



# Principles of IT Governance

Governance of enterprise IT focuses on delivering services to support top line growth while moving operational savings to the bottom line.

The management of IT services has various descriptions depending on business domain, management style, and technical platform.

In an emerging market or expanding business domain, one common attribute of any successful IT organization is the transition from “operational effectiveness” to “strategy focused.”

These firms do not abandon their operational excellence roots. Rather they place these operational activities in their proper place – as the foundation of a Strategy Focused Organization.

Strategy, objectives, and their measurements processes are installed as a means of managing the operational effectiveness of the IT organization in the presence of this transition process.

The first step in this process is the realization the difference between operational effectiveness and strategy. Operational Effectiveness is necessary, but Strategy provides the means to differentiate a firm from its competition.

# Drivers for IT Governance

## Situation

- Weak leverage of resources creates the perception that IT is a cost rather than an asset
- The role of IT–reliant business processes have moved to the enterprise level
- Corporate IT governance is no longer a luxury, it's the law
- Cost of poor governance obscures the traceability of value of IT investments to their benefits

## Beneficial Outcome

- “Value engineering” redirects IT to focus on cost and productivity management
- Silos of IT–reliant systems are moved to the enterprise level for lateral deployment rather than vertical isolation
- Compliance with the law must include the business benefits
- Making costs and delivered value fully visible allows all stakeholders to see the returns on the balance sheet

Developing a Strategy Focused Organization produces a change in the behavior of IT as well. Instead of “managing” the operations in a static role, IT leadership “governs” the IT resources and services through leadership as well as stewardship.

The desire to close the common gaps found in many IT organizations is the motivation for this governance approach.

- IT operations are many times seen as a “cost center.” This cost center view comes about because there is no traceability of costs to business value.
- Traditional IT systems have “grown up” in operational silos. Transforming these silos to “enterprise” enablers is the goal of governance.
- SOX, Director Boards, investors have changed to role of IT management.
- Visibility into all costs, including IT costs is now mandatory for all responsible publicly traded companies.

