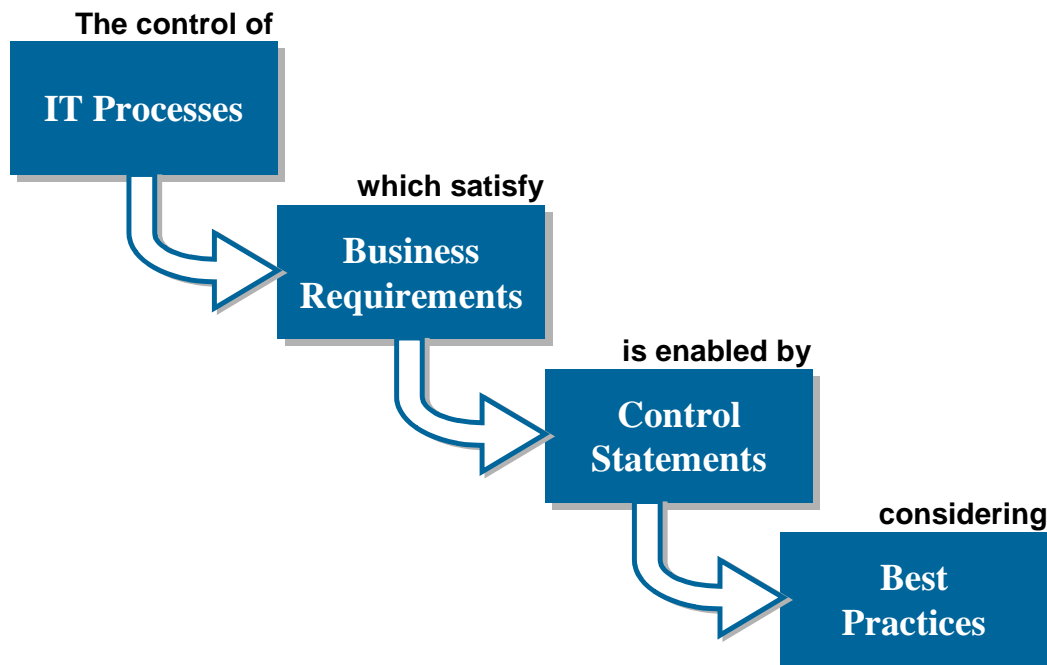


IT Governance

How to integrate IT into a mid-sized Enterprise and enable superior value creation.



AGENDA

- > Why IT Governance is a powerful business tool.
- > Evaluating the potential for value creation – the Governance Scorecard.
- > Using the Scorecard to improve IT integration.

A Powerful Business Tool

In a Cutter Consortium survey, 50% of company executives still regarded Information Technology (IT) as a necessary evil, the IT department purely as a cost center, or worse.

To the other 50%, IT is already a source of benefits such as enhanced reputation, trust, product leadership, time-to-market, reduced costs, and, ultimately, stakeholder value. These companies regard IT as an important value creator that drives effectiveness, increases efficiencies, and elevates competitiveness.

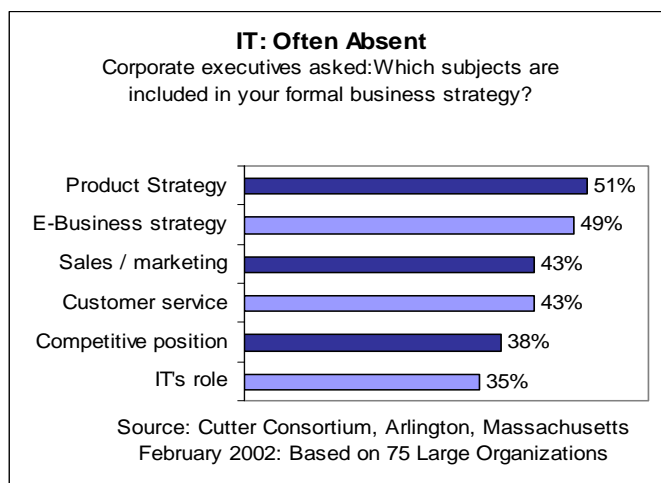
Integration Issues

This new state of affairs presents a fresh set of business management challenges.

The IT department has traditionally been somewhat separated from the rest of the business, often reporting to the Financial function. Frequently, the business and IT communities experience basic difficulty in communicating and in maintaining productive dialogs. Thus, IT becomes disconnected from the mainstream of corporate governance.

The price paid for this lack of integration can be heavy...

