EXECUTIVE ACCOUNTABILITY &
CAPABILITY–BASED GOVERNANCE
MATTHEW DE GEORGE

Ending Accountability
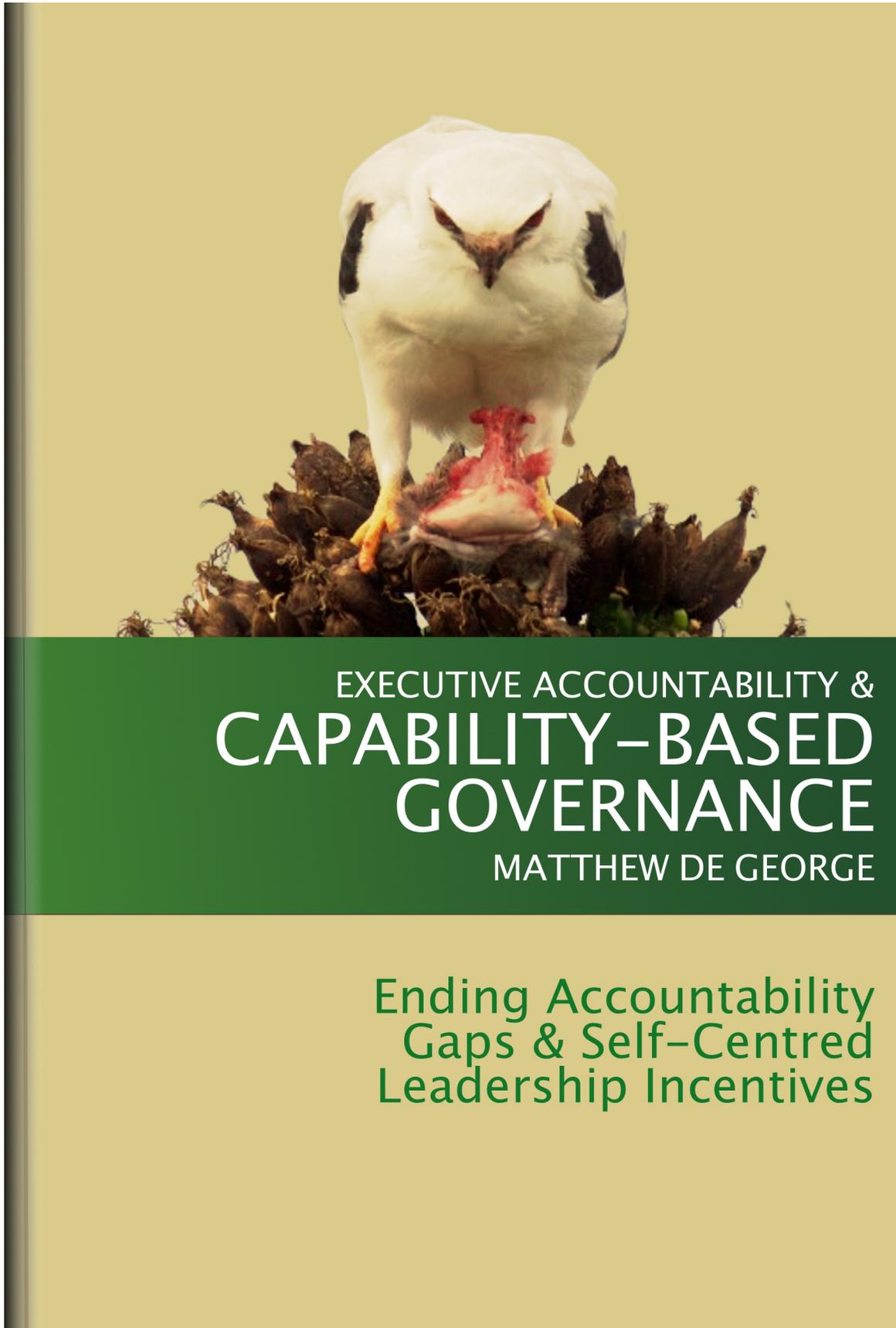Gaps & Self–Centred
Leadership Incentives

Alpha Release

This is not the full version of this book. It is simple an "alpha" release. "Alpha" ~~dominating~~ nothing more than the fact that it's a very early version of the book. It's also no more than a pamphlet at this point.

