BUTLER COX FOUNDATION

Managing the Devolution of Systems Responsibilities

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Management Summary
Report 81, June 1991

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Management Summary

Managing the Devolution of Systems Responsibilities

Foundation Report 81, Managing the Devolution of Systems Responsibilities, was published in June 1991. It describes a framework that can be used to find the right balance between those systems activities that should be managed centrally and those that can be devolved to business units. This document summarises the main management messages arising from our research. The full report is available only to members of the Butler Cox Foundation.

In many organisations, responsibility for business decisions has been devolved away from the centre and now lies with executives at divisional and business-unit level. It is natural that these executives want to control their information systems activities, which are increasingly a major determinant of business success. Often, the response has been to transfer, almost overnight, much of the responsibility for managing systems from a central systems department to line managers in divisions or business units. The result of such unplanned devolution has usually been bad for the business. Either the business units find that their computer systems cannot talk to each other, or the central systems staff and those in the business units are at loggerheads with each other.

To be successful, devolution of systems responsibilities must be carefully planned and managed. The most effective model to use is that of federal devolution, based on the understanding that there is a role for both devolved and central systems units. The key to making federal devolution work is to find the most appropriate balance between those activities that should be managed centrally and those that should be managed by systems managers located in divisions and business units.

Devolution is unlikely, however, to reduce the cost of providing systems. The main benefit of devolution is that the organisation will be able to make the most effective use of systems for the benefit of the business, by getting people with the right perspective to add value to decisions about the use of IT. The success of devolution should therefore be assessed in terms of the ability of information systems to add value to the business, rather than in terms of what cost reductions have been achieved.

Recognise that federal devolution is the most effective model

Of the Foundation members we spoke to during our research, some had abandoned their attempts at devolution, others were beginning again, and many of those who said that they have a devolved systems structure are still having problems. Difficulties occur because of the growth in incompatible systems in business units,

because those responsible for centrally defining a common technical strategy do not have the authority to make it stick, and because business managers do not have the skills and understanding to exploit their new responsibilities. There are also difficulties in motivating and retaining systems staff transferred to work permanently in devolved systems units.

We believe that these difficulties arise because these members are not applying the principles of true federalism. In effect, they have progressed only to an interim form of devolution, more accurately termed hierarchical devolution.

With hierarchical devolution, some responsibilities are devolved, but the central systems unit retains a controlling influence over all aspects of developing and running systems. Devolved units resist central 'interference' and concentrate on their budgetary responsibilities to the business area that they serve. Working relationships reflect the old hierarchical structure, with information flowing down the hierarchy from the central systems unit to devolved units. The result is that little attention is given to sharing experiences between devolved units or encouraging group-wide synergies and systems initiatives.

In a truly federal arrangement, there will be:

Separation of, and clear accountability for, each type of systems management responsibility, matched with the authority to ensure that decisions are made by groups who have the business perspective needed to make informed decisions. This will ensure that the decision makers are neither isolated from the impact of their decisions nor powerless to enforce them.

Reverse delegation, based on the understanding that, within a devolved framework, there are still some activities that are best undertaken by the centre *on behalf of* the devolved units and with their full agreement. The centre can provide the corporate perspective needed to maintain the synergies *between* devolved groups and also deliver economies of scale. The centre does not, however, direct and control; it influences and advises.

Direct communication between groups in the devolved units, as well as with the centre, to avoid bureaucracy and delays, build the corporate understanding and vision that is often lost through devolution, and so improve cooperation. To enable this to happen, systems and line managers need to open up paths of communication between groups, the aim being to foster learning and sharing, and to generate a corporate spirit.

Organisations that develop beyond hierarchical devolution to a full federal structure are able to gain the full benefits of devolution.

Federal devolution implies maintaining the most appropriate balance between central and devolved systems responsibilities. In turn, this implies the need for a high-level coordinating committee that is responsible for defining the 'rules of federation' throughout the entire organisation. The committee should therefore comprise senior business managers and it should report at the highest level in the group – usually to the board. Figure 1 describes how one multinational defines the role of its group IT coordinating committee, and shows its membership.

Figure 1 The group IT committee coordinates the systems activities in a devolved group

One multinational group with a devolved management structure defines the role of its group IT committee in the following terms:

Purpose	To ensure the effective use of IT throughout the group.
Responsibilities	To review and approve: — Group systems strategy, policies and standards. — The status of information systems throughout the group, particularly from a competitive advantage viewpoint. — Divisional systems plans, to ensure that they are consistent with business strategies and group policies. — Resource allocation, to ensure that resources are properly deployed throughout the group. — Corporate funding proposals.
Composition	— Two main board directors. — Head of corporate planning. — Head of corporate IT. — Two business-division directors. — Two senior managers from national operating companies. — Two external advisors. The group head office systems planning function acts as the secretariat for the committee.

