White Paper

Setting Up Best Practice Governance Structures

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Russel Jones

Russel Jones is an Orbus consultant with more than seven years experience in business and IT architectures, design and planning.

He has broad industry and region experience spanning financial services, natural resources and retail.

His Education and Certifications include: COBIT 5, TOGAF 8/ 9, ITIL 2011, Prince 2, ArchiMate 2 and B.Com Economics

Executive Summary

Governance ensures the integrity and effectiveness of an organization's operations. It can be defined as a cultural orientation, a process framework, an organizational structure, and a set of assigned responsibilities. Together these components can be referred to as a governance 'framework'.

Well defined governance structures are an important tool for any successful organization. A lack of governance can lead to poor investments and decision making, but it is also important to ensure that governance structures do not create barriers or unnecessary 'red-tape' for the day to day operations and decision making. The effects of over-governance should be carefully considered, balancing these with the requirements and outcomes as defined in the governance charter.

The level of control built into governance structures will depend on a number of internal and external factors such as the industry the organization operates in, legislation and regulatory requirements, as well as the organization's culture, size, geography and structure. Although there is no such concept as a one-size-fits-all governance structure or template, there are a number of generic components that should be considered. In this paper we will discuss a few components required for effective IT and enterprise governance, namely:

- A governance framework and reporting structure;
- Governance principles and policies;
- Critical success factors (CSF's), goals and measures.

These are the basic components to be considered when developing and implementing best practice governance structures.

Defining a Governance Framework

When defining a governance framework there are two main areas of focus to consider; the business processes, and the organization structure.

Focusing on the enterprise value-chain helps to ensure governance focus spans across any organizational siloes, and ensures there is governance by business function. This will ensure the least number of governance boards are set-up and implemented, thus reducing the costs and improving governance efficiency.[i] Another potential benefit of using the enterprise value-chain as a starting point for defining governance structures is that it may be easier to align governance outcomes with the organizations strategy and business outcomes, which will assist in motivating top-level decision makers in the organization to attend the governance forums.

Having the right stakeholders at governance forums is critical to the success of the structure. Without any decision making authority present at governance forums, the governance policies will be unenforceable and may eventually collapse. A hierarchical or layered approach to the governance organization structure is suggested, as this allows for engagement of different stakeholder levels with different decision making authority. Four levels of governance may include:

- Global Governance Board
- Local Governance Board
- Design Authorities
- Working Parties

For a more specific, IT-centric example of a governance hierarchy - The Open Group describes the following four-leveled governance hierarchy[ii]:

- Corporate Governance
- Technology
- IT Governance
- Architecture Governance

At the global governance board level, primary stakeholders involved may be senior and C-level executives, and the agenda for the governance forums at this level may include large investment decisions directly impacting the organizations strategy, for example, assessing an opportunity to outsource a global support capability. Working parties at the lower level may consist of temporary project based teams, with agenda items relating to a specific project, for example the approval of projects risks being accepted.

A key consideration in setting up the governance structure is the collaboration and communications between governance forums. For example, program governance decisions at the global or corporate level should be disseminated down to the local and design levels to ensure consistency and transparency. One way of supporting this is to make a single individual responsible for the entire governance structure.[iii]

The diagram below, developed by Gartner (2015) illustrates the components of a practical governance structure.[iv] On the left the governance framework consists of the corporate goals and objects which constitute the corporate framework, as well as the IT framework which supports the corporate framework. On the right are the governance processes consisting of the process components (corporate governance and project environment governance), as well as the governance mechanisms such as the organization structures, people and tools.[v]

