The uncomfortable truth about governance

Why most strategic initiatives fail

Jan Hoogervorst

Lisbon October 13, 2008

"Man will occasionally stumble over the truth, but usually manages to pick himself up, walk over or around it, and carry on"

– *Winston Churchill*

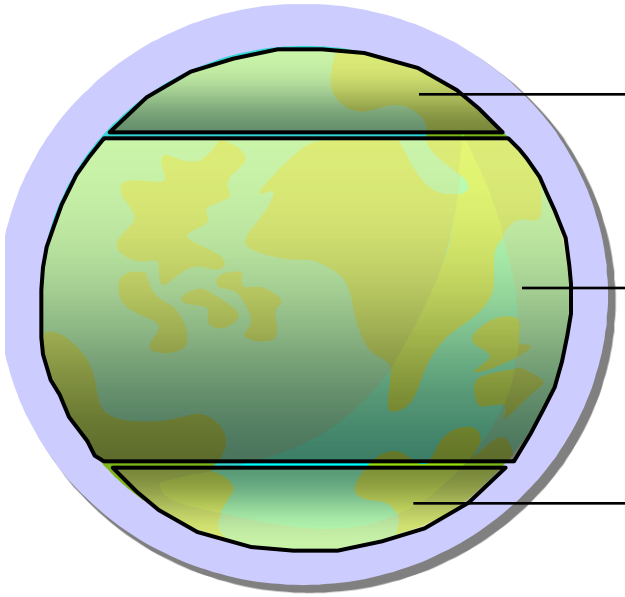
The Truth…

- Actual governance practices are largely inadequate and dysfunctional
- Strategic success necessitates attention to enterprise design
- Enterprise design must be the central focus of enterprise governance
- Employee involvement is crucial for addressing enterprise dynamics, complexity and the associated uncertainty

A Central Problem of Modern Science

Introducing our core concepts

A World of Problems



Problems of unorganized complexity

Very large number of interdependencies

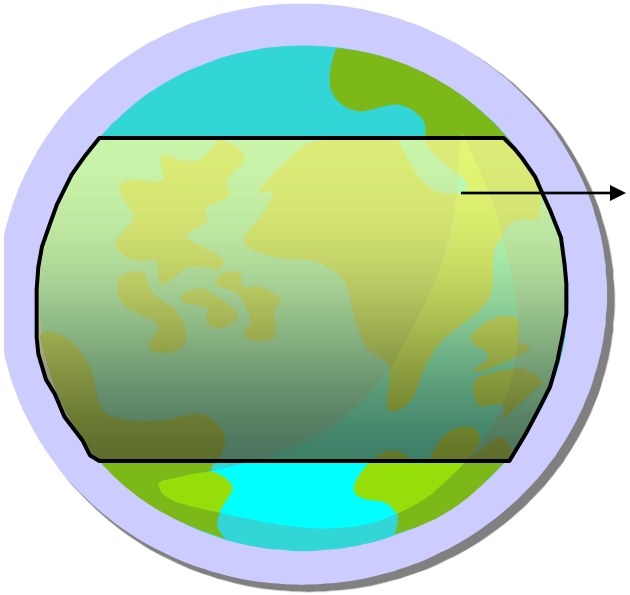
Problems of organized complexity

Many interdependencies

Problems of organized simplicity

Few interdependencies

Organized Complexity

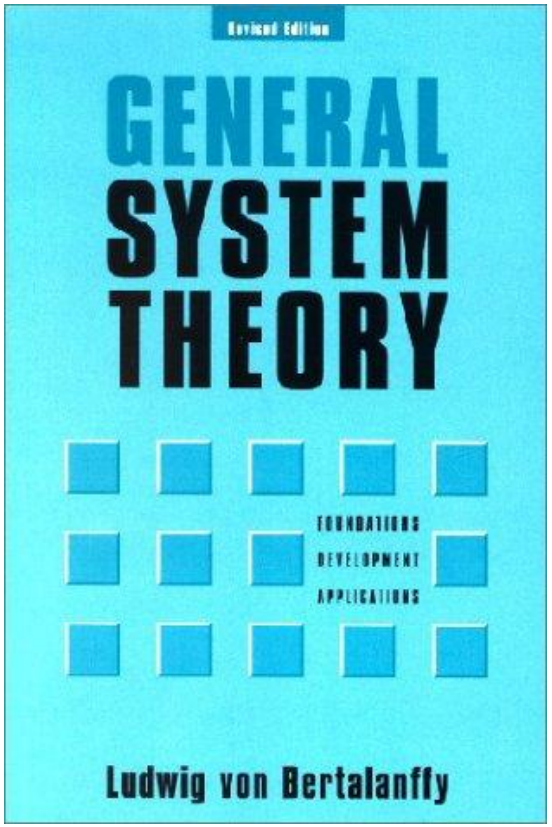


Enterprises as organized complexities

Order → Design

Enterprise Governance & Enterprise Engineering

The Organized Complexity Problem



(1969)

"A basic problem posed to modern science is a general theory of organization" (p. 34)

"The only meaningful way to study organization, is to study it as a system" (p. 9)

Or in our terminology: the only meaningful way to analyze, design, and deploy an enterprise is to do that from a system perspective.

Current Governance Approaches

The mechanistic focus

Governance Themes

Financial/administrative perspective

Compliance

Het Internet Afbeeldingen Discussiegroepen Nieuws Desktop meer »

"corporate governance" Zoeken Geavanceerd zoeken Voorkeuren

Zoek: het Internet pagina's in het Nederlands pagina's uit Nederland

Het Internet Resultaten **1** - **10** van circa **49.800.000** voor **"corporate governance"** (**0,37** seconden)

Business/IT perspective

Alignment

Het Internet Afbeeldingen Discussiegroepen Nieuws Desktop meer »

"IT governance" Zoeken Geavanceerd zoeken Voorkeuren

Zoek: het Internet pagina's in het Nederlands pagina's uit Nederland

Het Internet Resultaten **1** - **10** van circa **1.140.000** voor **"IT governance"** (**0,23** seconden)

Enterprise wide perspective

Performance

Het Internet Afbeeldingen Discussiegroepen Nieuws Desktop meer »

"enterprise governance" Zoeken Geavanceerd zoeken Voorkeuren

Zoek: het Internet pagina's in het Nederlands pagina's uit Nederland

Het Internet Resultaten **1** - **10** van circa **85.700** voor **"enterprise governance"** (**0,13** seconden)

Views on Governance

- Corporate governance regards top management responsibilities for…
- IT governance is the responsibility of the board of directors and executive management for…
- IT governance is the organizational capacity exercised by the board, executive management and IT management to…
- IT governance regards specifying the decision rights and accountability framework to…
- Enterprise Governance is the set of responsibilities and practices exercised by the board and executive management with the goals of…

