



Talking about Governance

Hello and welcome to The Infonomics Letter for March and April 2012. This is one of the rare cases where circumstances force a combined edition.

Some months ago, the Australian Institute of Company Directors embraced the online world through adoption of an established LinkedIn Group, which now has over 7,400 members. That's a substantial percentage of the overall membership, and the group engages in wide ranging and lively discussion. More recently, after triggering vigorous response to a question about ongoing engagement in the development of standards for governance and management of IT, AICD created a subgroup – the "Company Directors' IT Governance Community".

My initial reaction to the new subgroup was one of despair – it looked like the IT topic was being pushed outside the mainstream of boardroom discussion again. But a rapid rise in membership to the current 315 indicated that I may have been wrong. More importantly, the discussion has again been vigorous and many useful points have been made. The challenge remains in respect of engaging the wider director community, but this looks like being a very useful step along the way.

To broaden engagement for those discussions, I've chosen to repackage here some of the posts I have made in the company director forums during the past few weeks. First we look at the distinction between [management and governance](#), then at the way the [board discerns IT](#), and finally at the proposition that [all IT projects are really business projects](#).

The board view of IT has also been discussed in the April 2012 edition of the AICD magazine, Company Director. [IT Under the Board's Microscope](#) looks at the advice provided in the article of the same name.

April has also seen the emergence of a new [international community focused on Strategy and Enterprise Architecture](#). See inside the overview for details and your invitation to participate.

The "[Events Season](#)" is getting serious again. This month, you can see details of my forthcoming activities in Adelaide (ISO 38500 Immersion), Darwin (Company Director's Conference), Korea (ISO meeting), and Mexico (conference paper), with more in the pipeline.

This edition includes a request for contributions to an [international survey IT Service Management](#), an update on how I am now engaging in the ongoing development of [standards for governance and management of IT](#), and a brief update on how and why Infonomics selected a [new IT host provider](#).

Please enjoy! Mark Toomey 17 April 2012

Management vs Governance

The Company Directors' IT Governance Community discussed a [blog post from Lynda Bourne at Mosaic Projects](#). Here are my thoughts on the matter.

Lynda Bourne's article begins by saying "*Some areas of business seem to be confusing the concepts of organisational governance and effective management to the detriment of both processes*" and so echoes a song I have been singing since the publication of the Australian Standard for Governance of Information and Communication Technology, AS 8015.

Unfortunately, when we developed AS 8015 we did not have a full understanding of how deeply attached the IT industry in particular is to wrong ideas - ideas that are perpetuated today by IT organisations and frameworks such as COBIT, ITIL and Prince2. We published in AS 8015 a new and robust definition for governance of IT, distancing the concept from the more commonly referenced "IT Governance".

When it came to revising the Australian Standard to create the ISO version, we recognised the need for a clear and complementary definition of management. One issue that astounded me, as the Project Editor and wordsmith for the project, was the lack of suitable definitions of management in the marketplace. We ended up synthesising one!

For the record, here's what ISO 38500 says:

1.6.3 Corporate governance of IT

The system by which the current and future use of IT is directed and controlled.

Corporate governance of IT involves evaluating and directing the use of IT to support the organization and monitoring this use to achieve plans. It includes the strategy and policies for using IT within an organization.

1.6.9 Management

The system of controls and processes required to achieve the strategic objectives set by the organisation's governing body. Management is subject to the policy guidance and monitoring set through corporate governance.

The ISO 38500 definition for governance of IT is modelled directly on the "Cadbury" definition of corporate governance. Cadbury in turn relied on ground breaking work done by US academics Berle and Means in the 1930's as they explored the factors behind the great depression (factors that have been frighteningly paralleled in the past ten or so years). It is essential to understand that the key word in the definition is "system", where the "system for governance" is dependent on the extensive

management systems that management establishes at the request (implicit or explicit) of the board.

