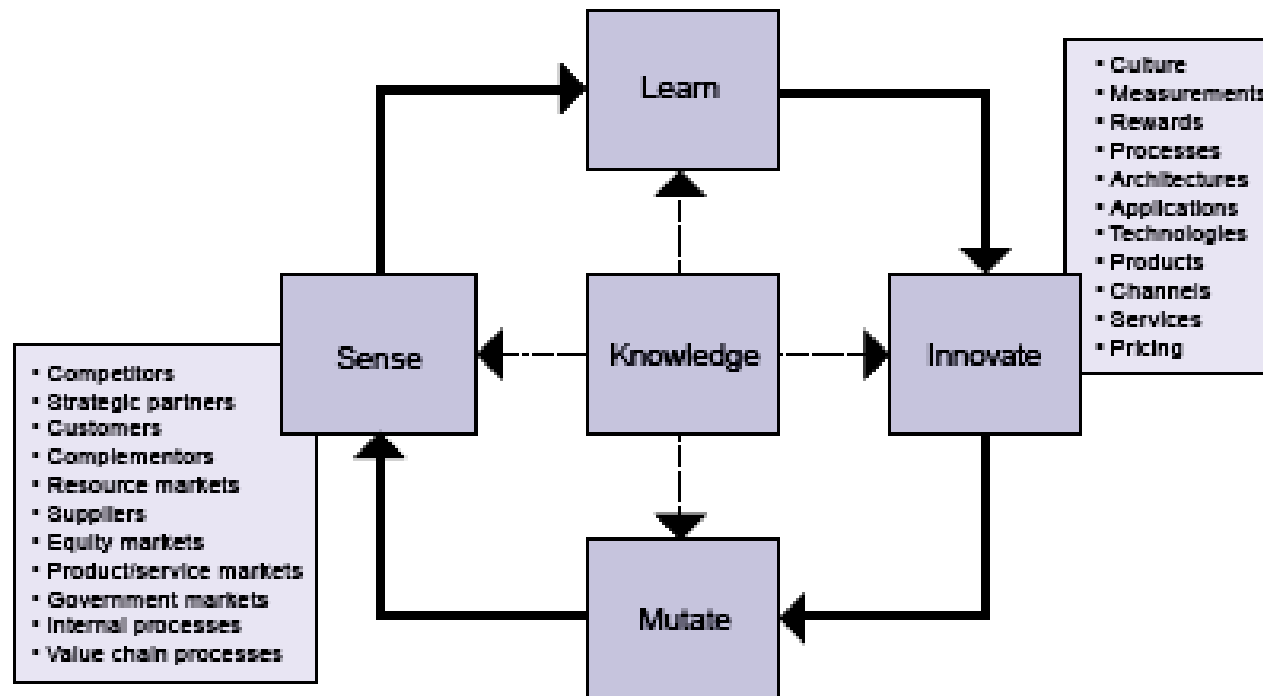


6. IT Governance

2006

Introduction

The Emerging Enterprise Model



/// IT is an integral part
of the business

/// IT governance is an
integral part of
corporate governance

Challenges for the IT

- IT gets more and more complex through advances in technology
- IT is more integrated with business processes than ever
- Pressure to reduce costs while providing reliable services
- Compliance with international regulations with a strong impact on IT become business critical

The Role of Information

- In order to provide the information that the organisation needs to achieve its objectives, IT resources need to be managed by a set of naturally grouped processes.

IT Governance Process

Each enterprise operates in an environment that is influenced by:


- Stakeholder values
- The mission, vision and values of the enterprise
- The community and company ethics and culture
- Applicable laws, regulations and policies
- Industry practices

IT Governance Defined

IT governance, like other governance subjects, is the responsibility of executives and shareholders (represented by the board of directors).

It consists of the **leadership** and **organisational structures** and **processes** that ensure that the organisation's IT sustains and extends the organisation's strategies and objectives.

IT GOVERNANCE

A structure of relationships and processes to direct and control the enterprise in order to achieve the enterprise's goals by adding value while  versus return over IT and its processes.

The key elements of enterprise governance are:

- Assurance about the value of IT
- Assurance about the management of IT-related risks
- Assurance about increased requirements for control over information

