The Infonomics *Letter*
Plain Language about Corporate Governance of Information Technology

November 2008 Edition

Three months: Four editions.

Welcome back. The new series of The Infonomics Letter is re-establishing the ground that was held by its predecessor – and the mailing list is growing organically. A number of readers have taken the time to comment favourably on the content, and on the events that have been happening in the market.

Our economic circumstances are certainly not without precedent – though few who are at the helm of today's business enterprises and government agencies have anything but academic awareness of the Great Depression of the 1920's. However, our always-on connectivity, with instant delivery of news is certainly a differentiator from that disastrous period. No doubt academics of the future will explore whether the technology that we have today has contributed to the dramatic changes in fortune, and whether there were indeed gaps in management capability and risk control arising from the use of IT.

But regardless of whether IT and communications contributed to the current economic downturn, there should be little doubt that a return to prosperity is going to include new and better use of information and communication technology. So for this month, we turn our discussion to the ways that organisations ensure that their use of, and investment in IT is effective, efficient and acceptable.

The first article is written by me, and is also scheduled to appear in "IT Adviser", the journal of the National Computing Centre in Great Britain. "So now it's important to economise" focuses on the way that organisations can readily use the guidance in ISO/IEC 38500 to help ensure that decisions about IT in difficult times are the right decisions not just for the immediate situation, but for the health and prosperity of the organisation in the future.

The second article is contributed by Paul Williams, on behalf of the IT Governance Institute. Paul's paper, "Driving Business Value from Investment in IT", draws from a larger document called "Unlocking Value: An Executive Primer on the Critical Role of IT Governance", released recently by ITGI.

This is the last Infonomics Letter before Christmas, so for all subscribers, regardless of how and why you celebrate the Christmas season, I wish you all the joy, happiness, health and prosperity that the world can give to you. For those living in troubled circumstances, I pray that peace will come. And for those who have been disadvantaged by the world's economic woes, I commend to you the words of Peter Sinclair: *"Depression loses its power when fresh vision pierces the darkness".*

Mark Toomey.
29 Nov 2008.

So now it's important to economise...

By Mark Toomey

Once again the economic pendulum has swung, and as confidence falters, organisations all over the world are looking for ways to economise. For the second time in less than ten years, investment in information technology seems sure to decline.

Why would we expect anything else – with economies the world-over diving steeply into recession, companies are experiencing a fall in demand, with a consequent reduction in income and thus less money to spend on things that may not be essential. For many organisations, the amount of money spent on IT is significant, and that reason alone ranks IT as a candidate for reductions. Of course, the certain knowledge that many IT projects fail, even in good times, will also be an incentive for some organisations to cut back on their new IT activities – as they seek to ensure that every penny spent produces value.

But cutting back on IT investment may not actually be the wisest move. Perhaps rather than simply reducing, organisations might find it beneficial to supervise more closely, and take stronger control of their activities, to ensure that they are increasing and assuring the value of their IT spend.

The recently published International Standard for Corporate Governance of Information Technology provides a framework that organisations can use to help them review and sharpen their IT activities. ISO/IEC 38500 has now also been adopted by BSI as a British Standard. Based on a standard originally published in Australia in 2005, BS/ISO/IEC 38500 is quite different from many of the standards we are accustomed to in the IT arena. It does not provide detailed instructions and frameworks, and at this stage does not include a certification guide. Instead, it describes an essential framework and six key principles of organisation behaviour for making overall

decisions about how the organisation directs and controls its use of IT. Where many frameworks require substantial implementation effort to deliver value, organisations can rapidly integrate 38500 into their existing processes, and use the principles to clarify and guide their decisions. Of course, the maximum value of 38500 does depend on organised effort to ensure that the right skills, processes, structures and tools are in place – but the opportunity remains for early application of the standard to help establish its value.

While economic downturn clearly constrains organisations in terms of their ability to spend, it also presents a major opportunity for organisations to refresh themselves, to streamline their activities and to prepare their competitive platform for the future. Those organisations whose management recognise that the pendulum swings both ways will be planning now for a positive future, and will be focusing their current IT spend accordingly.