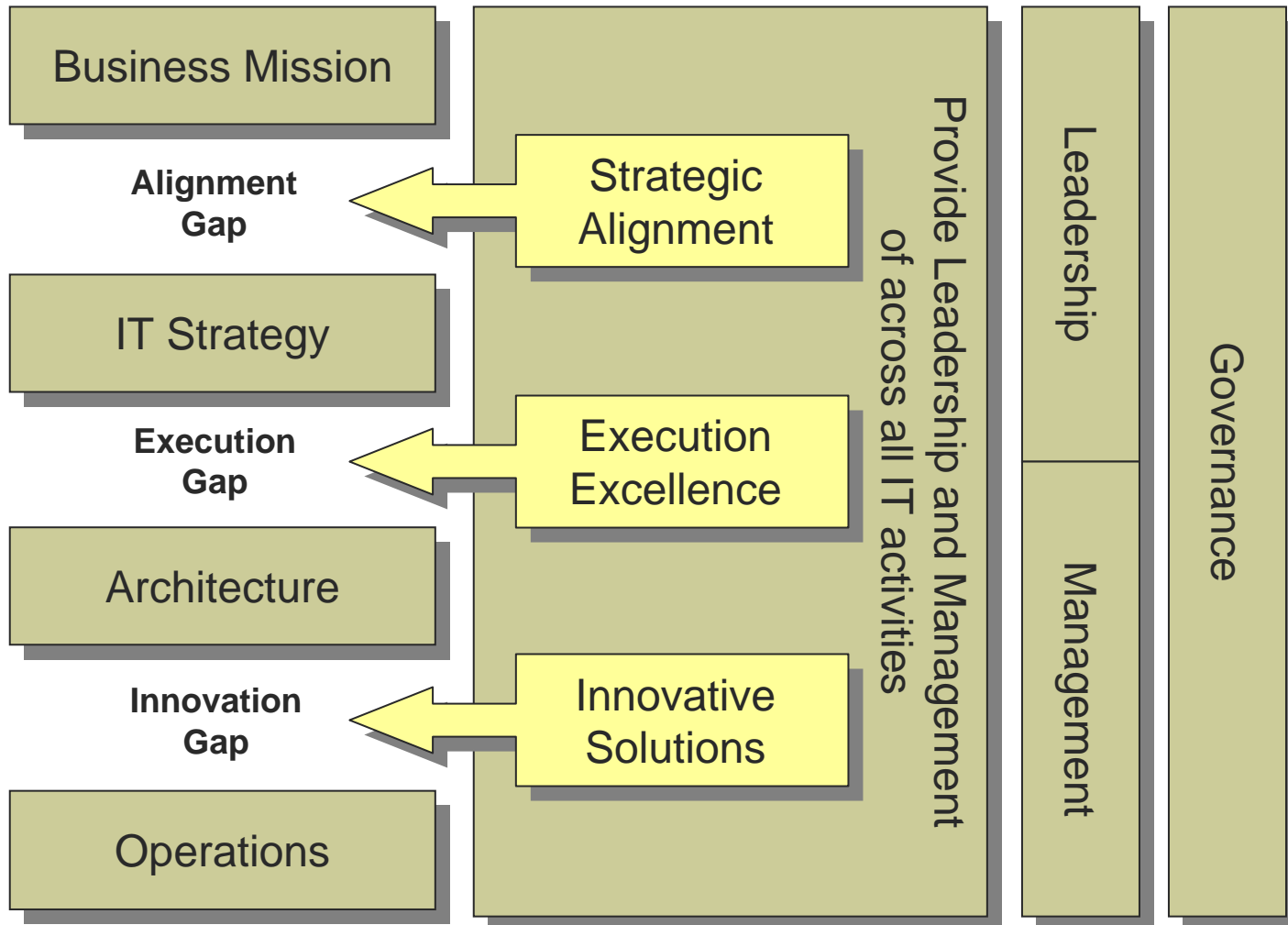
# The Role of IT Governance

- “Fact based” strategy setting
- Manage from the customer’s point of view within the corporate framework
- Drive participation of senior management
- Be both strategic and tactical
- Trace all costs to business value in all activities
- Provide iterative and incremental improvements
- Treat architecture, technology and security as enterprise issues
- Install, motivate, and lead a high performance organization

Governance fills the gaps that naturally form between business and technical domains and between management and strategy. In traditional IT operations technology and business are readily visible to senior management. What's missing is visibility into the activities in the "white space" between technology and business. Managing these gaps is the role of the IT Governance

- The "alignment gap" appears when IT investments are not traceable to business strategy.
- The "execution gap" appears when those tasked with delivering IT products and services don't have a clear "line of sight" to the corporate strategy.
- The "innovation gap" appears when IT leadership and staff are not connected to the needs of the market, emerging technologies and the investment strategies for future needs.

# The Role of Governance



Getting “aligned” is not an event, it is a continuous improvement process. Alignment must be tested through strategies, objectives, and metrics.

Alignment starts with the business leadership team.

- Build consensus and commitment around the strategy
  - Executive participation in the strategy formulation
  - Executive education regarding strategy implementation
- Understand the benefits of a strategy focused organization
  - How will the IT strategy benefit an individual department or function?
  - How will IT strategy help achieve to overall mission of the firm?
- Demonstrate the power of an IT strategy
  - Require participation and stewardship from all stakeholders



# Strategic Alignment ...

- “Aligns” IT initiatives with business objectives
- “Ties” system planning processes to business growth plan and bookable benefits
- “Manages” enterprise initiatives through portfolios of projects in support of strategic objectives
- “Informs” management of the activities and results of IT investment

Before IT projects can be identified to fulfill the strategic needs of the firm, an understanding of their performance measures, connection to strategy, and their past performance is needed.

Project Portfolio Management is one means of integrating these needs:

- Project delivery is more than schedule and budget compliance.
- Projects must deliver the right value to the business processes, at the right time, for the right solution – creating “value” not just benefits.
- Benefits are bookable on the balanced sheet. Value is visible to the market and customers.
- This “value creation” process is more than just “keeping on schedule.” It is about understanding the business needs.
- This understanding comes from “knowing” the business beyond specifying the technical details of a software system.
- The IT leader must be an integral part of the process development process.