Mechanistic View: Witchcraft

The context

Enterprise
Market, Customers
Technology
Economy

Dynamics

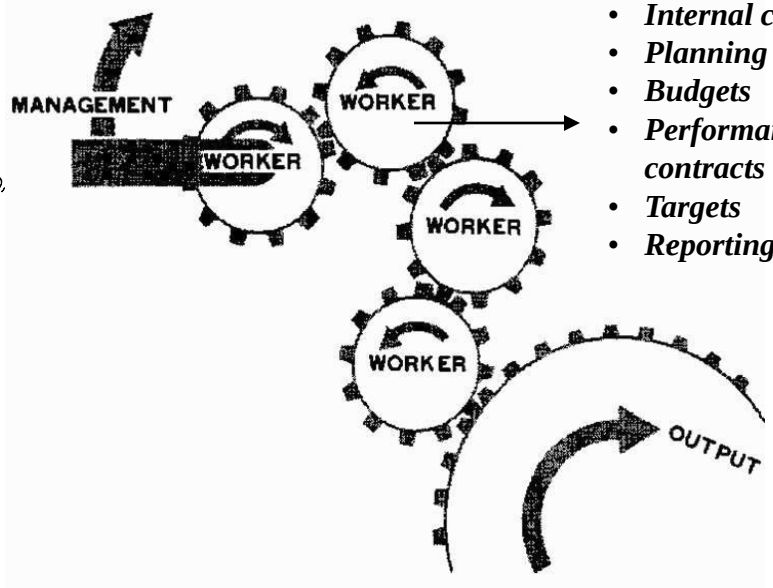
Flexibility
Time to market
Quality/service
Employee satisfaction
Customer satisfaction
Safety, compliance
Process excellence
Costs

Areas of concern

Culture
HRM, Behavior
Means, IT
Processes

Enterprise organization

Strategic planning and decision making

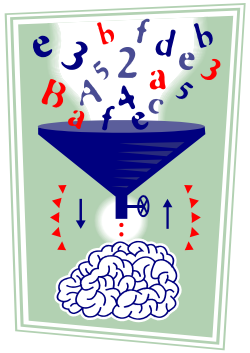


- ***Management driven***
- ***Top-down***
- ***Internal control***
- ***Planning***
- ***Budgets***
- ***Performance contracts***
- ***Targets***
- ***Reporting***

Enterprise performance
Business/IT alignment

IT: one element of enterprise organization

Examples



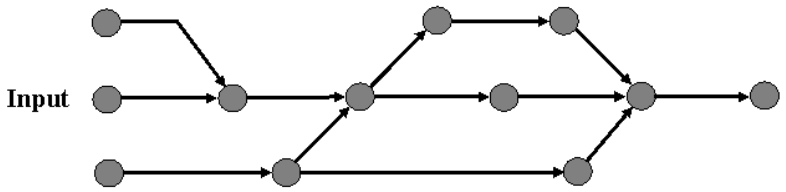
The US Government Performance and Results Act (1993) requires federal agencies to develop strategic plans, performance plans, performance measures, annual performance plans, and annual performance reporting with a focus on linking organizational goal-setting and performance measurement to individual performance planning and appraisal[1]

A performance plan shall "express such goals in an objective, quantifiable, and measurable form" (PRA Section 1115)

The Information Technology Management Reform Act (1996) is to "ensure that performance measures are prescribed for IT [such] that they measure how well IT supports agency programs". For IT investments, it's all about defining the "potential return, managing risks and achieving results"[1]

1. http://govinfo.library.unt.edu/upr/library/misc/s.20html

Governance as Planning and Control



Output:
- Strategic initiatives
- Decision making
- Budgets
- Targets
- Project planning

"The key cause and effect on the bottom line is management action"[1]

"Once the corporate planning system has been set up, immediate and lasting benefits will percolate downwards from it and exert a unifying influence on the efficiency of the whole organization" [Jenkins 2003]

ly, we need
e budgets"[1]

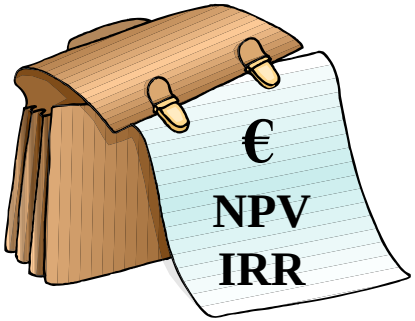
"Strategies therefore are plans defined to provide mechanisms for achieving organizational goals. Organizational-level goals are then passed down to individual managers and their staffs. This enables units to understand what must be achieved at a micro, and ultimately an individual level, to ensure that the organization is successful"[2]

Strategy deployment: "The implementation of strategy comprises of sub-activities that are primarily administrative in nature. If purpose is determined, then resources of the company can be mobilized to accomplish it" [Andrews 1999].

Planning is a widely adopted method for
/Business alignment"[3]

Governance (2008)

Governance as Portfolio Management



"IT governance is the system by which an organization's IT portfolio is directed and controlled"[1]

IT portfolio management is a "control point for the entire IT management system"[2]

"A central feature of the IT portfolio management method is that it demands accountability – complete with both the authority to meet objectives and real consequences for failing to do so – for IT investments"[2]

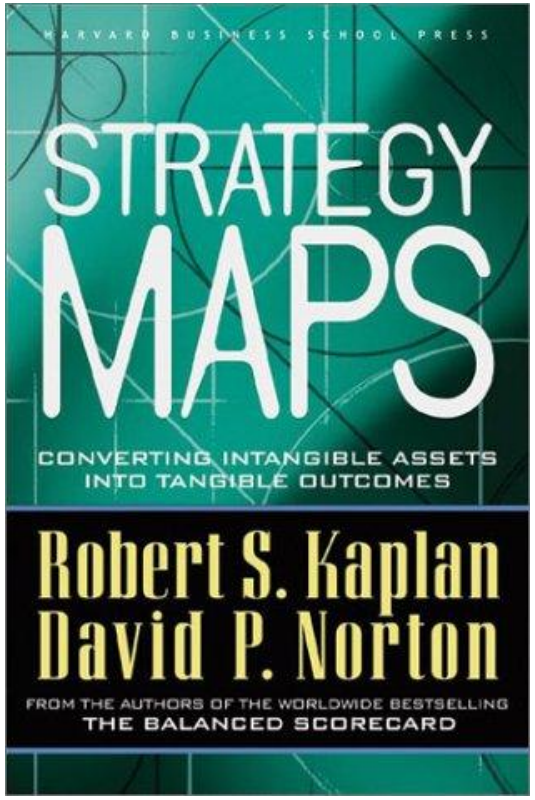
IT portfolio management "is the next best thing to a silver bullet: a practical value and revenue generating and cost reduction approach that works"[1]

1. Maizlish, B., Handler, R., *IT Portfolio Management Step-by-Step* (2005)
2. Kaplan, J., *Strategic IT Portfolio Management (2005)*

The Success Rate of the Mechanistic approach

A case for serious concern

Strategic Successes



"Various studies indicate that 70 percent to 90 percent of organizations failed to realize success from their strategies"[1]