The initial, and often fear-driven reaction to declining markets and declining fortunes is to order an across-the-board cut in spend. If spend is to be reduced 10%, the next question is, of course, what specific activities should be cut in order to attain that 10% reduction? As we all realise, it makes little sense to simply reduce every line in the budget by 10% - some aspects of cost are simply indivisible. It is necessary in some cases to cut much more deeply, so that other, inflexible costs can be accommodated. Then again, it is important to challenge the conventional wisdoms – as often what are thought to be fixed and indivisible costs are actually quite feasible to reduce.

ISO/IEC 38500 defines the model for governing the current and future use of IT as comprising three tasks – Evaluating, Directing, and Monitoring. Clearly, the first step for most organisations is to understand exactly their situation and where they have opportunities to refine their use of IT. Having evaluated, and understood the situation, organisations can then determine specific direction that they should follow. They can ensure that they achieve their goals through effective ongoing monitoring.

ISO/IEC 38500 also emphasises that organisations should address their overall USE of IT, not merely the supply. To reduce costs in some aspects of business, it may be appropriate to increase, rather than decrease the spend on IT. There is a fundamental difference between this economic downturn and all those that have gone before – the world is now interconnected through the Internet, and there are many opportunities now available where organisations may use technology to reduce other costs, as well as to access new markets more cheaply, and thereby secure new sources of revenue that may obviate the need for financial cutbacks.

In considering both opportunities to reduce IT spend, and to improve business through the effective use of IT, organisations need to ensure that they are thinking at all times of their overall business systems, and making changes in a way that locks in and maximises the value of the IT changes.

For example, a move to internet enabled videoconferencing as a way of reducing air travel costs will not be successful if the only thing that is done is to put the videoconferencing tools on every employee PC. Effort will be required to build the culture of videoconferencing – developing and refining the virtual meeting processes and protocols – building the capabilities and techniques of individuals so that they are effective and efficient in their use of videoconferencing as they were in a face to face meeting. Leadership from the top will be important. An instruction to line personnel to cut air travel and use videoconferencing will not be taken as seriously as it otherwise might, if the Chief Executive and top management team continue to insist that all of their meetings are conducted face-to-face.

When evaluating their allocation of financial resources to IT, organisations should consider both their current use (operational or business-as-usual) spend, and their future use (project) spend. In many organisations current spend grows over time, as various elements of cost become embedded and unquestioned. For example, business applications that have fallen into low levels of use may be costing significant amounts in operational resources, that is no longer justified by the levels of business activity. Now may be the ideal time for organisations to thoroughly review – to evaluate – every item of spend in the current use environment, and look at whether there is a business case for continuing that spend. Discovering an opportunity to reduce spend in this way may result in organisations achieving significant overall reductions in operating costs, perhaps to the extent that they actually free up resources that can then be deployed more effectively in new investments.

In the past, organisations that have conducted thorough assessments of their current IT use have discovered applications systems that had no users, despite incurring costs for equipment,

storage, routine operations activities and even for program maintenance. Similarly, organisations have discovered data centre equipment and desktop PCs that are no longer used – but which are still consuming electricity and software licence costs. Perhaps such overheads have crept back into play, offering real opportunity for painless reduction in costs.

Looking at future use, most organisations would now be reviewing their portfolio of investment activity – their "IT" projects. Of course, these should all be business projects – they should be creating required capability for the business and they should therefore be assessed in terms of when, and to what extent they will be creating usable value that will help the organisation endure and emerge prosperous from the economic downturn.

The principles in ISO/IEC 38500 provide a useful lens for considering current and future aspects of IT use.

Responsibility: IT is used as a tool for business, and business executives should be responsible for using the tool effectively to deliver business value. For each current project, there should be a committed business executive who has a clear, well defined need for the project, and a commitment to deliver the benefits that the project should enable. Any project for which there is not such a clearly identifiable and committed business executive is going to have problems with delivering benefits – and so should be a candidate for deferral – or even outright termination. Similarly, operational business applications should also have owners at the executive level, who ensure that the business activities to which the system pertains are operating efficiently and profitably. While it may seem difficult to conceive, the option of simply eliminating "un-owned" production business applications (and their supporting infrastructure) should be considered.