Interestingly, nobody ever gets confused about the distinction between governance and management in respect of finance and HR – no self-respecting CFO would ever suggest that he or she does “finance governance”, although all of them would clearly understand how their work is a critical enabler to the board’s role of governing the organisation’s financial situation and use of financial resources.

Any argument that “corporate governance” is only one kind of governance is a furphy. The expression “corporate governance” is not an adjective-noun combination, but a contraction of the more wordy, but explicit “governance of the corporation”. It is worth noting that globally known IT luminaries Weill, Ross and Broadbent identified six asset classes that boards address as part of their job in governing the corporation – these are financial, human resource, physical assets, intellectual assets, relationships and information (which as they describe it, includes the technology).

Lynda Bourne laments the lack of a good resource to help Directors to ask the right questions of the executive and have sufficient skills to understand the answers. At the risk of being seen as spending too much time promoting my own work, this is what high profile board advisor and director educator Julie Garland-McLellan said about my book, “Waltzing with the Elephant”: “This book puts the board firmly in control of the demand side of the IT equation. The language is precise, and hence quite dense, but very amenable to non-techno-savvy readers. The ideas are pure gold.” (This and other reviews are available at www.infonomics.com.au/wwte.htm).

Going further, I suggest that the key to understanding governance and management is to view governance as a system that includes management. Governance cannot happen alone, without management activity, and management cannot act without direction from those who govern.

The governing body sets direction and policy which management implements. The governing body monitors and supervises management to ensure that the direction and policy are followed properly. Management sets up management systems in order to perform its role in an effective, measurable and improvable fashion. The fact that these management systems perform tasks that are required to satisfy the requirements of the governing body does not make them governance - they are management.

Perhaps one reason we are now beset with so many “lower level governance” concepts is that when it became evident that boards were not effectively governing IT as they govern finance and HR, the gap was filled by people from the IT world attempting to replicate what the board does in a lower level structure. In many respects, this effort has attempted

to replicate the role of the governing body in the pure IT context. The trouble is, it hasn’t replicated or engaged the governing body properly, and the governance becomes ineffective and poorly oriented.

It should be clear that board is accountable for overall governance of everything to do with IT, just as it is for governance of other resources. However, the board can, and in most cases should, delegate significant responsibility to management, providing overarching policy to guide management, and checking to ensure that management is doing the job properly. This is exactly what happens in the other resource areas – finance, HR and so on. Management systems should be established to implement the particular requirements that the governing body has imposed on management, however vague those requirements may be. Through progressive cycles of iterative improvement, the requirements from the governing body should become clearer, and the management systems more effective.

There are early signs of boards becoming more savvy regarding IT, with more board IT committees and a small but growing number of directors seeking to learn about how they can govern IT. As this trend grows, we should see more boards giving management clearer guidance on the distinction between governance and management of IT, and on the purpose of management systems within the overall system for governance of IT.

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ICT Discernment at Board Level

Another of the discussions in the Company Directors IT Governance Community commenced with this statement: *I recall a few years ago discussing the advantages of having an ICT strategic focus to add to a Board's competency. The comment I received back was clear. "We can outsource that service". The missing point was having members of the Board possessing the discernment to know when an ICT strategy looks good or not.*

I think that this is a core issue for boardroom education, in which we must focus not so much on singing to the choir of the converted, but making real advances in understanding the context of IT across the wider director community.

To me, the message has a simple core:

- IT is now a critical embedded tool of business that carries immense risk and potential value, and as such must be subject to diligent oversight by the board;
- The vast majority of issues with IT have little to do with technology, but are mostly issues around business strategy and planning, and executive behaviour and performance (just as vehicle crashes are more a product of driver behaviour than vehicle design);
- Where necessary, Boards can and should engage experts to help them understand the new context

for board oversight of IT, and to extend their reach into the technical mysteries on the few occasions when that is really necessary.

