



The Infonomics IT Governance Letter

October 2005

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



Welcome to the Infonomics IT Governance Letter

Today's private and public sector enterprises are so dependent on Information and Communications Technologies, that should the IT go wrong, the enterprise and all of its stakeholders will suffer, at the very least, annoyance and inconvenience.

Directors, executives and managers are being told that they now share responsibility for the success of IT with the CIO. This message, adopted early by some, represents a profound change for many.

Infonomics publishes this IT Governance Letter to help people and organisations ensure that their use of IT is effective - that the risks of failure are minimised, and that their performance benefits from appropriate use of IT.

We are delighted to announce our first sponsor for the IT Governance Letter. Advent One designs and implements business and infrastructure solutions based on IBM software, infrastructure, services and financing options. Of particular interest is their new offering - IntellinX - Software that detects unauthorised and fraudulent data access.

This month, we have adopted a new style, in response to comments from our readers. While we've moved to a higher-tech approach for delivery via the internet, we've also resisted the temptation to go over the top. We hope that you find our approach to simplicity works for you.

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.

If you prefer to print and take away, we've also prepared this portable, printer-friendly version.

Mark Toomey

10th October 2005.

Headlines

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Fast and accurate responses to questions about security and privacy of sensitive information are important in a competitive world. They are also critical in handling the media and in adherence to privacy issues as well as an array of government and business regulations.

Following its overseas success, the IntellinX solution to these concerns is being introduced in Australia and New Zealand by Advent One Pty Ltd.

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Hardly a week goes by without reinforcement of the message that IT Governance is not an IT problem - it's a Governance problem, and therefore the collective responsibility of the executive management team and the board.

Since our September IT Governance Letter, KPMG has delivered its biennial survey of C-level executives, general managers, internal audit heads and program managers, which asks the question: "How committed are you?".

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IT Governance is not, of course, merely the domain of the board. The CIO plays a pivotal role. Just as the CFO develops and implements systems of control for, and is the organisation's focal point for



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the use and management of financial resources, so should the CIO be the focal point for the use and management of information and technology resources.

But also, just as the CFO does not, in isolation or unilaterally commit the organisations finances to any particular end, nor should the CIO be expected to develop the organisation's IT agenda in isolation.

There is plenty of discussion of the CIO's evolving role in the press, and in specialised journals. Here are a few that we've seen in the past month.

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Since the release of the Australian Standard for Corporate Governance of ICT, Infonomics has been assisting leading organisations understand the effectiveness of, and solve problems with their approach to planning and delivering IT capabilities required for top business performance.

This brief case study, also published in the October 2005 edition of Company Director, explains the findings of two companies.

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On September 20th, 2005, a packed meeting of IT Auditors and Managers attended a briefing on the Australian Standard for Corporate Governance of ICT (AS8015). During the session, participants briefly assessed the IT Governance performance of their own organisations, using 12 high level indicators of good governance performance. The results were unsurprising, but not at all encouraging.

Affordable help 12

Checking that your IT Governance is working need not be expensive. If you call in a major advisory firm, they might charge you a six digit sum to have a look and tell you what they should do next. A specialist like Infonomics will charge you much less, and tell you what YOU should do next. Our premier product – the AS8015 Alignment Diagnostic is unlikely to cost more than \$50,000 for even major listed organisations.

Survival 13

Global events continually remind us that humanity and its institutions are vulnerable. Things that are beyond our individual and collective control go wrong, leaving people and organisations helpless.

In this article, Infonomics associate and small-medium business specialist John Arkins discusses essential IT factors organisations should address if they are to be properly prepared for a disaster.

More press 15

We don't really need specialised research like that produced by KPMG or Gartner to know that there are many governance issues attached to the use of IT. We merely need to read the daily press.

Looking forward : Australian organisations are committing billions of dollars to new IT investments.

Good news: The popular press loves a bad news story. But there is good news out there as well and it's fair to say that at least some organisations are getting IT right, to the benefit of their stakeholders.

Disasters: Sadly though, the good news is offset by continuing tales of disasters small and large.

Warnings: As if investing in IT is not already fraught - there are new issues coming into focus. Organisations need to manage much more than just the projects that are supposed to deliver new capabilities and improved performance.

A live case study: The saga of Australia's new customs systems continues.

Email lessons: Electronic mail is an important business tool, and is increasingly the primary record of business transactions. The importance of email records was highlighted recently in a Sydney court...



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Our say: Our prize for this month was being quoted in Simon Sharwood's article "From basel to boardroom" in the October edition of MIS Australia. The article is discussed in The CIO View.

Technobabble 19

Language is a perennial problem in the effective use of IT by organisations. IT people use jargon that is not understood by their business counterparts. Sometimes, business people, attempting to bridge the gap, use IT jargon incorrectly. The result can often lead to tension, and may result in chaos.

Events 20

On 27 October, Infonomics will host a full day workshop to help organisations explore AS8015 in depth.

Our sponsors 20

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Advent One introduces IntellinX – Software that detects unauthorised and fraudulent data access.

Leaders in business and the public sector are increasingly concerned by their organization's inability to respond to simple requests. Some examples:

On leakage of sensitive information or on a privacy issue:

Exactly what information was accessed, by Whom, When, Why and how often? Can we prove it?

On loss of a member of staff to a major competitor:

By lunchtime, I need to know all the customer master records accessed or printed by X in the last six months. What was X doing with these records - authorised entries, browsing, printing or even deleting?

Fast and accurate responses to these questions are important in a competitive world. They are also critical in handling the media and in adherence to privacy issues as well as an array of government and business regulations.

Following its overseas success, the IntellinX solution to these concerns is being introduced in Australia and New Zealand by Advent One Pty Ltd.

- IntellinX provides extraordinary auditing and control capabilities for your systems without the risk and cost of programming changes.
- IntellinX is delivered on an appliance. It is non-invasive and does not require any changes in your applications, nor does it interfere with your existing systems and procedures.
- IntellinX can be immediately productive – literally "tomorrow".
- IntellinX cannot be bypassed. It can be likened to a camera recording every passage through a doorway.
- IntellinX records every transaction and when required will produce court admissible evidence for both recent and historical transactions.
- IntellinX allows internal auditors to visually replay all end-user's activity - screen by screen, keystroke by keystroke as if looking over the end-user's shoulder.
- IntellinX business rules detect user behavior patterns triggering instant alerts on exceptions allowing the internal auditor to zoom-in on specific suspects.

