



Welcome to 2009.

The southern hemisphere holiday season is drawing to a close, and I have joined the throng that has returned to work. I do hope that each and every one of The Infonomics Letter's readers has made the transition to 2009 safely. After international commitments caused me to spend too much time away from my loved ones, I made the decision late in December to take a break, and hence to publish a combined December 2008 / January 2009 edition.

Cast your mind back a year. How dramatic have been the events since then? Even for those who saw the writing on the wall early, surely the changes that have been wrought on the international economy have been breathtaking.

But while the context may have changed, the reality is still that every day, decisions are made that will determine the viability and performance of organisations. Some of these decisions will relate to the use of information technology, and some of those decisions will be better than others.

In the November edition of The Infonomics Letter, we looked at the broad application of ISO 38500 in the making of decisions when tightening the belt, and at the ways that organisations can drive value from their IT investments. In this combined Christmas/New Year edition we continue the theme. First, we look at one of the most sensitive areas for decision making in a downturn – the decisions about people. Then we continue exploring the concept of value – this time responding to the question "is there a particular ISO requirement relating to measuring or demonstrating value".

As always, I trust that you find The Infonomics Letter useful and challenging as you go about your job, making decisions about how your organisations use information technology.

Mark Toomey
19 January 2009.

A matter of quality

My aim is to stimulate, to challenge, and to provoke debate about corporate governance of information technology, in a way that appeals to leaders in business, government and technology. That of course requires that my product is of high quality. I was disappointed that the November 2008 edition of The Infonomics Letter suffered from some quality problems in production of the covering email. As is often the case with our use of information technology, the quality problems

were purely a product of insufficient attention to detail while working in less-than ideal conditions. Thanks to the readers who took time to point out the problems, and to those who forgave me for them. The good news of course is that feedback from readers confirms that The Infonomics Letter is being read, and that it is valued. I look forward to further feedback, and hope that it will be mostly about content, rather than presentation.

The Four Ares

The November 2008 edition of The Infonomics Letter included an article contributed by Paul Williams, on behalf of the IT Governance Institute, entitled "Driving Business Value from Investment in IT". Unfortunately, this article omitted proper attribution of its reference to the "Four Ares". The proper attribution, which should have been at the foot of page 5, reads: "Based on the Four "Ares" as described by John Thorp in his book *The Information Paradox*, written jointly with Fujitsu, first published by McGraw Hill in 1998 with a revised edition published in 2003". The omission was the responsibility of the articles author and ISACA. Notwithstanding, I also sincerely apologise to John Thorp, who is a long standing colleague and friend, for this omission.

Making the right decisions...

The global financial crisis (yes, it has been given its own acronym – the "GFC") is biting hard, and despite expectations of some commentators and journalists that IT spending would continue unabated, there is a definite impact on the information technology sector. Falling demand for equipment, software and services makes it clear that companies which depend on IT are cutting back on their spending plans – deferring projects, delaying acquisitions, and reducing staff.

How many of those companies are taking a strategic perspective on their decisions? How many of them fully understand the possible long term operational implications as well?

Many management lessons about information technology can be observed in other fields. It's worth exploring one such example – the case of a Latrobe Valley (in Victoria, Australia) coal mine which experienced a catastrophic landslip late in 2007. The collapse of the mine wall resulted in the adjacent Latrobe River breaking into the massive open cut coal mine, disrupted the river's downstream flow, and flooding the mine with billions of litres of water. It destroyed millions of dollars worth of machinery, and severely

impacting the coal fired power station that the mine supplies.

A report prepared for the state government said that the incident was caused by a lack of proper safety precautions, and that "expert consultants failed to pick up obvious signs of the mine's imminent failure". According to an article by Melissa Fyfe in *The Age* on 4 January 2009, the problem went back many years to when experts approved the cancellation of two fundamental mine safety measures in the name of "efficiency".

During the decade of the 1990's, Victoria's power generating industry was privatised. Instead of a statutory body accountable to government, electricity generating was transferred in a series of major asset sales to the private sector, where the managers are accountable to their shareholders, as well as to an industry regulator. Naturally, to make the privatisation process as attractive as possible, the government sought to minimise the extent of regulation, relying on market forces to drive efficiency. Equally naturally, in the interests of their commercial imperatives, the new owners of the industry sought to minimise their costs, and many of the people who had been considered essential in the state run system were subsequently considered surplus to requirement.