The core of IT governance

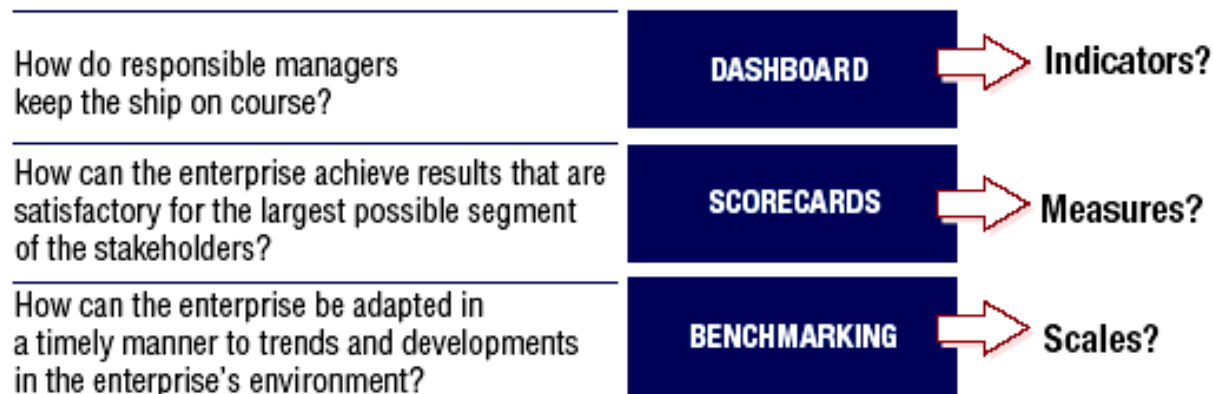
- Value
- Risk
- Control

IT governance is the responsibility

- IT governance is the responsibility of executives and the board of directors, and consists of
 - the leadership,
 - organisational structures and
 - processes

that ensure that the enterprise's IT sustains and extends the organisation's strategies and objectives.

Management Information



Determining and monitoring the appropriate IT control and performance level:

- Benchmarking of IT process capability expressed as maturity models
- Goals and metrics of the IT processes to define and measure their outcome and performance based on the principles balanced business scorecard
- Activity goals for getting these processes under control, based on COBIT's detailed control objectives

IT governance as the Structure

- IT governance provides the structure that **links**
 - IT processes
 - IT resources
 - information

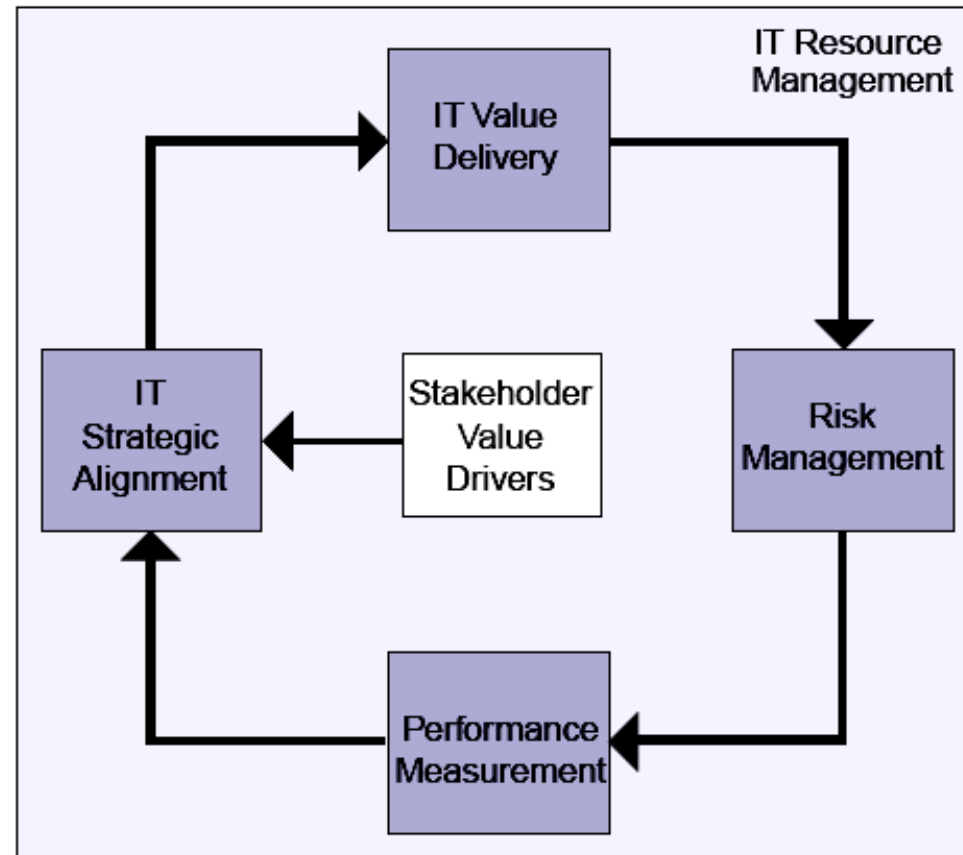
to enterprise strategies and objectives.

- IT governance enables the enterprise to take full advantage of its information, thereby
 - maximising benefits,
 - capitalising on opportunities and
 - gaining competitive advantage.