IntellinX will not directly stop inappropriate or fraudulent behavior, but:

- Advertising IntellinX presence makes it a significant deterrent.
- IntellinX alerts can trigger security procedures that can promptly terminate suspicious activities.

IntellinX is unique and patent applications have been made.

Following a short interview to confirm its relevance to your organization, IntellinX can be supplied to you for fuller evaluation on a no-obligation proof of concept basis.

For further information please contact Bob Bassat on 03 9626-2474 or rbassat@adventone.com or visit our website at www.adventone.com.au



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The main agenda

Hardly a week goes by without reinforcement of the message that IT Governance is not an IT problem - it's a Governance problem, and therefore the collective responsibility of the executive management team and the board.

KPMG "Global IT Project Management Survey"

Since our September IT Governance Letter, KPMG has delivered its biennial survey of C-level executives, general managers, internal audit heads and program managers, which asks the question: "How committed are you?".

On September 22nd, the Financial Review greeted the report with the heading "Boards falling into the IT Black Hole. The article said that chief executives and company boards have been blamed for technology project failures across all Australian industry sectors, and that Chief Information Officers were increasingly being made scapegoats when IT initiatives fail.

The 35 page KPMG report gives no new messages to those who understand that achieving success from investment in IT requires top level engagement and an absolute commitment to good IT Governance. The problem it presents is that far too few organisations achieve the necessary performance in engagement and governance. Yet, the practices it espouses are intuitively obvious, and any committed CEO or director could only be astounded at the fact that they are not done well in so many organisations.

While not referring explicitly to the Australian Standard for Corporate Governance of ICT, the KPMG report does contain a strong link to, and implicit endorsement of the standard, in its discussion of the question: "Why is governance important?". It says that governance is: "... the process of assessing, directing and monitoring...". The standard exhorts directors to "evaluate, direct and monitor". KPMG also mirrors AS8015 by stating that effective project governance needs to be an integral part of each organisation's overall governance framework.

Infonomics recommends that all readers of The IT Governance Letter should read the KPMG report, which is freely available from the KPMG web site. Inside the report, you will find straight-forward statements of lessons most organisations need to heed, including:

- Project governance practices today tend to focus on the initiation of projects, but frequently fail to monitor projects that are under way. As a result, projects that go off track are not detected.
- Good IT Governance requires "a collective and systematic approach".
- The Asia Pacific region is performing on a par with the rest of the world, with "much room for improvement".
- Appropriately, project success is increasingly judged on achievement of intended outcomes, rather than performance against time and budget. But this raises new concerns, with intended outcomes being poorly defined and with little or no sophistication in measurement of actual outcomes delivered.
- Most new projects are driven by factors such as product and business process, where success or failure can have profound performance implications. It is increasingly clear that IT project failures have a "top line" impact.
- The key questions to be asked in an IT Governance context do not relate to the technology matters.
- Barely 40% of organisations consider the organisational implications of IT initiatives when developing investment business cases. An astounding 31% do not always define financial benefits.

At these statistics, some may feel a warming glow - that they are not among those organisations that fail to attend to essential matters in the business case. This glow may be tempered by KPMG's further statistics:



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- Only 2% of organisations claim to always achieve targeted benefits.
- 21% of executives and 51% of boards have little or no awareness of project benefits and risk.
- Only 20% of organisations have formal criteria for cancelling or suspending problem projects.

KPMG also noted that many organisations do not have technology based tools to support their IT Governance. They recommended strongly that organisations considering an IT Governance tool implement the system in the context of a full governance program, and that the relevant business processes be properly aligned to the governance model. They reiterated that the governance system should extend to the boardroom, with directors monitoring delivery of benefits as well as signing off on approvals. To this end, a key purpose of a governance tool is to ensure that the board has relevant, accurate and timely information about all projects.

CPA's repeat the message

The October issue of CPA Australia's journal "INTHEBLACK" discusses what it takes to be an effective director in "Directors wake up to business". Interleaved with discussion of the burdens placed on directors by the many pressures from national and international law reforms, the author argues that IT Governance is a natural extension of what company boards already do - putting technology matters in the same context as financial ones.

After discussing some recent legal proceedings, the CPA article says that the best defence for directors is due diligence - including checking that appropriate management systems are in place, and that reporting to the board is efficient.



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The CIO view

IT Governance is not, of course, merely the domain of the board. The CIO plays a pivotal role. Just as the CFO develops and implements systems of control for, and is the organisation's focal point for the use and management of financial resources, so should the CIO be the focal point for the use and management of information and technology resources.

But also, just as the CFO does not, in isolation or unilaterally commit the organisations finances to any particular end, nor should the CIO be expected to develop the organisation's IT agenda in isolation.

There is plenty of discussion of the CIO's evolving role in the press, and in specialised journals. Here are a few that we've seen in the past month.

Getting Buy-In

CIO Magazine's Sue Bushell says in her article that smart CIOs and business sponsors know that buy-in involves engagement of the people who are affected by an IT initiative. The article goes some way to explaining one of the common causes of failure, as discussed in the KPMG reports discussed in The main agenda. Bushell focuses the article on CIO's, but the messages are widely applicable. When planning to make a change, put in an up front effort to bring those affected on board with the proposition, and then work to keep them committed to its success.

Ending sorry situations

MIS Magazine's James Thomson explains that sometimes it is necessary to put problem projects out of their misery in "Killing IT Softly". We don't agree with Thomson's assertion that killing IT projects is a CIO's job - we think it more of a collective responsibility of those involved in the IT Governance processes. But once we are over that, Thomson makes a number of good points about how and why projects fail, and the imperative for detecting and eliminating those that cannot possibly deliver valuable outcomes. The article continues with discussion of what to do after projects have been terminated. It's all good common sense - with the key messages being that proper planning is the first step in avoiding failure, and that effective ongoing monitoring is equally important.