Total Quality Management **Six Sigma**

Business Process Management

Lean Production **Business Process Reengineering**

Learning organization

Customer Relationship Management

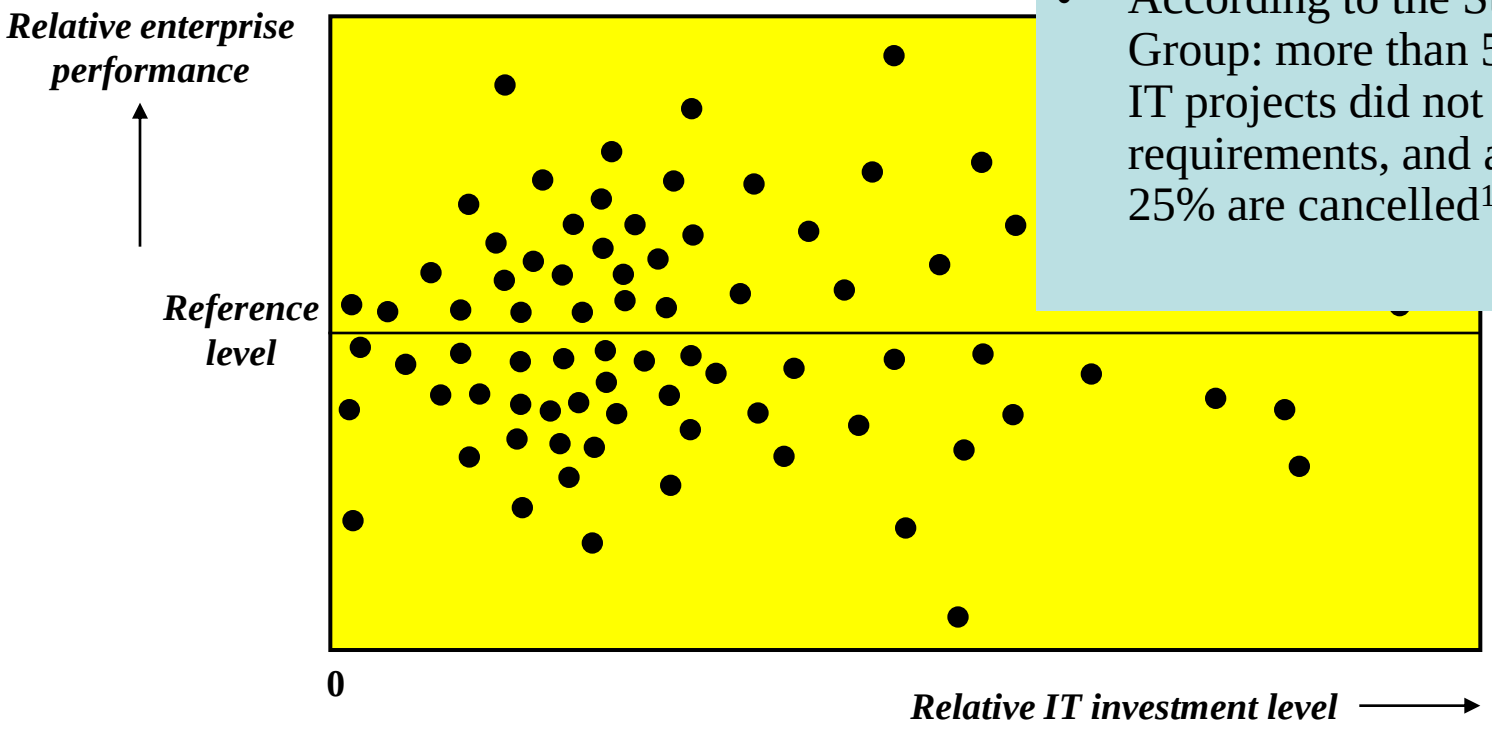
End-to-end Process Management

IT systems implementation **Mergers and Acquisitions**

1. Harvard Business School Press 2004

IT Results

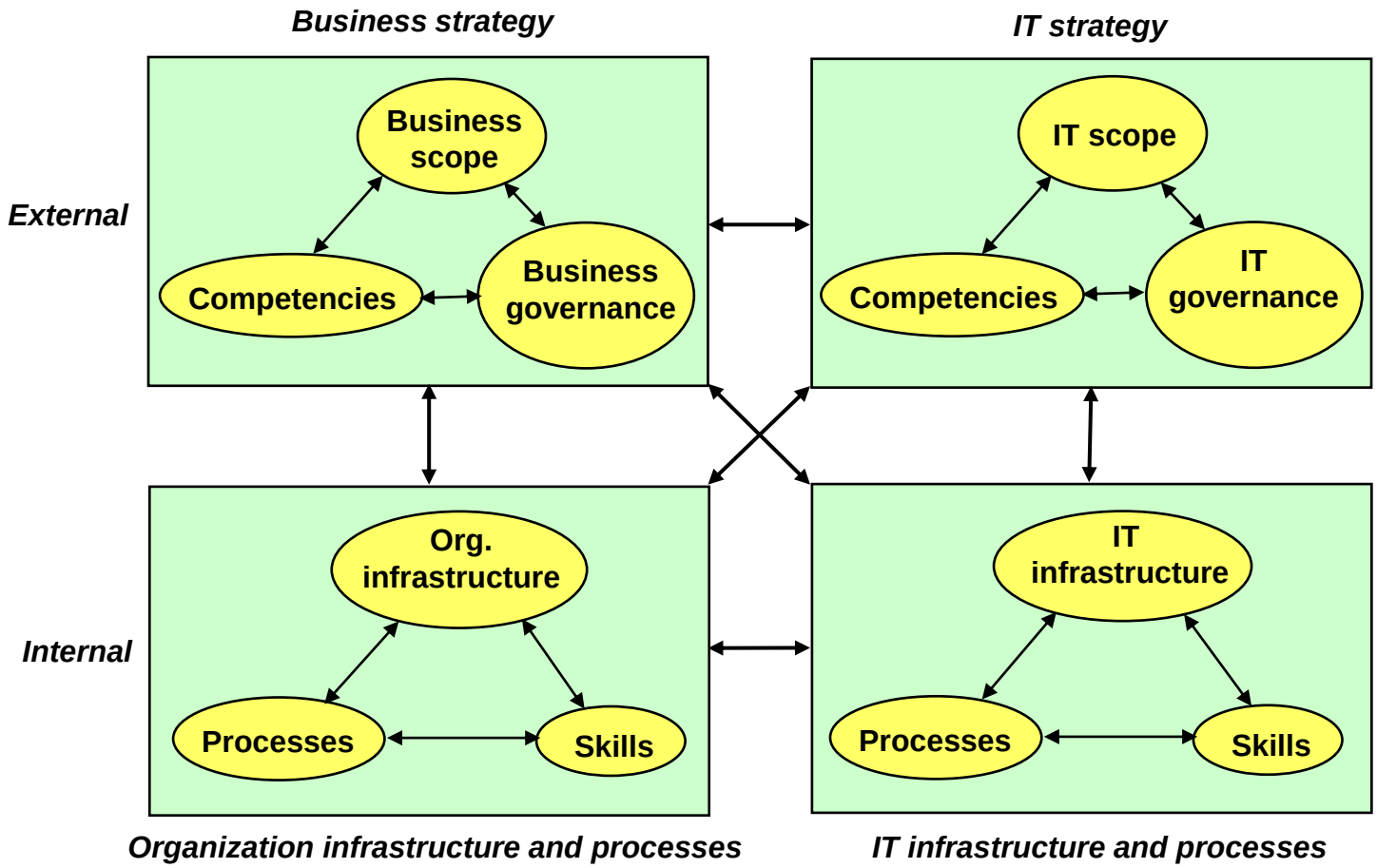
- There is no correlation between investment in IT and profitability, or other key measures of business success[1]
- According to the Standish Group: more than 50% of IT projects did not meet requirements, and around 25% are cancelled[1]