- > Weakened competitive position, dissatisfied customers, or business losses.
- > Lowered quality, higher costs, and missed deadlines.
- > Efficiency and processes negatively impacted by poor quality of deliverables.
- > Business initiatives inadequately supported by IT and failing to deliver benefits.



The challenge is to integrate the IT community and the

IT Governance...

Provides the structure that links IT processes, IT resources, and information to enterprise strategies and objectives.

Integrates optimal ways of planning and organizing, acquiring and implementing, delivering and supporting, and monitoring IT performance.

Enables the enterprise to take full advantage of its information, thereby maximizing benefits capitalizing on opportunities, and gaining competitive advantage.

IT Governance Institute

control of IT in general into the fabric of the whole business, not just isolated areas, and to extend corporate governance to IT processes and activities.

What has been lacking so far is a comprehensive perspective on the control of IT that would...

- > Provide an agenda for evaluation, prescription, and application of improved management processes.
- > Establish common ground between the various communities in the enterprise engaged in the use and delivery of IT.
- > Yield milestones and goals for the advancement of IT integration into the whole business.
- > Be a platform for improved IT governance.

Governance Provides Focus

IT Governance focuses management's pursuit of cohesive goals across the IT and business functions of the organization.

Good governance endeavors to create harmony between IT and the business, ultimately leading to a relationship where IT and other business functions adapt and collaborate in support of enterprise strategies.

The ability to achieve and sustain this synergistic relationship between the IT and other business functions is anything but easy.

We find, in mid-sized organizations, that achieving good governance is evolutionary and dynamic. It requires strong support from senior management, good working relationships between functions, strong leadership, appropriate prioritization, trust, and effective communication. All based

on a comprehensive understanding of the underlying business environment as well as deployed and emerging technology capabilities.

Answers

Despite the size of investments and risks associated with IT, control and governance of the domain has not generally received the level of attention it deserves. Perhaps this is because it requires more technical insight; has its own unique language; and, is an inherently complex subject, making the communication gap between IT and other communities difficult to bridge.

However, the scale of the challenges and the potential rewards of success in dealing with them are driving a great deal of new research into the unique challenges of IT as a management discipline. Professional bodies, larger enterprises, domain experts, and even academic institutions continually research how to better manage IT adoption and investment.

Sometimes this involves the re-targeting of general management techniques. Often it involves a confusing proliferation of theories, tools, and techniques targeting the many and varied elements of IT activity but rarely taking a holistic view of the problem.

One Approach Stands Out

In a crowded field, the work done by The Information Systems Audit and Control Association (ISACA) stands out. The ISACA is a recognized leader in IT governance, control and assurance offering original resources to assist enterprise leaders in their responsibility to make IT successful in supporting the enterprise's mission and goals.

COBIT

The Control Objectives for Information and related Technologies (COBIT) Framework is a seminal work, which we believe is a sound basis for a unified approach to IT performance enhancement. The COBIT Framework is being formally adopted by Global 2000 companies and is the inspiration of related efforts by firms such as Infology, who address the unique needs of mid-sized companies.

“Control Objectives for Information and related Technology helps meet management needs by bridging the gaps between business risks, control needs, and technical issues. It provides good practices across a domain and process framework and presents activities in a sound and logical structure.

COBIT is designed to be the breakthrough IT governance tool that helps in understanding and managing

the risks and benefits associated with information and related IT.” - **ISACA**

"We believe by 2002-03, more than 30-40 percent of Global 2000 companies deploying new technologies and entering new markets with e-products and services will have adopted a COBIT-like risk assessment and balanced risk/reward reporting process,"

Al Passori, vice president, META Group.

In its full complexity COBIT addresses 34 high-level process control objectives robustly supported by an additional 318 detailed process control objectives.

COBIT is more than just a delineation of control objectives. It is a complete framework for the creation and maintenance of a system of processes and controls appropriate to the business.

Our Approach

As a firm, Infology has always sought to provide mid-sized companies with the advantages normally reserved for the largest and most sophisticated enterprises. We adapt and transfer the field tested experiences of large “early adopter” organizations to the mid-sized marketplace.

For Governance work, we use COBIT as the underpinning of fast-paced, pragmatic initiatives attuned to the organizational and resource capabilities of our clients. We scale the COBIT approach to the task at hand using its robust process base to ensure integrity and best practice. We retain all core attributes to permit benchmarking between our clients and other organizations.

For effective governance to be implemented, organizations need to assess how well they are currently performing and identify where and how improvements can be made. This applies to both the governance process itself and to all the processes that need to be managed within IT.

