information technology department of a large company would be responsible for storing information, protecting information, processing the information, transmitting the information as necessary, and later retrieving information whenever required.

CORPORATE GOVERNANCE:

Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders, management, and the board of directors. Other stakeholders include employees, customers, creditors, suppliers, regulators, and the community at large. Corporate governance is a multi-faceted subject. An important theme of corporate governance is to ensure the accountability of certain individuals in an organization through mechanisms that try to reduce or eliminate the principal-agent problem. A related but separate thread of discussions focuses on the impact of a corporate governance system in economic efficiency, with a strong emphasis on shareholders' welfare. There are yet other aspects to the corporate governance subject, such as the stakeholder view and the corporate governance models around the world. Key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. Commonly accepted principles of corporate governance include: rights and equitable treatment of shareholders, interests of other stakeholders, role and responsibilities of the board, integrity and ethical behavior, disclosure & transparency and mechanisms & controls.

IT GOVERNANCE:

The IT Governance Institute (ITGI) defines IT governance as the responsibility of the board of directors and executive management. “It is an integral part of organization governance and consists of the leadership and organizational structures and processes that ensure that the organization’s IT sustains and extends the organization’s strategies and objectives”.

Another definition for IT governance was stated by Weill and Ross (2004).They defined IT governance as “specifying the decision rights and accountability framework to encourage desirable behavior in using IT”. According to them, IT governance is not about making specific IT decisions but rather determines who systematically makes and contributes to those decisions. IT governance reflects broader corporate governance principles focusing on the management and use of IT to achieve corporate performance goals. Moreover, IT governance is influenced by the type of leadership for IT management. For example, in large organizations IT leadership positions are often characterized as CIOs (Green, 2001). The span of responsibility, authority, placement within the organization, and organizational impact varies considerably for each organization. All these elements significantly affect the success of IT governance and decision-making structures (Penrod, 2003). Another definition and perspective for IT governance is by Wim Van Grembergen (2004), who states: “IT governance is the organizational capacity exercised by the Board, executive of business and IT”.

IT governance concerns can be framed by two larger overarching goals:

1) the ability of IT to deliver value to the business, which is driven by the strategic alignment of IT with business, and 2) the mitigation of IT risks, which is driven by embedding accountability into the enterprise (ITGI, 2003). Within these two larger goals, five domains (focus areas) of IT governance are identified, three of which are drivers and two are outcomes (ITGI, 2003). Drivers include IT Strategic Alignment, IT Resource Management, and IT Performance Management. Outcomes include IT Risk Management and IT Value Delivery (ITGI, 2003).

CHALLENGES OF CORPORATE GOVERNANCE:

Literature on corporate governance evidence number of issues pertaining to as challenges of prudent governance in corporate sector. Each organization faces its own unique challenges as their internal environment, socio-cultural, political, geographical, economic and technological issues differ. Any one of these issues can hinder the growth of business and also can inhibit effective governance mechanism. The major challenges for the board are maintaining transparency and disclosure norms, making decisions for IT investments, reducing coordination costs, appropriate resource management, keeping track of performance growth for the purpose of value creation and risk mitigation. The modern day uproar over corporate governance problems may further include insider trading, false reporting, excessive executive compensation, managerial expropriation of shareholders' wealth, no clear identification of roles and responsibilities for the board and board committees and other governance malpractices.

EMERGING ROLE OF IT GOVERNANCE:

IT governance practices are being used to balance the competing interests of internally focused cost and control objectives with externally focused customer and business needs. IT governance efforts at many organizations have historically focused on risk reduction, cost containment, and regulatory compliance (ITPI, 2009). The role of IT Governance can be explained by examining the five domains of IT Governance as defined by IT Governance Institute. These are namely, IT Strategic Alignment, IT Resource Management, IT Performance Management, IT Risk Management and IT Value Delivery (ITGI, 2003). The first three domains are the drivers and latter are outcomes.

The IT- strategic alignment domain includes understanding the needs of the business, developing IT strategy, determining resource allocation, managing resource demand requests, and facilitating IT to business communication. IT- resource management deals with standardized architecture and hardware- software asset management. IT- performance includes service level management, process improvement and business value measurement for enhancing customer satisfaction. IT- risk management approach is based on organizational risk appetite and focuses on project and investment risk mitigation, information security risk mitigation, operational risk mitigation, audit and compliance regulatory mandates. IT- value delivery domain is all about value creation of the business in the eyes of customers. This vary domain works on identifying project value drivers and service value drivers. It also deals with project management and establishing external benchmarks. In a nutshell, IT governance is an integral part of corporate governance. IT governance ensures that IT and business goals are aligned and met and also IT risks are mitigated. IT governance drives IT resource management and judiciously measures performance. Such that IT delivers value to make the organizations grow and sustain in the competitive era of business world.

CONCLUSION:

IT is pervasive; today IT investments are being made to attain strategic, organizational and technical benefits from IT. With IT Governance hidden spending on IT can be prevented where IT decision making will be distributed to those responsible for the outcome (Weill & Ross, 2004). Mechanism of IT Governance integrates the desired business processes into the organization by providing stability and overcoming the limitations of organizational structure. Well defined IT Governance improves customer relationships and satisfaction, and reduces internal territorial strife by formally integrating the customers, business units, and external IT providers into a holistic IT governance framework with clarity and transparency. The beneficiaries of the IT Governance are management, stockholder, employee, customer and external IT provider and partner benefits

The bottom line is that IT is becoming a more strategic business enabler; organizations should concentrate on cost and risk mitigation through IT governance initiatives, and expand objectives to also include meeting strategic business objectives, improve agility to meet dynamic business needs. Efforts should be made to use principles of corporate governance and standardized frameworks of IT Governance to improve practices for competitive differentiation.

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