Make a clear distinction between service-definition and service-supply responsibilities

The most important responsibility of the coordinating committee is to decide how systems responsibilities should be divided between the centre and devolved units, and in the case of devolved responsibilities, to determine the most appropriate level in the organisation to place them. The committee should recognise that there are two main types of systems responsibilities – service-definition and service-supply – and different criteria should be used to divide each type between the centre and the devolved units.

Service-definition responsibilities are concerned with planning the amount and type of systems support that will be provided for the business. The responsibilities demand a proactive style and they should be allocated to the level where decision-making will be most effective. Service-supply is concerned with providing and maintaining IT resources (people and equipment) identified by service-definition planning. The responsibilities require a reactive style and they should be allocated to the level that will maximise the efficient use of resources.

Position service-definition responsibilities for effectiveness

There are two distinct groups of service-definition responsibilities:

— Defining systems strategy, or determining *what* applications are needed to support the business. As much as possible of this responsibility should be devolved to divisions and business units, but a centrally defined systems strategy will usually be needed too.

— Defining technology strategy, or *how* the applications will be delivered. Technology strategy therefore needs to cover technical architecture, technical standards and technical policies. The responsibility for technology strategy will usually be more centralised than that for systems strategy.
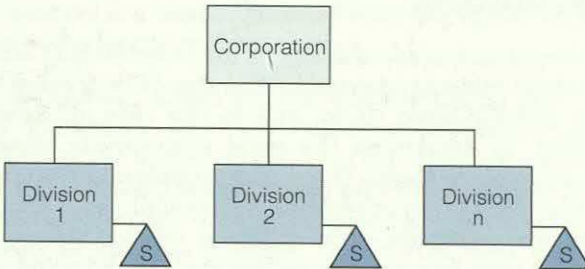
Responsibility for systems strategy should be devolved, as far as is possible, to match corporate management style (see Figure 2). Thus, where the organisation's management style is centralised,

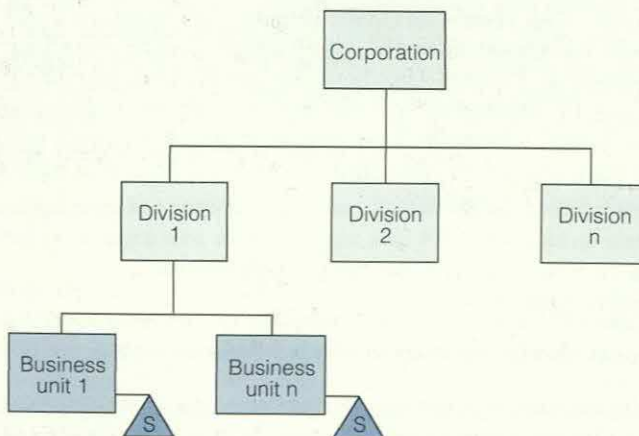**Figure 2 Responsibility for systems strategy should be allocated in line with business management responsibility**
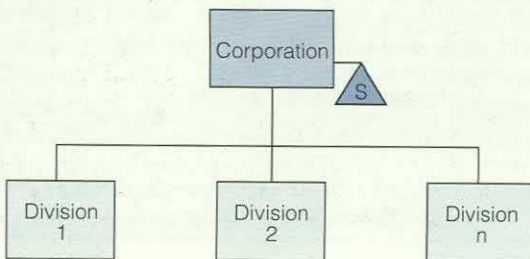
Systems strategy responsibility

systems strategy responsibility should be allocated to head-office managers; where business-management responsibility has been devolved to divisional or business-unit level, responsibility for systems strategy should be devolved to match.

It is essential that the responsibility is allocated to the most senior line managers in the divisions or business units concerned. One way to achieve this is to transfer systems managers to form part of the business-management team in the devolved unit. The main benefit is that information systems will be recognised by the management team to be of strategic importance to the business and so worthy of their attention. This means that the role of information systems will be taken into account during the devolved unit's business-planning process.

There will often be a need for groupwide applications as well, and these will be defined by a corporate-level systems strategy. In particular, the corporate strategy will identify any groupwide initiatives that must take precedence over divisional or business units' systems plans. Figure 3, overleaf, illustrates a top-down approach to developing the corporate and business-unit systems strategies in a devolved environment. The procedure is highly interactive and is designed to combine the experience of corporate business managers, corporate business planners, and systems managers from the central and devolved systems units.

