The Infonomics IT Governance Letter
June 2006

Information, news and views on Corporate Governance of Information and Communications Technology

Welcome back to the Infonomics IT Governance Letter

Dear Reader,

If you are a regular reader of The IT Governance Letter, you will have noticed that both the April and May editions failed to materialise. If you are new to our 800 strong mailing list, welcome. We hope that you will continue to enjoy our forthright and independent views on how organisations can improve their performance and reduce adverse risk through better governance of their use of information and communication technologies.

We could say that the gap in publication was caused by circumstances beyond our control. We could blame short weeks in April and multiple conferences in May. But we'd rather explain our reality: it's the Mule that did it!

I've been focused on governance of IT since late in 2000. Back then, it was not just an unpopular topic – it was virtually unheard of. Opportunity was sparse, and against a backdrop of a shrinking IT sector, it was more than difficult to convince the people at the top of organisations that they should invest in better control of their IT agenda. The mule was stubborn!

That all changed sometime in the past few months. I can't put a finger on the exact point in time, but it seems that the factors came together around the final quarter of 2005 to transform that stubborn mule into a wild thoroughbred stallion. Suddenly, we're no longer dragging the mule every reluctant inch. Instead, we're hanging on for the ride of our lives, as Governance becomes the new "holy grail" of success with IT. Not that everybody's coming along for the ride – there are still plenty of sceptics out there who think this is just another fad that will pass, and that IT really should not be a concern for the boardroom. And some of the scepticism is fair. One reason is that the marketing machines have moved into hyperdrive and attach the G word to everything they can think of – overusing it and driving everybody to distraction. The other, of much greater concern, is that organisations will, as is so often the case, under-deliver on their IT Governance efforts, focusing on software rather than people and process, and missing the point that implementing good governance is just as much about people and their behaviour as it is about the tools they use.

For Infonomics, the impact of the transformation has been dramatic. We are working on IT Governance Assessments and Governance Improvement Programs for several significant organisations. We are assisting several software vendors in their efforts to develop market appreciation of the opportunities to use software tools as underpinning infrastructure for their efforts to uplift their governance capabilities. We continue our long term efforts to contribute to Australia's world leadership in governance of IT through development of standards, and we continue to contribute and learn through participation in relevant industry conferences.

During May we attended two major conferences – the annual Company Directors Conference held on the Gold Coast, and more recently the IQPC IT Governance Summit, held in Sydney. Both conferences produced significant value, which we share with you in this and following newsletters.

Late in April, we joined forces with Melbourne Boutique Board Advisory firm Oppeus to conduct a Breakfast Round Table for Non-Executive Directors, C-level executives and CIO's. Ben Scheltus reports in this edition on the outcome of that breakfast, for which the guest list included leaders such as prominent non-executive director Cathy Walter, TAC's new Chief Executive Paul O'Connor, and Bob Shedden, Group General Manager of IT at Spotless.

Ben also shares further thoughts on off-shoring, posing several questions that directors might ask when presented with a proposal for off-shoring of IT and business process.

The past few weeks have also seen several significant publications of interest. The June 2006 issue of Company Director has an interesting article entitled "Coming to grips with IT". And on June 9, the Australian Customs Service released the Booz Allen Hamilton report on the troubled Integrated Cargo

System. Time and space precludes our detailed discussion of these in this edition, but you can be sure they will have significant attention in the July edition.

Finally, we are delighted to announce for the first time in this edition, our partnership with RMIT University in the research arena. We have joined forces with the RMIT School of Business to develop a proposal for ARC funded research into the economic impact of investing in IT, across entire industry sectors. This proposed ground-breaking research recognises that IT is increasingly being used to drive change in industry-wide process, as illustrated by the way that the Australian Customs Service used IT to underpin its Cargo Management Re-engineering initiative.

As always, we hope that you find this month's edition interesting, and that you will stay with us as we ride the wave of interest and build Infonomics reputation as the leading independent advisor on corporate governance of ICT.

Mark Toomey

12 June 2006

Read On...

To read The IT Governance Letter, select the pieces you want to read from the menu at left. Or just click on the "next" button at the bottom of each page to read from start to finish. We don't expect that you will read the entire letter in a single sitting. Each topic is self contained, so you may find it worthwhile to read a bit now, and come back later. Whichever way you choose to use it - we hope you enjoy it.

And if you'd like to tell us what you think, please click on the feedback button, which is in the panel at left.

If you prefer to print and take away, we've also prepared this portable, printer-friendly version. Please be aware that, for the time being, we don't have the means of putting active hyperlinks into the PDF, so if something says "click", we mean in the web-based version.

Headlines and Contents – June 2006

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AS8015 Embarks on the International Trail

At the recent ISO/IEC software and systems engineering standards subcommittee meeting in Bangkok, a project was launched to develop an international (ISO) standard for Corporate Governance of ICT, and a resolution was passed to start the fast track of AS 8015 to be the first part of the new standard.

Company Directors Conference

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What Directors need to know about IT.

The 2006 Company Directors' Conference IT forum attracted a strong audience, with around 50 delegates attending to hear Ted Pretty (ex Telstra and now consultant to Macquarie Bank), Linda Nicholls (Chair of Australia Post) and Edge Zarella (KPMG Global Partner in Charge for Information Risk Management) discuss their views of what directors need to know. The session was hosted by Oracle Managing Director Ian White, who introduced the topic, and Michael Pascoe of The Eureka Report undertook the role of MC.

Infonomics Announces its Research Commitment

In May 2006, Infonomics joined with RMIT University to seek an Australian Research Council (ARC) funding grant to support a three-year program of specialised research. The proposed study is entitled: "The Impact of Information Technology and E-Business on Australian Industry: a Management, Commitment and Cultural Perspective".

A word from our new sponsors

We are delighted to announce that Compuware, a long established software company, has agreed to support Infonomics with publication of The IT Governance Letter.

The Round Table Forum on IT Governance

On the 27th of April, Infonomics and Oppeus* hosted a very successful and well attended breakfast Forum at the Westin Hotel in Melbourne. There was a balanced representation from Directors (including two Chairs), non IT Executives and a small number of CIO's.