1. Pisello, T., Strassmann, P. (2003). *IT Value Chain Management - Maximizing the ROI from IT Investments.*

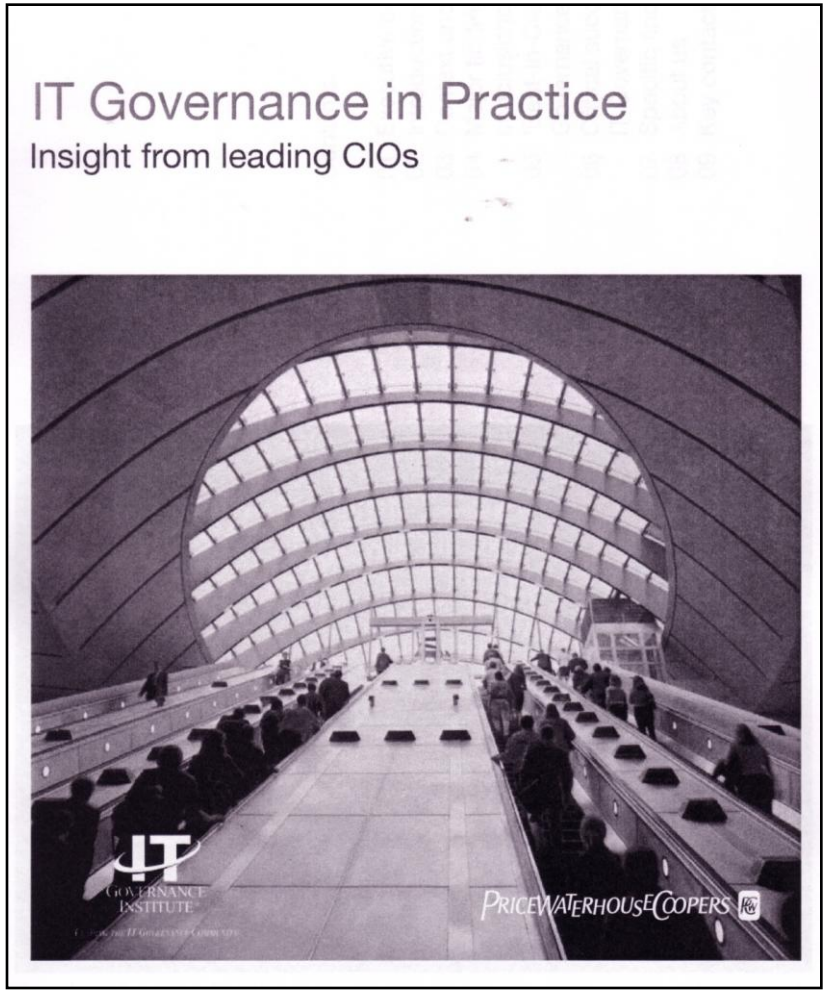
2. Strassmann, P., (1990). *The business value of computers.*

Strategic Alignment Model (1993)



J.C. Henderson, N. Venkatramen, *Strategic Alignment: Leveraging Information technology for Transforming Organizations* (1993)

Views on Governance (2006)

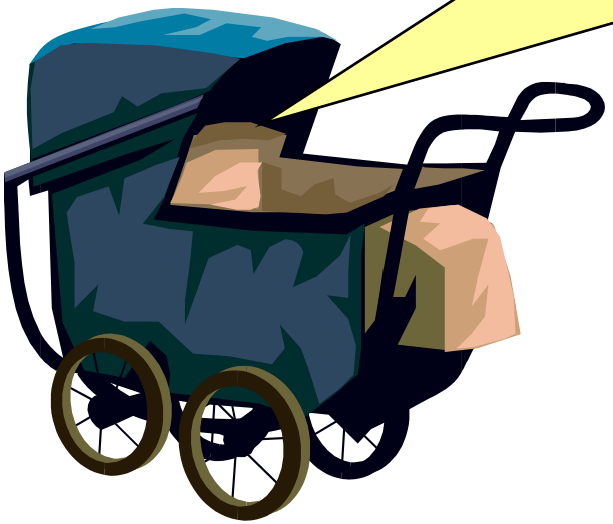


Highlights of the 2006 Report:

- Business/IT alignment is the highest rated driver for IT governance
- IT governance is driven by top-management
- IT governance is primarily viewed as a control mechanism (costs, compliance, projects)
- Maturity level of IT governance is low
- A holistic view that considers all dimensions of IT governance is not widely found

Long History…

I hope the problem of business/IT alignment is fixed before I graduate!

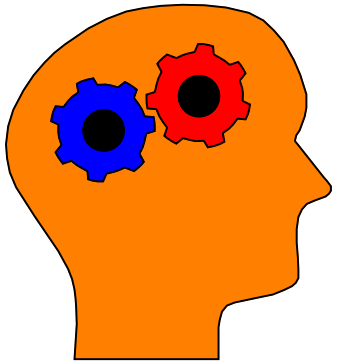


1993: Publication about Business/IT alignment

Why is Business/IT alignment still not fixed!?

25 Years later….

Mechanization Lingers On…



"Despite the modernization of corporate structures and systems, the mindset of managers appeared to have remained remarkably similar to the Taylorist model developed at the beginning of the century"[1]

"Corporations continue to operate according to a logic invented at the time of their origin, a century ago"[2]

1. Doz, Y, Thanheiser, H. (1993). *Regaining Competitiveness: A Process of Organizational Renewal.*
2. Zuboff, S., Maxim, J. (2002). *The Support Economy.*

Paradigm Shifts: Escaping the Traditional Mindset

- Tyranny of the dominant logic (Prahalad)
- Forgetting curve (Prahalad)
- Double-loop learning (Argyris)

The real difficulty in changing the course of any enterprise lies not in developing new ideas, but in escaping the old ones

– John Maynard Keynes

Fallacies of the Mechanistic View

1. Lacks effective answers to transition barriers inhibiting strategy deployment
2. Has no answer to the core reason for strategic failures
3. Denies or ignores the fundamental internal and external complexity and related uncertainty that is associated with enterprises and enterprising

1. Lacks effective answers to transition barriers inhibiting strategy deployment

Has no attention for the process of 'sense making' in organizations

Fundamental Barriers

The context

Enterprise
Market, Customers
Technology
Economy

Dynamics

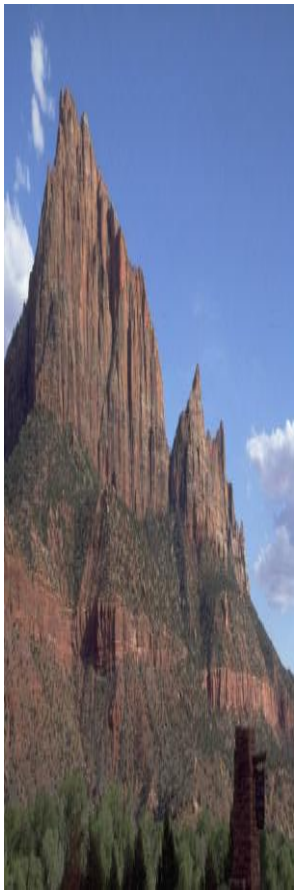
Flexibility
Time to market
Quality/service
Employee satisfaction
Customer satisfaction
Safety, compliance
Process excellence
Costs

Areas of concern

Culture
HRM, Behavior
Means, IT
Processes

Enterprise organization

Transition barriers



Expression barriers

Specification barriers

Ambiguity barriers

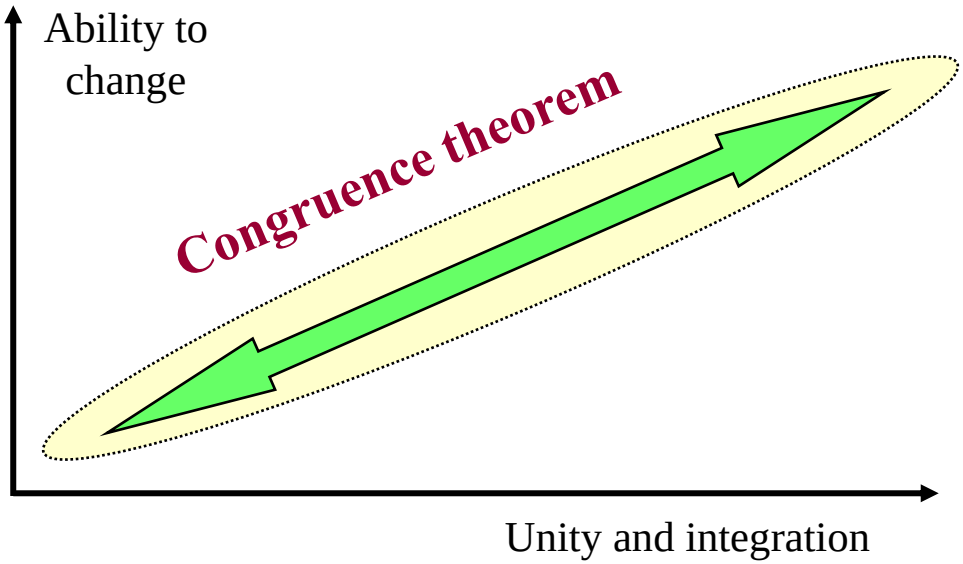
Implementation barriers

1. Weil, P., Broadbent, M., *Leveraging the new infrastructures* (1998)

2. Has no answers to the core reason for strategic failures

The case for design focus

The Importance of Design (1): Unity and Integration



Labels:

- Structural conflict [1]
- Segmentation and incoherence[2]
- Internal structural fit[3]
- Organizational alignment[4]
- Congruence[5]
- Coherence[6]

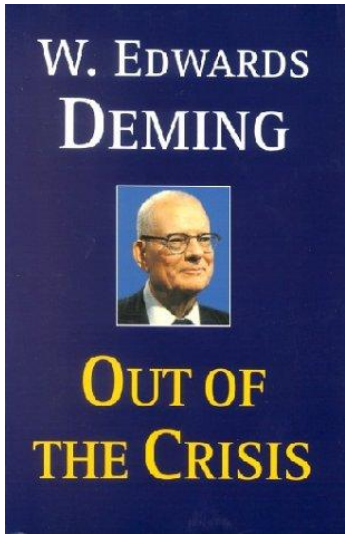
Many failed change programs prove the importance of consistency and coherence

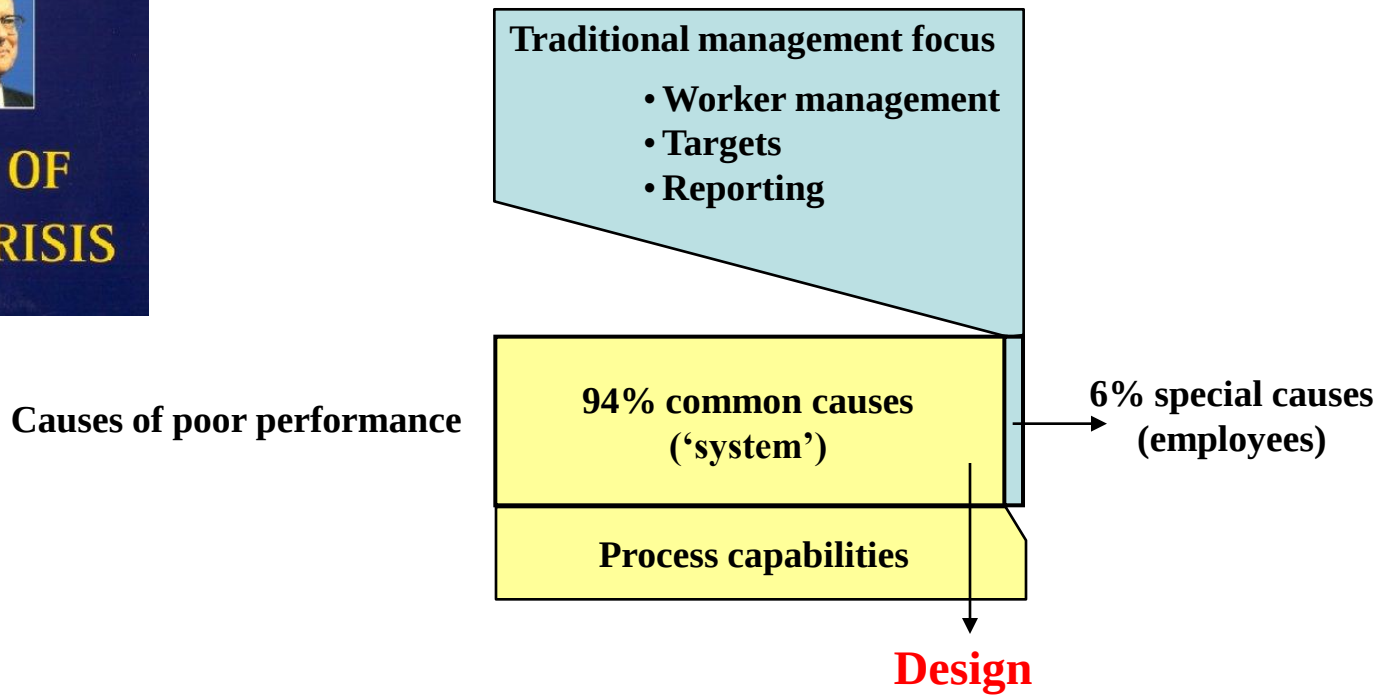
1. R. Fritz, *Corporate Tides* (1996)
2. A. Pettigrew, In: R. Galliers, W. Baets, *Information Technology and Organizational Transformation* (1998)
3. P. Lawrence, J. Lorsch, *Organization and Environment* (1967)
4. T. Powel, *Organizational Alignment as Competitive Advantage* (1992)
5. D. Nadler, M. Tuschman, *Competing by Design* (1997)
6. J. Hoogervorst, *Quality and Customer Oriented Behavior: Towards a Coherent Approach for Improvement* (1998)

Unity and Integration Between Car Safety and Comfort…

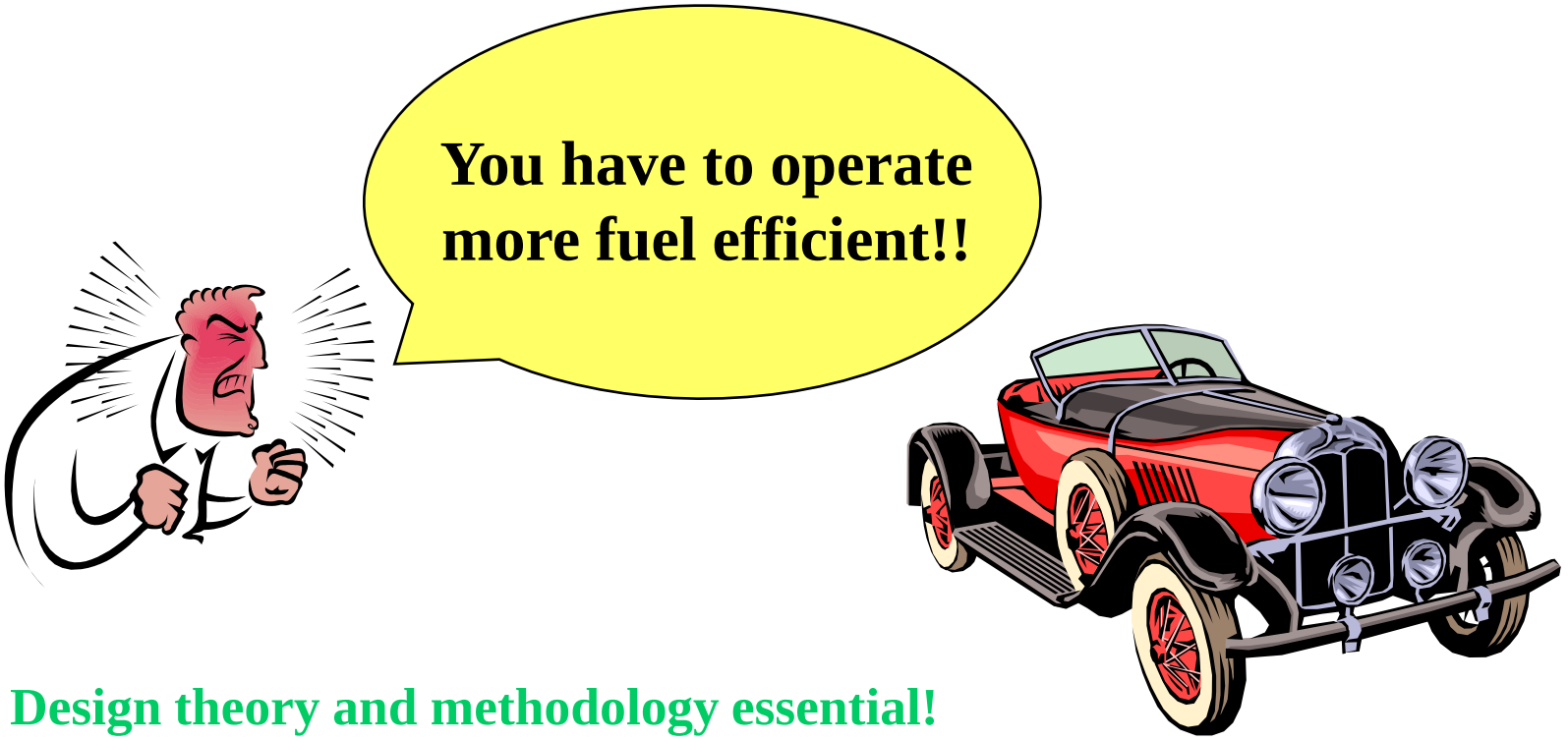
Design!

