

IT governance: enabling high performance in turbulent times



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Mitigating the downside of innovation

IT governance is an idea whose time has come. According to the latest IBM Global CEO Study, CEOs foresee an Enterprise of the Future that is characterized by accelerating, pervasive and unrelenting change. Although periods of change and innovation are typically associated with the risks of performance erosion and increased costs, governance best practices can enable the agility required to minimize these risks. By clarifying decision rights and accountability chains for specific strategic components, governance best practices can target the decision making and behavior required to achieve specific objectives. Most common negative outcomes are caused by too much emphasis on the technical, financial and scheduling aspects of IT activities and too little attention on the business context of IT use. Therefore, it is critical to clarify the decision rights and accountability chains for business goals that depend on improved use of IT.

This paper explains how CIOs can use governance best practices to mitigate the depth and duration of performance declines that often accompany periods of change and innovation. It will clarify what governance is—and isn't—and articulate how CIOs can begin to improve governance within their organizations.

Thriving in a permanent state of change

Most CEOs—especially those in outperforming organizations—embrace innovation as a way to differentiate their enterprises. This was underscored by the results of the IBM Global CEO Study, which showed that outperforming organizations not only anticipate more change than other organizations but also report that they are better at managing it.¹ It's not surprising, then, that IT governance best practices, which can help CIOs avoid the negative byproducts of change, are generating a lot of interest. There are other reasons for this attention as well.

Most business components rely on IT services for some aspect of their value, reliability or efficiency. Because of this increasing dependency on IT—along with the criticality, risks and costs associated with IT services—there is a need for service management that goes beyond the traditional people, process,

technology and information formula. “Process as the new silo” does not provide what is needed to enable IT as a critical service provider. Instead, IT services require integration and collaboration across all management domains within IT. Good governance practices drive integration and collaboration within IT, which enables organizations to derive more value from the IT assets they already own.

Another reason is the worldwide trend toward multisourcing. This practice enables organizations to take advantage of low-cost offshore delivery centers and point solution expertise, but it also increases the complexity of managing IT services. While each supplier continues to manage its own part of the service management system, management control of the overall multisourced service environment becomes more complex and costly. Good governance practices can drive the coordination and collaboration needed to control costs while ensuring service quality. They can also help mitigate risks by clarifying cross-supplier responsibilities and process, tool and service integration requirements.

Still another driver of the current interest in IT governance is that a growing percentage of the IT budget is going to operations, leaving a smaller percentage available for innovation and development. This is a challenge for CIOs and the CEOs they serve, who have a mandate for change. Applying governance best practices within IT can help reverse these percentages by enabling greater integration and collaboration between development and operations.

Although initiatives based on IT Infrastructure Library® (ITIL®) practices and industry standards like ISO/IEC 20000—which are focused on people, process, technology and information—have helped improve IT management, they have not yielded as much business value as anticipated. To achieve the business value that is required, CIOs need improved governance practices and management improvement initiatives. The new International Standard for Corporate Governance of IT (IT Governance), ISO/IEC 38500, puts the emphasis where it belongs: on the foundational requirement for the preparation of IT plans that show the contribution of IT to the business. Instead of “IT projects,” there should be “business projects with IT components.” Basic principles include a business strategy that covers the required IT capabilities and IT plans that describe how IT will satisfy business strategy requirements.

Right now, all these factors are adding up to great interest in IT governance. But in the midst of all this interest, there are several misconceptions about what IT governance is and how to go about getting it.

Defining IT governance

What is IT governance, anyway? Some organizations set up a governing committee and believe that will be enough. But there's more to governance than establishing a committee or assigning a label to a group of people. Governance includes establishing the governance model and the governance processes, structures and relational mechanisms to ensure clarity and transparency in directing and controlling IT. Ultimately, governance must ensure clear and transparent decision rights and accountability chains for directing and controlling each critical management activity required by a strategy.

Governance can address the greatest risk that service organizations face today: behavior and decision making that are not aligned with strategic objectives. Behavior and decision making resulting from a lack of clear decision rights and accountability chains will most likely prevent timely change and innovation.

However, before decision makers can make directing and controlling decisions, they need the right information. This can be facilitated through IBM Tivoli® and IBM Rational® software, which can gather information about operations and development and present it in ways that not only facilitate decision making but also monitor progress toward specific performance and outcome objectives.

Decision makers can also leverage automated decision making—for example, the IBM Tivoli Process Automation Platform, which can provide a service management architecture that reduces the human effort involved in policy-based decision making. This frees up time to focus more closely on new activities related to change and innovation. The platform enables automation of service management processes, such as configuration, change, and incident and problem management, and integrates the management processes with service execution. Because IBM software is designed on the principles of service-oriented architecture, it enables management and control of services—not just the execution of isolated process activities.

In addition, decision makers can take advantage of the IBM IT Lifecycle Management and Governance Services – business of IT dashboard. The dashboard helps make relevant information available to key decision-making roles in managing IT systems, IT services and the IT contribution to business performance.

As the chart below shows, good governance practices align behavior and decision making by answering the classic questions who, what, why, when, where and how across five types of decisions.