"Off Shoring" - not all roads lead to India

The author of this article attended a seminar on sustainability recently. During the session much attention was paid to the importance of appropriately rewarding good behaviour. For example, why is it that we are taxed on our work effort (labour) and yet bad activity such as using a car over public transport has only indirect disincentives?

Events

We've done a great deal of information delivery over the past few weeks, and participated in some very important conferences, as highlighted in the body of the IT Governance Letter.

Customs announces the Booz Allen Hamilton Report

On Friday 9th June 2006, Customs Chief Executive Michael Carmody announced release of the findings of the independent review of the Integrated Cargo System. The 66 page final report is posted, with a press release, on the Customs web site (www.customs.gov.au/site/page.cfm?c=7198), and can be downloaded for viewing by all interested parties.

Infonomics will study the report in detail, in the expectation that it contains important advice for all organisations. We will present our thoughts in the July IT Governance Letter. Our brief scan of the report's executive summary reveals confirmation that there were indeed "grave difficulties" experienced by many customs brokers and freight forwarders. The Booz Allen Hamilton report attributes the problems to inadequate end-to-end testing, quality problems with third party software, a lack of staged implementation and inadequate training in the new system. Foremost among the recommendations is "*establishment of a sound governance base for the overall program of work, including clear business ownership*".

We note that Simon Hayes of The Australian refers to the report as "Damning" in his article (http://australianit.news.com.au/articles/0,7204,19416305%5e16123%5e%5enbv%5e,00.html) published on June 9th. We will reserve judgement in this regard until we have absorbed the article in detail. Meanwhile, we encourage our readers to download and read the report, and to send us their comments and observations.

AS8015 Embarks on the International Trail

From the day of its release in January 2005, the Australian Standard for Corporate Governance of Information and Communication Technology has attracted global interest. Just a few days ago, Infonomics spoke with an IT specialist from Malta, who said that the standard is being considered by the Maltese government.

Australia has been a major contributor to the world standards stage, with several ISO standards being adaptations, or direct adoption of established Australian standards. Information management standards that originated in Australia include the Records Management standard ISO15489 (derived from AS 4390) and AS2805 (Electronic Funds Transfer) provided the seed for ISO8583.

At the recent ISO/IEC software and systems engineering standards subcommittee SC7 meeting in Bangkok, a project was launched to develop an international (ISO) standard for Corporate Governance of ICT. The meeting passed a resolution to start the fast track of AS 8015 to be the first part (Principles) of the new standard. The preliminary structure involves a 3 part standard - Principles (AS 8015), Requirements and Guidelines - with audience-specific clauses.

Infonomics Principal Mark Toomey will be involved in the global standards development process. Full details will be published in the IT Governance Letter as they become available.

Company Directors Conference

Every May, more than five hundred of Australia's business leaders gather for three days of intensive experience sharing and networking. Over the five events from 2002, Infonomics has seen considerable shift in the depth of interest and understanding of our favourite topic – Corporate Governance of IT.

Since 2002, the agenda has included at least one discussion forum for those interested in IT. In 2004, Chris Gillies, Marianne Broadbent and Mark Toomey explained what governance of IT was about and why it was important. In 2005, a panel discussed the question of whether or not the Internet had yet come of age. This year, an august trio discussed what Directors need to know about IT. A summary of their discussion is presented below.

But interest in IT was not limited to those who attended this one forum. Every delegate with whom I had a conversation noted that they were concerned by the risks with IT in their organisation, and most agreed that they did not feel well equipped to enquire about it. Clearly, we hope to assist many of those people through the discussions in this letter, and through direct engagements.

The content delivered in the conference is much too extensive and not all relevant to this journal. But, most of it is fascinating – giving an insight to the world around us, and helping us to learn more and more of what is required of Directors, many of whom have unenviable and onerous jobs.

To give our readers some idea of what was discussed (and to remind those lucky ones who actually participated), here is a brief rundown on some of the content.

Move over Generation X. Here comes Generation Y.

A pre-conference briefing by IDG Chairman Phil Ruthven updated us on generational change, exploring in entertaining depth the diverse behaviour of six concurrent generations of Australians. The generations are often referred to by characteristic names – those 82 years and older being the Federation Generation, or Golden Oldies. The 64 to 81 group are known as Silents, or Conservatives. Baby Boomers, aged from 46 to 63 are also referred to as the Spoilt Rottens. Our successors (yes, the writer is a Boomer) – Generation X – range from 25 to 45, and are sometimes called Angoras. The up-and coming 5 to 24 year-olds are the Y, or Net Generation, and are also known as Free Rangers, and sometimes as Ferals. Our babies, aged up to 4, are referred to as Millennials, and have not yet shown the character that will earn them their less generous nicknames. Ruthven's discussion put the generations into four broad behavioural patterns that tend to cycle. He noted the extraordinary differences in work-life behaviours of the Net Generation to their predecessors, noting that they will delay major life decisions, and move around. He expects Generation Y to move through an average of 29 jobs in a lifetime, and expects that they will tend to leave the senior ranks of organisations to the boomers and, more so the Generation X, which is becoming well entrenched at the upper level.

Ruthven was followed by Peter Sheahan, a Talent Specialist and member of Generation Y, who entertained the combined X, Boomer and Conservatives audience with a youthful perspective on success and appropriate behaviour. He noted the diminishing expansion of the workforce and the trend to non-full-time workforce models. In Australia, 26% of the workforce is not full time, while in Britain the number is around 38% and in Canada, 49% of workers are not in traditional full time jobs. He recommended that all organisations learn to deal with and "love" part time workers. In discussing the shift to services businesses, Sheahan noted that there is a major shift to engineering disciplines in developing nations. He compared annual engineering graduate numbers of China (currently 550,000), India (200,000) and the United States (70,000), and noted that western Gen Y people are finding other ways of working than finding traditional job roles. To further underpin the point, he discussed the statistic that professional services firms now experience a 50% failure rate on developing graduates into long term consultants. He said that this is because they try to turn three dimensional people into mono-dimensional clones.

Boiling all this down, Sheahan recommended not expecting Generation Y to climb the ladder. Instead, he suggested opening lateral opportunities, to allow Gen Y to diversify. And he warned of unrealistic expectations – saying that the individual characteristics and talents of people need to be understood.