CIO's to the boardroom

In a brief piece in the Financial Review on 29 September, Agnes King reported on comments from KPMG's global leader in information and risk management, regarding the trend for CIOs to be reporting through financial controllers. The comments from Egidio Zarella went on to say that the shortage of boardroom "tech savvy" should be a top concern for business.

Meanwhile, in the cover story in the October edition of MIS Magazine, Simon Sharwood points out that CIO's should be well positioned to take on extended roles in corporate governance, and should regularly appear in the boardroom. Sharwood's article does not distinguish between the executive and non-executive elements of the board when it suggests that CIO's should take a seat at the board table - but it does argue strongly that the CIO should be peer to the other C-level roles, which means that the CIO should be expected to participate in the organisations key decision and control processes.

This approach will ensure that CIOs are exposed to a wider range of matters and will develop a greater level of business savvy - giving them vital insight and potentially, credentials for future non-executive board roles. Sharwood also puts the view that CIO's may be good candidates for Chief Governance Officer roles, because they have extensive hands-on experience with numerous governance tasks anyway.

Case Experience

ICT Governance assessments reduce risk and improve performance.

Since the release of the Australian Standard for Corporate Governance of ICT, Infonomics has been assisting leading organisations understand the effectiveness of, and solve problems with their approach to planning and delivering IT capabilities required for top business performance.

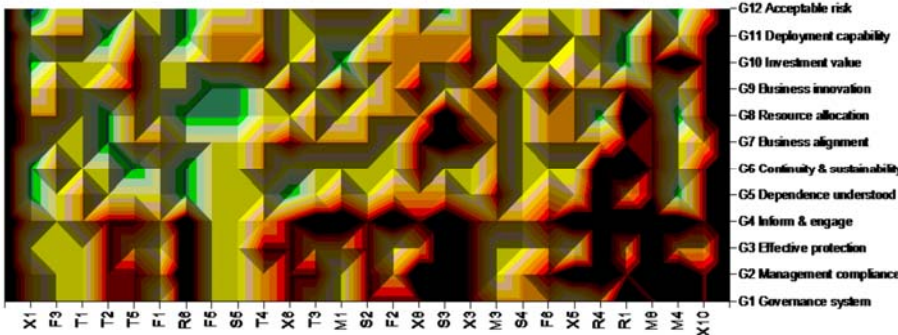
This brief case study, also published in the October 2005 edition of Company Director, explains the findings of two companies.

The risk of failure in ICT projects and ICT operations is a significant ongoing issue. Some organisations govern ICT well, and benefit with superior business performance. Others hope that they have the formula for success, and pay dearly for not being sure. Now, organisations can improve their prospects for ICT success by assessing their ICT Governance against the new Australian Standard for Corporate Governance of Information and Communication Technology – AS8015.

Two organisations described here perform well overall – yet each was experiencing ICT problems. Operational problems were a board concern for one. The other’s executives were frustrated by lack of progress on ICT dependent business initiatives.

Infonomics used rigorous tools to test how existing ICT Governance practices align to the standard. The repeatable process builds on years of top level ICT Governance advisory experience, and hands-on involvement of Infonomics Principal Mark Toomey on the AS8015 committee, as AICD representative. It collects senior management views on 84 points of governance, and generates eight

easily understood Alignment Indices.

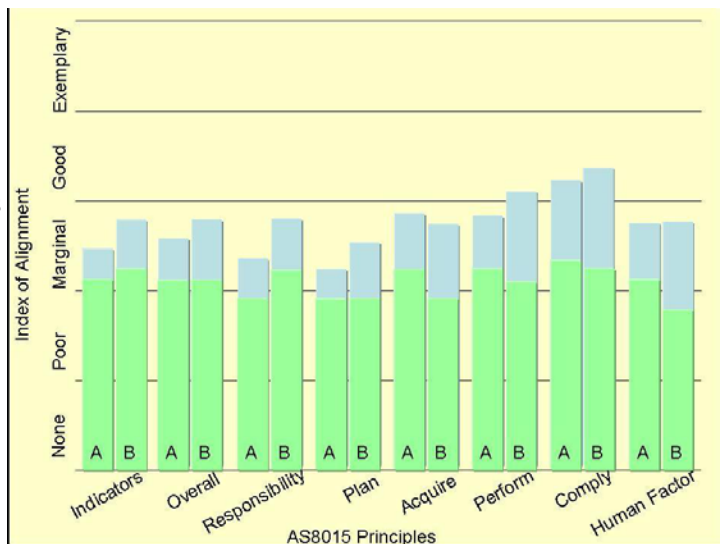


Both organisations exhibited weak ICT governance and marginal alignment to AS8015 principles. The detailed data explained the underlying reasons, leading to straight-forward adjustments to improve alignment and performance. Detailed charts (left) showed areas of concern, and black holes

where people could not describe how ICT was controlled.

The summary chart (right) compares the alignment indices for the two organisations. Green bars show standard results. Blue bars exclude “don’t know” responses. Too many “don’t knows” indicate that many senior managers who depend on ICT don’t engage in its control.

Indicators measures 12 high level indicators of ICT Governance. The result matches the Overall index across the six principles. Neither organisation had clear and appropriate assignment of Responsibility for ICT. Business leaders should define the use of ICT in pursuit of corporate objectives. Very low scores for Plan further reflected that planning for ICT was not being driven by clearly defined business intent.





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Low scores for *Acquire* also reflect weak business engagement in significant ICT decisions, inadequate monitoring of approved investments and poor management of established ICT assets.

Slightly better *Perform* scores are typical of ICT teams having autonomy in technical and operational matters. These scores reflect failure to plan ahead, with ICT teams stretched and unable to service the demand. Technical capabilities also underpin stronger scores in *Conform*, where rules are set and observed. Improvement could be made in change control, policy promulgation, legal compliance and professional standards.

Failure to understand *Human Factors* and the diverse issues of change management contributes to many ICT project disasters. Modern business systems touch on all personnel, and extend to customers and suppliers. Attention to *Human Factors* is critical, yet these scores suggest scant regard to the issues.