With hindsight, it's not hard to join the dots. In an effort to reduce costs, the new commercial owners of the generating plants and the mines that supply them with coal reduced the number of people not involved in front line operations, and took risks (of which they may or may not have been properly aware) by reducing the safety systems and the safety margins. In particular, full time civil engineers with years of relevant hands-on experience were made redundant, and replaced by demand driven reviews from consultants who did not have the long term knowledge necessary for identifying and resolving minor problems before they became serious. According to *The Age*, when large cracks appeared on the road on top of the mine wall, a pipe and line of power poles along the wall had begun to curve and water was gushing into the mine at 500 litres a second, the consultants concluded that "catastrophic failure was unlikely".

The situation with the coal mine is instructive because the seeds of the catastrophe were sown years before the event, as a direct result of scaling back on personnel and moving some roles from full-time internal sourcing to demand-based external sourcing. These exact techniques are extremely common when organisations seek to reduce the costs of their information technology

usage. Indeed, during the downturn in IT spending that occurred after 2000, we saw many organisations shedding their more experienced and senior personnel, running the risk, and in some cases experiencing the reality of significant negative impacts further downstream.

When experts are taken out of a management system, it is likely that the management system will be weakened. Unless the experts are replaced by additional rigorous protocols and controls, it is likely that the risk of problems is increased. When removal of the experts is complemented not by an increase, but by a further decrease in the rigour and control, the seeds of future problems are not only sown – their growth is assured and accelerated.

And now, as many of the world's economies are in, or struggling to avoid recession, we again see corporate leaders trying to reduce costs, and again we see information technology expenditure as a definite target for reduction.

While in the Netherlands during December, I had the opportunity to discuss this situation with a well known Dutch IT journalist – Tanja de Vrede of *Automatisering Gids*. Tanja raised the situation of two Dutch technology manufacturing firms, which recently announced each at least 1000 layoffs, because of the crisis. One company in particular had made significant effort to hire talented people from a limited pool of suitably skilled resources, but was now letting the same people go.

A brief scan of available news reports revealed that both companies operate in the highest levels of technology manufacturing, and that demand for their products has fallen. They are responding by reducing their own production, and that translates into a reduction in staff.

It is not my intention to say whether these staffing reductions are appropriate or not – that is the job of the executive management teams and the board of directors of these two major firms. However, it is appropriate to point out questions that should be considered by the executives and directors as they make their decisions. I suggest that the area of risk is not in the reduction of staff, but in the targeting of which staff will be put off, and propose that two key issues are considered:

- First, if the recession is prolonged (and the indicators suggest that it will be), the technology that they manufacture today may not be what the market requires when growth returns. If they have not retained the capability to design new products, and

bring them on stream quickly, they may find themselves surviving the recession, but then unable to compete effectively with other organisations that acted differently during the downturn. Conversely, if they do retain the capability to design new product, and they exploit this capability well, they may be in a very strong competitive situation when the market picks up.

- Second, if the reduction in production results in “mothballing” of high tech production machinery and systems, the return of demand will probably require that such equipment come back on stream, and there will be a requirement for relevant skills to achieve that goal. It would be unwise to expect that the skilled people can be rehired when needed, as competitors taking advantage of the situation may already have hired them, and others will have retrained for different work, relocated, or retired.

In making these points, I am not advocating that organisations should not downsize their workforce – but I am saying that in downsizing, they need to be very careful to not remove the very people that they will need to keep the business operating as effectively and efficiently as possible during the downturn, and those who are key to effectively ramping up the business again when prosperity returns.

Just as Victoria’s energy industry has learned, dispensing with the seemingly expensive people who are focused on long term sustainability of the organisation and its operations can be a hugely expensive mistake – not only because of the damage that eventually occurs, but also because of the subsequent reactions of customers, shareholders, analysts and regulators.

In any situation where changing circumstances appear to demand a reduction in personnel, one way to validate the proposed changes is to ask some questions about the people who would be retained:

- Are they the cheapest people, or the best people?
- Are they people that the company will need to strengthen and renew its product portfolio?
- Are they the people the company will need to fine tune and optimise the production processes?
- Are they the people the company will need to lead the return to prosperity when it comes?

- Are they the people who will recognise and resolve emerging issues before they become debilitating?

If the answer to any of these questions causes discomfort, then perhaps the decision is worthy of some further thought.

Organisations which depend on information technology for their operational performance and their strategic future (which is the normal situation for most organisations today) will find themselves at a disadvantage if they are unwise in shedding senior IT personnel who would play key roles in preserving the viability and integrity of the business, optimising it for the downturn and ramping it up again when the market rises.

Is Value Required?

Recently, a reader asked: “I would like to know whether there is a particular ISO requirement relating to measuring and demonstrating value”.