And in a direct reference to Infonomics favourite subject, Sheahan said that he sees Generation X as the one with the savvy to apply technology for business gain. Clearly, we need to engage Generation

X, if we have not already done so, in our development of vision and strategy, and to ensure that when we do so, we have equipped them with the information they need so that they can identify the real opportunities for efficient effective and acceptable use of technology.

Further Sessions

A hallmark of the conference is the depth and quality of the content delivered by diverse speakers. There were numerous aspects that we found interesting, and we will provide further summaries in later editions of The IT Governance Letter.

Director Interest in IT Governance

One point we thought significant throughout the entire conference was the increased level of interest in the board and director role in governance of IT. Virtually all of the contacts Infonomics made expressed at least a boardroom awareness of the importance of IT, and more than a few noted concern with the conduct of one or more IT initiatives. However, this awareness and concern was also accompanied by a uncertainty regarding how directors could understand IT better, and how they could ask appropriate questions. In hindsight, it seems that directors might have benefited more from, the small group forum described below being scheduled for the main sessions.

What Directors need to know about IT.

The Forum

The IT oriented forum at the 2006 Company Directors' Conference attracted a strong audience, with around 50 delegates attending to hear Ted Pretty (ex Telstra and now consultant to Macquarie Bank), Linda Nicholls (Chair of Australia Post) and Edge Zarella (KPMG Global Partner in Charge for Information Risk Management) discuss their views of what directors need to know. The session was hosted by Oracle Managing Director Ian White, who introduced the topic, and Michael Pascoe of The Eureka Report undertook the role of MC.

Ian White

Ian White is Managing Director of Oracle in Australia, and chaired the panel for the morning's discussion. In his introduction, he suggested that IT should be "a directors' best friend", because it is a fundamental tool for compliance support, performance measurement and analysis of data. He said that if directors were not getting what they need from IT, they should be asking why not, and they should persist with the questions until the answer is satisfactory.

Ian also noted that IT projects continue to show "mixed results", and suggested that directors need to develop the means to assess these projects.

Ted Pretty

Ted Pretty is well known as a past member of Telstra's executive management. Since his departure from Telstra, he has expanded his career and is now a top level advisor to the highly successful Macquarie Bank – sometimes referred to as "The Millionaire Factory" in recognition of its persistent high performance. As the opening speaker for the panel, Mr Pretty suggested that directors think about IT by drawing on their experience in other areas of the board's business. He identified several myths that should be dispelled in order to encourage better director engagement in Governance of IT:

Myth 1: Directors with a little IT knowledge are more informed than those with no IT knowledge. He emphasised that decisions are not generally about technology, but what the use of technology means for business process. Directors should ask: "Why are we doing this".

Myth 2: Information Technology is very different to other technologies. He emphasised that this is not the case – IT is merely an enabler to business process and decisions to invest in IT are similar to any other capital decision. Consideration should be given to key business drivers, such as cost, revenue, productivity, risk and compliance.

Myth 3: Boards understand process enough to make informed decisions about the use of IT. Ted said that IT is an enabler of process change, and it is not sufficient to merely understand process – it is also essential to understand change.

Myth 4: 45 minutes at the end of the board meeting is enough time to consider IT. He said that the chairman needs to prioritise the board's time to ensure that it has enough time to address significant items. In particular, capital decisions should be allocated sufficient time to ensure that the drivers for and consequences of the decision are properly considered.

Myth 5: Not increasing IT spend year on year is OK. Mr Pretty said that in reality IT spend is lumpy, and that the most appropriate way to consider it is in a long term context. Under-investment in one year may well lead to a need to increase spend in subsequent years.

Myth 6: The (technical) curriculum vitae is the key consideration in selecting the CIO. Ted emphasised that it is more important for the CIO to have a sound appreciation of the business and its processes, and for this understanding to be the primary basis for selecting IT solutions. He said that failure to consider internal candidates fostered a trend to recycling "the same tired old group". He also emphasised that selection of CIOs needs to include consideration of past track record of success in delivering projects – he inferred that many have a poor record.

Myth 7: Fully Integrated Buzzwords make a compelling reason to invest in technology. Ted lambasted the tendency for jargon and promises to dominate what should be an informed discussion of business fundamentals – a business case for investment that defines specific benefits and evaluates risks. Directors who do not understand the terminology for the discussion should insist that it be reframed into terms they understand, or they should engage specialist help to deal with complex matters that cannot be simplified.

Linda Nicholls.

Linda spoke about how the boards on which she serves get a grip on IT. She noted that auditors play an important role in supporting the board's diligence on financial matters. She also stated clearly that lack of board oversight for IT is dangerous, but then noted that most boards are in the dark on strategy, spend and risk when it comes to IT.

Linda spoke of simple things to improve IT Governance. One is to properly understand the role of the Chief Information Officer. She identified five roles that CIO's are often expected to perform in five general management roles:

- GM IT Operations – focused on running the day to day business systems
- GM IT Development – focused on projects to create new business functionality
- GM IT Architecture – focused on keeping IT "lean and mean"
- GM IT Procurement – focused on contracts and supply.
- GM IT Strategy – focused on how the organisation gets advantage from the use of IT.

Linda said that it is absurd to consider that one individual can effectively perform all of these roles and that the best CIO will probably stretch to only three of them. She said that it is important to learn what the CIO is good at and to develop a plan to cover the other bases.

She went on to discuss the relative attendance of the CFO and the CIO at board meetings. She implied that the CIO should do more than merely submit capital expenditure requests – and that other aspects of IT should be considered. One context she suggested is to consider IT in the context of risk, with the board audit and risk committee looking at risk. She indicated that this can work well if the board is skilled at considering operational as well as strategic risk. She suggested that it is important to strengthen and deepen board understanding of IT spend, strategy and risk, and offered a simple framework in which to achieve this:

		Reason to Investment	
		Replacement	New customers, products or markets
Investment Outcome	NPV Positive	Fortify Maintenance and marginal improvement of the systems that support the business	Expand (This quadrant is often "vacant real estate")
	NPV Negative	Sustain Keep the basics of the business on stream.	Transform This is the infamous territory of high risk major investment

Linda's message is that every proposed investment in IT should be accurately positioned in this framework, so that the importance and value of the investment can be assessed.