The results are consistent with lessons from various recent ICT failures. Organisations should govern ICT as a tool of business, driving the ICT agenda from the top as part of the business agenda. These organisations have moved toward this model and are reporting improvement.

Many organisations could reduce risk and improve performance in their use of ICT by understanding and observing the principles set out in AS8015.

IT Auditors identify AS8015 alignment problems

On September 20th, 2005, a packed meeting of IT Auditors and Managers attended a briefing on the Australian Standard for Corporate Governance of ICT (AS8015). With more than 60 attendees, the audience was more than double the normal turnout, reflecting the strong interest that is being taken in IT Governance by IT and governance professionals alike.

During the session, participants briefly assessed the IT Governance performance of their own organisations, using 12 high level indicators of good governance performance. The indicators, which reflect behaviour and performance, are:

- G1 You have a system for governance of ICT.
- G2 Everybody understands and complies.
- G3 It protects you from ICT failures in operations and projects.
- G4 It keeps management and directors properly informed of ICT status.
- G5 Ongoing business dependence on ICT is well understood.
- G6 ICT adequately protects business continuity and sustainability.
- G7 ICT capability matches business needs and forward plans.
- G8 ICT resource allocation matches the needs of the organisation.
- G9 Use of ICT balances business innovation against risk.
- G10 ICT investments deliver results as per a formal business case.
- G11 Demonstrated capability to deploy ICT initiatives matches aspiration.
- G12 The business risk of serious ICT failure is understood and managed.

The indicators were ranked on a simple scale that translates into colours on the charts:

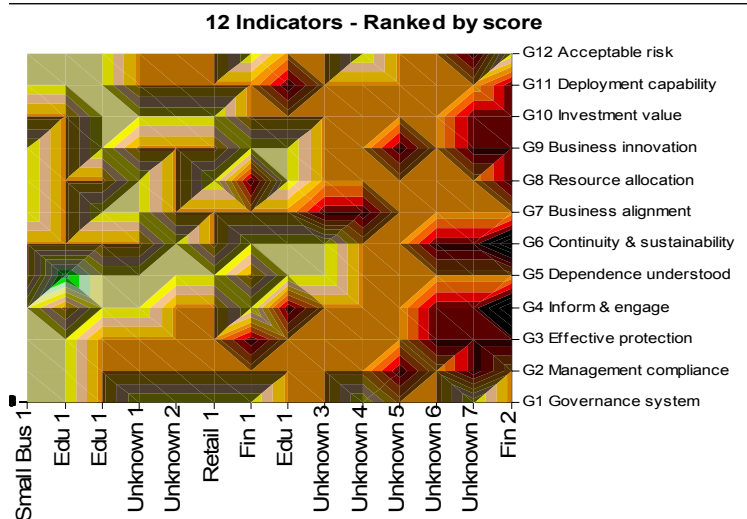
- 4 - ■ "Absolutely!" (Very well).
- 3 - ■ "Yes..." (Reasonably well)
- 2 - ■ "Sort of" (A little)
- 1 - ■ "No" (Definitely not)
- 0 - ■ "huh?" (The organisation generally does not understand this concept)

The 14 complete responses give some insight into IT Governance effectiveness in 12 small, large and very large organisations. The limited response may indicate that some attendees were shy, or embarrassed by their own assessments. It may also mean that some IT auditors are using the self-assessment sheets to raise alarms within their organisations.

A Common Story

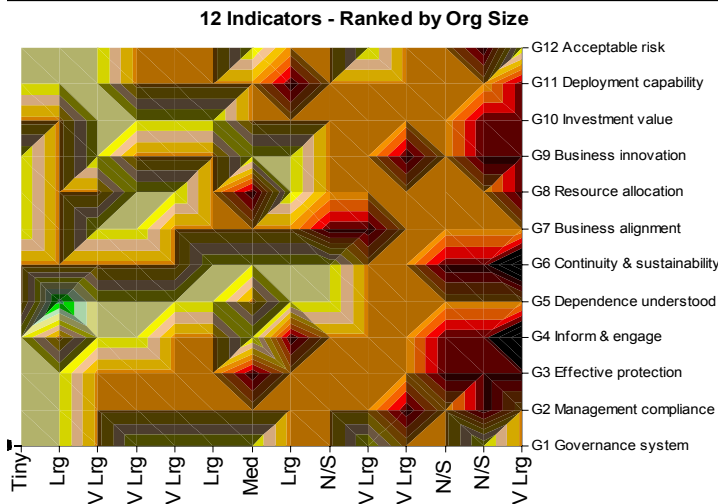
History shows that many IT initiatives are technically successful, but fail to deliver business outcomes. A majority of clearly identified ICT project failures are attributed to problems with business engagement and strategic alignment.

The responses map at left ranks performance from best (left) to worst (right). Its design provides a 3 dimensional profile where lower scores appear as peaks and ridges, while strong scores appear as valleys. The common themes of ICT project failure clearly stand out. Most ranked management compliance (G2), deployment capability (G11) and business



alignment (G7) as areas of weakness. Significantly, most governance systems were seen as ineffective in avoiding failure (G3)!

Size makes little difference

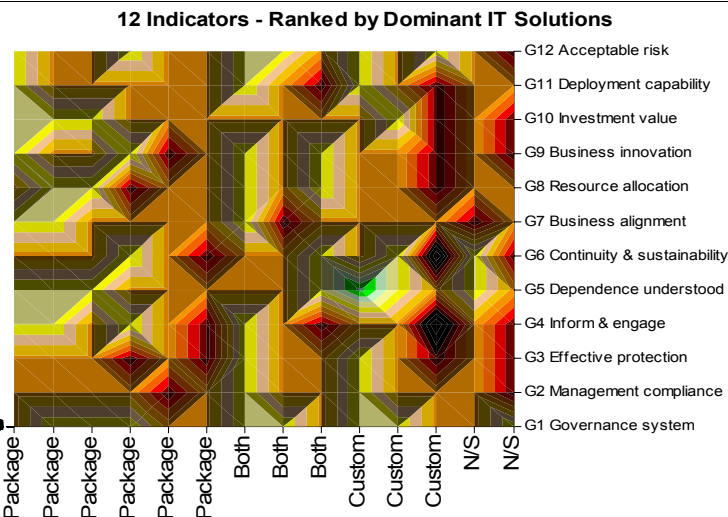


Small organisations have few managers, and the managers are generally across most of what's happening. This enables informal governance approaches to be successful. However, even small organisations experience limitations when it comes to maintaining operations.