Five main focus areas for IT governance

- There are five main focus areas for IT governance, all driven by stakeholder value.
- Two of them are **outcomes**:
 1. value delivery
 2. risk management
- Three of them are **drivers**:
 3. strategic alignment
 4. resource management (which overlays them all)
 5. performance measurement

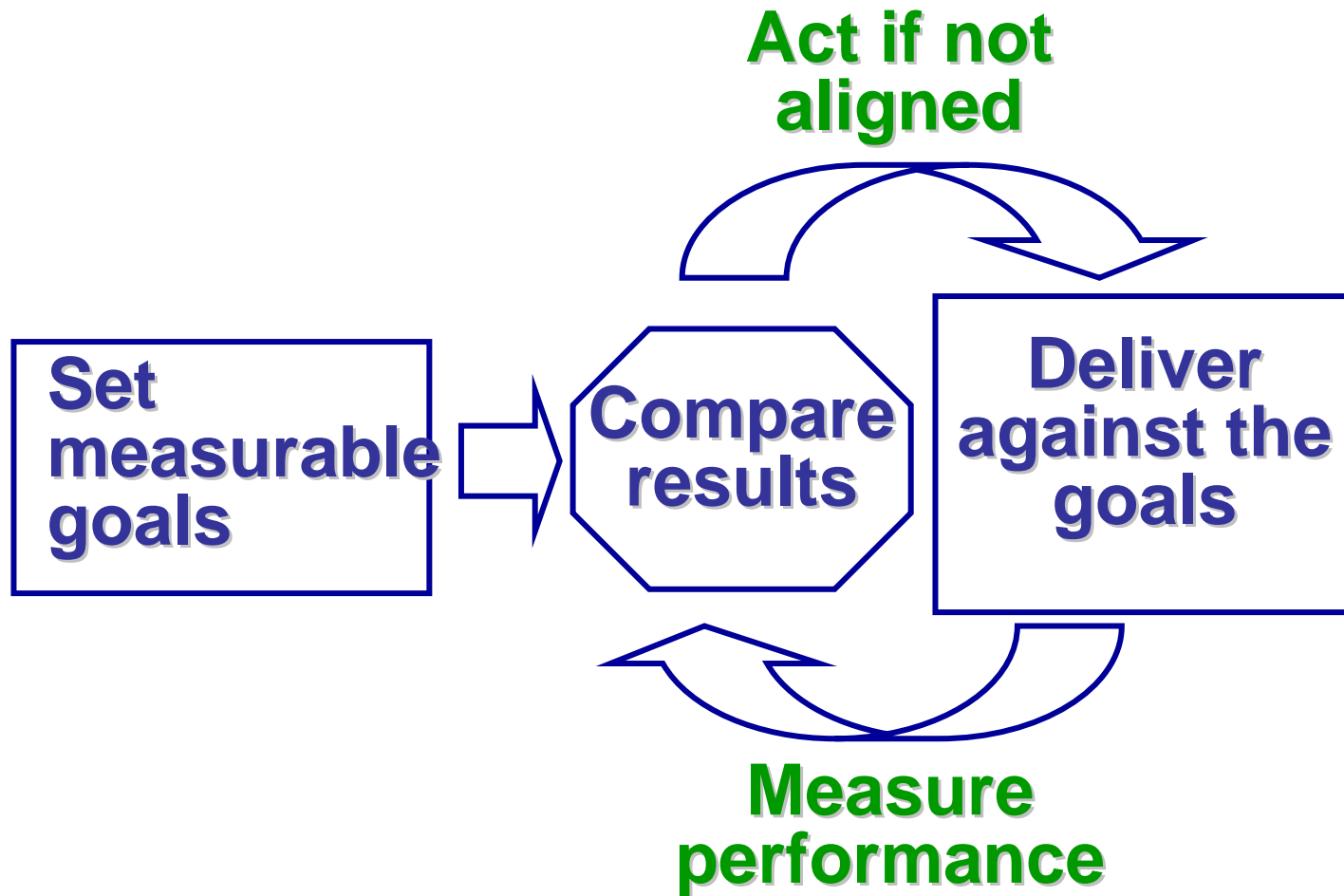
Focus Areas of IT Governance



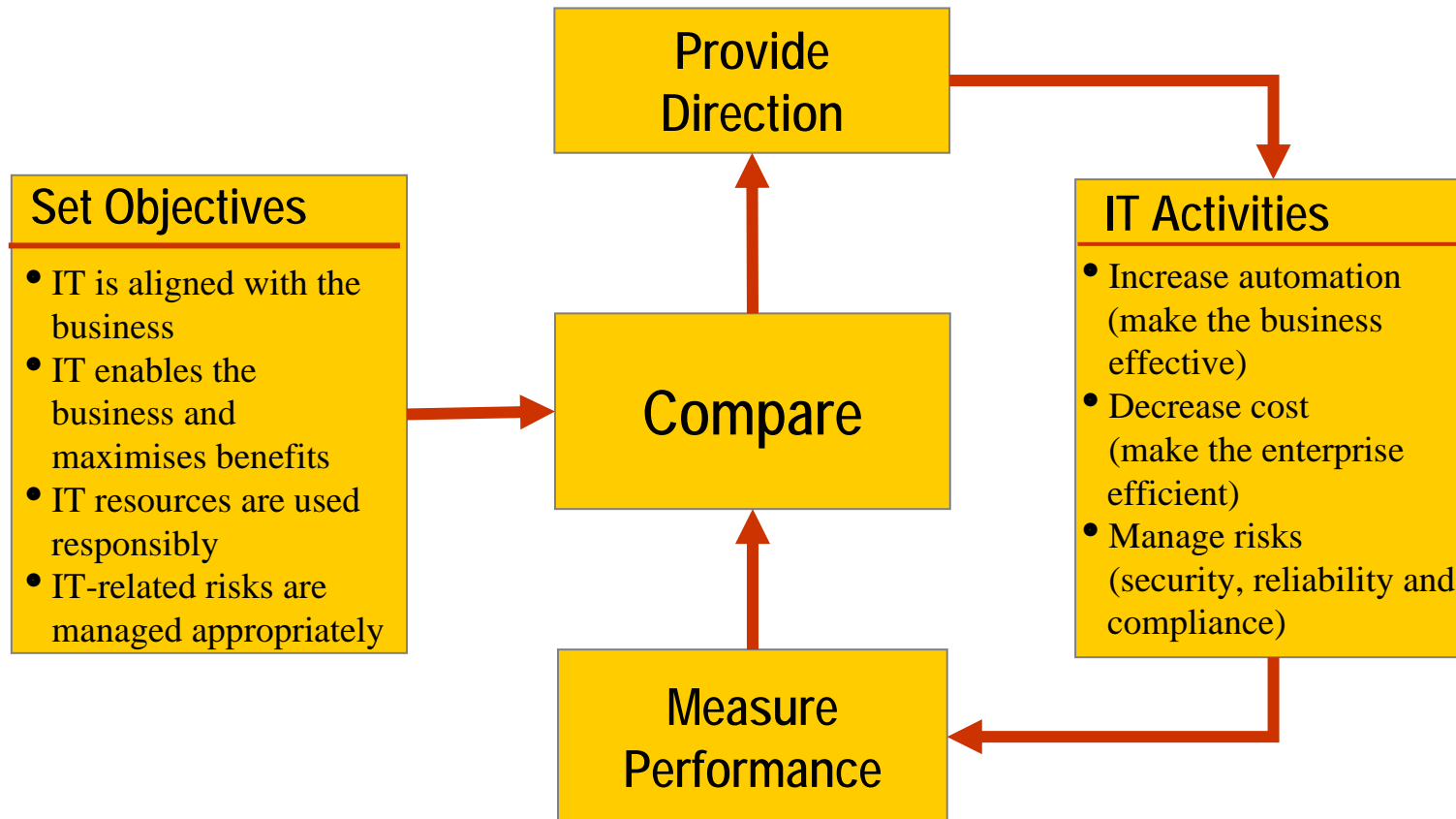
Focus Areas of IT Governance

- **Strategic alignment**, with focus on aligning with the business and collaborative solutions
- **Value delivery**, concentrating on optimising expenses and proving the value of IT
- **Risk management**, addressing the safeguarding of IT assets, disaster recovery and continuity of operations
- **Performance measurement**, tracking project delivery and monitoring IT services