Another participant in the discussion made a very good point regarding the potential for IT failures to result directly in significant financial loss. If I were to be a director having a conversation with a judge about why an IT failure bankrupted the company, I would most certainly want to be able to show that I had diligently applied the (very straight-forward) guidance in ISO 38500.

Many directors seem to shy away from the concept of discussing IT in the boardroom because they do not have technology skills. However, experience shows that the critical issues are generally not the technology, but the business use of the technology. That means that the IT conversation should be exactly the same as the conversation about manufacturing, logistics, marketing, sales and so on – focusing not on the detail, but on the big picture.

Any director who still doesn't believe that IT is a matter of critical importance (with major financial implications), should contact John Borghetti, CEO of Virgin Australia. As he learned on September 26, 2010, (see it in [The Infonomics Letter September 2010](#) edition) failure of a key IT system can bring your business to its knees, make your customers very angry, make your competitors grin with delight, and ruin your next conversation with shareholders.

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There is no such thing as an IT project ... there are only business change initiatives

The third discussion selected from the Company Directors' IT Governance Community carried the theme somewhat deeper, with a quote taken from a briefing given by Jane Treadwell, past CIO of Centrelink and the Victorian Government, and now an advisor with the World Bank.

One of the core premises of the ISO 38500 standard on governance of IT is that there are no IT projects - only business projects that depend on IT enablers. The standard is focused on the USE of IT, not the SUPPLY of IT. In its guidance, the standard makes it clear that business leaders should be held accountable for delivery of the outcomes of projects.

It makes sense that we should view so-called IT projects as business projects. One would have to ask why we would invest in IT at all, if it were not for a business outcome. However, it's not just a matter of the purpose of the investment – it's how we go about delivering the outcome. In the vast majority of cases, a business outcome is not delivered merely by the creation of the technology. Rather, a business result requires (often substantial) effort to prepare the business usage of the technology – developing

business organisation and process models; defining authorities and accountabilities; configuring management and oversight structures; acquiring and enhancing people and skills... This effort can be as big, if not bigger than the actual technology component.

A very useful model for positioning the concept of a business project that depends on IT comes from a 1965 paper by Harold Leavitt (*Leavitt, H.J. Applied Organizational Change in Industry: Structural, Technological and Humanistic Approaches. Chicago: Rand McNally, 1965*). Leavitt essentially shows that business change requires balanced pressure on people, task (process), structure (organisation and rules) and technology. Look at the history of IT failure to know he was absolutely right!

Surprisingly, despite the fact that the business aspect should be obvious, many organisations demonstrate that they just don't get it!

KPMG published its "Global IT Project Management Survey" in 2005. One of its astounding statistics was that only 7% of all projects reviewed could prove that they had delivered the benefits claimed in the approved business case. But perhaps more astounding was that one third of projects surveyed had not even attempted to define the intended business outcome – let alone identify the business effort required to deliver the result.

Even infrastructure upgrades are business projects - they have the purpose of keeping the business running. There are plenty of cases where infrastructure upgrades have happened that were unnecessary - because the business demand was evaporating, and where technology upgrades have frozen business improvement leading to degraded business performance. I have had the entertainment of sorting out a huge boardroom squabble in a major company in respect of the latter. So called "pure" technology projects should never happen, because the spend should always be indelibly linked to a business outcome - even if the outcome is no business change. In many cases, infrastructure upgrades do open new opportunities for the business though (or they should if they are properly thought through) and thus they must be governed as diligently as major business change.

So called core administrative systems such as ERP and payroll may not necessarily deliver competitive advantage, but history shows that too many deliver serious competitive disadvantage when not supervised appropriately. I have seen more of these go ahead with no serious attention to maximising business value than I care to count - and I have seen at least one major TLA (three letter acronym) project get approved on a business case that eschewed all responsibility for business change, even though it claimed all the benefits that would come from business change.