There was diversity of scoring across the rest of the sample, indicating that size of an organisation probably has little to do with its IT Governance performance. Notice how some organisations appear to have uneven performance – good in some areas, not so good in others – while others exhibit uniformly poor performance. See also that weakness in informing and engaging of managers in the IT

Governance process (G4) tends to be most closely associated with organisations that have generally poor ratings across all the indicators.

Do packaged systems link to reduced engagement?



In this chart the data is clustered according to whether the dominant business systems are packages, custom solutions, or a combination of the two. Some interesting observations emerge.

Package users consistently reported weak results for Management Compliance(G2) and Effective Protection (G3). Does this mean that when packages are selected, business managers abdicate and "leave it to IT"? Does it mean that too many of the package implementations have been troublesome, and is there a correlation? Perhaps better governance engagement when packages are used will result in fewer problems. Weakness in deployment capability (G11) is also a

feature of package users (though not exclusively). Perhaps this reinforces the view that better governance might deliver higher success levels.

What is your situation?

The results of this mini-survey are not unusual. Relatively few organisations can claim persistent long term success with ICT – and poor governance is a hallmark of failures. If you honestly assess your organisation with the 12 indicators, where will you rank? If you can't score a solid 36 of the possible 48 points, you may have an unacceptable risk, and you should consider a more formal assessment of your IT Governance performance.



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Affordable Help:

IT Governance Assessments are cheaper than you might imagine

There are compelling messages that organisations must improve their top level governance of IT. The payback is intuitively obvious – reduced risk and improved business performance, with no adverse publicity – all of which contribute to higher profits and better share prices. The benefits are not hypothetical – there is solid academic research by leading researchers such as Peter Weill and Raymond Young that demonstrate conclusively – investment in good ICT Governance creates economic value.

Have most organisations already got good IT Governance? Many would like to think so, but the frequency of significant problems in both operations and projects says that few have it working well. Infonomics hands-on experience of organisations we have assessed indicates that there are substantial opportunities for improvement, and that the major improvements are not actually all that difficult to put in place.

Checking that your IT Governance is working need not be expensive. If you call in a major advisory firm, they might charge you a six digit sum to have a look and tell you what they should do next. A specialist like Infonomics will charge you much less, and tell you what YOU should do next. Our premier product – the AS8015 Alignment Diagnostic is unlikely to cost more than \$50,000 for even major listed organisations.

To promote higher performance in Australian organisations, and success in the way that they use IT, Infonomics is reducing the prices by 10%, for work that is booked 10 October to 30 November 2005. These reduced prices are only available to readers of "The IT Governance Letter" and must be claimed when the engagement is booked.

- The **AS8015 Alignment Diagnostic** gives you an 84 point assessment of the performance and effectiveness of your IT Governance model, and informs your senior people about what is important. A typical IT Governance Assessment with input from 20 senior people and perusal of key planning and control documents would normally cost \$40,250. The special price is just \$36,225.
- The **ICT Investment Business Case Assessment** helps you check that your proposed investments in ICT make sense. A typical ICT Investment Business Case Assessment with input from 12 senior people and perusal of key business case documents would normally cost \$32,800. The special price is just \$29,520.
- The **ICT Investment Project Assessment** helps you confirm that projects remain on track, with good prospects of delivering business value. A typical assessment takes input from 12 stakeholders, and peruses a wide range of project outputs. This service would typically cost \$36,000. The special price is only \$32,400.
- The day long **IT Governance seminar** helps your senior business and IT people develop shared understanding of what is important in making sure that the use of ICT supports the business and delivers value with appropriate levels of risk. Past participants have applauded the way the seminar takes the mystery out of IT for business managers, and gives them a new framework for their engagement in the IT process. Normally \$8,800, the seminar is now offered for just \$7,920, for up to 15 participants.

To qualify for our special offer, participating organisations will need to provide a firm order by close of business on 30 November 2005, with the engagement to be completed by 30 June 2006. This offer is open to all readers of "The Infonomics IT Governance Letter", including those who are reading forwarded copies. Final pricing is dependent on the exact dimensions of the engagement, and will be calculated using our pricing schedule which is available on request.



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Survival

Global events continually remind us that humanity and its institutions are vulnerable. Things that are beyond our individual and collective control go wrong, leaving people and organisations helpless.

In this article, Infonomics associate and small-medium business specialist John Arkins discusses essential IT factors organisations should address if they are to be properly prepared for a disaster. He asks:

- What would you do if your company had a “Katrina” disaster?
- Would you know if your company could survive a disaster?

What is a disaster?

Operational risk is a fact of life for every organisation. Sources of risk are diverse and more likely to be internal than external. Organisations that identify and manage risk are less likely to suffer severe damage from unexpected events. But not all risks can be entirely eliminated, and it is what happens after an uncontrolled risk strikes that can mark the difference between survival and oblivion.

A disaster is any incident that causes unacceptable interruption to normal business operations. What constitutes unacceptable is very much dependent on the nature of the organisation’s activities and the expectations of its stakeholders.

Disasters can be of all sizes. It might be that there is no power. It might be that a building has burnt down. It might be that IT cannot operate – or a critical information system is operating incorrectly, losing vital data, or producing seriously incorrect results. It might be that there are no phones. It might be a rumour that there is a problem with the business. In all of these disaster scenarios, the appropriate management response will determine whether an organisation survives.

Chance of recovery from a disaster

Consider some statistics of what happens when a disaster occurs. Research over a number of incidents on a worldwide basis shows that after a disaster, of the businesses affected, approximately 60% do not open their doors again. Of the remaining 40%, only a quarter were still in business a year later. So what does this say?