The Importance of Design (2): Common Causes of Failure





The Importance of Design (3): Addressing Areas of Concern



Design theory and methodology essential!

For enterprises: Enterprise Engineering

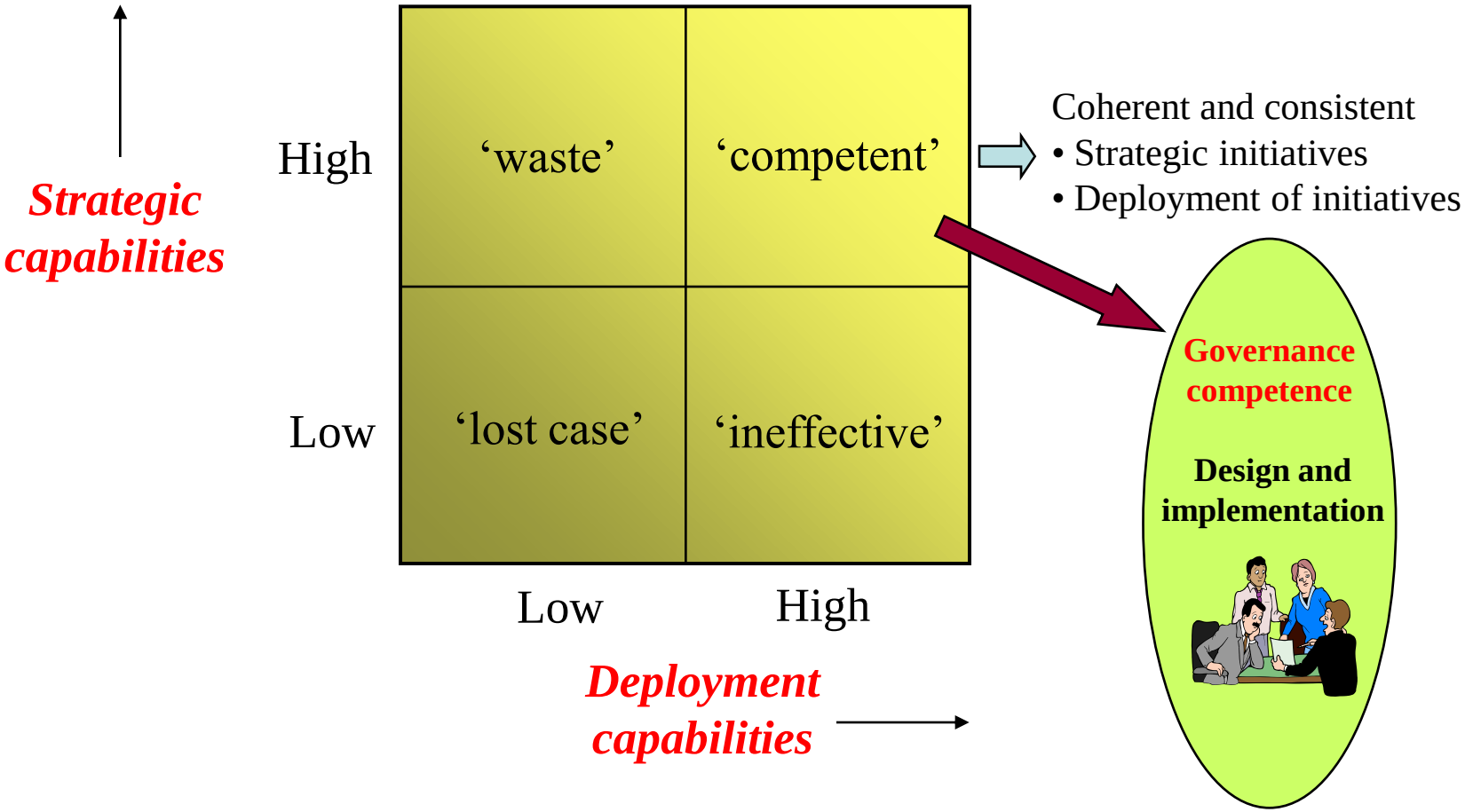
Who Applies the Enterprise Engineering Theory and Methodology?

Organizational competence is a integrated whole of knowledge, skills and technology

Enterprise governance is the organizational competence for continuously exercising guiding authority over enterprise strategy and architecture development, and the subsequent design, implementation and operation of the enterprise

The organizational competence rests on personal competencies of employees (Enterprise Engineer, Enterprise Architect, Business Architect, IT Architect). Knowledge domain constituted by blending of organizational and informational sciences.

Governance as an Organizational Competence



Enterprise Design

e·OVERHEID

Ministerie van Verkeer en Waterstaat

Rijkswaterstaat

Enterprise Architectuur Rijkswaterstaat

Architectuurprincipes

AGI-2006-CAB-024

2 augustus 2006

NORA

Nederlandse Overheid Referentie Architectuur

Samenhang en samenwerking binnen de elektronische overheid

vóór en dóór Architecten

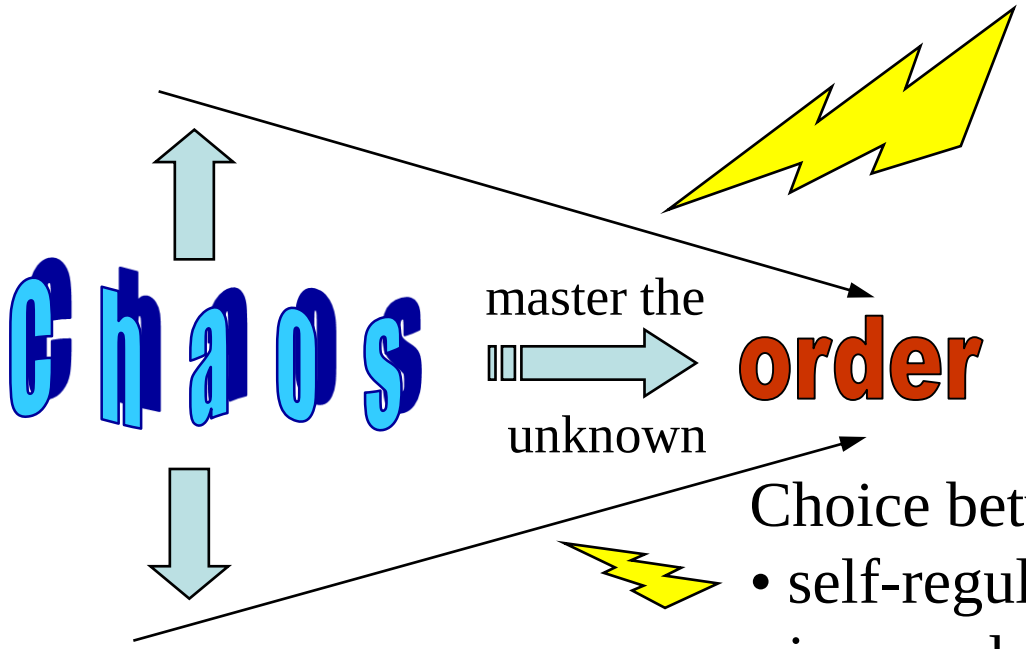
CTU Programma Architectuur Elektronische Overheid
/ersie 1.0
27 september 2006

