MIS 3534 Fall 2015 – Strategic Management of Information Technology

Week 11 – IT Governance

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Certifications for MIS majors

- Certified Information Systems Auditor (CISA)
- Certified Information Security Manager (CISM)
- Project Management Professional (PMP)
- Oracle Certified Professional (OCP)
- SAP Certified Associate/Professional
- Cisco Certified Associate/Professional
Today, we will discuss …

• What is IT governance?
• What’s the role of board of directors in IT governance?
• What’s the role of business managers in IT governance?
Board of Directors

- Who are a board of directors in a corporation?
- What do they do in general? What are their responsibilities?
- Why do business firms need a board of directors?

http://jichs.ccsdschools.com/j_i_c_h_s_board_of_directors
Corporate Governance 101 (1/2)

Shareholders

Board of Directors

Management

Business Firm

http://thomasmoreinstitute.wordpress.com/2012/05/04/shareholder-action-a-positive-development/
http://voguesecurity.net/content/board-directors/
Corporate Governance 101 (2/2)

- Most shareholders do not have time, knowledge, and expertise to run a large-scale business firm.
- The number of shareholders is large (up to tens of thousands). They are not able to run the firm together.
- Thus, they hire a professional management team to operate the firm.
- Shareholder also appoint a board of independent directors to oversee and supervise the management team.
Separation of Governance and Management

- What does it mean?
- What are the interests of shareholders?
- What are the interests of CEO and senior management?
- Are the shareholders and the management in the same boat?
  - Sometimes, but not always
  - Were they in Enron, WorldCom, or Lehman Brothers? No.
Conflicts of Interests in Governance (1/2)

- Shareholders’ interests: continued and sustainable generation of profits and long-term values
- Management’s interests
  - Maximize market shares, revenues, or short-term profits
  - Expanding business portfolios (by taking too much risks)
  - Managing their power and influences
  - Keeping and raising their salaries or stock options
- Shareholders and Management are not in the same boat.
Conflicts of Interests in Governance (2/2)

- Conflicts of Interests: The management’s interests are not always congruent with the shareholders’.
  - For example, pursuing growth in market share and revenues does not necessarily lead to profit growth.

- Information Asymmetry: The shareholders, with limited knowledge and expertise, cannot accurately monitor what the management does.

- Therefore, the management needs “adult supervision” by the board of directors, on behalf of the shareholders.
Duties of Board of Directors

- Representing the best interests of shareholders
- Audit and control of the firm’s finance and accounting
- Appointment and supervision of senior management team
- Approving major investment or business decisions such as M&A, entering to new business, or divestiture of existing business
- Determining compensation of senior management team
- Making sure that the firm meet all regulatory and legal requirements
- Offering consultation and advices to the management team
- Ensuring continuation and proper operation of the firm
CIO Going Rogue?

● What would happen if a CIO or IT managers receive no adult supervision or control? What if he can handle IT in any way he wants?

● What if the CIO pursues his own private interests, not the shareholders’ interests?

● From Chapter 1, “IT department is positioned to understand how the business works better than any other department.” (p. 11)

  ▪ meaning that the CIO is in a powerful position to abuse the firm’s resources for his self-interests and undermine shareholder value.
Missed Alarms and 40 Million Stolen Credit Card Numbers: Home Depot Hacked After Months of Security Warnings

By Michael Riley, Ben Elgin, Dune Lawrence
September 18, 2014

http://www.businessweek.com/articles/2014-09-18/home-depot-hacked-wide-open
Obama administration knew of key Obamacare delay in August, emails say

By Tor OCT 30, 2013 9:42AM ET

Sebelius: I Didn't Know Contractors Wanted to Delay Healthcare.gov

“Despite their delay, we don’t have a single contractor,” Kathleen Sebelius said.

Without Proper Supervision and Controls …

● A CIO might cover up security breaches or loss of intellectual properties, which might threaten the existence of the firm.

● The CIO might collude with the CEO and the CFO to make accounting frauds possible.

● The CIO might not report delays or failure of a major IT project, which would hinder the execution of major business strategies.

● The CIO might waste IT budget on projects that do not add value to the firm.

● The CIO might hire an IT vendor which is not capable but owned by his relatives or friends or offers him a bribe.

● The CIO might not do his best efforts to protect the firm’s IT infrastructure and systems against accidents, natural disasters, or other risks.

● The CIO might fail to upgrade the IT system in response to technology developments.
Information Systems Auditor


- Job Description: conduct operational reviews of the IS function in relation to specific objectives established by Internal Audit management for the purposes of (a) assessing performance, (b) identifying opportunities for improvement, and (c) developing recommendations for improvement. The scope of these reviews may include all aspects of the IT function, from overall planning and organization to specific operating procedures, standards and policies. Collect, analyze, interpret, and document information as part of preparing complete, effective, and timely IT audit reports.

- Certified Information System Security Professional (CISSP) and Certified Information Systems Auditor (CISA) (both are preferred).
Mr. Barton’s Presentation Before BoD (1/4)

● Why does Mr. Barton make a presentation in front of IVK Board of Directors?
  ▪ If you were Mr. Barton and *not* required to attend, would you still want to present before the board?

● Four messages of Mr. Barton
  ▪ IT management is too informal.
  ▪ Under-investment in IT infrastructure
  ▪ Little involvement of senior management in IT decisions
  ▪ Strategic partnership between IT and business units
Mr. Barton’s Presentation Before BoD (2/4)

- What is the objective of Mr. Barton? What does he want to accomplish?
- He wants to be **empowered** by a higher authority (board of directors), so that he can have a greater voice amongst the senior management team at IVK.
  - so that he could demand more funding in IT infrastructure and security.
  - so that he could institute a more standardized and coordinated enterprise architecture.
  - so that he could play a leadership role in IT management.
Mr. Barton’s Presentation Before BoD (3/4)

- Mr. Barton was the last presenter at the board meeting.
- It implies to the management team that the IVK board of directors do not recognize IT as a core part of its business.
- If presentations before Mr. Barton’s go overtime, he might not lose a chance to present.
- Not a great sign.
Mr. Barton’s Presentation Before BoD (4/4)

● Some board members might say “We are so busy folks. One hour or one minute is a precious commodity for us. Why should we hear what he has to say?”
  ▪ What would you tell them?

● If they say “why would you need more money for the infrastructure replacement project?”, how would you convince them?
How CIOs Can Raise Their Board Game

● Source: McKinsey on Business Technology (Fall 2012)

1. Interact regularly with board members
2. Set the agenda with the board proactively (proactively bring technology topics before the board.)
3. Bring the right people to the board meetings (such as business unit partners)
4. Leave the IT jargon behind

● The same guidelines apply when a CIO interacts with fellow executives.
The Duties of BoD for IT Management

- Representing the best interests of shareholders
- Audit and control of the firm’s IT
- Appointment and supervision of senior management team (CIO)
- Approving major IT investment or decisions
- Determining compensation of senior management team (CIO)
- Making sure that the firm meet all regulatory and legal requirements related to IT
- Offering consultation and advices to the management team (CIO)
- Ensuring continuation and proper operation of IT
Next Week

- IT-Driven Competitive Strategies
- Read “Your Industry’s Bottlenecks” article and write a brief of up to 200 words