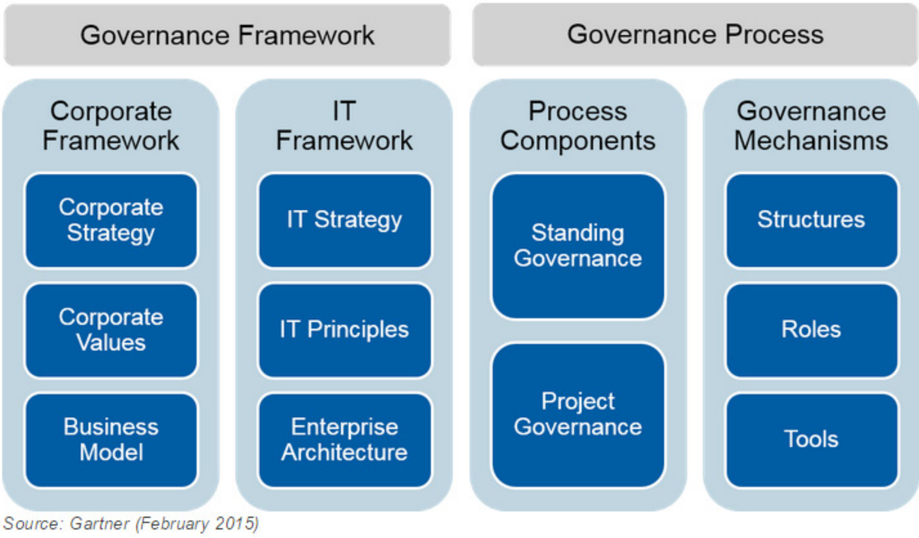

Figure 1 - A Practical Governance Model (Source: Gartner, February 2015)

Governance Principles and Policies

Another required component for good governance is the definition of governance principles and policies. Somewhat similar to the principles or 'cannons' of a good tax system, put forward by Adam Smith in 'The Wealth of Nations' (1904)[vi]; governance principles and policies should have the following qualities:

- *'Equality'*; governance should be proportional to the potential level of risk associated with the activity, decision or environment.
- *'Certainty'*; Smith proposed that the amount, manner of payment, and timing of tax payments should be clear and certain to all parties. This should be the case with governance controls and policies - the reasons for controls and their applicability to certain situations should not be arbitrary or left to interpretation.

- *'Convenience'*; taxes should be collected at the most convenient time for the contributor. Outputs and governance audits should be carried out so as not to disrupt the operations of the business or interfere with a projects deliverables.
- *'Economy'*; a tax structure in itself should not be an expensive system to maintain, since the actual collection of tax adds no value to the nation. Similarly, governance structures, principles and policies should be as streamlined and cost effective as possible, since governance activities don't generate revenue or add to the bottom line of the business.

In addition to Smith's 'cannons', governance policies should be related and applicable to the business environment, but generally the following should be considered when developing economical, unambiguous governance policies:

- Define the mandate for each governance tier – as discussed in the previous section. This includes policies addressing the purpose, accountabilities, authorities and powers, and the policies for escalation and approvals. Policies should be defined for identifying who is involved and the decisions that need to be made at each governance tier. All this detail should be documented in a governance charter, which is required to formalize the governance structures.
- Policies should also ensure standard agenda topics for each governance forum are in place. For example, for IT governance, the topics of the COBIT framework are strategic alignment, value delivery, performance measurement, resource management, and risk management. These provide guidance on how the governance topics might be structured. The frequency of each governance forum should be documented, with a minimum number of meetings and meeting intervals defined. Each forum meeting should have a defined quorum, and there may be a requirement to have certain stakeholders attend in order for meeting to go ahead, for example the change manager is required to attend a design authority governance forum. In addition to scheduled forums, a policy for ad-hoc governance forums may also be required.
- Governance reporting should be clearly articulated. Governance reporting should provide insight for both internal stakeholders, as well as external stakeholders such as regulators or partner organizations. The frequency of reports, details of the content of governance reporting and distribution lists should all be documented in the reporting policy. There should be consideration of the report audience – senior stakeholders probably don't need to know the details of each decision or risk. Reporting policies may need to include a classification scale to protect confidential report information. Policies for standardized reporting formats allow for easy consumption and understanding.

Critical Success Factors of a Good Governance Structure

One of the primary goals of good governance is to improve the quality of investment decision making and reducing enterprise risk. Using a common framework also allows organizations to assess and compare investments decisions and risk in the same way. Effective governance is not only about the structure, it is about how it is operationalized and integrated with the business. Change management will be an important capability when setting up and operationalizing a governance framework.[vii]

Arguably the biggest challenge with any change initiative is gaining buy-in from senior stakeholders and decision makers. This will likely also be the case with implementing a new governance framework. Senior stakeholders will need to assist with overcoming resistance to change in the organization, but more than this they will be required to sustain the governance structure, so getting their buy-in is critical. There may be a great sense of enthusiasm during the initial phase, but after a few forums, senior stakeholders may delegate responsibility and become disengaged. In order to avoid this and to entrench the governance framework and practices in the organization, governance outputs and success factors can be linked to stakeholder performance objectives. This can be done by either having the governance board assess the individual's performance, or by including success factors and governance related objectives in the professional development plan.[viii]