Decision types	Governance questions
<p><i>Directing</i> IT competencies, services, management processes, architectures, infrastructures and applications</p>	<ul style="list-style-type: none"> • Who directs and controls the “hot” IT components? • How will they be directed and controlled? • What are the charters of each decision-making group and the relationships among the various groups? • What are the roles within each group? What are their decision rights and accountabilities? • What information will be required? • How are performance and outcomes measured and reviewed?
<p><i>Controlling</i> IT competencies, services, management processes, architectures, infrastructures and applications</p>	<ul style="list-style-type: none"> • Who controls each process and service critical to the business strategy? • How should they exercise that control? • Do they have the authority to require adherence to the process and service designs and policies?
<p><i>Executing</i> IT competencies, services, management processes, architectures, infrastructures and applications</p>	<ul style="list-style-type: none"> • Who participates in the execution of the processes and services? • Are the accountability chains clear for each activity required to achieve the business strategy?
<p><i>Communicating</i></p>	<ul style="list-style-type: none"> • What vertical and horizontal communications are required? • Who needs to know what, and when? • What are the best format, content, medium and frequencies for the required role-based communication?
<p><i>Guiding principles</i></p>	<ul style="list-style-type: none"> • What are the principles and policies that will guide delegated decision making? • Are the principles aligned with good practice audit control objectives and international standards? • Are the rationale and implications of each principle clearly understood so they can be properly acted upon?

The next chart shows what kinds of groups play the various IT governance roles.

IT governance roles	
<i>Directing</i>	Steering committees, boards, councils and working groups
<i>Controlling</i>	Planning committees and boards that exercise ownership and control of architectures, data, tools, frameworks, processes and services and provide the organizational authority needed to require adherence to the policies and decisions that have been made, including process and service standards
<i>Executing</i>	Process and service management working groups, teams and functions, including management and other execution roles that execute IT activities within the constraints of governing standards and policies such as architecture standards, service level agreements (SLAs), process and service designs, control objectives and guiding principles

Leveraging good IT governance

IT organizations stand to gain a lot from improved governance. Good governance practices minimize the depth and duration of performance declines during periods of change and innovation. More specifically, good IT governance can help minimize:

- *Time wasted as people search for the individuals who have the decision rights for specific areas of responsibility*
- *Overlapping and unclear accountability resulting from conflicting directions provided to individuals executing activities, which causes wasted effort and effort that is contrary to the desired objectives*
- *Critical decisions that go unmade because no one can figure out who has the authority to make the decision—which not only is frustrating but also has a direct negative impact on achieving the desired objectives.*

Lack of governance: a textbook example

As the world watched, first responders to Hurricane Katrina got caught up in the management and execution of myriad processes and services that crossed multiple management domains: federal, state, local, commercial and nonprofit. Although the roles of firefighters, police, National Guard members, doctors and nurses were clearly defined, along with processes for triage, assessment, recovery planning and aid distribution, there was a lack of clarity and transparency in decision making and accountability chains for directing and controlling the overall effort. Because it was unclear who was directing and who was controlling the overall response, there was a failure to deliver services in a valuable, reliable and cost-effective way.

- *Lesson learned: Governance is required to enable value by ensuring clear and transparent decision-making rights for directing and controlling. All parties need to know up front:*
- *What is the desired outcome? What is the direction?*
- *What are the components of the strategy?*
- *Who is responsible for directing each critical component of the strategy?*
- *When do they make the decisions?*
- *How do they make the decisions?*
- *What information do they need to make the decisions?*
- *Who is controlling and who is executing each process and service?*

Getting started

Don't try to "boil the ocean" by defining governance for everything in IT all at one time. Instead, ask yourself, "What's going to make a critical difference right now?" It might be important, for example, to make the production line more efficient so your business can create products more quickly and less expensively. Or maybe it's more critical to make product research more innovative and leading-edge. What are the hot components that can be differentiating for your business now?

Here are the four key steps for getting started:

1. Understand the business strategy. What is the business trying to accomplish?
2. Identify the business components that are directly related to the strategy and the IT components that are critical or can contribute to differentiation.
3. Identify which components are hot and need to change now.
4. Improve governance of the hot components first.

Once you have established a minimum set of good governance practices for each hot component, you need to plan for continuous improvement. This means ensuring that you can identify and handle exceptions and learn from those exceptions. You need to review performance and outcome metrics and clarify desired behaviors on a continual basis. Then you need to improve the provision of information required for decision making, including governance tools such as models, dashboards and standards. Finally, you need to ensure that continuous improvement enables better decision making so you can determine whether you're making progress or whether you need to adjust decision rights and accountability chains to achieve the company's objectives.

Conclusion

As the IBM Global CEO Study clearly shows, CEOs have set an agenda for their enterprises that is oriented around rapid, ongoing and wide-reaching change. Key to supporting this agenda is applying governance best practices within IT, which can minimize the cost and performance decline typically associated with periods of change and innovation.

While ISO/IEC 38500, the new IT governance standard, won't solve all governance problems, it can help. A critical message of this standard is that, because of the expense, risk and potential value of IT to the business, corporate boards of directors are responsible for ensuring that IT is properly governed. This new international standard sets forth guiding principles for the corporate governance of IT that are applicable to both the CIO and the CEO. To properly serve the CEO, the CIO must adopt and apply good governance practices within IT so that the IT organization can carry out its mission with agility and as a critical part of the overall business strategy.

The most practical approach is to start by identifying the hot business components within IT and improving their governance to ensure the ability to change and innovate where it matters now. An IBM IT Management Consulting Services – business of IT executive workshop can help CIOs and direct reports look at the IT business model and identify hot components on the basis of:

- *Component costs*
- *Full-time equivalent (FTE) spending*
- *Quality and capability*
- *Contribution to differentiation*
- *Criticality to the business.*

Navigating through constant change and innovation

By teaming with IBM, CIOs can leverage lessons IBM has learned from its extensive experience helping other companies and from its challenges in directing and controlling its own complex service organization. Over the years, we have developed an integrated and practical approach to IT governance that includes good practices from international standards like ISO/IEC 38500; globally accepted good practices like COBIT; proven approaches from the MIT Sloan School of Management Center for Information Systems Research (CISR), IBM Research and other academic research teams; and the IBM Global Services Method.

For more information

For more information about IBM's IT governance offerings, please visit:

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¹IBM, *The Enterprise of the Future*, May 2008.