# Portfolio Management

- Prioritizes and selects IT initiatives
- Understands how non-discretionary budget supports the bottom line
- Uses discretionary budget to increase the top line or remove cost from product stream
- Directly measures the impact of IT spending on the balance sheet

Once the specific needs of the organization are identified, prioritization of the solutions takes place. This “selection” process has many challenges.

- Defining the “value” of a project must connect the investment with its contribution to strategic goals. Simple monetary returns are necessary but not sufficient.
- Quantifying the benefits must consider financial, customer satisfaction, investment returns, strategic positioning, competitive assessment, and other intangible benefits to the firm. “Real options” is one IT quantification method used to produce tangible assessments in the presence of uncertainty.
- Balancing need for systems with the capacity to deliver is a continuous process.
- Continually assessing the portfolio of projects and their contribution to the corporate strategy is the role of senior management.

# Project Selection & Prioritization

## Challenges to Excellence

- Selecting the best valued projects
- Quantifying benefits as a basis of constructing a portfolio
- Balance demand within limited appropriations and investments
- A view of the portfolio as new projects are initiated

## Strategies for Delivery

- Use a uniform and consistent project selection process based on defined metrics
- Define weighted paired comparison analysis process
- Formal reserve list available when more funds become available
- Incorporate reporting and resource management.

There are four basic project types in any modern IT organization providing mission critical services.

- Type I – Projects essential for the firm to remain in business and provide a unique service or product. These projects form the basis of normal operations. Without these projects the firm can not continue to prosper and grow.
- Type II - Projects that have to be done, but don't differentiate the firm in the marketplace. These are “daily operations” or regulatory compliance projects.
- Type III – Projects that are not essential, but create an advantage for the firm. These are “experimental” projects to test new strategies, evaluate opportunities, or simply to explore new avenues of product and service delivery.
- Type IV - The business would survive without these projects. These are projects that must be avoided.

# Project Criteria

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| <p><b>Type II</b><br/>Projects that have to be done, but don't differentiate the firm in the marketplace</p> | <p><b>Type I</b><br/>Essential projects for the firm to remain in business and provide a unique service or product</p> |
| <p><b>Type IV</b><br/>The business would survive without these projects</p>                                  | <p><b>Type III</b><br/>Project is not essential, but creates an advantage for the firm</p>                             |

Critical to the Mission ↑

Differentiating to the business in the marketplace →

In order for any IT organization to be considered part of the corporate strategy its financial affairs must be kept in order.

- At best IT is a 2<sup>nd</sup> order impact on profitability. 1<sup>st</sup> order impacts come from revenue, sales margins, volume, supplier costs and other direct cost structures.
- For IT to fully participate in the corporate strategy, traceability from investment to value creation is needed.
- This traceability starts with a detailed understanding of the cost structure of IT services. Not just cost, but the structure of those costs and each cost's contribution to value creation.
- Seeing IT as an “information factory” that produces consumable items for a specific “cost of goods,” is a starting point.
- IT can then be put on the same “unit of measure” footing as other products and services of the firm.



# Financial Accountability

- Accurately measures the impact of IT investments
- Focuses on selection and prioritization
- Categorizes investments as ...
  - Fundamental to the business
  - Innovative the business
  - Growing the business
  - Rational experiments

Balanced Scorecard is a means of connecting strategy with operational excellence.

- Any modern firm is expected to be competitive, accountable, customer–friendly, and fiscally responsible.
- The external world is highly unstable, so planning systems must deal with this uncertainty. This is even more so for IT systems. Rapidly changing technologies are only the start of this uncertainty.
- Research shows 9 out of 10 firms fail to execute on their strategy:
  - Only 5% of the work force understands the strategy
  - Only 25% of the managers have personal objectives and incentives linked to strategy
  - 60% of organizations don't link budgets to strategy
  - 85% of executive teams spend less than one hour per month discussing strategy

# Balanced Scorecard Approach

- Mobilize change and improvement through executive leadership
- Translate the strategy to operational terms
- Align the organization to the strategy
- Motivate by making strategy everyone's job
- Learn and adapt through continuous improvement process
- Govern to make strategy a continual process

Creating a performance based IT organization based on “business performance” as well as “technical performance” requires several critical principles to be followed.