She went on to discuss the "cold reality of the Post Implementation Review". Many boards struggle with benefits. Too often, the technology specialists are left to shoulder the load and everybody forgets about the business realisation. Linda noted common failures in failure to tell IT about what IT is required by the business, and in failure to engage the rest of the organisation in activities that are needed to realise results from IT investment. She cited an example of a CRM investment, which had the best technology inputs, the best technology outcomes and delivered zero benefits – because the technology alone did not result in any change in customer relationship behaviours.

Linda Nicholls' bottom line was that IT Governance is more than monitoring the IT department – its focus should be on assuring delivery of business outcomes, and for that reason, she believes, technology savvy is largely irrelevant.

Edge Zarella

Edge Zarella has global responsibility for KPMG's Information Risk Management practice, and in this role has extensive resources from which he can collate a compelling picture of why IT Governance is important, and what needs to be improved. He opened his briefing with an overview of the main findings in the KPMG Global IT Project Management Survey (www.kpmg.com.au/aci/docs/irmpmqa-global-it-pm-survey2005.pdf) – an instrument that Infonomics has also quoted extensively In quoting that 80% of projects are not delivered on time or within budget, Edge noted that when it comes to litigation, boards are often found to be as culpable as the vendors. Quite simply, board minutes tend to reflect a lack of discussion, and this suggests a lack of diligence at board level. He suggested that the simplest relevant question to ask about IT is: Why?

Edge continued by saying that few organisations want to confront the true cost of investing in IT.

Extending his discussion of costs, he suggested that many projects originate from the CFO, but that when problems occur these are deflected to the CIO. This tends to generate conflict between the CFO and CIO, and such conflict should be seen as an issue for boards. He concluded his briefing with a comment that the Mergers and Acquisitions market is now factoring IT quality into pricing decisions, with buyers looking critically at the extent to which they will have to invest in IT to put new acquisitions on a sound footing.

Q&A Session

The AICD Conference Forums are designed to be highly interactive, and MC Michael Pascoe did an excellent job of drawing questions and comments from the floor, as well as weaving in a few of his own.

- How can organisations discriminate between off-the-shelf software and custom delivery when determining the best options for a new IT solution?

  Linda Nicholls recommended comparing the relative costs of the total implementation – including the business deployment costs, and consider whether re-engineering the business to suit the package is cheaper than custom design to suit a less disruptive approach to business process.

  It is important in this area to note that a spend on IT that involves no business change should be regarded with suspicion, as failure to drive business change may well mean that there is not going to be any significant benefit to realise from the investment.

- How can boards understand TCO (Total Cost of Ownership) over the long term, for an IT asset?

  Ted Pretty suggested focusing on the total cost of Business in order to gain a complete picture.

- "Upgrade" is the scariest term in the IT lexicon – version currency is a significant issue:

  Edge Zarella agreed that some upgrades have major ramifications for organisations, and suggested that each upgrade proposition should be assessed against the fundamental question of its fit with the organisation's strategy.

  Linda Nicholls said that CIO's need training on how to bring issues to the board, and how to focus on business impact.

- Is having a business manager present a business case for IT investment, with the CIO as backup, likely to produce a more positive outcome?

  Ted Pretty said that in large organisations, it is often common to find capital allocation for IT delegated to the CIO. He said that this is bad news – as the CIO is not well placed to determine business benefit and priority for IT investment.

  Linda Nicholls said that line managers should be the ones who justify baseline expenditure – they run the business and they should be accountable for the resources that are used in running the business.

- Is the panel aware of, and what recommendations does the panel make about the Australian Standard for Corporate Governance of Information and Communication Technology?

  At this question, Michael Pascoe asked for a show of hands to indicate how many members of the audience were aware of the standard. The number was quite low, and Michael asked Infonomics Managing Director Mark Toomey to provide a brief summary of the standard.

  Edge Zarella commented that AS8015 is a very good standard, and that testing companies against the standard often reveals substantial gaps.

  Ted Pretty said that standards set an aspirational benchmark. He noted that boards tend to decide to defer activity and pass requests for risk assessment back to the risk or audit committee. In making decisions about investments, he would want boards to consider also the downside impact of not spending. He also commented that what the board typically does not see when presented with a recommendation is as important as what the board does see.

- Regarding Ted Pretty's reference to "integrated solution": what sort of framework should be used to consider just how integrated the whole of the company's systems should be?

  Ted Pretty said that technology has enabled a shift from single-vendor proprietary solutions addressing all of an organisation's needs to a smarter approach that uses "little buses" to link disparate systems (What Ted was trying to do here was to introduce a technology concept commonly known to specialists as "Enterprise Application Integration" or EAI to a non-technical audience. We weren't sure that the message came across clearly for some participants.)

Linda Nicholls said that most enthusiasm for highly integrated "enterprise resource management" solutions comes from people in staff roles, and not from line managers. She said that this makes her nervous, hinting that she did not always consider people in staff roles to be well in touch with the operational realities of the organisation.

- This is an industry where expertise is still developing – and it's stepping up rapidly. Where is the industry in its development cycle? Do we give enough resource to IT, and do we do enough independent assessment?

  Ian White agreed that the IT industry is still young but is undergoing consolidation. He indicated that Oracle finds it has too much engagement with the CIO, and insufficient engagement with other business leaders. He said that some initiatives are better structured than others, and the better structured ones do have a greater chance of success. He went on to say that the keys to success include the "soft skills": preparing the organisation for change and internal communication are critical, but organisations frequently do not have enough skilled change agents and change managers.

  Edge Zarella contrasted organisations that succeed with those that fail, and said that the cause was almost never technology. He cited strategic, operational and financial considerations, emphasising that financial matters are often the most significant decision criteria when they should often be the least significant.

  Linda Nicholls said that everybody talks solutions, but the problem is rarely well defined and embraced. Vendors fail to point out that their offering may not be the right answer for the buyer.

- What tips can the panel offer for boards about outsourcing?

  Edge Zarella said he is amazed that people think of outsourcing as a way of making problems go away. He suggested asking basic questions such as: Why? What is the return? He also said that the outsourcing decisions should be revisited regularly, to check whether the decision remained appropriate. He cited an organisation which failed to attain SOX compliance because it thought that outsourcing would eliminate all of its IT issues.

- How can boards get comfort on the competence of IT staff, especially in small listed organisations?