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1

Introduction

I once worked with a senior executive from a major international company after he left the company and started building his own business. I felt I could be honest about what I thought of the company we both had experience with.

My criticism were subtle and by no means a wholesale dismissal of the company. Regardless, the particulars of my cautious criticisms aren't that important. Alex simply said that the company *managed itself for the benefit of its managers*.

At the time I'd been trying to express this same sentiment for years. I'd been working through [my ManageWithoutThem approach to market based management](https://www.ManageWithoutThem.com) and already rallying against decisions that I thought helps the people who made them more than the organisation they worked for.

To have somebody else clearly say that a company, indeed that all companies, are *managed for the benefit of manager* was a vindication. The suspicions were confirmed by somebody deep on the inside of the game.

So how do you ensure decisions are made for the benefit of the company, rather than for the benefit of the person making the decision? How important is it that you get this right?

Ultimately you have to make the decision that is right for the individual making it the same decision that's right for the company. But you have to limit yourself judging decision quality based on the information that should have been known at the time of the decision.

These questions have lead be to embraced information management, market-based approaches to the coordination of firms, and capability-based governance.

This brief book is my introduction to capability-based governance. There are others, but this is what I'm talking about when I use the term.

2

Org Charts are Silly

Everybody knows that org charts don't tell the whole story.

It's not entirely sure what they are showing. Are they showing a hierarchy of accountability or are they showing ownership of resources?

If they are a hierarchy of responsibility, and they do this by showing ownership of resources, then not having roles in place means more than a responsibility for hiring the role, it means a responsibility isn't be managed or performed.

But what if somebody is removed from an org chart. Does the responsibility get removed from the hierarchy?

In functional structures by definition the most important aspect to describe is how the different branches of an org chart work together. Org charts avoid these relationships by their very nature.

![Org Charts don't contain very much information about accountability](images/figure1.png)
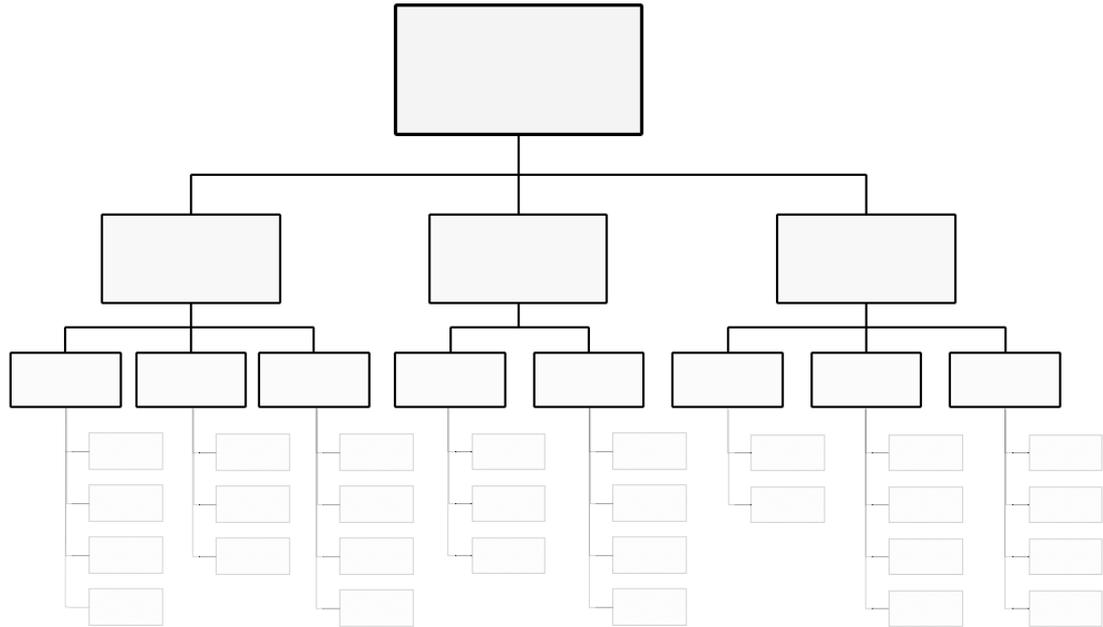
But if we abandon org charts is that an innovation in organisational design. It's amazing how many have embraced that notion. If an org chart is a hierarchy of accountability and it's abandoned that's a strep backwards.

