

# IT Strategy Committee

As IT becomes increasingly critical for enterprise survival as well as enabling growth, IT Strategy Committees need to broaden their scope. In addition to providing counsel on strategy when advising the board on its IT governance responsibilities, they need to focus on IT value, risks and performance.

## Criticality of IT

Two simultaneous trends in business have converged to focus the spotlight on IT governance. First, an ever-larger percentage of the market value of enterprises has transitioned from the tangible (inventory, facilities, etc.) to the intangible (information, knowledge, expertise, reputation, trust, patents, etc.).<sup>1</sup> Many of these assets revolve around the use of IT. Moreover, a firm is inherently fragile if its value emanates more from conceptual, as distinct from physical, assets. Trust and reputation can vanish overnight, a factory cannot.<sup>2</sup> Second, enterprises have grown increasingly dependent on IT to perform their core business, so much so that many would not survive without a properly functioning IT infrastructure.

IT is mission-critical when:

- Business goals cannot be achieved without its continuous, effective and efficient support, e.g., when:
  - The enterprise cannot exist without IT, e.g., airlines, banking, communications, media.
  - The enterprise depends on business models predicated on IT, e.g., for supply chain management.
- There is the potential for IT costs to significantly erode the enterprise's profitability and ultimately its viability, due to the magnitude or impact of IT, e.g., when:
  - The percentage of revenue spent on IT is significantly different from the industry average, or is showing an abnormal increasing trend.
  - The amount spent on IT is as much as the enterprise's entire profits.
- Business functions become unprofitable or incapable of supporting the existing revenue stream if not successfully automated by IT.
- The enterprise needs to comply with regulations or contractual service levels that cannot be achieved without efficient and effective IT services.

## IT Governance

Boards, in their capacity as representatives of the shareholders, have recognised the ramifications of these trends and have begun to focus on the value and risks of IT. Specifically, they have realised the importance of sound, reliable, secure information

upon which to base business decisions. They have begun to recognise the significant role IT plays in the intangible asset component of their market value and their growing reliance on IT not only to sustain the business, but also to make it reach its full potential. They have understood the need for IT governance.

However, IT governance is not an isolated discipline. It should form an integral part of enterprise governance and needs to be addressed at the board level to ensure that IT operational risks and the value that is returned by technology investments meet the needs of the business.

## IT Strategy Committee

Many boards carry out their governance duties through committees that oversee critical areas such as audit, compensation and acquisitions. Boards also need to assess the criticality of IT in the enterprise for which they are responsible. One of the most effective mechanisms for helping to establish governance over IT is the IT Strategy Committee. This committee has to consider how the board should become involved in IT governance, how to integrate the board's role in IT and business strategy, and the extent to which the committee has an ongoing role in IT governance.

However, boards and executive management may be reluctant to deploy an IT Strategy Committee, for a variety of reasons:

- Top management is not as well-versed in technical issues as it is in other aspects of the business.
- IT is seen only as an expense and there is insufficient awareness of the actual importance/criticality of IT.
- Budget and/or time restrictions exist, i.e., there is reluctance to participate in "yet another" committee.
- CEOs may wish to avoid inviting additional board involvement in enterprise affairs.
- Boards may not wish to undermine the authority of the CEO and CIO.

The establishment of a well-balanced IT Strategy Committee with ex-officio representation of key executives and composed of informed members of the board, assisted as necessary with external expertise, will help to overcome these obstacles.

<sup>1</sup> The Brookings Institute, 1992, and the Lev Analysis of S&P500 companies, 1998, reported intangible assets to represent up to 85 percent of an enterprise's market value.

<sup>2</sup> Alan Greenspan as quoted by the *Wall Street Journal* on 4 April 2002

## How To Get Started

IT Strategy Committees often limit their scope to providing direction to ensure that IT is aligned with current and future business strategies. However, the IT Strategy Committee is well-placed to assist the board on all aspects of IT governance, notably the monitoring of the successful implementation of the strategic plans. This is best achieved by performance measurement—for example, through an IT balanced scorecard—enabling management and the board to correct deviations and adjust the strategy as needed.

The following describes—through a charter, a generic approach and some guidelines—how to initiate an effective IT Strategy Committee.

### IT Strategy Committee Charter

#### Name

IT Strategy Committee of the Board of Directors

#### Purpose

To assist the board in governing and overseeing the enterprise's IT-related matters

#### Goal

The committee should ensure that IT is a regular item on the board's agenda and that it is addressed in a structured manner. In addition, the committee must ensure that the board has the information it needs to make informed decisions that are essential to achieve the ultimate objectives of IT governance. Those objectives are:<sup>3</sup>

- The alignment of IT and the business
- The delivery of value by IT to the business
- The measurement of IT performance
- The management of IT-related risks
- The sourcing and use of IT resources

These goals are interdependent and complementary. Achievement of one can be undone by failure on another.

#### Responsibility

The board must receive sound information to make informed decisions. While it is the responsibility of management to provide that information, it is the

responsibility of the IT Strategy Committee to ensure that management is following through on its obligation. More specifically, the committee needs to offer expert insight into and timely advice and direction on topics such as:

- The relevance of latest developments in IT from a business perspective
- The alignment of IT with the business direction
- The achievement of strategic IT objectives
- The availability of suitable IT resources, skills and infrastructure to meet the strategic objectives
- Optimisation of IT costs
- The role and the value delivery of external IT sourcing
- Risk, return and competitive aspects of IT investments
- Progress on major IT projects
- The contribution of IT to the business (i.e., delivering the promised business value)
- Exposure to IT risks, including compliance risks
- Containment of risks

#### Authority

The IT Strategy Committee operates at the board level but does not assume the board's governance accountability nor make final decisions. Neither does it play a role in day-to-day management. It acts solely as an advisor to the board and management on current and future IT-related issues.