Critical Success Factors (CSFs) can be defined as the limited number of areas in which satisfactory results will ensure a successful competitive performance for the individual, department or organization (Rockart & Van Bullen, 1986). Below is a catalogue of seventeen critical success factors for effective IT Governance, distilled from a variety of research sources (ECIS, 2010)[ix]:

#	Critical Success Factor
1	Standardize, integrate and manage IT systems to optimize costs and information flow
2	Provide IT infrastructure to facilitate creation and sharing of IT services & application
3	Manage mitigation of risks appropriately
4	Staff and develop competitive IT professionals
5	Institute & enforce policies/guidelines for optimal use of IT infrastructure and services
6	Encourage & support 2-way communication and partnerships between IT & business
7	Provide awareness/education for IT governance from strategic to operational level
8	Define & align IT and corporate strategies and cascade them down into the enterprise
9	Commit scarce resources effectively to improve IT processes & alignment with business
10	IT demonstrates leadership
11	Involvement and commitment of senior management
12	Define the key decisions to be made and who is best positioned to make them
13	Institute clear IT decision-making and priority-setting processes
14	Institute structures that ensure accountability & flexibility to the IT organizational needs
15	Engage key stakeholders
16	Institute performance measures and benchmarks to track and demonstrate success
17	Manage organizational changes

Table 1 - 17 CSF's for IT Governance

Each of the above CSF's will be supported by different components of the governance structures, for example the last CSF in the list, 'Manage organizational changes' is supported by defined change management processes, change approval policies and procedures and a change advisory board (CAB) which meets regularly.

The above list describes CSF's at a similar level of complexity. In reality there may be different levels of success factors depending on the governance structures and controls in place. As mentioned earlier, there may be a hierarchical governance structure in place consisting of up to four levels; global and local governance boards, design authorities, and working parties. Each of these levels may have specific objectives and goals, and a unique set of success factors. In more mature organizations, CSF's should have detailed metrics assigned to measure their success.

The IT Governance Institute (ITGI) established several CSFs emphasizing IT as an integral part of the enterprise and the importance of awareness, communication, stakeholder involvement, accountability and monitoring across the organization (ITGI, 2003).

According to Naidoo (2002) there are a number of characteristics of good governance[x], including;

- *Discipline* – processes, policies and procedures are adhered to and there is the correct amount of stakeholder involvement and commitment.
- *Transparency* – records of all governance decisions and discussions are kept and are available to authorized individuals. Governance policies and procedures are adequately communication to all relevant stakeholders.
- *Independence* – governance structures should be designed to minimize the potential for conflicts of interest, and limit external influence on governance decisions.
- *Accountability and Responsibility* – governance structures and groups are named and assigned to the various governance forums. Individuals are accountable for the outcomes of the governance forums. As mentioned earlier, individuals may even be assigned governance-based key performance indicators and professional development goals.
- *Fairness* – all governance decisions should not only be transparent but should be fair so as not to give an unfair advantage to any particular group.

Governance structures complying with these guiding characteristics will be easier to implement and more sustainable.

Conclusion

The key message when setting up a best practice governance structure is to ensure it is not seen as a burden to the business, but rather as an enabler and tool for ensuring IT investment is aligned with strategic priorities. The right amount of governance should be implemented using an unambiguous governance charter, a well-defined framework for decision criteria, as well as mechanisms to track resources and efficiency.

In this paper we discussed the components of a best practice governance framework which included processes and a governance organization structure, which in many cases will be hierarchical. The second topic discussed best practice policies and principles of a governance framework. These should ideally be well documented in a governance charter and other policy documents, and should be clearly communicated across the organization in order to facilitate transparency. Critical success factors (CSF's) are an important component of governance structures. These identify the areas to focus on in order to ensure the framework is implemented and sustained in the organization.

The Open Group have identified a number of benefits of Good IT Governance Structures[xi];

- Governance ensures there are links from IT processes, resources, and information to strategic objectives (strategic alignment);
- Promotion of integrated IT best practices;
- Governance frameworks enable organizations to take advantage of its information, infrastructure, and hardware and software assets;
- Support for regulatory and best practice requirements such as auditability, security, responsibility, and accountability;
- Promotion and transparency of risk and investment management activities.

When properly structured and implemented, a governance structure will support decision making across the organization assisting in risk management, investment planning and compliance activities.

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Orbus Software UK
London

Orbus Software US
New York

Orbus Software AUS
Sydney

Orbus Software RSA
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enquiries@orbussoftware.com | **www.orbussoftware.com**

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