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TECHNOLOGY GOVERNANCE

Part two: Ground rules and common ground

Information technology is both a disruptor and a department.

It is a force for change and a line in the budget. Companies must respond to disruptive innovations that have time and again kicked over business strategy, altered profit pools, and changed how work is done.

At the same time, they must effectively and economically manage existing systems, processes, and people without which a company cannot, literally, keep the lights on.

The need to manage continuity and change simultaneously explains why technology governance is so difficult. It requires what some scholars call an ambidextrous organization—one that can "move fast and break things" while ensuring that nothing gets broken, is open to new ideas and also buttoned down, and is experimental and efficient.

In the first article in this series, we showed the importance of creating a structure for technology governance that sets the terms by which the corporate center, business units, and technology team come together—that is, the org chart and the allocation of decision rights, funds, and accountability. That structure should vary by industry and a business's strategy, value proposition, and appetite for change.

Structure is only one aspect of successful technology governance, however. The other is behavior. Companies that adopt a structure but fail to practice the appropriate behaviors won't achieve a level of collaboration that allows them to maintain the status quo, let alone reap the rewards from new technological capabilities.

It is worth noting that the right behaviors can overcome structural obstacles, and the wrong behaviors can sabotage even the best-designed organization.

Our survey of 750 business and technology executives revealed three pillars on which behavior stands: actions that engender trust between business and technology leaders; *willingness to take accountability* for the business results of technology decisions; and *finding a common language* that enables them to debate priorities and resolve disagreements in a way that serves the business.

TRUST

Without behaviors that engender trust, it is almost impossible to have a successful collaboration among C-suite, operating, and technology leaders.

Trust is about competence as much as it is about character: in a trusting relationship, each party has both the ability and the intent to keep the promises it makes. However, what tech leaders do to earn the trust of business leaders is slightly different from what business leaders must do to be trusted by their technology colleagues.

How tech leaders earn trust.

From the perspective of business leaders, tech colleagues earn trust—keeping up their end of the governance bargain—in three ways:

1

Demonstrating functional excellence (delivering what they promise):

Strong project-management skills, delivering projects on time and on budget, and keeping core systems up and operating smoothly are table-stakes behaviors for trust.

2

Communicating clearly:

Technology executives need to be able to explain what they do to non-experts. They also need to listen, letting business leaders share in their technology planning.

3

Exhibiting strategic savvy:

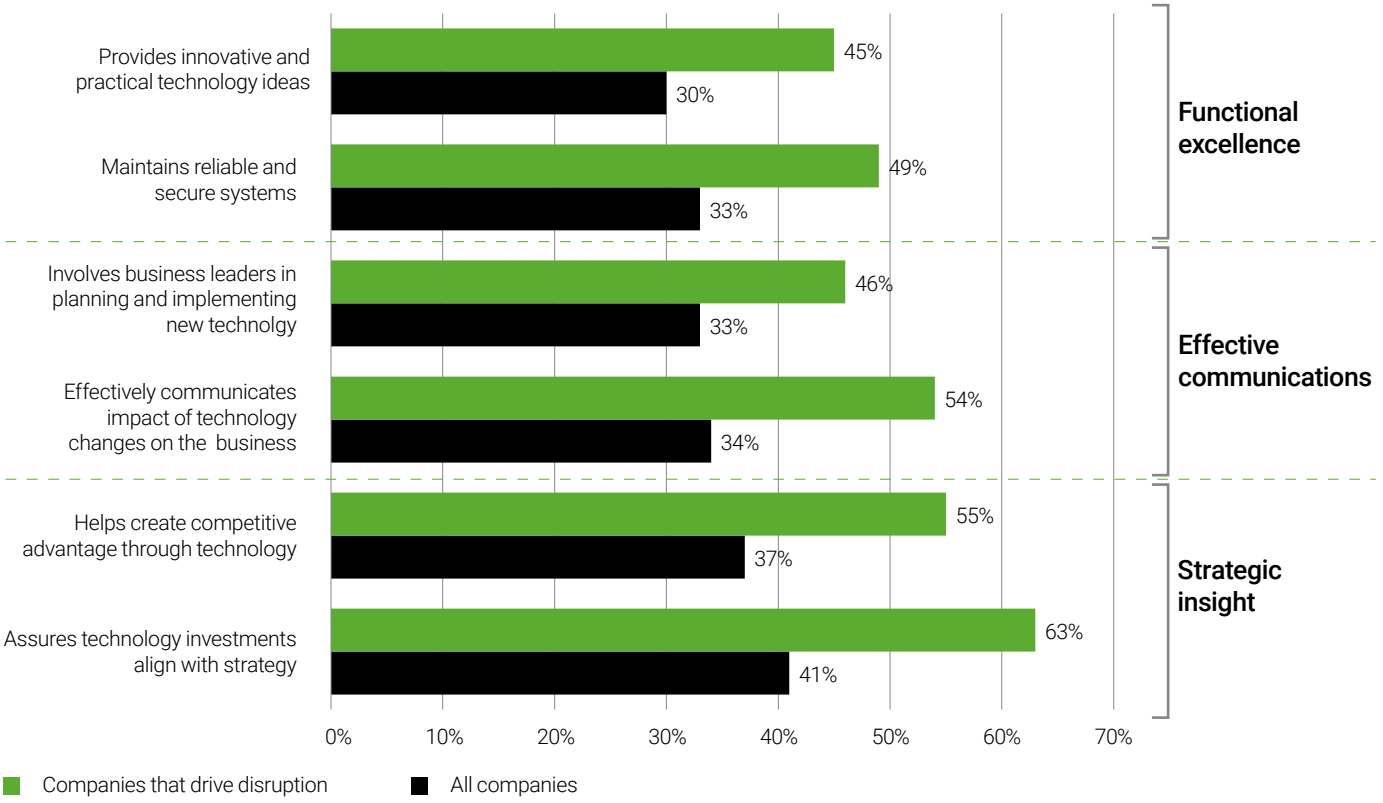
Strategic savvy is a two-way street, requiring that tech leaders can see the technological implications of strategy while also envisioning the strategic implications of technology. Savviness also means that tech leaders should know what their most advanced or dangerous competitors are up to when it comes to digital innovation.