Projects identified by the corporate systems strategy will be in the annual plans of the devolved units, which will also be responsible for the detailed planning, justification and priority-setting. The detailed plans will be reviewed by the coordinating committee, so that any conflicts of priority can be identified and resolved. In this way, senior business managers will be able to make informed decisions about trade-offs between corporate objectives and local business expediency.

The second group of service-definition responsibilities is concerned with defining the technical architecture needed to develop and run the applications defined by the systems strategies. The technical architecture is likely to govern how applications can be integrated, and how data is to be defined so that it can be used by different parts of the business now and in the future. It will also describe the hardware and software environments required to preserve flexibility, and the communications protocols that will enable data, voice, images and other forms of information to be transmitted electronically between devolved units.

For these reasons, responsibility for technology strategy will usually need to be more centralised than that for systems strategy (see Figure 4, on page 7). A general rule is to place the responsibility at the level at which business plans are coordinated.

Position service-supply responsibilities to maximise the efficient use of resources

While devolved units should be responsible for defining their own systems strategies, it may well be more efficient to provide systems resources (mainly development staff and operational services) to devolved units from a central unit. Some service-supply responsibilities should, however, be retained in the devolved units –

Figure 3 Strategic systems planning in a devolved environment must have a corporate perspective

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                    ┌──────────────────┐
                    │  Group business  │
                    │    goals and     │
                    │    objectives    │
                    └──────────────────┘
                             │
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  │Corporate systems    │  │Technical architectures│        │
  │projects             │  │                       │
  │Cross-functional     │  │Applications           │        │
  │infrastructure       │  │Data                   │
  │Common systems       │  │Hardware/software      │        │
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      │                         │
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      │              │  Technical policies   │             │
      │              │    and standards      │
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        ┌──────────────────────────────┐
        │   Division/business unit      │
        │     systems strategy          │
        │                               │
        │ Carried out as an integral part│
        │   of business planning         │
        │ Taking account of corporate    │
        │   systems responsibilities and │
        │   commitments                  │
        │ Planned within policy guidelines│
        └──────────────────────────────┘
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particularly the analysis of business requirements and the high-level design of the systems needed to meet those requirements. Business analysts located in the devolved units are more likely to have a detailed understanding of the business and to be able to gain the trust and respect of business staff. Beyond this, there can be drawbacks to providing a full range of systems services from within the devolved units:
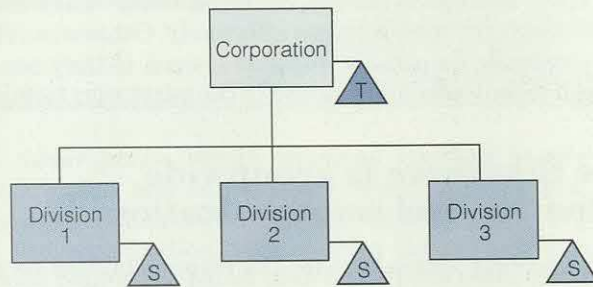
— The small numbers of specialist systems staff will make the unit vulnerable to loss of staff.

— The perceived lack of career progression will make it unattractive for systems staff to work in a small unit.

— Specialist systems staff in devolved units may well be duplicating each other's efforts.

Figure 4 Responsibility for technology strategy may well be more centralised than responsibility for systems strategy
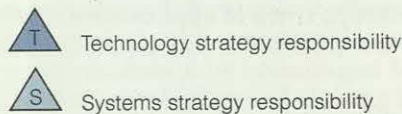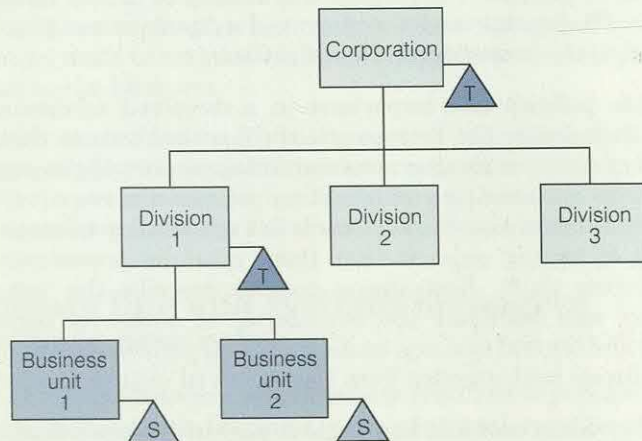
Systems strategy is a corporate responsibility