Strategy: Since IT is a tool of business, it follows that all IT spend should be to a business purpose. Is it? Business strategy should drive the projects that are using IT to create new business capability – but sometimes business strategy changes. In such cases, IT activity needs to refocus as well. Of course, a volatile business strategy can result in IT activity being erratic and inefficient as well. Changes in business strategy must, in today's world, consider the realities of how close IT initiatives are to completion, how long they take, and the costs of starting up and winding up IT initiatives. As we discussed above under Responsibility, Strategy choices may also result in operational IT demand changing, providing opportunities to reduce IT spend. Strategy decisions may also be subject to some imperatives that limit choice. Perhaps an intent to exit a line of business may be foiled by an IT supply contract that has years to run (a product of perceived efficiency struck during prosperous times), resulting in continued operation being the more financially effective choice.

Acquisition: Decisions to spend on IT should be made on the basis of formal assessment and research. The classic expression of the preparation for a decision to spend is the business case. But many business cases are not revisited once approved, and what once made eminently good sense may no longer be appropriate. All projects should review their business case, and those that are no longer justified should be closed down – either for the time being, or for good. The criteria about what makes sense may well have changed, and even if the costs and prospective benefits are unchanged, factors such as risk appetite, or competitive pressure may have changed to the extent that a different decision applies now. And the business case for continuing need not be limited to projects. A business case framework can be a powerful way of evaluating the operational spend as well – looking at systems and major budget items, to consider whether they should be continued, reduced or eliminated.

Performance: Ensuring that IT performs well whenever required may seem like an inappropriate focus in times of austerity. But there can be significant opportunities. In terms of costs, poor performance (throughput, service time, frequency of problems) can all generate costs that organisations would rather not have. Overhauling and improving the reliability of systems may result in cost savings. From a human resources and skills perspective, organisations need to secure and retain the right complement of people to enable them to use and deliver IT effectively. During austere periods, when poorly governed organisations unthinkingly cast off highly skilled personnel, there are opportunities to gain new staff who will help improve the overall performance (read productivity) of the organisations IT team, and at the same time increase the organisations ability to prepare positively for the coming economic upturn. In terms of projects creating new capability, it is essential to focus on ensuring that their benefits are real, and delivered. Organisations should be emphasising the management effort required to ensure that benefits are delivered, and they should ruthlessly

pursue the target benefits as a key means of offsetting the otherwise negative consequences of the downturn.

Conformance: At first glance, the Conformance principle may seem to have little to do with managing budgetary constraint. But one application of the principle is as a moderator – a reminder to not cut too deeply. No organisation today can operate without IT, and thoughtless reduction in spend and capacity may result in the loss of capability to maintain minimum acceptable standards. As systems nowadays are critical to many aspects of legal conformance, it is imperative that the essential capabilities are retained. This also applies in the context of retiring systems – there may need to be assurance that essential data and capabilities for historical references are retained and accessible.

Human Behaviour: People are still at the heart of most organisations use of IT. During the IT industry downturn of the early 2000's (surely recently enough to still be remembered by most business leaders), many organisations ruthlessly reduced IT costs by firing long term experienced staff. What they discovered, some of them quite soon afterward, was that those staff held valuable corporate memory and essential skills that would be needed again in the future. But in 2005/6/7, when IT activity was ramping up again, many of those who had been made redundant, having enjoyed profitable long term careers, had retired permanently, leaving organisations desperately short of top level skill and repeating past learning curves and mistakes at significant cost.

They say that in life, two things are certain. As the experience of the past few months has reminded us, there is another certainty – economic change. In the past, in the face of economic downturn, there was also the certainty that organisations would make unwise choices when deciding how to prioritise their IT spend in the face of economic misfortune. BS/ISO/IEC 38500 provides a new frame of reference for decisions about prioritising and re-allocating IT spend. Those organisations that exhibit good corporate governance of IT, as described by the principles in the standard, are likely to make wiser choices that will position them more strongly for their emergence from the economic downturn.