90% of those companies did not have an adequate plan to cope with a disaster.

A common error is that as management and staff become consumed with working out how to get back into operation, they forget that their customers are still wondering what is going to happen to them and whether or not they will be assured of ongoing supply.

By way of comparison, consider the direction given by Claude Lombard, after the Lombard Papers Head Office and Warehouse in Melbourne was destroyed by fire. He said to his workers: “Go and do your job, sales - call on your customers, purchasing officer – go and purchase stock, delivery drivers – get your trucks ready to deliver stock” This profoundly simple approach gave customers confidence that the business was continuing and that they were being looked after. This happened within 24 hours of the disaster, and successfully blocked competitors which were already trying to woo Lombard’s customers away. Having shown that they were still in business Lombard’s were able to retain all of their customers and thus continue in business.

What is the likelihood of a problem

The latest information on the types of problems to hit organisations comes from the United Kingdom and covers the year 2004. The likelihood of experiencing a problem is shown in the table below.

Source of risk	Likelihood	Source of risk	Likelihood
IT and networks	41%	Flood	18%
People (staff etc)	28%	Health & safety	19%
Telecommunications	25%	Legal & publicity including rumours	17%
Skills of staff	20%	Terrorist	2%



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New research of risks in Australia is being initiated through Monash University. It will be instructive to see of this research changes our understanding of key risks.

How much do you know of your capability?

Most organisations should have adequate lines of defence against many forms of disaster, such that things don't go wrong, and business operations are not interrupted. But preventative measures cannot prevent all disasters.

The continuity of the business is directly related to it's ability to withstand an uncontrolled and unexpected event. Clearly, survival depends on the plans that the business has to cope with an interruption.

What do you know about your organisation's ability to recover from a problem? There are several straight-forward questions business owners, directors and executives should ask about their organisations preparedness for disaster:

- What are the plans for solving and surviving various types of problem?
- Do the plans address the problems that are most likely to occur?
- When were they last tested and how was the test conducted?
- What are the success criteria for tests of the survival plans? Which ones are too soft, and which ones are not being met?

Airline pilots train in simulators where instructors concoct disastrous situations without warning, to build skill and capability that may be needed in a real emergency. Does your organisation apply similar rigour when practicing for a disaster? Or are all the tests carefully orchestrated, with plenty of forewarning, everything in place, no key people missing, and thus not representative of the real things that may happen?

Knowing what your business needs and what it has in its capability to deal with these problems is an essential element of diligent governance

What should you do now?

AS8015 tells us that for good IT Governance, we should ensure that our ICT performs well, whenever required. So, directors should ask relevant questions about whether their organisation has given adequate attention to business continuity and disaster recovery.

Ask the questions above. Are the responses satisfactory? If not, ask more questions, and establish a minimum standards that needs to be achieved with regard to the clarity of preparation for a disaster.

Small/Medium business owners and directors may need to address the issue in a more hands-on fashion:

- What factors could cripple your business?
- Which ones can you control with preventative measures?
- Which ones that can't be controlled have a probability that warrants investment in survival measures?
- Are your survival plans up to date and properly tested?
- When a disaster occurs, who is in charge?
- How is the recovery plan triggered?

And if it all seems too much and you don't know the answers, get help from Infonomics or another competent advisor, to determine where you are and where you want to be.



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More press

We don't really need specialised research like that produced by KPMG or Gartner to know that there are many governance issues attached to the use of IT. We merely need to read the daily press.

Infonomics resources are limited - we have access only to two newspapers, and several regular news emails. But that gives us a pretty fair idea of what's happening across Australia. The news collection for this month reflects a pretty normal pattern - with one exception - the volume is increasing.

This section of our IT Governance Letter does not attempt to cover all the bases, or analyse all the stories. But we are interested in the trends and the areas where the journalists focus.

We've organised the summary into themes which we hope you will find useful.

Looking forward

Australian organisations are committing billions of dollars to new IT investments. Announcements over the past month include:

- National Australia Bank will overhaul much of its core systems portfolio as part of a \$1.8billion investment in revitalising its Australian banking division (Australian IT, 28 September);
- Coles Myer revealed a 3 year program to spend up to \$600m on new technology (Financial Review, 23 September);
- The Department of Immigration, Multiculturalism and Indigenous Affairs launched a \$600m program as part of its process improvements (Computerworld, 20 September).
- Telstra may invest up to \$700m to sort out its present mess of 150 billing, CRM and related systems (Australian IT, 27 September).
- DaimlerChrysler will invest more than \$5m to overhaul its "sprawling supply chain system" (Financial Review, 28 September).

This is probably the tip of the iceberg. We wonder how many of the initiatives launched last month will deliver 100% of their forecast benefits. Will it be better than the 2% identified in KPMG's report? Will we even get above the 50% that deliver at least some benefit?

Infonomics urges executives and directors to check their IT Governance, and make sure that they have the means to properly monitor what is happening as new IT enabled investments move forward.

Good news

The popular press loves a bad news story. But there is good news out there as well and it's fair to say that at least some organisations are getting IT right, to the benefit of their stakeholders. This month we encountered several positive stories...

Governance Pays Off: In a September 14 press release, Hyperion reported the results of an IDC study entitled "The Compliance Chasm". Hyperion's key point is that 88% of respondents to a survey said that compliance with Sarbanes-Oxley legislation resulted in improved business performance. This result was attributed to the fact that compliance requires a greater understanding of how the business operates, and opens up opportunities for improvement. The investment in compliance then carries a positive outcome that has bottom line benefit.

The Australian Local Government Association (ALGA) submitted a draft of its Better Rural Services report to the federal government. The report apparently presents a vision of effective ICT use by local government and adds to the pressure for Australia to adopt a national approach to planning its future communications infrastructure. See ICT Key to Better Services: ALGA in CIO Magazine for the story and nine key principles for e-government.



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Last month we referred to Cabcharge having achieved significant business performance through an apparently well managed program of ICT innovation. In the Financial Review of October 5, there is further discussion of how Cabcharge is now taking advantage of its capabilities to launch itself into the electronic payments market. Clearly, some organisations take a long term view, and reap sound rewards from a well governed approach to ICT investment.