There is significant room for improvement in each of these areas. For example, less than a third of business leaders strongly agree that their technology leaders maintain reliable, secure systems.

Companies that drive disruption in their industries stand out for having higher levels of trust in and confidence about their tech team than business leaders overall.

That trust, in turn, allows the tech team to act more boldly.

HOW TECH LEADERS EARN TRUST: WHAT BUSINESS LEADERS SAY (PERCENTAGE STRONGLY AGREEING)



How business leaders earn trust.

According to technology leaders, business leaders earn trust primarily in three ways.

1

Providing reliable financing and support:

Functional excellence must be funded. Tech leaders cannot maintain legacy technology, upgrade systems, and invest for the future with insufficient or erratic support.

2

Understanding technology's scope:

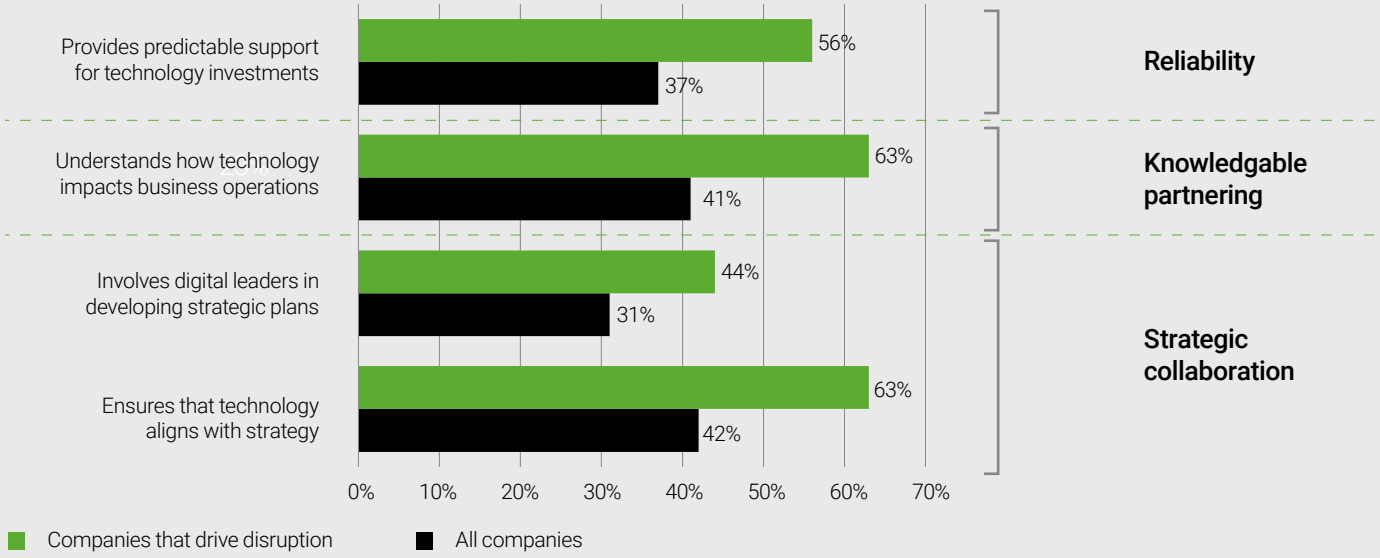
Executives expect tech leaders to speak the language of business, but tech leaders need business partners who meet them halfway—who ask smart questions (and can understand the answers) and have a practical, working knowledge of how IT systems work