Corporation S T

Division 1   Division 2   Division 3
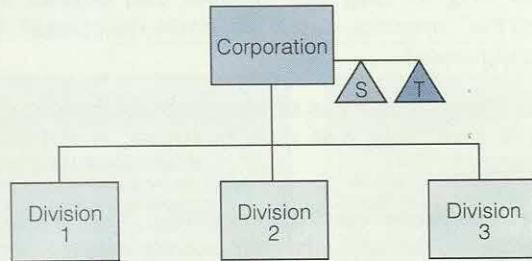
Responsibility for systems strategy is allocated to the divisions

Corporation T

Division 1 S   Division 2 S   Division 3 S

Responsibility for systems strategy is allocated to the business units

Corporation T

Division 1 T   Division 2   Division 3

Business unit 1 S   Business unit 2 S

T Technology strategy responsibility

S Systems strategy responsibility

For these reasons, it can often be more efficient to provide systems services to devolved units from a central unit. There are four main options:

Corporate data centres can result in large cost savings by centralising the management of computers, networks and shared

databases into fewer and larger data centres, and by making more effective use of skilled and expensive technical staff.

An internal software bureau manages development staff as a corporate asset and makes them available to devolved units, on contract, for as long as they are needed. The bureau will also manage 'corporate' projects, such as cross-functional systems design and management.

A commercial business venture is similar to an internal bureau but seeks to operate profitably and gain business from outside the parent organisation.

A facilities management contract removes the management responsibilities for service-supply (but not for service-definition) from the business.

In the first three of these cases, central service-supply staff will have to learn how to provide a service that is responsive to the needs of their customers in the devolved units. They must also learn how to market their services effectively. Otherwise, they may well lose business to outside suppliers, even if they are professionally and technically more suited to the particular requirement.

Ensure that there is groupwide coordination and communication

As well as deciding where to place the responsibilities for service-definition and service-supply, and resolving conflicts of priority between corporate and business-unit systems strategies, the group coordinating committee is responsible for agreeing and mandating groupwide IT policies. The policies will usually be drawn up by the corporate IT director and the devolved systems managers and presented to the committee for ratification.
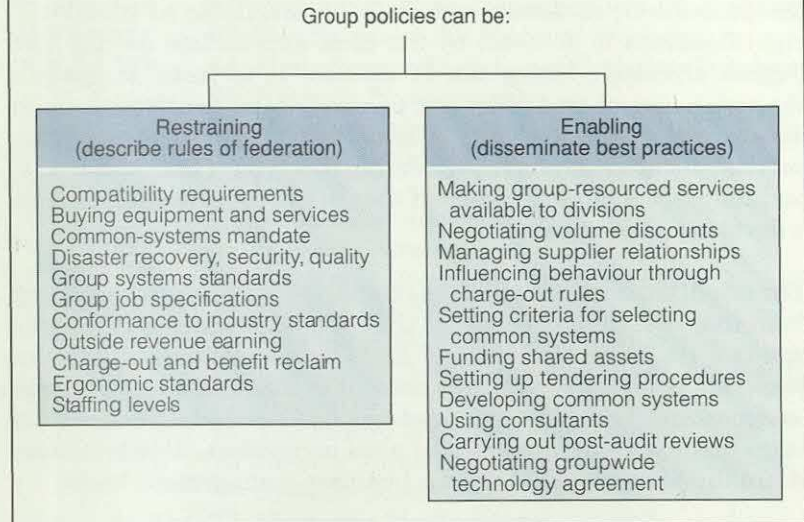
Groupwide policies are important in a devolved environment because they define the framework of rules that ensure that the devolved systems units operate as an integral part of the organisation. Both restraining and enabling policies are required (see Figure 5). Some of the items in each list are similar because the downside of having rules is that there must be procedures for administering them. Restraining policies describe the 'rules of federation' and delineate the boundaries of authority between devolved and central systems units. Enabling policies are required to disseminate best practice from one devolved unit to another.

A central systems unit also has a role to play in disseminating best practice. By providing a systems-review service, the central unit can act as a clearing house that keeps track of applications, tools, techniques and practices that are pioneered and introduced in devolved units.

To be fully effective, however, federal devolution requires that there must also be lateral communication among devolved systems staff. Lateral communication can be encouraged in four main ways, all of which will be appropriate in varying degrees:

Horizontal threading, where one business unit develops elements of applications that are common to all divisions or business units, *on behalf of* the other units.