The best organisations will find ways to increase the value of their IT spend – to maximise its investment value – rather than simply cutting the budgets and constraining their own performance. The best organisations will reflect the behaviours recommended in BS/ISO/IEC 38500 – and if they don't already reflect those behaviours, they will begin to inculcate them throughout their top management right now!

Driving Business Value From Investment in IT

By Paul Williams

In today's economy, companies increasingly must be responsive to, and capable of, change—and business change usually involves IT. Innovative use of technology, coupled with effective governance of IT, can be significant drivers of business value and can lead to transformational change, but, all too often, organizations are not taking full advantage of valuable IT-related opportunities.

IT is often the largest expenditure category, excluding staffing costs, within many enterprises. Without a formal approach to IT governance, it is difficult for companies to get a clear and comprehensive picture of exactly how much money is being spent and how much value is being realized. Compounding the problem, the greatest portion of IT spending is often allocated to maintenance and operational costs for legacy system technologies that often do not in themselves add value—a draining commitment that leaves little money available for technology that supports and enables strategic plans or game-changing opportunities. Unsurprisingly, then, even though companies often spend a great deal of money on IT, they fail to see concrete, measurable business value resulting from the investment.

In addition to the risk of choosing the wrong investments, enterprises can fail to achieve maximum IT value through common errors including:

- They avoid risk rather than accepting it as a part of doing business.
- Even if the proposed investment is identified as risky (which most value adding investments are) the risk may not be properly managed or the 'risk premium' may not be factored into the expected return.
- Governance arrangements for IT are not effective, or are viewed as an isolated discipline.
- The full life cycle of the IT investment is not controlled.
- Management does not have a clear understanding of its critical role the system for governance of IT.
- The business and IT functions fail to properly communicate with each other – a common

failing that should not occur in an effective system for governance of IT.

Fortunately, all organizations can establish effective arrangements for governance of IT using established guidance and frameworks, without spending a great deal of money. Indeed it has been proved by research from, for example the Sloan School at MIT, that the returns from implementing effective governance will far outweigh the costs of establishing it.

Putting "IT Governance" Into Practice

The very first step toward effective governance of IT is establishing a shared understanding of what the discipline really means for the enterprise. The term "governance" can refer to a wide range of activities and concepts, so it is critical to have a common definition that communicates the organization's primary objectives. Fundamentally, governance of IT focuses on two main goals: delivering IT value to the business and mitigating IT risks. To accomplish both of those goals, IT must be aligned, and preferably integrated, with the business and resources must be prioritized and allocated properly and fairly.

According to *Unlocking the Value of IT Investments*, a new publication by the IT Governance Institute[1], the next step needed to implement effective IT governance and realize maximum value from IT investments, is to ask the following four questions:

The strategic question: Are we doing the right things?

This broad question addresses the following concerns:

- Are the enterprise's investments in line with its vision?
- Are its investments consistent with its business principles?
- Are its investments contributing to strategic objectives, such that the enterprise is getting optimal benefits, at an affordable cost, at an acceptable level of risk?
- Are the IT services, assets and other resources resulting from the investments focused on real business needs and priorities?
- Does the enterprise know and understand the total investment in IT?

The architecture question: Are we doing these things the right way?

This question requires an enterprise to address the following concerns:

- Are the investments in line with the enterprise's architecture?
- Are the investments consistent with the architectural principles and standards?
- Is the enterprise leveraging synergies among its investments?
- Are IT services delivered based on optimal use of IT infrastructure and other assets and resources?

The delivery question: Are we getting these things done well?

To answer this question, the enterprise must examine the following:

- Does the enterprise have effective and disciplined management, delivery and change management processes?
- Does it have the necessary competent and available business and technical resources?
- Are services delivered reliably, available when and where required, and secure?

The value question: Are we getting the benefits?