The Governance Scorecard

Control Categories	Process Maturity Levels				
	1. Without	2. Repeatable	3. Defined	4. Managed	5. Optimized
1. Communication	Business/IT Lack Understanding	Limited Business/IT Understanding	Good understanding	Bonding, unified	Informal, pervasive
2. Metrics	Some technical measurements	Functional cost efficiency	Some cost effectiveness	Cost effective; Some partner value	Extended to external partners
3. Oversight	No formal process; reactive priorities	Tactical at functional level	Relevant process across organization	Managed across organization	Integrated across organization
4. Partnership	Conflict; IT a cost of doing business	IT emerging as asset	IT seen as asset; Process driver	IT enables / drives business strategy	IT & business co-adaptive
5. Technology	Traditional office support	Transaction (e.g., ESS, DSS)	Integrated across the organization	Integrated with partners	Evolve with partners
6. Human Resources	IT takes risk, little reward; Technical training	Differs across functional organizations	Emerging as value service provider; Balanced Hiring	Shared risk & rewards	Education/careers/rewards across the organization

Figure 1.

The use of a scorecard greatly simplifies the task of assessment and implementation. It provides a pragmatic and structured approach for measuring how well developed your processes are against a consistent and easy-to-understand scale. Using a process maturity model you can ...

- > Build a perspective of current practices that is shared across internal and external communities.
- > Set targets for future developments based on best practices higher up the scale.
- > Plan projects to reach those targets by defining the specific changes required to improve management.
- > Prioritize project work by identifying where the greatest impact will be made most easily.

Figure 1 provides an overview of the adapted governance scorecard that we have adopted.

Process Maturity Levels

The Process Maturity Levels reflect the following general states of IT governance ...

Level 1 – without process

Processes are not applied at all or are ad hoc. The organization may not even recognize that there is a governance issue to be addressed. Management's approach is chaotic and there is only sporadic, inconsistent

communication on issues and responses to issues. There may be some acknowledgement of the need to capture the contribution of IT to enterprise performance. IT monitoring is implemented reactively to an incident that has caused some loss or embarrassment to the organization.

Level 1 organizations are highly likely to experience significant IT under-performance but have no way of addressing the subject.

Level 2 – repeatable process

There is awareness of IT governance issues. IT governance activities and performance indicators are under development. Management has identified basic IT governance measurements and assessment methods and techniques. However, the process has not been adopted across the organization. There is no formal training and communication on governance standards and responsibilities are left to the individual. IT governance activities are included in the organization's change management process, with active senior management involvement and oversight.

Level 2 organizations can be characterized as beginning the governance process. This ranking tends to reflect attributes realized at local units or functional groups within the overall enterprise. However, overall enterprise improvements remain difficult to achieve. The potential opportunity is beginning to be recognized.

Level 3—defined process

The value of IT governance is understood and accepted. A baseline set of IT governance indicators is used, where linkages between outcome measures and performance drivers are defined, documented and integrated into strategic and operational planning and monitoring processes. Procedures are standardized, documented and implemented. Management has communicated standardized procedures and informal training is established. Performance indicators for all IT governance activities are being recorded and tracked, leading to enterprise-wide improvements. Although measurable, procedures are not sophisticated. Existing practices are formalized. Tools are standardized, using currently available techniques. It is, however, left to the individual to get training, to follow the standards and to apply them. Root cause analysis is occasionally applied. Most processes are monitored against some baseline metrics, but any deviation, while mostly being acted upon by individual initiative, would unlikely be detected by management. Nevertheless, overall accountability of key process performance is clear and management is rewarded based on key performance measures.

Level 3 organizations can be characterized as having established good focus on IT Governance. This level concentrates oversight, processes and communications on specific business objectives. IT is becoming embedded in the business. Level 3 leverages IT assets on an enterprise-wide basis and applications systems demonstrate planned, managed direction away from traditional transaction processing to systems that use information to make business decisions. The inter-organizational technology infrastructure evolves in partnership fashion.

Level 4 – managed process

There is full understanding of IT governance issues at all levels, supported by formal training. There is a clear understanding of “who the IT customer is”. Responsibilities are defined and monitored through service level agreements. IT processes are aligned with the business and with the IT strategy. Improvement in IT processes is based primarily upon a quantitative understanding and it is possible to monitor and measure compliance with procedures and process metrics. All process stakeholders are aware of risks, the importance of IT and the opportunities it can offer. Action is taken in many, but not all cases where processes appear not to be working effectively or efficiently. Processes are updated and best internal practices are enforced. Root cause analysis is being standardized. Continuous improvement is beginning to be addressed. There is involvement of all required internal

domain experts. IT governance evolves into an enterprise-wide process and is becoming integrated with enterprise governance processes.