Overall, I see considerable evidence to support the proposition that IT projects are really business projects, and a painfully slow drift of companies toward understanding it. The message continues to need strong promotion, especially in the broader director community. In pressing the message, I often refer to other facets of business rather than IT to make the point. For example, at the extreme, what sort of a project was the one Qantas embarked on when it decide to buy the Airbus A380? Was it an AT (Aircraft Technology) project or a business project?

To reinforce that change is happening, it is useful to note a [recent conference paper delivered by Bendigo Bank CIO Andrew Watts](#), who explained how the bank has eliminated its IT development department (two years ago in fact) and replaced it with a business change department. The 200 people in the new department come from the old IT development shop (140) and the business change agents (60) who were previously scattered through the organisation. Watts credited the new structure with a 50% increase in the success rate for projects, and a now high level of business engagement in projects.

Reinforcing the importance of a business focus, Watts told the conference: "The biggest challenge was really people ... I can safely say that this platform going in place was very, very well-embraced by our staff, because it was extremely well led by our business. Our staff could really see the benefit that the platform provided in their ability to service our customers".

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IT under the board's microscope

Addressing the broader challenge of educating the main body of company directors, the Company Director Magazine regularly runs articles looking at IT in a boardroom context, and I have been fortunate to be invited to contribute to several of these. However, others also contribute, and it is fair to say that the resultant messages can sometimes be inconsistent.

We see this in the April 2012 edition of [Company Director](#), in an article titled: "Bringing IT under the board's microscope". I am concerned that some of the advice in the article is relatively low level and, particularly, supply-side focused. One contributor suggests that directors should "receive consistent monthly reports, (and) so they need to understand the reporting metrics and who is delivering the information". My view is that monthly performance reports about IT and the associated reporting metrics are business and executive management issues that directors should rarely, if ever, see. Rather, directors should see evidence that management is across the performance data, and is doing what is required to ensure that required performance is delivered as and when needed. If the directors do receive anything specific, it should of course be expressed in sound, consistent business terms.

On the other hand, it's very comforting to see that another contributor and I were not merely "singing from the same hymn book – we were at the same verse in the same song, when we said "most projects are not really IT projects at all". Going further, it is important to see that these "IT projects which are really business projects" should be characterised by integration of business adoption and technology development effort into a coherent single initiative that delivers the business outcome, rather than a sequential process – IT people building something that the business subsequently fails to exploit. In many cases, the board would do well to seek evidence that these IT investments are truly integrated, as a failure to manage the work in such a fashion generally increases risk and reduces value.

Some advisors suggest that boards should use a portfolio management approach to selecting projects. In reality, project selection is rarely done by the board. Rather, project selection should be regarded as a management (though probably executive management) task, and the board involvement should be around evidence that the right projects are being selected, rather than doing the selection.

In terms of board oversight of projects, it is also disappointing that advice frequently focuses on dashboards and the often-used but frequently irrelevant dimensions of time, cost and scope. What directors should be looking for, on every major IT-enabled business change, is a clearly accountable business executive who is committed to delivering the value, convincing them at every major checkpoint, that there remains a compelling business case for continuing. Whether the project is tracking to an original plan is largely irrelevant – the one critical issue is whether the resources and time required for achievement of the current objective is justified in terms of the value that can now be realised.

From a forward-looking perspective, the classical questions about time, cost and scope can be reframed: Financial – is the funding required for completion available and justified by the likely return; Time – can the project deliver an acceptable outcome in the time required for its now-acknowledged objectives; and Scope – Is the now-acknowledged objective and scope of the project acceptable and consistent with the organisation's overall strategic intent and plans. By focusing on these "are we there yet" criteria, directors can ensure that management is working to achieve an acceptable goal, rather than striving to disguise problems with an over-ambitious original business case.

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Infonomics Events Program

On March 20, Jane Treadwell, Andy Koronias and I joined Phil Ingerson and his Intec colleagues in Adelaide, to talk about "[Delivering Business Value through IT Governance](#)". The half day conference

drew an audience of 40 from government, business and academic circles.