3. Denies or ignores the fundamental internal and external dynamics, complexity and related uncertainty that is associated with enterprises en enterprising

The necessity of employee involvement

Organizational Control

Unpredictability and ambiguity as essential characteristics of organizational reality



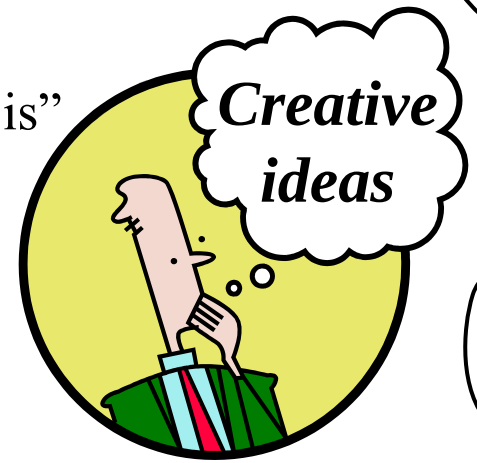
Control of chaos:
- creativity
- initiative
- participation
- self-regulation

Choice between:
- self-regulate with simple rules
- imposed detailed rules

Creative Boundary

Stable domain

- focus on “what is”
- operation
- exploitation
- conformity



Employee involvement
The essential source for ideas and renewal

Chaos

Boundary where innovation, renewal and adaptation occurs

- focus on “what could be”
- experiments
- exploration
- creativity

Mechanistic vs. Organismic Perspective

Advocated governance perspective

Dynamics

- Flexibility
- Renewal
- Innovation

Organismic

- *Employee involvement*
- *Employee initiated behavior*
- *Competencies*
- *Bottom-up initiatives*
- *Strategic learning*

Uncertainty

- *Management driven*
- *Top-down assignments*
- *Employee as instruments*
- *Rules and regulations*
- *Strategic planning*

Mechanistic

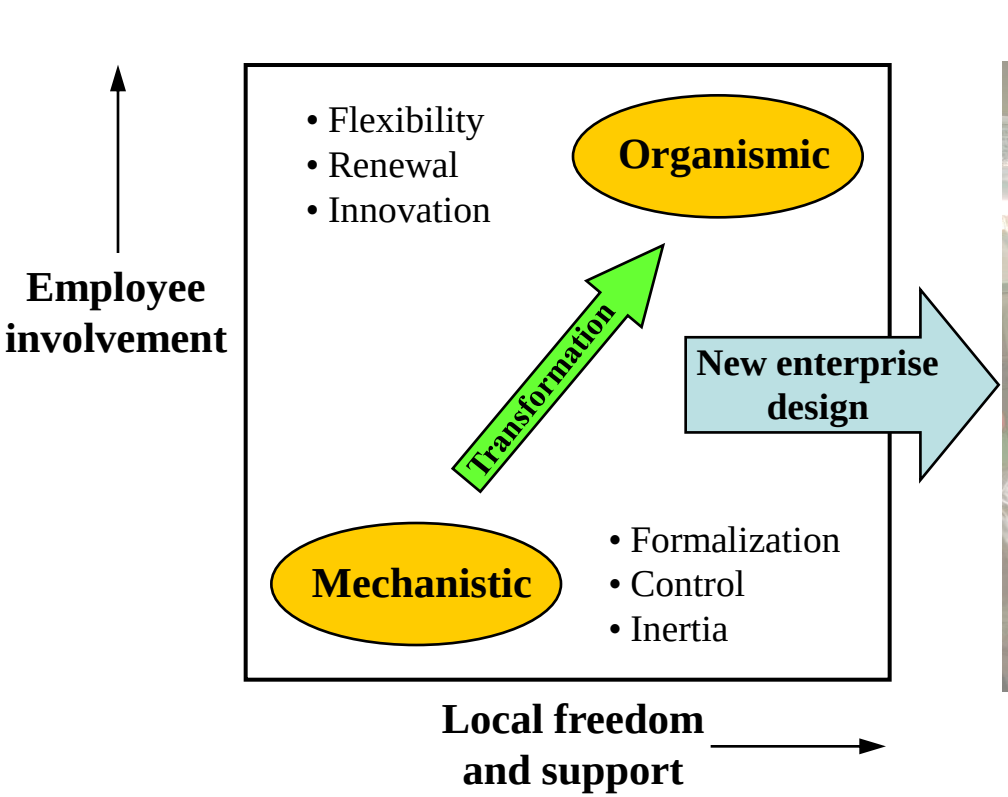
- Formalization
- Control
- Inertia

Complexity

Traditional governance perspective

"As environmental uncertainty increases, organizations tend to become more organic, which means decentralizing authority and responsibility to lower levels, encouraging employees to take care of problems by working directly with one another, encouraging teamwork, and taking an informal approach to assigning tasks and responsibilities" [Daft (2001) *Organization Theory and Design*]

Organic Perspective: How To?