It’s not unreasonable to expect that a standard about governance of IT would emphasize value. Those who read the article from ISACA’s Paul Williams in the November 2008 issue will know that value is a fundamental anchor for that organisation’s ValIT framework.

Some may be surprised to know that the only explicit use of the word “value” in ISO/IEC 38500 is in the detailed discussion of the Acquisition Principle, and then the reference is to “value for money”. The reasons for this are subtle – basically because the term “value” can too easily be translated narrowly into the concept of monetary profit, and that is not the only reason why organisations invest in IT.

But the avoidance of that particular word does not mean for a moment that ISO/IEC 38500 is not focused on value. Nor does it mean that organisations do not need to think about value: indeed, the opposite is true.

Rather than “value”, which can also sometimes be misconstrued as the cost of the investment, the standard makes several references to “benefits”, which is a broader, more encompassing term. In its discussion of the benefits of the standard, ISO/IEC 38500 suggests that conforming organizations are more likely to realize the benefits that they intend from each IT investment. Thus, they are more likely to derive value from their investments.

On a broader basis, the standard seeks to promote the efficient, effective and acceptable use of IT. When we look these terms through the “value” lens, we could translate them as follows:

- **Efficient:** the cost is reasonable when compared to the value produced;
- **Effective:** the value created through the use of IT is identified, measurable and desirable;
- **Acceptable:** the practices used to create the value are appropriate and the risks inherent in using IT to produce the value are known, controlled, and not excessive.

The model for governance defined in the standard identifies three tasks – evaluate, direct and monitor. These tasks all have direct relevance to value:

- **Evaluate:** within their system for governance of IT, organisations should identify whether proposed investments, and continuing expenditures have the likelihood of producing a desirable outcome, or value;
- **Direct:** within their system for governance of IT, organisations should establish policies that control decisions that will be made in respect of value, and set targets for the value to be realised;
- **Monitor:** within their system for governance of IT, organisations should measure and report specific performance in respect of the identified targets for, and measures of value.

In other words, conformance to ISO/IEC 38500 should include monitoring of the value or benefits produced through any investment, and ongoing monitoring of the value of operational IT systems.

The principles for good governance of IT defined in ISO/IEC 38500 provide a further framework for thinking about value:

- **Responsibility:** for the value that is required from investment in, or expenditure on IT, correctly identify and properly assign responsibility for delivery (not just measurement) of that value, and hold those responsible accountable for the results;
- **Strategy:** clearly identify and communicate, in business terms, the value that the organisation requires from its IT expenditure, and ensure that each proposed expenditure is framed in terms of delivering that value;
- **Acquisition:** any decision to spend on IT should include appropriate analysis to define the benefits, or value, that is to be realised, a valid baseline measure on which performance can be assessed, and a measurement regime that provides appropriate visibility of results;
- **Performance:** in addition to identifying, measuring and reporting on the value of IT

expenditure, take action to identify and control factors which may erode value;

- **Conformance:** establish and comply with clear rules about who is to act, and what is to be done, when the value derived from IT expenditure is not acceptable;
- **Human Behaviour:** ensure that there is a way of distinguishing between the passion and commitment of people who want to achieve an objective, and the rigorous evidence pertaining to the relevance, feasibility and value of that objective.

ISO/IEC 38500 may not explicitly refer to “value”, but it is very much about helping directors and top executives ensure that the value of their operational expenditure on, and strategic investment in IT is valuable. It provides a useful framework and principles that can help those responsible for implementing governance arrangements to design an effective system of oversight and control.

The Infonomics Shop

We are delighted to announce that, with the help of Melbourne based Media Equation Pty Ltd (www.ME.com.au), the Infonomics Shop will go live on Australia Day, Monday 26 January 2009. The Infonomics Shop will allow those interested in corporate governance of IT to purchase hard copy and downloadable versions of Infonomics publications. The shop will be accessible from www.infonomics.com.au.

In the Press

Infonomics views on Corporate Governance of IT are increasingly appearing in the press. Recent publications include:

- [IT Adviser, Winter 2008 edition, page 22](#)
- [Corporate governance of IT - Critical for all organizations, large or small \(podcast\)](#)
- IT needs better guidance to get job done, Aust. Financial Review, 5 December 2008.

Calendar

The Infonomics calendar for 2009 is taking form, and details will be posted progressively on the Infonomics web site. We continue to anticipate that the 2009 calendar will include events in Britain, Europe, India, Australia, Asia and Canada.

For more details of your opportunities to join an Infonomics event, please refer to the Events page on www.infonomics.com.au.