If an organisation is claiming to be people focused and the org chart is who is responsible for those people, abandoning the org chart might be considered a step backwards in terms of who (in additional to the individual, of course) is responsible employees well being.

But it's silly to focus on org charts because everybody already knows they are a bad idea.

3

IT Departments are Trying

Every I.T. Department in the world has at one point struggled to assigned "business owners" to I.T. Systems. This also answers one of the questions we asked about org charts. When a person is removed from an org chart and replaced by an I.T. System does that mean the responsibility is removed from the hierarchy of responsibility the org chart represents?

I.T. Departments have answered this question. The answer is "no!". I.T. Department each have their own posture in terms of how responsible they are I.T. Systems. This can range from "We'll try to fix something if you tell us it's break and we agree it's broken" to "we will implement a strategic program of work and deploy technology solutions you didn't ask for but we know you need".

Common to all postures is the idea that I.T. Systems have business owners. When this works well the business owner is somebody with authority, somebody who otherwise already has a stake in the system's performance, and somebody with access to budget.

![Org Charts Should Contain Responsibilities Not (Just) People](images/figure2.png)
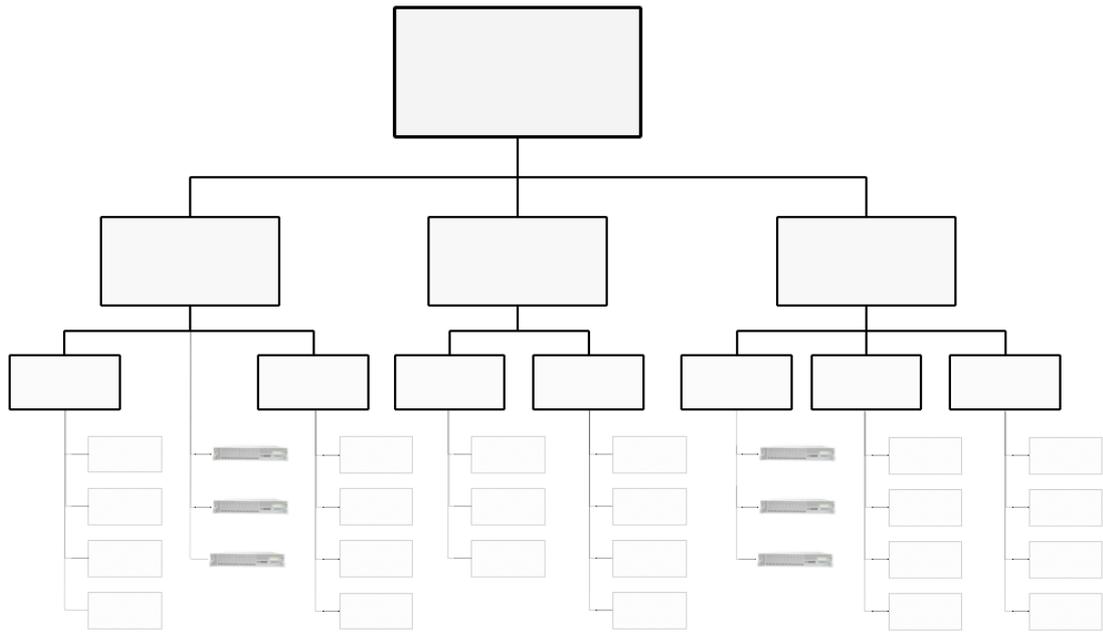
This means that if we wanted org charts to show a hierarchy of accountability they would have to show this responsibility too. These are represented by the tiny pictures of computer servers in the org chart above.

I know these images are almost impossible to see - and that's true in reality too. It could also be argued that it's not the servers that the I.T. Department is looking for business owners for, it's the "application" of those servers to the business model.

Sure, I.T. Departments "own" some aspects of these I.T. Systems. They certainly are accountable for some services on these systems. But that's just another case of different functions in an functional organisation having to work together - and this isn't shown on org charts, remember?

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03 Executive Accountability

Australia become an interesting regulatory case study in 2018 with the Banking Executive Accountability Regime (B.E.A.R.) being fast-tracked into law in parallel with the Banking Royal Commission.