  Ted Pretty suggested that there should be periodic benchmarking and skills assessment.

  Edge Zarella said that there should be generalists, not technical specialists.

- What should be the preferred structure for managing IT projects?

  Edge Zarella said that project success is higher when C-level executives are materially accountable for the projects. He recommended regular reporting to the board as a way to ensure that the relevant C-level executives remain focused. He also noted that project management often suffers from people in charge of projects not being equipped with the right skills.

- Boards are sometimes ill informed: How much can the board and the audit committee rely on external advice?

  Edge Zarella said that when hiring executives, there should be an emphasis on acquiring the right skills to keep the board informed. He emphasised the importance of the board asking the right questions, suggesting that a failure to do so constituted negligence.

  Linda Nicholls said that symptoms of IT problems will often emerge inside business performance indicators.

- The final question asked for thoughts on whose responsibility it is to look at the big picture, and especially to provide appropriate foresight.

  Michael Pascoe responded with a profound statement, that "It's not just about IT:- it's about running your (expletive) business properly".

  Ian White said that organisations need to be wary of promises of return on investment being years down the track. Referring to the budgeting processes for projects, he said that there is never enough time or money to do it right when business cases are being developed, but there always seems to be enough to fix the breakdowns later. He was emphasising that organisations need to be much more pragmatic and honest about what the real likely cost of initiatives will be up front, and that in doing so unpleasant surprises may well be avoided.

The forum, as always, concluded with lively discussion over lunch, with delegates continuing their exploration of what directors need to know about IT. On the table at which I sat, there was further exploration of the intent behind and messages contained in AS8015. Linda Nicholls was interested in the low levels of awareness, and suggested that a useful promotional paper for the AICD Journal "Company Director" would contrast the before and after state of an organisation that had assessed itself against the standard, and adopted new practices as a result. We look forward to one of our customers consenting to that role, and to Linda's help in developing the article.

Infonomics Announces its Research Commitment

The Proposed Research

In May 2006, Infonomics joined with RMIT University to seek an Australian Research Council (ARC) funding grant to support a three-year program of specialised research. The proposed study is entitled: "The Impact of Information Technology and E-Business on Australian Industry: a Management, Commitment and Cultural Perspective". Infonomics is the sole Industry Partner for the proposed research, and will be contributing both time and funding to the project. The research will be lead by Associate Professor Adela McMurray, with extensive support from Dr Fang Zhao, and is designed to be undertaken by a PhD student.

Associate Professor McMurray is Director Entrepreneurship at the RMIT University School of Management. Adela was awarded a PhD at Southern Cross University in 1999, for her research work in the field of Organisational Behaviour; Cultural Diversity, Commitment, Climate. She has produced some 50 international publications including a research book entitled 'Research: A commonsense approach'. (Published 2004 by Thomson Learning Social Science Press. ISBN: 0170122352).

Dr Zhao, also of the RMIT University School of Management, was awarded a PhD for studies in management by the University of Western Sydney in 1998. She has undertaken extensive research into electronic business management, and published her book "Maximise E-Business Profits Through E-Partnerships" in 2005. She is also Principal Editor of "Entrepreneurship and Innovation in E-Business: An Integrative Perspective" published in 2006. The outline of the submission says:

> "The proposed study aims to assess the impact of IT and E-Business on Australian industry, business and Government infrastructure and hence implications for the Australian economy. Its significance lies in the development of a transferable model based on a framework aligning and integrating organizational e-management processes. The study investigates how to reshape organizational culture and climate to enable organizations to better commit, relate to and deal with uneconomic e-management and IT disruptions. The outcome will be a model that informs national policy to improve Australia's IT and e-Engagement infrastructure and capacity and hence assist in creating competitive advantages for Australian industries and businesses in a competitive world market.
>
> This study will help develop and implement a recommended national IT policy for Australian industry, business and infrastructure that will lead to the development of sustainable business

practices through responsible IT governance and emanagement. The study will demonstrate the different ways in which emanagement and IT in Australian businesses and Government infrastructure are influenced by national and organizational culture and climate and benchmark Australian organisations against their national counterparts and hence is aligned with ARC Research Priority 3 'Frontier Technologies for Building and Transforming Australian Industries', and two priority goals; Smart Information Use and Promoting an Innovation Culture and Economy."

Why is Infonomics Involved

Infonomics is committed to promoting improved performance in the effective, efficient and acceptable use of information and communication technology (ICT), across all sectors of Australian business. The company's approach to its mission is to focus on improving the corporate governance of ICT, through which better, more informed decisions should be made. By improving understanding at the director and top executive levels of the critical factors in effective, efficient and acceptable use of ICT, we believe that it is possible to greatly increase both the success rate of IT investments and the benefits yield of those investments.

Our observation is that organisations tend to take a narrow, technology biased view of ICT often fail to recognise that deriving benefit from the use of ICT requires effort across many aspects of business, such as process and organisation design. We are aware of much research in this field, and frequently refer to the works of leading thinkers such as Broadbent and Weill. More recently our associate Dr Raymond Young (MGSM) researched the role of senior management support in the success of ICT investments.

ICT investment increasingly has broader impact than merely inside the business where it is developed and deployed. As technology and communications systems have become more sophisticated, we have seen the emergence of now common technologies like Automatic Teller Machines and EftPos systems. Businesses have developed supply chain systems linking multiple independent organisations. These initiatives have delivered substantial economic impact – but how can we know the extent of that impact? Few organisations today have the means of rigorously identifying and quantifying the impact of investment across their broader economic community.

On the negative side of the ledger, there have been instances where problems with ICT could have, and in some cases have had significant negative effect on specific sectors of the economy – and potentially across the economy as a whole. For example, most businesses now depend on email systems – but what happens if central email systems fail?

We believe passionately that it is time for business and government to understand the broader economic implications of IT investment models. This research is strongly aligned with our mission: *"We develop and improve board level governance of information technology and business change. We do this by educating, informing and supporting directors and senior officers so that they understand their roles, communicate effectively and appreciate their organisation's unique circumstances."*

A key aspect of Infonomics mission involves helping directors and executives to understand that successful deployment of IT as an enabler of business performance involves far more than mere technical development and installation. Infonomics challenges conventional thinking with the view that there is no such thing as an "IT Project". Instead, Infonomics says that most of what are referred to as IT Projects are in reality major business change projects underpinned by IT. The research proposed will go directly to the heart of Infonomics argument and will provide a robust formal base of learning to underpin the messages that have previously been presented from an anecdotal perspective.