Answering this question fully requires knowledge of the following:

- Does the enterprise have a clear and common understanding of what constitutes value?
- Does it have a clear and shared understanding of the expected benefits?
- Does it have clear accountability and relevant metrics for realizing the benefits?
- Is there an effective benefits realization process over the full economic life cycle of the investments to ensure optimal business value?

Implementing comprehensive arrangements for governance of IT can be aided by use of a well-recognized framework, such as COBIT, that provides a common language and measurable objectives. A framework should help identify what decisions must be made, who is involved with making them, how they are made and what the process is for carrying out the decisions. It should also ensure that results are monitored and measured, and corrective actions are taken when necessary. Stock market analysts are increasingly monitoring IT investment performance to provide guidance to potential investors and divestors, so a formal, tested approach to governing the investments is essential.

Delivering Change

In addition to asking and answering these difficult, but critical, questions, and putting a guiding framework in place, implementing effective IT governance often requires cultural and behavioural changes.

[1] *Unlocking the Value of IT Investments* is available as a free download at *www.itgi.org.*

The most important enabler for such change is strong commitment and leadership from the organisation's senior executives. All of them must be dedicated to championing effective governance of IT and must clearly define and communicate the governance objectives to staff. It is essential to remember that the focus is on enterprise governance of IT and not just how the IT function governs itself.

Successful governance of IT depends on a strong partnership between the business and IT, to ensure that IT has a clear understanding of business objectives and the business is fully appraised of technology-related problems and opportunities. This will enable a collaborative approach to strategy and a common focus on creating business value from IT expenditures.

Achieving Success

Implementing effective governance of IT, need not involve reinventing the wheel. Most enterprises have some elements of an effective system for governance of IT (although they may not recognize it as such) that they can formalize and build upon. Additionally, enterprises can assess how they compare with other similar organizations and model the efforts of other well-governed organizations. The following are 10 characteristics of organizations that have implemented successful governance of IT programs:

1. They defined and demonstrated the need for governance of IT.
2. They integrated governance of IT with governance of the enterprise.
3. They defined the scope for the governance improvement program, agreeing on deadlines and priorities and communicating the plan to stakeholders.
4. They determined the risks and adjusted the scope accordingly.
5. They set up the enterprise to execute the program successfully by adopting a governance framework, defining key participants, and creating relevant policies and procedures.
6. They assessed the situation by asking pointed questions, such as "How do we currently perform, and how should we perform?", to address any gaps in their existing approach.
7. They agreed on an improvement strategy by prioritizing projects in line with key business objectives and approved the discretionary projects that promised the optimum investment return.
8. They implemented the improvements using best practices and innovative ways to enable organizational change.
9. They measured and monitored results, providing top management with scorecards and clear reports—never missing an opportunity to communicate success.
10. They sustained the program to ensure that the IT governance program evolves as the business and IT strategy evolves.

The most important attributes of success are joint top level business and IT ownership of the governance initiatives and commitment to seeing it through for the long term.

Conclusion

Organizations worldwide are realizing that, regardless of their size or industry, information and IT enablement are strategic business assets, and IT governance is essential for economic success. Proven practices to realize value from IT and deliver reliable and secure IT services have been available for more than a decade. Many are available at no cost through organizations such as ITGI. Embracing these best practices does not have to be complex or expensive, and the return can be tremendous.

Paul Williams is chairman of the ISACA Strategic Advisory Group and IT governance adviser to Protiviti.

Infonomics Calendar

The Infonomics calendar for December is BUSY!:

- 1-2 December: Conference and Half day workshop, Wellington; www.yourconference.info
- 3-5 December: Standards Workgroup meeting, Wellington;
- 6 December: Meeting Standards Australia to plan the work of the Australian committee through 2009, including a comprehensive review of who is involved in the standards process.
- 9 December: ASL/BiSL Foundation Conference, Netherlands. www.asl-bisl.org/programma08 and www.youtube.com/watch?v=qbBJ8FQfZKY

The 2009 calendar is taking shape, with specific plans forming for events in Britain, Europe, India, Australia, Asia and Canada.

For more details of your opportunities to join an Infonomics briefing, seminar, workshop or masterclass, please refer to the Events page on www.infonomics.com.au.