The IT Strategy Committee must work in partnership with the other board committees and management to provide input to, review and amend the aligned corporate and IT strategies. Possible partnerships are with:

- The Audit Committee, on major IT risks
- The Business Strategy Committee, on value delivery and alignment
- The Compensation Committee, on performance measurement

Executive management drives strategy development and takes responsibility for implementing the strategy after obtaining input and approval from the board and the relevant committees.

<sup>3</sup>The IT governance framework as proposed by the IT Governance Institute in the *Board Briefing on IT Governance*, published June 2001

The detailed implementation of the IT strategy is the responsibility of executive management, assisted by one or more IT steering committees. Typically, such steering committees have the specific responsibility for overseeing a major project or managing IT priorities and IT resource allocation. To illustrate the important distinctions between the IT Strategy Committee and IT steering committees, see **table**.

The responsibilities of these committees need to be aligned and integrated with:

- The overall responsibility of the board for approving the strategy and overseeing management's execution of it
- The overall management responsibilities for strategy development, management of IT risks and the evaluation of IT performance

Also, in practice, the distribution of responsibilities among these committees, the board of directors, executive management and the CIO may differ depending on the organisation's culture, history and structure as well as particular circumstances.

### Membership

The IT Strategy Committee is composed of a chairman, several board and non-board members and ex-officio representation of key executives. The chairman should be a board member. The members should be selected on the basis of their knowledge and expertise in understanding the business impacts of information and related

technology. (The selection criteria need to be customised depending on the business context in which the enterprise operates.)

To ensure that there is enough technical expertise in the committee, the board may choose to select IT experts to serve as external advisors. Regardless of the number of specialist members, it is important that at least two board members remain active in the committee so the board is adequately represented.

The success of the IT Strategy Committee depends on an objective and business-oriented understanding of the organisation's IT issues. An effective mix of members who understand the business operations and can challenge IT assumptions is likely to increase the IT Strategy Committee's success in achieving its goals. For this reason, the committee should be encouraged to seek and capitalise on external expertise while remaining mindful of confidentiality requirements.

### Meetings

The IT Strategy Committee should meet when needed and as often as needed to accomplish its duties. The committee should report its findings and recommendations to the board. In addition, the committee's meeting agenda, minutes and supporting documents should be provided to the board so that board members not sitting on the committee may submit their comments to the committee chairman.

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**Table: Comparison IT Strategy Committee and IT Steering Committee**

**IT STRATEGY COMMITTEE**

**IT STEERING COMMITTEE**

LEVEL	BOARD LEVEL	EXECUTIVE LEVEL
RESPONSIBILITY	<ul style="list-style-type: none"> <li>• Provides insight and advice to the board on topics such as:                             <ul style="list-style-type: none"> <li>· The relevance of developments in IT from a business perspective</li> <li>· The alignment of IT with the business direction</li> <li>· The achievement of strategic IT objectives</li> <li>· The availability of suitable IT resources, skills and infrastructure to meet the strategic objectives</li> <li>· Optimisation of IT costs, including the role and value delivery of external IT sourcing</li> <li>· Risk, return and competitive aspects of IT investments</li> <li>· Progress on major IT projects</li> <li>· The contribution of IT to the business (i.e., delivering the promised business value)</li> <li>· Exposure to IT risks, including compliance risks</li> <li>· Containment of IT risks</li> </ul> </li> <li>• Provides direction to management relative to IT strategy</li> <li>• Is driver and catalyst for the board's IT governance practices</li> </ul>	<ul style="list-style-type: none"> <li>• Decides the overall level of IT spending and how costs will be allocated</li> <li>• Aligns and approves the enterprise IT architecture</li> <li>• Approves project plans and budgets, setting priorities and milestones</li> <li>• Acquires and assigns appropriate resources</li> <li>• Ensures projects continuously meet business requirements, including re-evaluation of the business case</li> <li>• Monitors project plans for delivery of expected value and desired outcomes, on time and within budget</li> <li>• Monitors resource and priority conflict between enterprise divisions and the IT function, and between projects</li> <li>• Makes recommendations and requests for changes to strategic plans (priorities, funding, technology approaches, resources, etc.)</li> <li>• Communicates strategic goals to project teams</li> <li>• Is a major contributor to management's IT governance responsibilities</li> </ul>
AUTHORITY	<ul style="list-style-type: none"> <li>• Advises the board and management on IT strategy</li> <li>• Is delegated by the board to provide input to the strategy and prepare its approval</li> <li>• Focuses on current and future strategic IT issues</li> </ul>	<ul style="list-style-type: none"> <li>• Assists the executive in the delivery of the IT strategy</li> <li>• Oversees day-to-day management of IT service delivery and IT projects</li> <li>• Focuses on implementation</li> </ul>
MEMBERSHIP	<ul style="list-style-type: none"> <li>• Board members and (specialist) non-board members</li> </ul>	<ul style="list-style-type: none"> <li>• Sponsoring executive</li> <li>• Business executive (key users)</li> <li>• CIO</li> <li>• Key advisors as required (IT, audit, legal, finance)</li> </ul>

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and *Information Security Governance: Guidance for Boards of*

*Directors and Executive Management.*



The IT Governance Institute™ was established by Information Systems Audit and Control Association® and its affiliated foundation in 1998 to focus on the study of the emerging concept of IT governance. The mission of the IT Governance Institute is to assist enterprise leaders in their responsibility to make IT successful in supporting the enterprise's mission and goals.



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