A second aspect of Infonomics work is to help organisations understand better how to identify and realise the benefits that are anticipated from investment in change enabled by IT. KPMG's 2005 Global IT Project Management Survey said "The most prominent finding of our Global IT Project

Management Survey is the continued lack of ability of most organisations to accurately measure the achievements of benefits derived from their projects". Infonomics suspects that many organisations lack the knowledge and tools to identify and model the impact of change, and believes that the modelling techniques to be delivered from this research will lead to far greater understanding of the impact of change, with better targeting of benefits to be realised. With ongoing improvement in corporate governance of IT, these methods should lead to improved success rates and better benefits realisation performance from IT initiatives.

Study Advisory Board

A feature of this research project is an expert advisory board. The Advisory Board for this proposed research includes confirmed participation from Mr Jim Campbell AM, a specialist in logistics and organisational change management, and John Thorp, author of the international best seller "The Information Paradox", as well as Infonomics Principal Mark Toomey. Several additional specialists have been invited to participate on the Advisory Board, and its composition will continue to develop as the application for funding progresses to its final approval.

A word from our new sponsors

We are delighted to announce that Compuware, a long established software company, has agreed to support Infonomics with publication of The IT Governance Letter. Compuware's initial commitment is to sponsor every second edition over the coming twelve months. As part of its sponsorship, Compuware is providing interesting and useful material relating to IT Management and Governance for your enjoyment. Compuware's first contribution deals with Application Portfolio Management.

Application Portfolio Management

What's in your application portfolio? Chances are it's an amalgam of legacy, distributed and web technologies— patched with incremental add-ons, bug fixes and enhancements— accumulated over decades. For many organizations, the once-bright promise of a one-size-fits-all platform to replace legacy systems has long been proven to be wishful thinking. The future, it turned out, was one where many systems, platforms and technologies coexisted—sometimes happily, sometimes with great difficulty— under IT's ever-expanding umbrella. The challenge for IT organizations is to find new ways to effectively manage an increasing number of applications. Some vital applications are probably on their third generation of IT staff, and the original developers have long since left the building. How can you gain insight into such a diverse and complex portfolio?

Before IT organizations can begin to manage applications more effectively, they must fully understand what's in their portfolios and take a long, hard look at what processes are currently being utilized to manage it. They also need to engage their clients and gain agreement on metrics to measure those applications. IT organizations face daily pressures to reduce costs and business risk, increase value of applications and maintain high levels of application performance. Is it any surprise, then, that over 75 percent of IT budgets are devoted to maintaining and enhancing existing applications, leaving only 25 percent for new investments?[1]

In the race to deliver increased business value, IT leaders are beginning to look at a more integrated approach to managing their applications: Application Portfolio Management (APM), simply stated, is a discipline in which organizations:

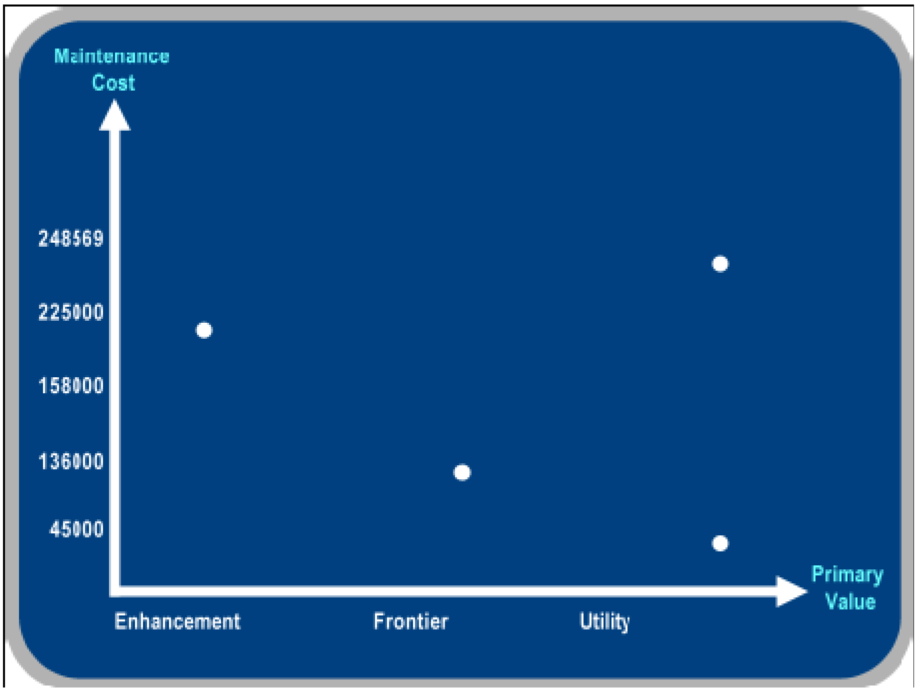
- create a thorough inventory of all their applications;
- match each application to business processes and owners ;
- track key metrics against each application;
- leverage this data into their portfolio discipline to make application life-cycle decisions.