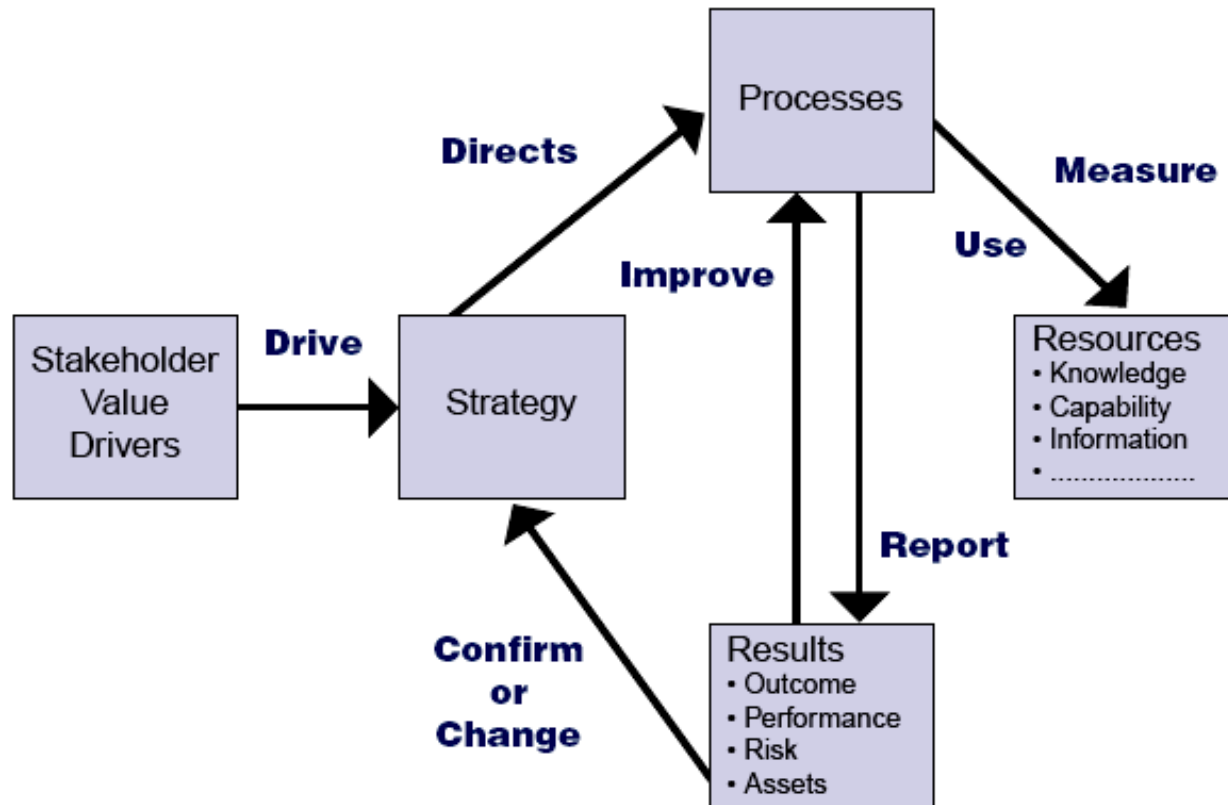
IT Governance Framework



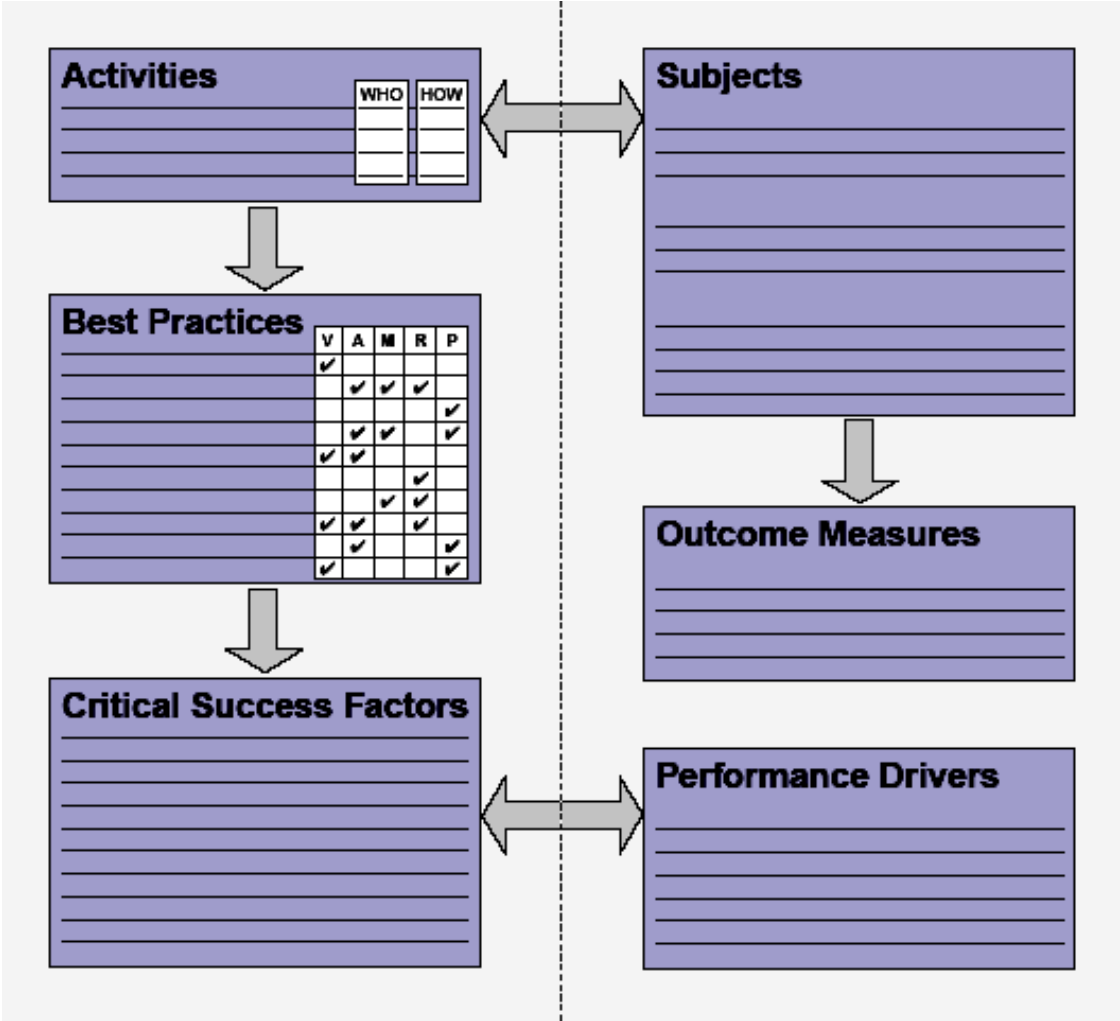
IT Governance Framework



IT Governance Process



IT Governance Action Plan



IT Strategic Alignment

IT Strategic Alignment

- The key question is whether an enterprise's investment in IT is in harmony with its strategic objectives
 - enterprise goals
 - current strategy