And BHP Billiton is reported to have gained "unprecedented visibility of procurement in its operations throughout the world" (Financial Review, 12 September).

Disasters

Sadly though, the good news is offset by continuing tales of disasters small and large.

In April 2004, Computerworld writer Sandra Rossi said "If madness is repeating the same mistake over and over in the hope of achieving a different outcome, then we are all in trouble". Then she was reporting on Centrelink's Edge Project - where \$64m was written off on a system to process family payment claims. The project had commenced in 1997, and had survived at least one recommendation that it be terminated.

Well, there is plenty of evidence that business does not learn from experience when it comes to IT. Here are some recent examples.

BMW introduced radical technology some years ago in its 7 series luxury cars, and owners were left flummoxed as they struggled to perform simple tasks like tuning the radio. Now, on October 4, The Australian reported that the latest models have had their on-board internet links disabled by a software upgrade.

Commonwealth Bank of Australia has a problem in its outsourcing agreement with EDS, and is embroiled in a \$20m dispute over who should pay for technology upgrades, according to an article in the Financial Review on September 19.

NSW Health has been mentioned in despatches on numerous occasions, with a new senior executive to take over after 12 months without a permanent CIO.

Queensland Health also stepped into the limelight, with announcements that two major projects had been terminated 6 years after they commenced. The article in the Financial Review on October 5 also says that NSW Health's CIS upgrade is "all but stalled" and Victoria's HealthSmart initiative is "facing delays and infighting".

On a broader front, the Productivity Commission "delivered a scathing report card on the nation's health IT projects" according to The Australian on 27 September. The federal HealthConnect initiative joined the New South Wales, Queensland and Victorian initiatives. Regarding HealthConnect, the report refers to "7 years of R&D and 30 independent evaluation reports", with many unresolved issues remaining.

Warnings

As if investing in IT is not already fraught - there are new issues coming into focus. Organisations need to manage much more than just the projects that are supposed to deliver new capabilities and improved performance.

In "So long, boomers" in Computerworld on October 6, Frank Hayes reminds us that many of the senior people in IT around the world are members of the baby-boomer generation - and they are on the verge of retirement. As they leave work, they will take away accumulated knowledge and wisdom, and in some cases, the only source of information about how critical systems work. Suddenly, succession planning is on the agenda for IT.

Technologists tend to engage in intense debate about the pros and cons of technology, trying to pick winners. It happened with video cassette recorders (remember the VHS vs. Betamax wars), it



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happened with mainframe vs. mini/mid-range vs. PC, and it's still happening. "Linux misses Windows of opportunity" in The Age Next section on 27 September, provides an interesting perspective on the distinctions between the non proprietary "open source" Linux server software and the proprietary Microsoft equivalent.

On 14 September, New Scientist alerted us to emerging capabilities of camera phones, which can operate as high precision scanners. While there can be many legitimate uses for such technology, New Scientist points out that such devices could also be used to defeat copyright rules on a similar scale to the current issues surrounding music copyright.

Computerworld's Sandra Rossi reminded us on 27 September that many problems with technology are actually people problems. In "Document integrity still at the mercy of human error", she says that securing information cannot be left just to the IT department - that a culture of security and compliance needs to be developed in organisations. This message has been reinforced by recent breaches in the Victorian Police LEAP system, where confidential information was exposed because used printouts were being used as scrap paper, rather than being destroyed when no longer required.

Michael Crawford's CIO Magazine article entitled "Teleworkers tire of being always-on" outlines the Sensis Consumer Report, which cautions that teleworking does have a downside, with excessive hours being one negative outcome.

Alex, that indefatigable city banker who stars in a comic strip in the Financial Review delivers some interesting cautions. On 19 September, he told us how our approach to handling incoming email can give clues to our working patterns. A day later, he told us that technology alone doesn't change human behaviour, with instant messaging becoming a tool of choice for gossipers who don't want to be overheard by the wrong people. In another recent strip, he notes how easy it has become to steal sensitive information by use of a PDA.

Gregg Keizer writes in iTnews.com.au that "Password overload makes enterprise systems less secure". He reports on a major security survey which found that corporate workers have to remember and juggle too many passwords, and use risky practices in their attempts to keep passwords under control.

John Huxley opens up another emerging technology problem in "The digital dark age" in the Sydney Morning Herald on September 27. He notes that information stored in digital formats and media can often only be retrieved by equipment that is designed to handle those formats and media. He ponders a future scenario where, for example, there is no such thing as a "CD drive" and precious information stored on CD is irretrievable.

A live case study

The saga of Australia's new customs systems continues. We have seen many references to this initiative over the past year or more, with budget and time overruns. More recently, it seems that the rollout of the new cargo system is being hampered by resistance from the industry to which it applies. In "Customs issues blunt warning over cargo system", Computerworld's Julian Bajkowski tells us that the old system is being shut down on October 12, and that users must be ready. It appears from the article that there are two areas of contention. One is distrust of the new system's stability and performance. The other is resistance to change - in that the new system enables business to deal directly with Customs, rather than having to use intermediaries.

It will be interesting to see what happens this week, as the system goes into full production.

Email lessons

Electronic mail is an important business tool, and is increasingly the primary record of business transactions. Broadly speaking, companies are required by law to retain records of business transactions, and thus must retain records of emails. The importance of email records was



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highlighted recently in a Sydney court, where emails between Pan Pharmaceuticals executives were tendered at the committal hearing for Pan's former boss, Jim Selim. An article in the Financial Review on September 23 makes it clear that the content of emails can be significant in a legal setting.

And in a more entertaining, but in some ways sad case, the story of two legal secretaries made a flurry of news in September. The ladies engaged in a war of words using emails, which were then circulated widely. Eventually, they both lost their jobs - apparently for misuse of the company's email system and failing to follow proper guidelines. Interestingly, this wasn't a case of monitoring that caught the errant employee - but rather a case of indiscrete use of the copy and broadcast features of all email systems.

Our say

We're becoming shameless about getting into the press. It's important for Infonomics' profile, and it's important that strong and effective messages about the need for good IT Governance are in the field constantly.