3

Giving tech leaders a meaningful strategic role:

The CIO needs to be more than an auditor or an afterthought when it comes to setting company strategy. Because technology can shape strategy as well as enable it, technology leaders should be in the room when it is developed.

HOW BUSINESS LEADERS EARN TRUST: WHAT TECHNOLOGY LEADERS SAY (PERCENTAGE STRONGLY AGREEING)



There is a not-so-fine line between collaboration and interference.
Only 25% of technology leaders say they want their business colleagues to advise, guide, and partner on technology investments, and just 21% want business-side leaders to champion the adoption of new technologies. Among disruptor companies, these numbers fall to 15% and 11% respectively, which demonstrates that with trust, the two parties can work together while staying in their respective lanes.

OWNERSHIP AND ACCOUNTABILITY

Hierarchies can assign accountability, but people must step up and accept it. Many organizational pathologies can be traced to people who actively or passively duck responsibility or blame others for their mistakes. Business leaders knock technologists for overselling what a system will do or underestimating the cost and complexity of the work; technology leaders return the favor by criticizing the business side for lackluster support and an unwillingness to make organizational or cultural changes.

Data in the Digital Disruption Survey reveal several kinds of failure of accountability in technology governance. One has to do with investing in legacy systems. Legacy technology is a classic "kick the can down the road" temptation because the consequences of neglect are small at first.

Yet "tech debt"—the cost of catching up on deferred updates—is a growing problem; and legacy systems do more than support today's business: One striking finding of the survey is that companies whose legacy systems are in good shape find themselves much less threatened by digital disruption: 75% of such companies say that it poses minimal or no threat to their revenues; by contrast, 66% of companies whose legacy systems are weak say that disruption poses a moderate or major revenue threat.

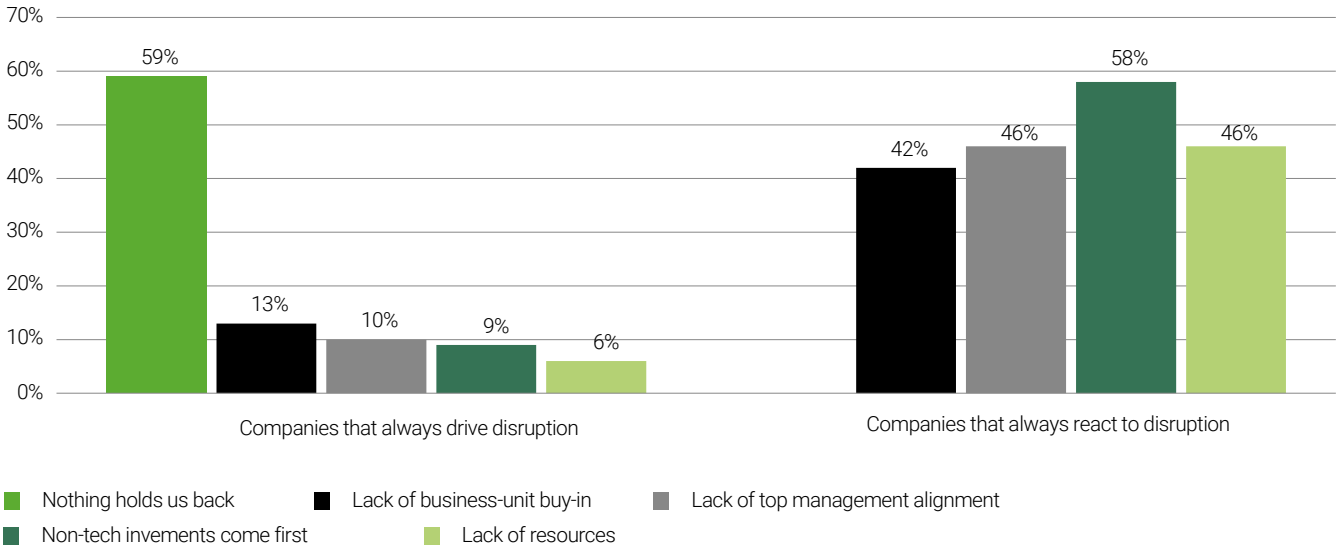
So what holds companies back from improving their legacy technology?