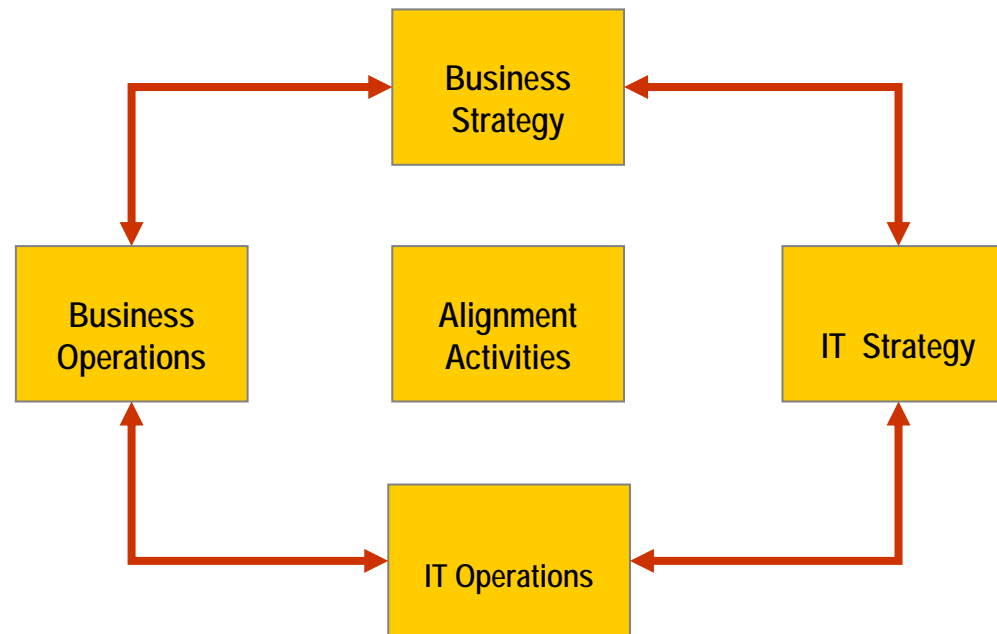
and thus building the capabilities necessary
to deliver business value.

- This state of harmony is referred to as “alignment.”
 - It is complex, multifaceted and never completely achieved.
 - It is about continuing to move in the right direction and being better aligned than competitors.

IT Strategic Alignment

The Board should drive business alignment by:

- 📄 Ascertaining that the IT strategy is *aligned* with the business strategy
- 📄 Ascertaining that IT *delivers* against the strategy through clear expectations and measurement
- 📄 Directing IT strategy to *balance* investments between supporting and growing the enterprise
- 📄 Making considered decisions about where IT resources should be *focused*



“IT alignment is a journey, not a destination.”

**Deliver Recognisable Value to
The Enterprise**

Deliver Recognisable Value to The Enterprise

- **Linkage** to the business aims is essential for IT to deliver recognisable value to the enterprise.

Plan for Implementing the Strategy

- It is important that the implementation plans be broken down into **manageable parts**, each with a clear business case incorporating a plan for achieving outcomes and realising benefits.

Driving Business Alignment

The board, or a dedicated IT strategy committee of the board, should drive business alignment by:

- Ensuring that **IT strategy is aligned with business strategy** and that distributed IT strategies are consistent and integrated
 - Ensuring that **IT delivers against the strategy**
 - delivering on time and within budget,
 - with appropriate functionality and
 - the intended benefits
- a fundamental building block of alignment and value delivery) through clear expectations and measurement (e.g., **balanced business scorecard**)
- Making considered decisions about **focus of IT resources**, that is, their use to
 - break into new markets,
 - drive competitive strategies,
 - increase overall revenue generation,
 - improve customer satisfaction and/or
 - assure customer retention

Alignment Management Processes

- Alignment requires planned and purposeful management processes, such as:
 - Creating and sustaining **awareness** of the strategic role of IT at top management level
 - Clarifying what role IT should play: **utility vs. enabler**
 - **Monitoring** the business impact of the IT infrastructure and applications portfolio
 - **Evaluating**, post-implementation, benefits delivered by IT projects

Value Delivery

- The basic principles of IT value are the
 - on-time and within-budget delivery of appropriate quality
- In business terms, this is often translated into:
 - competitive advantage,
 - elapsed time for order/service fulfilment,
 - customer satisfaction,
 - customer wait time,
 - employee productivity and
 - profitability.
- Several of these elements are either subjective or difficult to measure, something all stakeholders need to understand.
- Often, top management and boards fear to start major IT investments because of the size of investment and the uncertainty of the outcome.
- For effective IT value delivery to be achieved, both the actual costs and the return on investment need to be managed.

The Business Expectations

- The value that IT adds to the business is a **function of the degree** to which the IT organisation **is aligned** with the business and meets the expectations of the business.
- The business should set expectations relative to the contents of the IT deliverable:
 - **Fit for purpose**, meeting business requirements
 - **Flexibility to adopt** future requirements
 - **Throughput and response** times
 - **Ease of use, resiliency and security**
 - **Integrity, accuracy and currency** of information