APM's multi-dimensional view: true insight into the portfolio

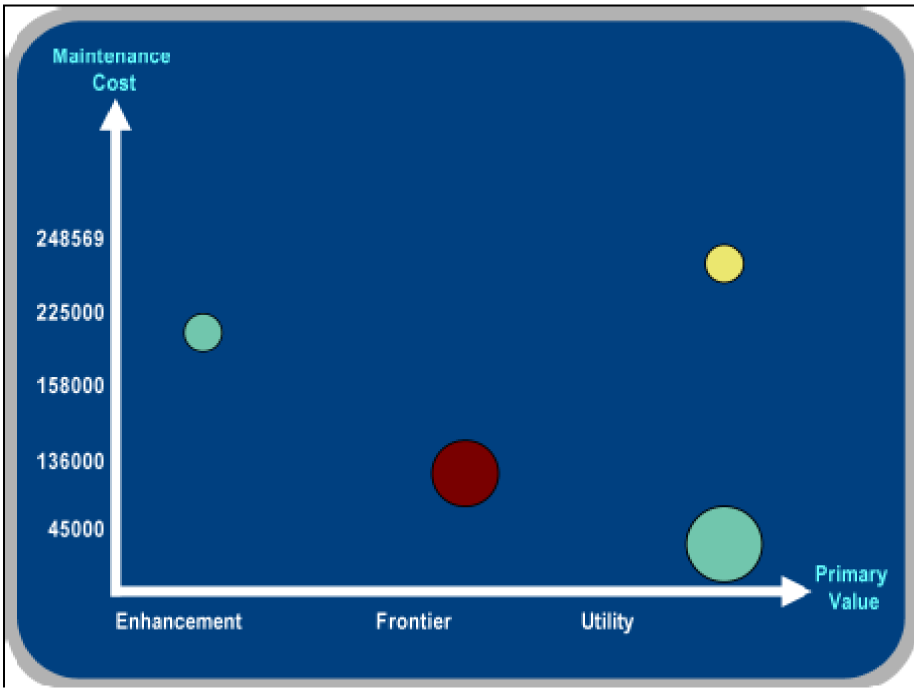
The benefits of adopting an application portfolio discipline are many. The first is the wealth of business knowledge about each application, represented in a multi-dimensional view including risks, costs and value to the business. Risks can include issues such as obsolescence of system/platform architecture or lack of ongoing vendor support. Costs can range from the obvious—licenses, maintenance, enhancements and physical infrastructure—to those less obvious or implied, such as costs to recover from an application crash or penalties for not meeting service level agreements. Value, ultimately, is measured by the business as a whole. Working with the lines of business you can identify consistent categories of value.

Gartner suggests the following examples for category types:

- Enhancement—applications that help the enterprise perform better
- Frontier—applications that make a major change in business performance and alter competitive landscape
- Utility—other mission-critical applications



This two-dimensional view would tell you that all is well with the Frontier application, since cost of maintenance is low. It doesn't provide enough information to answer the question: Is this application delivering the expected value to the business?



This multi-dimensional view tells you that the Frontier application has a large number of users (size of bubble), with low satisfaction (colour of bubble). IT can now make strategic business decisions about prioritizing this application for investment.

Another benefit of APM is the insight provided by that multidimensional view of the portfolio. APM enables your organization to reduce costs for "keeping the lights on" and reinvest these funds for strategic change and growth. APM gives the deep insight that improves decision-making, enables strategic IT roadmap development (whether to maintain, invest in, replace or retire an application) and ultimately delivers quantitative information for more effective investment planning decisions. By having the critical data to fully understand the risks, costs and value of the application portfolio as a whole, CIOs gain a significant advantage in addressing the pressures IT organizations face today.

A well-implemented APM discipline gives you the ability to prioritize IT applications with more accuracy. Obtaining more detailed and actionable data on each application enables IT organizations to make more informed decisions. This discipline enables strong rationalization of the application portfolio and creates a detailed roadmap of future changes and adjustments to the portfolio. Finally, a thorough APM discipline gives you the ability to align with larger strategic and operational goals and therefore improve long-term decision-making.

APM is a continuous process It bears repeating, however, that APM is a disciplined, structured and continuous approach designed to map business requirements to technology decisions. What ultimately makes APM such a strong discipline in managing diverse portfolios is its ability to foster continuity of portfolio analysis and decision-making. APM enables monitoring a wide variety of metrics that affect the application portfolio over time (such as hours for maintenance and support, number of users, etc.), and then analysis of each application's trends and patterns in relation to these metrics. It's a continuous approach to APM, therefore, that reaps the largest benefits.

APM helps IT leaders to systematically develop and prioritize efforts that address the life cycle of applications within the portfolio. Once IT leaders create strategic roadmaps for each application, they can prioritize the efforts needed to meet business requirements. By leveraging APM, IT executives can reduce the cycle time for decision-making on whether to maintain, invest in, replace or retire an application. APM provides quantifiable answers to questions like: Is it too risky to maintain this application on this old platform given its importance to the business? What is the estimated effort and cost to replace an application by rewriting it or purchasing and installing a new software package? What costs will be saved if we retire the application completely?

Making sense of—and informed decisions about—diverse, complex IT portfolios is a major benefit IT executives and business executives can gain from managing their application portfolios. As an APM discipline matures within an organization, further benefits are realized, not the least of which are greater client/end-user satisfaction, more accurate engagement of resources, more precise IT investment forecasting and closer alignment with business goals. In addition, cost savings can be significant, too; Gartner predicts that by 2007, enterprises that implement a disciplined application portfolio strategy can reduce IT expenses by at least 10 percent and future application transformation costs by 30 percent.[2]

1 Forrester Research, Business Technographics November 2005, North American and European Enterprise Software and Services Survey.

2 Gartner, Inc., *Meshing Architecture, Project and Application Portfolio Processes for Effectiveness,* J. Duggan, December 6, 2005.

The Round Table Forum on IT Governance

By Infonomics Business Development Manager, Ben Scheltus

On the 27th of April, Infonomics and Oppeus* hosted a very successful and well attended breakfast Forum at the Westin Hotel in Melbourne. There was a balanced representation from Directors (including two Chairs), non IT Executives and a small number of CIO's. The intention was to provide a stimulating atmosphere where senior people could have a candid exchange of ideas - without any sales pressure. We believe we achieved that goal.

Mark Toomey and Peter Kronborg (Executive Chairman - Oppeus) set the scene and provided background to the discussion. Then Mark tabled seven issues that were commonly encountered in this area. Peter then acted as facilitator - asking those present to comment on the issue. What followed was a lively debate where the executives generally agreed - but there were some points of contention.

Some of the headline issues we:

- There is inadequate IT expertise at the Board level in most organisations. Organisations should consider establishing an "IT & Technology Sub Committee" to ensure the appropriate oversight of capital investment
- The nature of IT often results in mis-communication between the customers (who are often older people who are wary about technology) and IT people (who often have a limited understanding of business)
- The mediocre success record of IT projects presents a serious threat to the ability of organisations to comply with Government regulations. This may result in unnecessary and avoidable exposure to Directors
- It is important to recognise that there are no "IT Projects" – only business projects that use IT. IT exists to serve the business.
- Organisations have a pathological aversion to addressing the non-technical aspects of implementing change; they over-emphasise technical delivery at the expense of business design and implementation.