Our prize for this month was being quoted in Simon Sharwood's article "From basel to boardroom" in the October edition of MIS Australia. The article is discussed in The CIO View.

In discussing the prospect of CIO's becoming Chief Governance Officers (CGO), we warned against expecting the CIO to take on total responsibility for knowing the organisations entire set of governance and compliance obligations.

Specifically, we said: "The CIO has long been the central point of focus for delivering the systems that automate an organisation's processes. But if you make the CIO responsible for defining the business you are on the path to oblivion. The people who define the business are the managers who implement board policy. If you abdicate that to the CIO, the managers have nothing to do and the CIO is on a hiding to nothing."

A misapprehension many organisations suffer, and many commentators reinforce, is that the CIO should have primary responsibility for defining what IT capabilities an organisation will have. These CIOs are often put in a situation where they are pressing IT change against a resistant community, and where they are not properly informed of the decisions the organisation is making.

Our view is that the CIO is a vital member of the executive team, and that the executive team is the place where all significant IT plans should have their foundation. The CIO brings to the team understanding of the capabilities of IT - that currently in use and that that is available in the market. Other executives bring understanding of business conditions and directions, and jointly they should develop strategies for the pragmatic and appropriate use of IT in support of the organisation.

We often illustrate good practice in governance of IT with analogies from other management and governance disciplines, and industries. When considering who should be preparing plans and making decisions about IT investments, we might consider the approach taken by a major airline to acquiring a new fleet of aircraft. Who makes the decision? The chief pilot, representing the pilots who would like to have a high performance aircraft? The head of engineering, who wants to attract the best maintenance personnel by having technologically advanced aircraft? Or is it the marketing team which wants to open up new destinations and attract thousands of new passengers? Of course, it's a carefully developed team decision, where compromise is made and corporate values and agenda take precedence over personal preferences. And the decision process typically goes much further than just selecting the aircraft. A new fleet - particularly for airlines choosing the Airbus 380 super-jumbo - has many consequences, all of which must be factored into the business case. These have included new systems and procedures at the terminals, widening and strengthening of runways, and an array of other supporting adjustments to the airline's operations. Do we take such care when we consider IT investments? Sadly, the evidence is that it doesn't happen nearly as often as it should!



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Technobabble

Language is a perennial problem in the effective use of IT by organisations. IT people use jargon that is not understood by their business counterparts. Sometimes, business people, attempting to bridge the gap, use IT jargon incorrectly. The result can often lead to tension, and may result in chaos.

Infonomics tag-line makes clear reference to plain language. We believe that plain language is vital in every aspect of IT. Even when very complex technical issues are being discussed, it's important to step back and ensure that all stakeholders are actually comprehending what's happening. And since business is normally the purpose of IT, and the stakeholders are predominantly business stakeholders, by and large this means that the correct language for discussion of IT is business language.

We often come across technobabble. Technobabble is a condition that occurs when people speak about technology in their own terms, oblivious to the reality that the audience just doesn't have a clue about what is being said. Wherever we can, we seek to re-present technobabble in business language.

An article in Computerworld recently caught our eye. In "IT cheat sheet for CEOs", a retired CIO with 40 years experience in IT provides a script for new CEOs wanting to understand and make sure that their IT is up to scratch. While it's not a bad list, we thought it failed the technobabble test in some places - such as its discussion of Disaster Recovery. Consider some examples from the article:

Technobabble	Plain business speak
What are our plans should a disaster such as a fire or flood incapacitate one of our facilities? <ul style="list-style-type: none">- Do we rely on a "hot" backup facility, or are we expecting to use one of our other facilities?- Is the plan tested on a regular basis? If so, what have been the results?- Please explain our current file backup and off-site retention policy.	How long can our business survive if our IT systems are not available? What arrangements are in place to ensure our survival? What type of incidents are not adequately covered and should we be doing anything extra in these areas? What conclusive proof exists that we can continue full business operations in the event of a disaster situation emerging?

One of the problems with the questions Computerworld poses is their narrowness. By focusing on the "data centre" in the preceding question, the disaster recovery topic is constrained to consider equipment in data centres. In modern reality, organisations depend on vastly more than mere data centres for their ongoing operational capability, and a broader, more business oriented question is important.

Most of us encounter technobabble on a daily basis. Why not share some gems with us? We'll publish them (anonymously of course) and attempt to re-present them in plain business language.



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Events

Twenty-four business leaders and post-graduate students attended Macquarie University's mini-conference "Beyond Compliance: The Governance of ICT Projects" on Saturday 24 September. One firm, soon to embark on a major IT investment, brought the CIO, CEO and a specialist board consultant to hear how they might increase their chances of success with effective governance of the project.

AS8015 Briefings

Corporate Information Systems Pty Ltd is hosting a breakfast for its customers on October 25th. Mark Toomey will provide the content, in the form of a briefing on the application of the Australian Standard for Corporate Governance of ICT. For information, contact Jade Palmer at CIS.

On December 5th, Mark Toomey will brief members of the Australian Computer Society IT Quality SIG, again expanding on the key messages of AS8015.

AS8015 Workshop

On 27 October, Infonomics will host a full day workshop to help organisations explore AS8015 in depth. The workshop will explore the scope and meaning of the six principles of good IT governance set out in AS8015, with extensive opportunity for discussion of each. Participants will learn about the factors that are tested in the Infonomics AS8015 Alignment Diagnostic, and will be better equipped to discuss the relevance of AS8015 to their own organisations.

This workshop is for business executives, CIOs, senior IT managers and consultants in small, medium and large organisations. It will be conducted in a convenient suburban location. Cost will be \$880 inclusive of GST, refreshments and lunch. To participate, please email Infonomics now.

Our sponsors

We are delighted to announce our first sponsor for the IT Governance Letter. Advent One designs and implements business and infrastructure solutions based on IBM software, infrastructure, services and financing options. Of particular interest is their new offering - IntellinX - Software that detects unauthorised and fraudulent data access.

Infonomics welcomes sponsorship enquiries. Our monthly IT Governance Letter is evolving in scope and form, and its 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.

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.

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