- Translate the IT strategy to operational terms, so everyone can understand the goals of the larger firm.
- Link and align the organization around the IT strategy to create a “line of sight” from the board room to the computer room.
- Make strategy everyone's job through personal contribution to strategic implementation.
- Make strategy a continuous process through organizational learning and adapting.
- Provide an agenda for change for executive leadership top mobilize this change.

# Scorecard Metrics

- Move away from the “cost center” paradigm and toward the “value creation” paradigm
- Link what IT does and what IT does for the business
- Recognize that every investment must create value – infrastructure is the cost of doing business, but it can still be measured
- Produce measures that the CEO, CFO, Board, and shareholders actually care about

In many business domains operational excellence is seen as a “back office” attribute. Operations are out of sight and many times out of mind.

Senior managers usually focus on strategy, planning, budgeting, and other “capital” based decision making. At times this leaves operations as a second class citizen.

In the IT domain, operations is a critical success factor for the firm. But IT operations must also provide a platform for strategy, planning, budgeting and other “capital” based decision making processes.

Without a stable, reliable, scalable, and secure operations organization, the expansion of any firm is at risk.

It is through “operational innovation,” that expansion can be implemented. Simple scaling laws prevent a linear example in most business domains. Something new is needed.

# Operational Excellence

- Applications development and deployment based on a repeatable Software Development Life Cycle
- Production management tied to business processes
- Technical architecture assures operational integrity
- Security actively managed as a first priority

Conventional implementation of IT services often lead to failure in the presence of “disruptive” markets. Firms that follow traditional implementation methodologies inevitably take too long getting to market with their products and services.

When traditional methods are applied in the IT domain, there is too much to be done, too many systems to be integrated, taking too long for the benefits to flow to the bottom line.

Building software systems to meet the needs of a “disruptive” market requires innovation to delivery IT services.

This innovative approach should be:

- Iterative and incremental.
- Built on direct feedback from customers
- Break large scale deployments into a series of limited releases
- Continually reaffirm that delivered value matches the strategy



# Operational Innovation

- Invention and deployment of new ways of doing things
- Acknowledge the core value-creating work of operations
- Acknowledge operational performance as a driver of financial results
- Look for process breakthroughs to gain traction across the organization

The active promotion and execution of a Strategy Focused IT organization starts with awareness.