Good connections were made between attendees and many learned from the experience of others.

The second forum is being conducted on June 15th, and acceptances have been strong, with again a good spread of directors, business leaders and IT leaders. We expect to conduct further sessions, so if you are a Director or executive interested in hearing what your peers have to say on these issues - please email us at round.table@infonomics.com.au to ask about an invitation.

* Oppeus Pty Ltd provides strategic advice and services on issues where the key differentiator is people. Oppeus delivers specialist skills across the strategic human capital continuum of talent, organisation and governance.

"Off Shoring" - not all roads lead to India

by Infonomics Business Development Manager, Ben Scheltus

The author of this article attended a seminar on sustainability recently. During the session much attention was paid to the importance of appropriately rewarding good behaviour. For example, why is it that we are taxed on our work effort (labour) and yet bad activity such as using a car over public transport has only indirect disincentives?

If the role of the Board is to evaluate, direct and monitor - then surely appropriate attention should be placed on directing good behaviour and ensuring that it is rewarded transparently. Also, "good behaviour" should not only be restricted to the immediate interests of the organisation or based on short term imperatives.

There is currently a very strong trend towards "off-shoring" of IT related work to Indian companies (though India is not the only destination, it is dominant). This trend may have long term undesirable consequences for companies and the Australian community, and particularly so if off-shoring is done for weak or inappropriate reasons, without due consideration of the long term implications.

In deciding to "off shore" work to Indian computer companies, are Boards rewarding the appropriate behaviour? Has the proposition been well researched and thought through, or is it a poorly considered "follow the leader" initiative?

As part of their assessment of off-shoring proposals, we recommend that directors consider the six principles of AS8015 – the Australian Standard for Corporate Governance of ICT:

1. Establish clearly understood responsibilities for ICT
2. Plan ICT to best support the organisation
3. Acquire ICT validly
4. Ensure that ICT performs well, whenever required
5. Ensure ICT conforms with formal rules
6. Ensure ICT use respects human factors

The six principles provide a basis for some questions Directors could ask their executives - to determine if they are behaving appropriately when they propose an off-shoring initiative:

- Having "off shored" certain aspects of the organisation's IT functions - do all employees have a clear understanding of their role under the new arrangements?
- Should the organisation need to quickly capitalise on a new business opportunity, how quickly can the offshore service organisation react to the new imperatives?
- In securing the services of the off shore company, what methods were used to decide that it was a sound business decision? Was the decision based on cost only or were all aspects of the service considered? What will the organisation's customers think of the move? What would be the impact and cost of reversing the decision?
- In ensuring adequate performance of the off shore service, to what extent are the service levels dependent on the culture and knowledge of the remaining Australian workers? What business continuity strategies have been put in place in the event the services are no longer available from India - for whatever reason?
- Having placed core company data in the hands of an off shore service company, what provisions

are in place to ensure that the company's customer data is adequately protected and that Australian Privacy laws are observed? What are the consequences for the Directors if Australian Privacy laws are broken in a different legislative jurisdiction?

- Having decided in to move services offshore, what will be the reaction of the remaining IT staff at the organisation? Will they continue to be loyal or will they start actively looking to move to another company that is more loyal to them? If the off-shoring exercise relates to business processes and is visible to customers, suppliers and other third parties, what will be their reaction?

There are no free lunches and many organisations are finding that decisions to "off shore" were taken hastily and based on questionable justifications (eg cost only). A number of organisations have had to endure the cost and pain of reversing the decision. Directors could be well served to thoroughly question their executives to ensure that they have behaved appropriately and that their actions reflect the six principles of the Australian Standard 8015.

Events

We've done a great deal of information delivery over the past few weeks, and participated in some very important conferences, as highlighted in the body of the IT Governance Letter. Our audiences have included:

- itSMF quarterly meetings in both Canberra and Melbourne;
- Borland customer briefings in Brisbane, Canberra, Wellington, Auckland, Melbourne and Sydney;
- Compuware dinners in Sydney and Brisbane, where we worked with leading wine expert Jeremy Oliver.

IQPC 4th Annual IT Governance Summit

The 2006 Summit is over and done, with substantial material delivered to delegates. We will provide a review of the main points in the July IT Governance Letter. However, two key points deserve an early mention:

Gartner Group's Mary-Anne Maxwell told the conference that the shifts in thinking on IT Governance are so profound that many organisations are likely to have to rebuild their IT Governance framework from scratch if they are to achieve appropriate levels of performance.

Michelle Kinnane, the Application Development Manager from the Australian Customs Service acknowledged the difficulties associated with the troublesome deployment of the Integrated Cargo System in October 2005, and noted that the governance model for the initiative was not right. Specifically, it left each entity to govern its own aspects of the change, but it failed to provide overarching control and never resolved the fragmentation inherent in attempting to implement change across an entire industry. Michelle referred to the need for "Seamless Governance". It's a topic that we consider worthy of extensive further discussion, and we will aim to explore it during coming months. We are delighted that Michelle has expressed interest in contributing directly to our discussion, and given its relevance to the research program that we are developing with RMIT University, we are pursuing arrangements to include Michelle on the research project's advisory board.

AFR Banktech.06

The 7th Annual Banking Technology Summit is scheduled for July 27 and 28, at Dockside in Sydney. Infonomics founder Mark Toomey will join a panel of experts during the conference, to discuss how better IT Governance and leveraging of standards can contribute to improved IT Governance.

Sponsors

Infonomics welcomes sponsorship enquiries. Our monthly IT Governance Letter is evolving in scope form, and circulation base. Our readers range from senior members of the company director community, through senior business and IT executives, consultants, project managers and business change agents. We have 681 names on our mailing list, and are expanding it rapidly as it is forwarded to interested parties. Our subscribers range from senior company directors through large company executives, consultants, business change agents and technology specialists.

To learn more about Corporate Governance of IT, or to gain a clearer view of what is happening with your organisation's IT, please contact Infonomics now. Email: info@infonomics.com.au Web: www.infonomics.com.au.

The IT Governance Letter is published monthly (except January) by Infonomics Pty Ltd.,

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