Thirty-five percent of the time, executives say, the reason is that other, non-tech investments push digital investment aside. But the obstacles look very different for companies that react to disruption vs. those that drive it. Reactors cite many reasons for inaction: other priorities, lack of top management alignment, too little money, or lack of buy-in at the top or by business units.

Disruptors don't buy that; indeed, they don't buy any excuse:

59% of companies that drive disruption say nothing restrains them from doing what it takes to keep their systems in good shape.

OBSTACLES TO IMPROVING LEGACY TECHNOLOGY



Accountability problems also show up when projects go wrong and the finger-pointing begins. Indeed, shared accountability should be the standard of behavior for technology governance; that is, technology leaders should feel accountable for *business* outcomes, while business leaders feel accountable for *digital* investments.

Overall, about 12% of executives say projects fail because technology leaders do not feel accountability for business results, while 16% say business-side leaders don't feel accountable for the tech. However, among disruptors, shared accountability is the norm: only 5% say tech leaders don't feel accountable and just 4% say business leaders don't feel accountable.

Shared accountability is a must if a company wishes to turn disruption to its advantage.

6 BEHAVIORS THAT SABOTAGE TECHNOLOGY STRATEGY AND EXECUTION

1 Talking at, not talking with

Business and technology leaders' conversations are not focused on business needs and goals.

2 Jargon

Technology experts are unable to explain their work or its value to non-experts.

3 Insufficient or inconsistent budgeting

Tech leaders cannot count on having the funding they need.

4 Overpromising and underdelivering

Business leaders are unable to rely on the cost and timeline projections from the tech side.

5 Inadequate check-ins and scorecards

Project reviews are not well structured and focus on assigning blame rather than resolving problems.

6 Insularity

Tech leaders do not have strong relationships with IT experts outside the company and business leaders do not know how peer companies use technology.

FINDING A COMMON LANGUAGE

Technology governance is a conversation, not a series of monologues. That conversation—whether it's about strategic fit or functional integration, driving disruptive new technologies or maintaining essential legacy systems—needs to be conducted in a language all parties understand.

Technology leaders know what tech can do. Operating leaders know what needs to be done. Proper technology governance adds the third dimension:

What is most worth doing.

A business leader can be forgiven for not knowing the ins and outs of technology. A technology leader can be forgiven for not knowing the nuances of customers, competitors, and costs. What can't be forgiven is the absence of a language—and structures, forums, and processes—that brings them together.

That language is enterprise value. Proper technology governance depends on financial visibility. A company that is clear about its value proposition and the factors that most influence value creation will make better decisions about technology than one whose financial priorities are ill-defined or badly understood. The business side expects tech executives to be able to talk to them in the language of profit, loss, and value creation.

As our colleague Les Viszlai has written, often the reason for chronic underfunding of IT programs is that technology leaders don't speak to business concerns:

> *They present management with a 'grocery list' of applications and devices, rather than showing them the 'meals' those ingredients will make (i.e., the services that technology will provide to the business).*

CEOs in particular insist that technology leaders incorporate solid business practices into technology planning.

For example, CEOs say that failure to use market research and competitive intelligence is the second-biggest cause of technology failure, trailing—just barely—with having too many priorities (41% to 37%).

It is important, therefore, to bring financial expertise to the table along with strategy, operational, and technology expertise. We documented the positive effect in an article in *Harvard Business Review*, showing that companies that brought finance expertise to the table when planning AI investments were better able to identify and stay focused on the highest-value projects. A conversation about value—how to identify, protect, and increase it—is likely to be much more productive than a conversation about cost.

There is no one "right" formula for effective cross-functional technology governance. The model used by digital disruptors, with a strong emphasis on tech weighing in on strategy, will not work for all businesses. But what all businesses must find is a way to be clear on priorities, make decisions in a timely way, and communicate among the three leadership groups to engender trust and respect.

The importance of technology governance, already high, will only increase. Artificial intelligence has infused every function and process, from procurement to customer service. In the emerging organization of the future, every worker, supervisor, and executive will have more technology at his disposal than whole IT departments had just a generation ago. Without the right structures, accountability, discussions, processes, and behaviors, companies will fail to capture the value technology can create—or worse, destroy value as technology risks and mistakes pile up. In technology governance as in much else, the foundation of boldness is business judgment built from experience.

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ABOUT US

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