Figure 5   Groupwide restraining and enabling policies are required in a devolved systems organisation

Group policies can be:

Restraining (describe rules of federation)	Enabling (disseminate best practices)
Compatibility requirements Buying equipment and services Common-systems mandate Disaster recovery, security, quality Group systems standards Group job specifications Conformance to industry standards Outside revenue earning Charge-out and benefit reclaim Ergonomic standards Staffing levels	Making group-resourced services available to divisions Negotiating volume discounts Managing supplier relationships Influencing behaviour through charge-out rules Setting criteria for selecting common systems Funding shared assets Setting up tendering procedures Developing common systems Using consultants Carrying out post-audit reviews Negotiating groupwide technology agreement

Lateral career paths, which involves rotating people between systems-oriented and functionally oriented roles, and between business units. This results in more versatile people with a wider view of the organisation, and enables them to develop broader skills. Such people are better able to spot the potential of IT to act as a catalyst for productive business change. The central systems unit will often have a role to play in managing the careers of systems specialists in a devolved organisation.

Informal 'networking', which means encouraging systems staff in devolved units to maintain informal contacts with their peers elsewhere in the business.

Virtual centralisation, where central service-definition and service-supply responsibilities are carried out by individuals drawn from devolved units, working part-time or on a project basis, and supported by electronic mail or computer conferencing.

Educate line and systems managers for their new roles

A systematic education programme is required to prepare line and business managers for their new roles and relationships in a federally devolved organisation. Line managers need to know enough about information technology to take full account of it in their strategic and operational business planning. This means that managers should be encouraged to think about how new ways of handling, combining and viewing information could improve their current operations, or could enable new business opportunities to be exploited.

Line managers must also learn to challenge the views of technical experts and must insist that business and systems planning are integrated. They also need to ensure that a full business justification is presented for each proposal, and that there is evidence of alternative solutions having been considered.

Systems staff, from the corporate IT director downwards, must also be educated so that they can carry out their new responsibilities. The role of the corporate IT director is changing from that of central decision-maker to corporate facilitator – ensuring that the procedures, structure and skills are available to enable the right decisions to be made by the most appropriate people. The biggest challenge facing the IT director is to learn to operate through personal credibility and persuasion, rather than through direct control of budgets and people. Most existing systems directors are not accustomed to performing this type of leadership role, and they face a huge challenge if they are to operate effectively in a devolved environment.

The role of business-unit systems managers is also changing, away from that of technical expert to that of business executive. Their greatest challenge is to expand into this role without losing the corporate perspective that was present in the centralised systems environment. To achieve this, systems staff need education to help them become good listeners and good persuaders, able to understand the pressures that drive a business-management team.

Finally, everyone in the organisation should recognise that the main benefit of devolution is not to minimise costs, but to add value, through the use of IT, to the business. What is needed, therefore, is a set of business-performance criteria that can be used to demonstrate the value added by each devolved unit and the central systems unit. Figure 6 lists appropriate criteria for assessing the benefits of devolution.

Figure 6 Benefits in a devolved environment should be judged on business value, not on cost reduction

Devolved systems units

Business expansion achieved
User satisfaction increased
Information systems seen as strategic by business management
Business management involved in directing use of IT
Competitive advantage achieved

Corporate systems-strategy unit

Business synergy enhanced
Flexible growth/contraction achieved
Business leverage of information systems across divisions enhanced
Technology not seen as a constraint on business initiatives

Central service-supply unit

Staff attraction and retention improved
Resources fully utilised
Customer satisfaction obtained
Skill levels enhanced
Productivity improved
Delivery timescales shortened
Service levels improved

In summary, devolution should not be allowed to happen in an *ad hoc* way. It must be managed. The key to successful devolution is to understand and apply the principles of federal devolution, and to educate line and systems managers so that they can operate effectively in a federally devolved organisation.

The Butler Cox Foundation

The Butler Cox Foundation is a service for senior managers responsible for information management in major enterprises. It provides insight and guidance to help them to manage information systems and technology more effectively for the benefit of their organisations.

The Foundation carries out a programme of syndicated research that focuses on the business implications of information systems, and on the management of the information systems function, rather than on the technology itself. It distributes a range of publications to its members that includes research reports, management summaries, directors' briefings and position papers. It also arranges events at which members can meet and exchange views, such as conferences, management briefings, research reviews, study tours and specialist forums.

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— The publications are terse, thought-provoking, informative and easy to read. They deliver a lot of messages in a minimum of precious reading time.

— The events combine access to the world's leading thinkers and practitioners with the opportunity to meet and exchange views with professional counterparts from different industries and countries.

— The Foundation represents a network of systems practitioners, with the power to connect individuals with common concerns.

Combined with the manager's own creativity and business knowledge, membership of the Foundation contributes to managerial success.

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