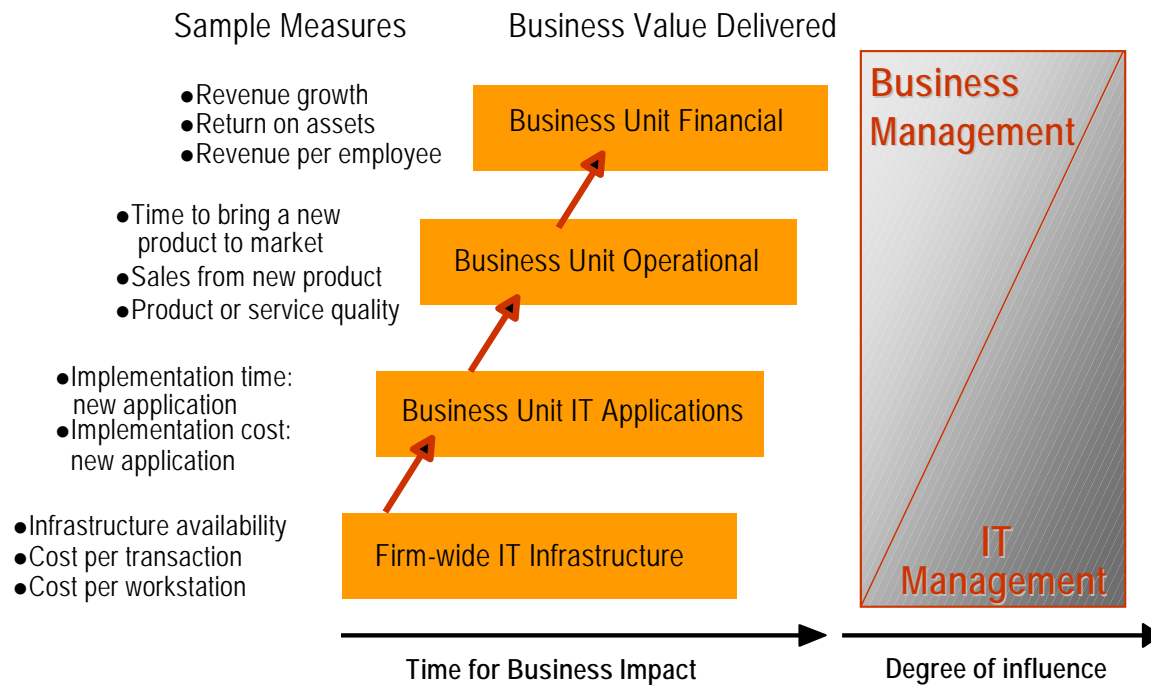
Expectations Regarding The Method of Working

- The business should also set expectations regarding the method of working:
 - Time-to-market
 - Cost and time management
 - Partnering success
 - Skill set of IT staff

IT Value Delivery

The board should drive alignment to ensure that IT delivers value:

- ☞ With the business strategy focusing on competitive advantage, elapsed time for order/service fulfillment, customer satisfaction, customer wait time, employee productivity and profitability
- ☞ Supported by an IT strategy that delivers on time, within budget and with the benefits that were promised



“IT value is in the eye of the beholder.”

Views of IT Value

- The higher one goes in the measurement hierarchy, the more dilution occurs (i.e., the less influence IT management can exercise).
- This also means that **measuring the impact of an IT investment is much easier at the bottom of the hierarchy than at the top.**
- However, successful investments in IT have a **positive impact on all four levels** of the business value hierarchy.
- It is important not only to focus on measurements based on **value realisation** (i.e., financial measures), but also to take into account the enterprise's **performance in creating value.**

Resource Management

Resource Management – *optimising knowledge and infrastructure*

- A key to successful IT performance is the optimal investment, use and allocation of IT resources
 - people
 - applications
 - technology
 - facilities
 - data

in servicing the needs of the enterprise.

- Most enterprises fail to maximise the efficiency of their IT assets and optimise the costs relating to these assets.

Investments in Infrastructure

- Boards need to address appropriate investments in infrastructure and capabilities by ensuring that:
 - The responsibilities with respect to IT systems and services **procurement** are understood and applied
 - **Appropriate methods and adequate skills** exist to manage and support IT projects and systems
 - Improved workforce planning and investment exist to ensure **recruitment** and, more important, **retention** of skilled IT staff
 - IT **education**, **training** and **development** needs are fully identified and addressed for all staff
 - Appropriate **facilities** are provided and **time** is available for staff to develop the skills they need

IT Operational Spending

- In most enterprises, **the biggest portion of the IT budget relates to ongoing operations.**
- Effective governance of IT operational spending requires **effective control of the cost base**: the IT assets and their focus where they are needed most.
- Enterprises should align and prioritise the existing IT services that are required to support business operations based on **clear service definitions**.
 - These definitions and related **performance metrics** enable business-oriented **service level agreements** providing a basis for effective oversight and monitoring of both internal and outsourced IT services.
 - The IT assets should be organised optimally so that the required quality of service is provided by the most cost-effective delivery infrastructure.
 - **Companies that achieve this** not only realise great cost savings but also are well placed to take on the next new IT initiative, judiciously introducing new technologies and replacing or updating obsolete systems.

IT Assets Management

- IT assets are complex to manage and continually change due to the nature of technology and changing business requirements.
- Effective management of the life cycle of
 - hardware,
 - software licences,
 - service contracts and
 - permanent and contracted human resources

is a **critical success factor** not only for optimising the IT cost base, but also for

- managing changes,
- minimising service incidents and
- assuring a reliable quality of service.