In a perfect world, executive accountability doesn't have to be regulated. Executive should mean accountability because if it doesn't, what does? Yet something has gone wrong in the Australian financial services industry to the point where we have to turn executive accountability into law.

The BEAR legislation itself, and associated reviews such as the "damning" report on Commonwealth Bank; allude to success creating complacency. Monetary conspiracy theorists would make the connection between the major banks' role in implementing monetary policy, the resulting state-enabled success, and the resulting increase in regulatory burden to regulate the unintended consequences of the original unholy coalition between government and banking. But this isn't the focus of this chapter.

Instead, the idea here is that accountability shouldn't be designed by the executive team for the benefit of the executive team. If we are willing to let organisations fail when they don't perform this process takes care of itself. But in a so-called mixed economy we have a situation where legislation now mandates a regulatory approves the design of accountabilities in banks. The concept of "accountability maps" in the B.E.A.R. legislation isn't fully

defined; but the fact that it needs to be is itself a revelation.

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04 Data Is a Business Concern

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One of the best examples of unmanaged accountability I know is the responsibility for data in organisations.

As I've written in The Beginning and The End of Information Management, most large organisations still operate with the underlying assumption that their I.T. department is taking accountability for their all of there data. Data issues are seen as I.T. issues.

The I.T. departments in these same companies are explicitly not taking accountability for data in whatever ways they can. They are always pushing responsibility back to other business units through sign-offs, explicitly de-scoped responsibilities in projects, and concepts such as "shadow I.T."

It's not important if your I.T. department or some other department is responsible for data. But that fact that it can be ambiguous in must companies for decades is a real problem. It's because org charts don't include any

information about this accountability at all.

![Org Charts don't contain very much information about accountability]
(images/figure3.png)
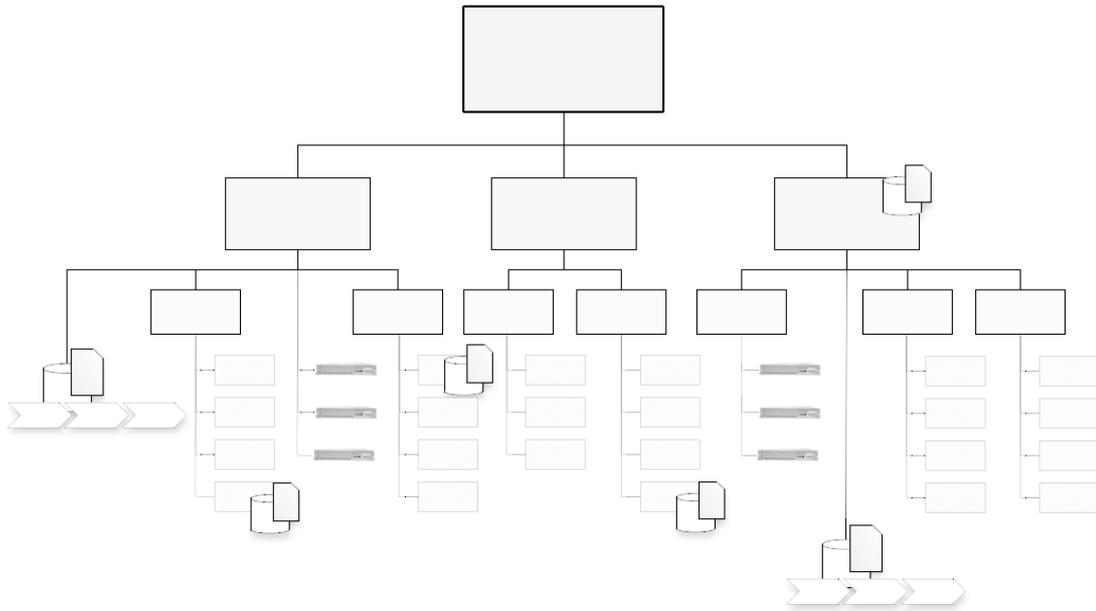
Data is a funny thing because it's clearly something that doesn't translate well to an org chart. So you have some people who own full data life-cycles, wherever that data might appear. In other cases people might only be responsible for creating the data, or using it for a particular purpose, or while it's stored in a particular I.T. System.

So for an org chart to look like a hierarchy of accountability it has to include these components or responsibility. In fact, it has to include a lot more than we've unpacked. But this is another to make our point.