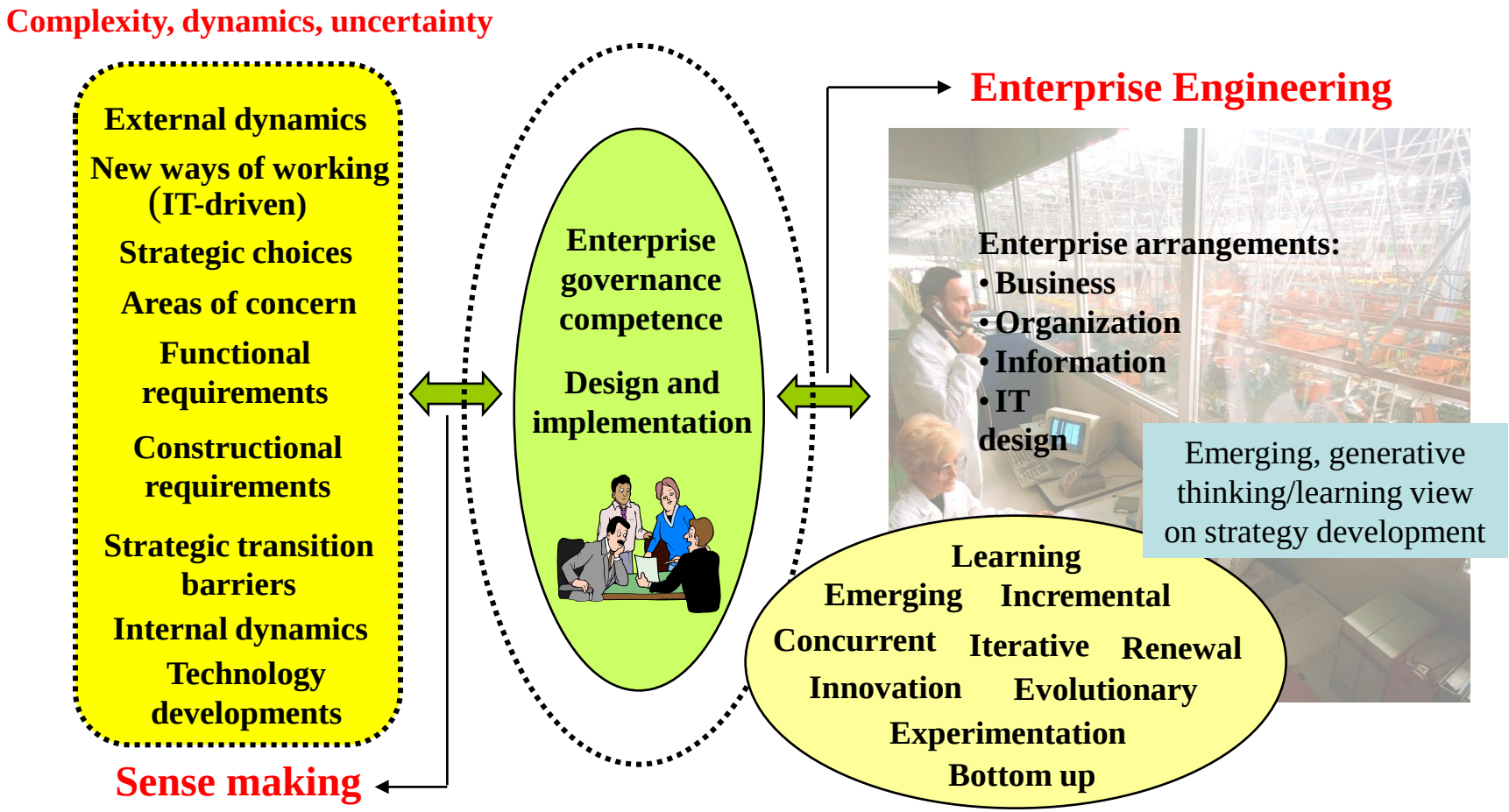


Enterprise architecture

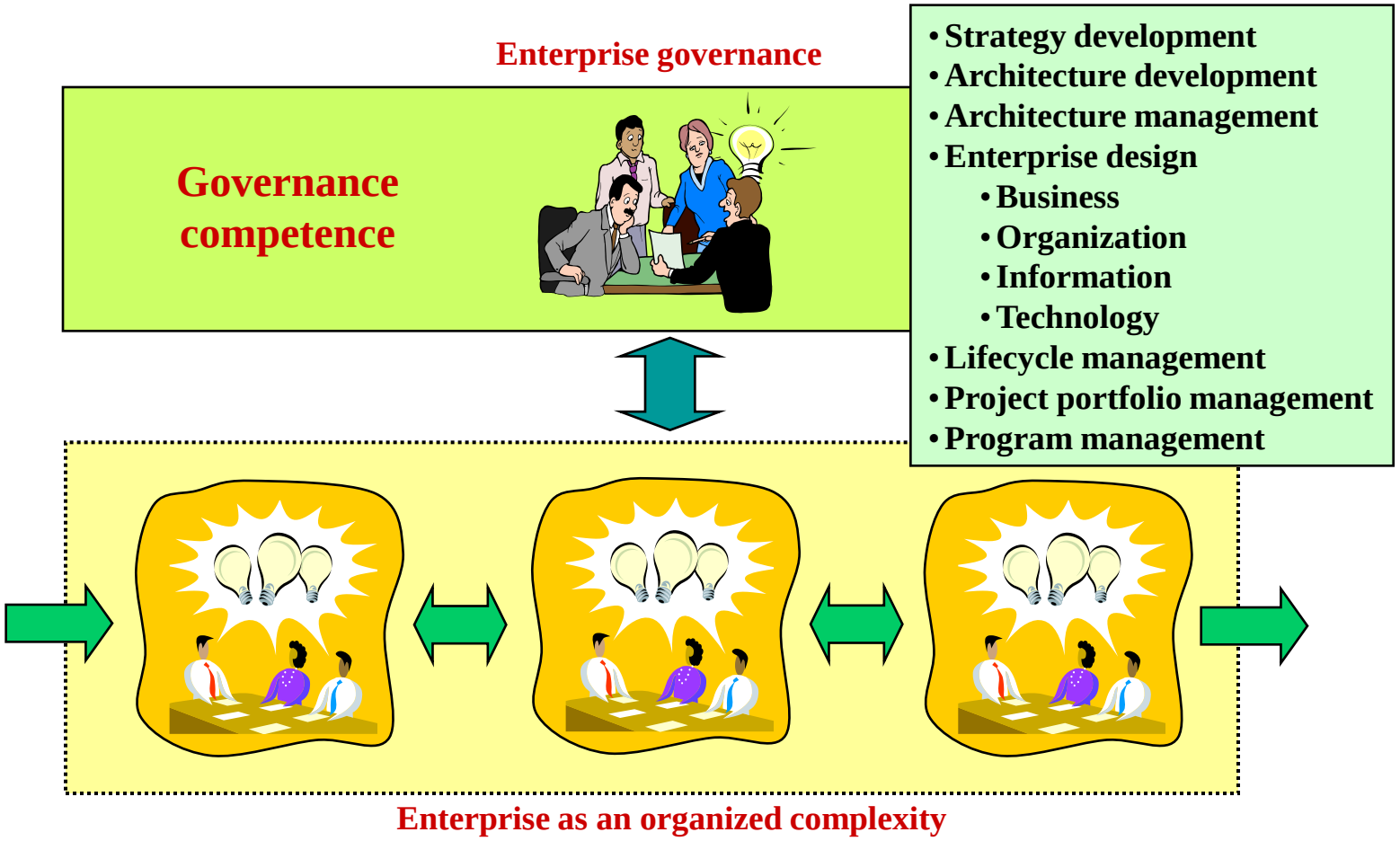
- **Methods**
- **Means**
- **Processes**
- **Culture**
- **Management practices**
- **Human resource management**
- **Employee assessment**
- **Reward structures**
- **Reporting, communication structures**
- **Technology deployment**
- **Employee behavior**

Enterprise: organized complexity

Organic Process



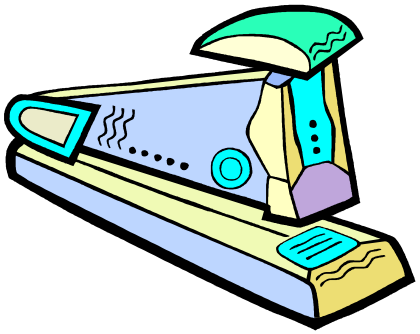
Governance and Autonomy



Wrap Up

- The mechanistic governance approach is an anachronism with serious drawbacks
- Competence-oriented organismic governance is essential for:
  - addressing complexity, dynamics and the associated uncertainty
  - addressing the strategic transition barriers inhibiting strategy deployment
  - addressing various areas of concern in a unified and integrated manner
  - Ensuring a unified and integrated enterprise design
- Enterprise performance does not follow from a mechanistic governance focus – planning, decision making, risk management and accountability structures – but from a unified and integrated design. Hence, design focus rather than control focus for ensuring enterprise success
- Emerging, employee-focused generative thinking/learning perspective on strategy development, rather than top-down, management-focused rational/planning perspective
- Employee involvement is crucial

Closing Thought



Often the only integration mechanism…