The Australian Industry Group half day "[Information Technology Governance and Management Seminars](#)" in Adelaide, Melbourne and Sydney attracted a small, but very senior executive and director audience, including one Non-Executive Director of a major company. Participants seized the opportunity to explore many issues, and left no doubt that future sessions for such audiences should run for a full day.

Looking forward, we have a variety of activity planned:

"Using ISO 38500 in Governing IT", May 7, Adelaide. Organised by Infonomics partner Intec, this session is designed for business and technology leaders at executive and director level, and is based on the Infonomics [ISO 38500 Immersion](#) class. For more detail, contact [Phil Ingerson at Intec](#).

Company Directors' Conference, May 9 – 11, Darwin. I will be attending all sessions of the conference and participating in all the social functions as well. I'm looking forward to meeting and sharing ideas with followers of The Infonomics Letter and other directors who wish to maximise their effectiveness in oversight of their organisation's use of IT.

Standards Meeting, May 21 – 25, Jeju, Korea. As long as I can secure funding, I will be attending the meeting of ISO/IEC JTC/1 WG6, to present and further develop a first draft revision of ISO 38500.

Association of Enterprise Architects, Mexican Chapter Launch, Mexico City, 28 June. Subject to confirmation, the early plan for this event includes a session where Carlos Francavilla and I will establish the linkage between Governance of IT and Enterprise Architecture.

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IT Service Management Survey

An ISO study group is investigating why smaller organisations do not use certain International Standards as much as large organisations.

[This survey](#) is aimed at organisations with 25 or less service management people and it is focused mainly on ISO/IEC 20000. Views of larger organisations are also being collected. We can then see what difference the size of the organisation makes.

[The survey](#) is being run by a UK based expert in IT Service Management who has long term involvement in the development of ISO 20000. She is data protection registered in the UK, is the only person who will see the full responses and will delete any data that would allow an individual response (individual or organisation) to be identified.

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Infonomics changes IT hosting

Some Infonomics followers noticed that the website went offline in early April. Some may also have had email returned, or not delivered.

This was caused by an equipment failure at the hosting service which has been home to the Infonomics digital presence for several years. It's a graphic, ultra-close to home illustration of what can happen when you are totally dependent on an external provider – a scenario I have discussed in this journal on several past occasions.

It also shows how good fortune can sometimes prevail. Past problems with this provider had driven me to the conclusion that I needed to move to a larger scale provider, with some assurance of better service quality. The transfer process was in progress when the old provider systems died, so the Infonomics service interruption was much shorter than for others who were stuck with just waiting, while their customers went to competitor websites!

For me one of the key enablers of escaping the trap is that I maintain the primary copy of the website here, at the Infonomics office. I can quickly reload the site from my own backups, and am not dependent on others for that level of fallback. I wonder how many others have protected themselves in that way.

Selecting the new provider was not easy. How much time does one spend on something that should be ubiquitous and reliable? I would have been very pleased to use an independent comparison service, but could not locate one that seemed to be truly independent and robust in its assessments. I would have been happy to go with one that could demonstrate good solid certification to relevant international standards (like ISO 20000 and ISO 27000), but again, they just weren't there, in Australia. I wasn't prepared to go offshore – I don't believe that we have enough maturity in the legal, privacy and service management frameworks to make that acceptable yet. In the end, I was left having to prepare and run through a Q&A for prospective suppliers, some of whom thought it bizarre that I would actually want to check things like whether they have an uninterruptable power supply (UPS) in their data centre and whether they test it regularly.

In the end, I chose to run with Australia's fast-growing number 3 ISP, [iiNet](#). They answered the questions well enough to satisfy me. In the transition phase, they provided superb, knowledgeable and patient support. So far, the service has been stable and my hopes are high for an ongoing top class relationship. Time, of course, will tell!