6

05 Business capabilities to the rescue

Business Capabilities to the Rescue

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06 Capability-based Governance Motif

EA frameworks have struggled with this...

8

07 Starting With Business Architecture

We are finally there.

Business-capability based governance is using the top level of the governance mechanisms (well, after board concerns and true corporate governance, perhaps) to decide who is responsible for each business capability.

That's all we've been trying to achieve and it's very close to the intention of an org chart anyway.

But what are the business capabilities of your organisation? This is a complex question and a different topic. Part of crossing the strategy / execution threshold is addressing this question.

However, you likely already has a starting point. Either in your Enterprise

Architecture function, your business architecture function, your change function, perhaps your business analyst community of practice, or perhaps your strategy team, there will be a business capability model. Perhaps it goes under a different name, perhaps there are many with different names.

Go out and find these, assign business owners to each business capability, and watch the magic happen[1] .

[1] If you're really keen, you can hire me to help you with what comes next.

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08 Why Haven't We Started Yet

Capabilities aren't everything. This is obvious, right? It's important to managing capabilities and it's clear that governing at a capability level is important. But capabilities aren't everything. If you don't understand something, or if you understand it but don't like the implications, then it's enough that something isn't everything to reject it.

If you find you aren't getting anywhere implementing a business capability based governance approach remember two things:

1. Capabilities aren't everything; so your stakeholders will have other things to focus on

2. Capabilities aren't everything; so you need to talk about things other than capabilities in order for people to believe you know something of value

10

09 Changing Management

The most change resistant class of employees is management. Only management puts the burden to justify changes they didn't think of themselves entirely on others with business cases, and approvals, and indifference.

Being a successful manager is almost entirely dependant on ensuring obligations are delighted to others. The idea that you should ask others to make things simple *for you* is at the heart of managing the complexity of f being a manager.

But this habit of shielding complexity from management - by their own request - and not allowing localised optimisation - by focusing controls over change that favour stasis - has hit a wall.

Our organisations are more complex than they need to be even as executives lament the complexity of the information that they have to work through. But the complexity is everything. What I called "organisational

usability" at the end of the last century is still a problem. Our organisations are too complicated for all of us but the management function only seem to be fixing the problem for themselves.

Two forces are at work. Functional business units such as risk, IT / technology, Human Resources, etc. optimise to only be responsibility for executing on their own specified discipline. Meanwhile, organisations are more regulated than ever. Some of the regulation is even important such as the protections of personal data under GDPR.

I'm against regulation and so close to a Rothbardian anarco-capitalist to be afraid to mention it in polite company. But I also live in the world we all live in and have a corporate life where I'm working for regulated companies.

We increasing have to comply with regulation that require a cross-functional compliance strategy in organisations that are managed by functional leaders who manage the complexity of their own world by being reactive to change and putting the onus on simplifying on everybody but themselves.

But even more bluntly - we work in organisation where nobody knows what is going on, ever.

I've long been ad advocate of using market-based coordination within and across ecosystems of firms (this is what Manage Without Them is) but our organisations aren't doing that. If we think in terms of market-based versus command-based organisations we live in a world with only the worst aspects of both models.

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10 Stop Acting Like The Management Class Is Permanent

The Agile movement has designed a set of mechanisms that are able to respond to uncertainly and lack of planning in "the business". This feels like optimisation in that the IT department of most major corporations is now completely prepared for other business units not knowing what they want.

But how boring this that? We living a world where lowing transaction costs means that it's better to manage a whole capability rather than optmising each individual business function that contributes to the business capability.

It feels like the right time for the CIO and the COO function to be combined. But what if the IT department and CIO doing? Optimising to ensure that they aren't responsible for anything - it's all about "the business" and the "product owner" prioritising a backlog.

The problem with this scenario is that you've won the battle but lost the war.

IT departments need to understand that they are "the business" and could be the prime moving of industry. CIOs might become CEOs. Product owners might become general managers.

Agile locks developers into being developer for the rest of their lives; never needing to think about what the thought process is that actually sits behind the priorisataiton process that they do glefully depend on in order to avoid taking responsilbity.

Stop doing that. Think bigger. Become "the business". Become the "CEO". Disrupt and transform business. Stop complaining that the business doesn't understand IT - just make a better business.

Virtualise the business processes you have only now been supporting.