Human Resources

- Of all the IT assets, human resources represent the **biggest part of the cost base** and, on a unit basis, the one most likely to increase.
- It is essential to identify and anticipate the required **core competencies** in the workforce.
- When these are understood, an
 - effective recruitment,
 - retention and
 - training programme

is necessary to ensure that the organisation has the skills to utilise IT effectively **to achieve the stated objectives.**

Balancing the Cost of Infrastructure Assets with the Quality of Service

- The ability to balance the **cost of infrastructure assets with the quality of service required** is critical to successful value delivery.
- It is also a powerful reason for adopting **sound performance measurement systems** like the **balanced scorecard**.

Performance Measurement

IT balanced scorecard:

- Report to the board
- To foster consensus among key stakeholders about IT's strategic
- To demonstrate the effectiveness and added value of IT
- To communicate about IT's
 - performance
 - risks
 - capabilities

Outcomes Measures and Performance Drivers

- To demonstrate the value IT delivers to the business requires cause-and effect relationships between two types of measures throughout the scorecard
 - **outcomes measures** (measuring what you have done) and
 - **performance drivers** (measuring how you are doing).

How Is It Accomplished?

Critical success factors

- **Critical success** factors are

- conditions,
- competencies and
- attitudes

that are critical to being successful in the best practices.

- Examples include:

- **Sensitivity** to the fact that IT is integral to the enterprise and not something to be relegated to a technical function
- **Awareness** of IT's criticality to the enterprise and ensuing formal acceptance of responsibility by management who engage specialists to assist them
- **Management** that is goal-focused and has the appropriate information on markets, customers and internal processes
- A **business culture** that establishes accountability, encourages crossdivisional co-operation and teamwork, promotes continuous process improvement and handles failure well

Performance drivers

- **Performance drivers** provide indicators on how IT governance is achieving, as opposed to the **outcome measures** that measure what is being achieved.
- They often relate to the critical success factors.
- Examples include:
 - The **extent and frequency of risk and control reporting** to the board
 - Improved **cost-efficiency of IT processes** (costs vs. deliverables)
 - **System downtime**
 - **Throughput and response times**

Conclusions

Define IT Governance Roles

- IT Governance **Should Be Integrated** within Enterprise Governance
- IT Governance **Roles and Responsibilities** Need to be Defined

Five IT governance domains

1. Strategic alignment
2. Value delivery
3. Risk management
4. Resource management
5. Performance measurement

An IT Governance Implementation Plan

- Challenging management's activities with regard to IT, to make sure **IT issues are uncovered**
- Guiding management by helping it to align IT initiatives with real business needs, and ensuring that it appreciates the **potential impact on the business of IT-related risks**
- Insisting that **IT performance be measured** and reported to the board
- Establishing an **IT strategy committee** with responsibility for communicating IT issues between the board and management
- Insisting that there be a **management framework for IT governance** based on a common approach (e.g., COBIT)

Steps for Management Decisions

To help management decide where to begin and to ensure that the IT governance process delivers positive results where they are needed most, the following steps are suggested

1. Set up a **governance organisational framework**
2. **Align IT strategy** with business goals
3. Understand/define the **risks**
4. Define **target areas**
5. Analyse current capability and identify **gaps**
6. Develop **improvement strategies**
7. **Measure results**
8. Repeat steps 2-7 on a regular basis

Align IT strategy with business goals

- What are the current business concerns and issues where IT has a significant influence, e.g.,
 - cost reduction
 - competitive advantage
 - merger/acquisition
 - obtain a good understanding of the
 - business environment,
 - risk appetite and
 - business strategyas they relate to IT.
- Identify the top IT issues on management's agenda.

Understand/define the risks

- Given top management's business concerns, what are the **risk indicators** relating to IT's ability to deliver against these concerns? Consider:
 - **Previous history** and patterns of performance
 - **Current** IT organisational factors
 - **Complexity and size/scope** of the existing or planned IT environment
 - **Inherent vulnerability** of the current and planned IT environment
 - **Nature of the IT initiatives** being considered, e.g.,
 - new systems projects
 - outsourcing considerations
 - architectural changes

Analyse current capability and identify gaps

- Perform a maturity capability assessment to find out where improvements are needed most.
- Use COBIT's management guidelines as a guide.

Develop improvement strategies

- Decide which are the **highest priority projects** that will help improve the management and governance of these significant areas.
- This decision should be based on **most potential benefit** and ease of implementation, and a focus on important IT processes and core competencies.
- Define **specific IT governance projects** as the first step in the IT governance continuous improvement initiative.

Measure results

- Establish a **balanced scorecard** mechanism for measuring current performance.
- Monitor the results of **new improvements** considering, as a minimum, the following key considerations:
 - Will the **organisational structures support strategy** implementation?
 - Are responsibilities for **risk management** embedded in the organisation?
 - Do **infrastructures** exist that will facilitate and support the creation and sharing of vital business information?
 - Have **strategies and goals been communicated** effectively to everyone who needs to know within the organisation