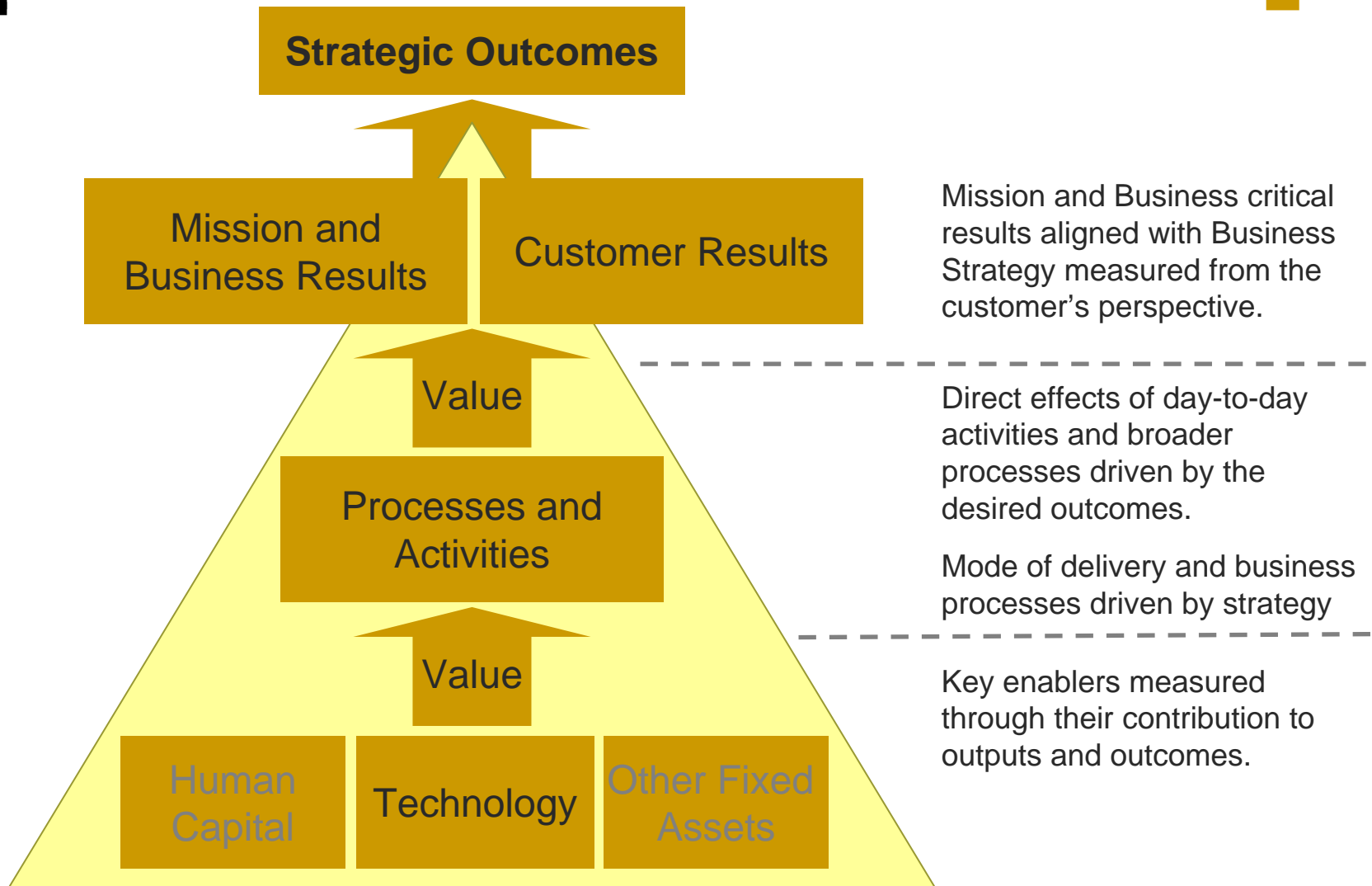
- All employees have “top of the mind” awareness of strategy.
- Strategic priorities are repeatedly communicated through multiple media outlets.
- Department, Team, and Individual goals are aligned with the strategy
- Departments, Teams, and Individuals have a feedback forum in which their ideas are heard and acted on.

In a successful IT–Enabled organization, the “critical few” must continually focus the “operational many” on the goal of differentiating the organization to create a competitive advantage.

This does not mean separation of roles or a hierarchy of “knowing”.

It does mean that executing strategy is just as critical a job as delivering products and services.

# Executing the IT Strategy



The process of governance must be repeatable. Not just repeatable across the organization, but repeatable in time.

Governance is possessing core competencies to manage both tangible and intangible assets:

- Management of tangible assets
  - Managing quality
  - Managing risk
  - Managing money
  - Managing technology
- Management of intangible assets
  - Managing strategy
  - Managing people
  - Managing customers

These core competencies are operate inside a repeatable governance process to produce a “center of excellence.”

# Repeatable Processes

|           |  |
|-----------|--|
| Mobilize  | A process to mobilize the IT organization to be strategy focused                   |
| Translate | A process to describe and communicate the strategy inside and outside IT           |
| Align     | A process to align IT organization around the corporate strategy                   |
| Motivate  | A process to ensure personal objectives and incentives are supporting the strategy |
| Govern    | An integrated reporting and decision making process to senior management           |

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