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Standards Engagement

One of the most important, if subtle, messages in ISO 38500 is that there are two sides to governing the use

of IT – the demand side, which focuses on the actual use that is made of IT in planning, building and running the business, and the supply side, which deals with how specific IT capabilities and resources are planned, acquired and deployed.

To be credible, guidance developed by a standards organisation must be developed by people who have a sound understanding of all facets of the business context to which the standards are directed. Thus, for standards on governance and management of IT, it is essential that both demand and supply sides have strong representation in the standards development process. In the original Australian committee which created the AS 8015 progenitor to ISO 38500, the demand side representation included organisations like the Australian Institute of Company Directors (AICD), the Council of Small Business Organisations of Australia (COSBOA), and the Australian Consumers' Federation.

During 2011, Standards Australia reviewed the committee which looks after Australia's standards contributions in respect of governance and management of IT, and concluded that the committee should be reconstituted. The [AICD provided this response to the review](#). Subsequently, in line with the practices of Standards Australia, the original committee was dissolved at the end of 2011, and a new committee was formed for 2012.

Working as a volunteer on standards committees, particularly when one is playing a significant part in the creative process, can be extremely time consuming. Since the initial adoption of AS 8015 as ISO 38500 in 2007, I have worked on both the international standard and various related Australian standard activities. During the past couple of years, I have enjoyed the support of another AICD member, Jan Begg (who has also been a guest contributor to this journal) as a second delegate to the local, and more recently, international meetings.

The Standards Australia call for nominations to the new committee provided an ideal opportunity for AICD to review its own participation and the associated workload. After canvassing member interest, AICD elected to appoint Jan Begg as its lead delegate. This means that I can now focus my energies on ISO 38500 and the related international work, as the Project Editor appointed through an ISO process that is independent of Standards Australia. The separation of responsibility is important not only in terms of workload management, but enables stronger conformance to the ISO requirement that the Project Editor be independent of any national position on the standard.

So, in a nutshell, I remain deeply involved in development of ISO 38500 as its ISO-appointed Project Editor, while Jan Begg provides AICD leadership and input to the corresponding Standards Australia committee. Of course, I know Jan well, and

we will continue to liaise closely on the evolution of the standards.

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Strategy and Enterprise Architecture Society

Launched on April 10, the Strategy and Enterprise Architecture Society is a new, actively managed forum for practitioners and scholars from around the globe with a passion for what we do. Members are committed to helping others by sharing knowledge & experience. Moderators and members come together at SEAS to collaborate on new ideas and develop engaging research.

The SEAS Mission of facilitating the build of an open and unbiased Strategy & Enterprise Architecture community for discovery and learning is underpinned by four values:

- Knowledge evolves & spreads when it's shared.
- Professional growth takes off when one commits themselves to help others.
- Nothing beats logical reasoning supported by practical evidence & experience.
- Experimenting & having fun in the process enriches our intellect.

The [Strategy & Enterprise Architecture Society](#) can be found on LinkedIn, where it operates as a member-only group. Please request membership to gain access to the already broad range of discussion. The Society also has a Blog presence, where the domain name www.bluelighthouse.org has been selected by the founders to represent the values and spirit of Society. The colour Blue represents wisdom and trust while Light Houses represent safe harbors for lost vessels at sea. Blue Lighthouses are the moderators of SEAS and collectively provide these safe harbors for all members seeking guidance and direction.

The Society has a formal plan of content that will be posted in blogs during each year. The blogs are being organised around four key themes:

- Strategy and Innovation
- Enterprise Architecture
- Change Management
- Corporate and IT Governance.

Each theme has a small group of dedicated moderators who are experts in their field, and who will be regularly contributing new posts.

Readers of The Infonomics Letter, including the many who are not IT specialists, are encouraged to consider joining SEAS, and contributing to independent global development of leading-edge thinking on how organisations can control, plan, build and run the business of the future, which is inevitably dependent on, and ideally maximising the value it obtains from its use of information technology.

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