Chapter 3

Understanding IT Governance: A Case of Two Financial Mutuals

Alastair Robb
University of Queensland, Australia

Michael Parent
Simon Fraser University, Canada

ABSTRACT

Legislators, regulators, and shareholders increasingly demand good governance over all aspects of their business. While much is made of financial governance, most legislation and regulation implicitly recognizes the need for prudent governance of information technology (IT) functions. In this study we conduct an exploratory collective case study of IT governance (ITG) in two financial mutuals - one in Australia and one in Canada, using a contextual lens. In one case, the mutual governs its IT through Board participation in a subsidiary. In the second, governance is delegated to management and a Lead Director. Both of these mechanisms appear to minimize ITG risk, and are the result of their respective regulatory environments. This research begins to lend some clarity regarding IT governance choices by firms, and denotes important contextual differences between countries' regulatory environments. This will allow researchers, managers, and directors to better understand and discriminate between ITG processes and structures.

INTRODUCTION AND RESEARCH OBJECTIVES

Legislators, regulators, and shareholders increasingly demand that directors and managers exercise good governance over all aspects of their business. Indeed, since the release of the Cadbury Report (1992) into corporate governance, much effort has been put into ensuring governance remains high on the agenda of directors and managers. Following such failures as Enron, Parmalat, One-Tel, WorldCom, and HIH regulators, too, have made no secret of their willingness to pursue directors and managers who do not exercise good governance over their organizations. As the inimitable Donald Trump stated (regarding the Sarbanes-Oxley Act (SOX)): “They [regulators] make you sign documents that basically say every transaction

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made by everybody in your company is 100 per cent honest. If it isn’t, you go to jail for the rest of your life” (Pitts, 2007). Further, in the wake of the Global Financial Crisis, there is a real likelihood that governance will, once again, resume centre stage. In the latter part of 2010, The Basel Committee is expected to announce a series of new initiatives designed to help avoid a repeat of the Global Financial Crisis. Referred to as Basel III, the initiatives focus on banks, their liquidity, and capital (The Economist, 2010).

While much is made of financial governance, implicit in most governance legislation and regulation is the need for prudent governance of organizations’ IT functions. Further, regulators fail to distinguish between organization types in mandating good governance.

In this study, we seek to better understand the effect of different regulatory environments on IT governance (ITG) frameworks by conducting an exploratory collective case study of IT governance in two financial mutuals - one Australian Credit Union and one Canadian Credit Union. Both outsource their IT functions but use different approaches in doing so. The Australian regulatory environment differs significantly from the Canadian regulatory environment, largely due to Canada’s proximity to the US. Unlike Australia, the closeness of Canada and the US, both geographically and commercially, tends to result in US regulation more directly affecting Canadian business interests. For example, the Canada-US Free Trade Agreement has been in place for over twenty years. In its preamble, one of its objectives is “to ensure a predictable commercial environment for business planning and investment” (Foreign Affairs and International Trade Canada, 1987, p.5) The intention of the FTA is that both the US and Canada pursue stable and open markets, but it serves to underline that Canadian and Australian mutuals operate in structures and environments that are contextually unique to each country (Markus & Soh, 2002; Weisinger & Trauth, 2002). Using a cross-national approach to investigate the contextual differences between Australian and Canadian ITG frameworks is warranted, particularly given the relatively similar market sizes, but markedly different context in which the two mutuals operate. Furthermore, mutual organizations tend to fall under the same regulatory framework as mainstream financial institutions. Unlike mainstream financial institutions, however, mutual organizations have some unique characteristics, largely arising from their raison d’être. For example, their responsibilities typically do not include maximizing shareholder dividends, nor do mutual organizations have the luxury of targeted recruiting for Board members. In addition, as their boards are usually elected from their membership, mutual organizations typically experience elevated levels of director turnover. As a result, mutual organizations represent unique, if under-studied cases in ITG. Insights gained from this study may help other non-mainstream businesses.

The main objective of this research is to seek a deeper understanding of the drivers behind adoption of different IT governance (ITG) mechanisms for mutual organizations. While a substantial number of prior studies have focused on ITG in mainstream organizations (for example, Willcocks et al., 2006; Weill & Ross, 2004), we are not aware of any other studies that expressly focus on mutual organizations operating in markedly different national regulatory contexts. Weisinger & Trauth (2002), in fact, note the lack of guidance available to aid our understanding of context in the global IT setting. More specifically, we investigate how the different legislative and regulatory operating environments of the focal organizations affect the ITG mechanisms they adopt. This study seeks to address the gap that exists between research on ITG relative to mutual organizations in different operational contexts. We expect this study will help mutual organization directors in at least three ways. First, it will reinforce the message that directors of mutual organizations of the need to ensure their ITG mechanisms remain strong,
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