Level 4 organizations actively manage IT Governance, to reinforce the concept of IT as a value center. Level 4 organizations leverage IT assets on an enterprise-wide basis and focus applications systems on driving business process enhancements to obtain sustainable competitive advantage. A Level 4 organization views IT as an innovative and imaginative strategic contributor to success.

Level 5 – optimized process

There is visionary understanding of IT governance issues and solutions. Training and communication is supported by leading edge concepts and techniques. Processes have been refined to the level of external best practices, based on results of continuous improvement and benchmarking with other organizations. The implementation of these principles has led to an organization, people and processes that are quick to adapt and fully support IT governance requirements. All problems and deviations are root cause analyzed. IT is used in an extensive, integrated and optimized manner to automate workflow and provide tools to improve quality and effectiveness. The risks and returns of the IT processes are defined, balanced and communicated across the enterprise. External experts are leveraged and benchmarks are used for guidance. Monitoring, and communication about IT Governance expectations are pervasive and there is optimal use of technology to support measurement, analysis, communication and training. Enterprise and IT governance are strategically linked, leveraging technology and human and financial resources.

Level 5 organizations enjoy optimal IT Governance. Sustained governance processes integrate the IT strategic planning process with the strategic business process. Level 5 organizations leverage IT assets on an enterprise-wide basis to extend the reach of the available inter-organizational infrastructure into the supply chains of customers and suppliers.

Control Categories

There are six Control Categories, supported by thirty-eight Criteria, that address IT Governance performance.

1. Communication

The exchange of ideas, knowledge and information among the IT and business organizations, enabling both to have a clear understanding of the company's strategies, business and IT environments, priorities and what must be done to achieve them. Effective exchange of ideas and a clear understanding of what it takes to ensure successful strategies are high on the list of enablers and inhibitors to alignment. Too often there is little business awareness within IT or little IT appreciation by the business. Given the dynamic environment in which most organizations find themselves, ensuring ongoing knowledge sharing across organizations is paramount. Many firms choose to draw on liaisons to facilitate this knowledge sharing.

2. Metrics

The use of measures that demonstrate the contribution of IT resources to the business, in terms that the business understands and accepts. Too many IT organizations cannot demonstrate their value to the business in familiar terms. Frequently business and IT value metrics differ. Service levels that assess IT's commitments to the business have to be expressed in terms that the business understands and accepts. The service levels should be tied to criteria that clearly define the rewards and penalties for surpassing or missing the objectives. Frequently organizations devote significant resources to measuring performance factors. However, they spend much less of their resources on taking action based on these measurements.

3. Oversight

The degree to which the authority for making IT decisions is defined and shared among management, and the processes managers, in both IT and business organizations, apply in setting IT priorities and the allocation of IT resources. Ensuring that the appropriate business and IT participants formally discuss and review the priorities and allocation of IT resources is among the most important enablers/inhibitors of alignment. This decision-making authority needs to be clearly defined.

4. Partnership

The relationship between the business and IT organizations, including IT's involvement in defining business strategies, the degree of trust between the two organizations, and how each perceives the contribution of the other. Giving

the IT function the opportunity to have an equal role in defining business strategies is obviously important. How each organization perceives the contribution of the other, the trust that develops among the participants, ensuring appropriate business sponsors and champions of IT endeavors, and the sharing of risks and rewards are all major contributors to mature governance. This partnership should evolve to a point where IT both enables and drives changes to both business processes and strategies.

5. Technology

The extent to which IT provides appropriate and adaptable systems and services in support of the evolving needs of the business. This set of criteria tends to assess information technology maturity. The extent to which IT is able to:

- > Go beyond the back office and the front office of the organization;
- > Assume a role supporting a flexible infrastructure that is transparent to all business partners and customers;
- > Evaluate and apply emerging technologies effectively;
- > Enable or drive business processes and strategies as a true standard; and
- > Provide solutions customizable to customer and vendor needs.

6. Human Resources

This includes practices such as training, performance feedback, encouraging innovation and providing career opportunities, as well as the IT organization's readiness for change, capability for learning and ability to leverage new ideas. Skills include all of the human resource considerations for the organization. Going beyond the traditional considerations such as training, salary, performance feedback, and career opportunities, are factors that include the organization's cultural and social environment. Is the organization ready for change in this dynamic environment? Do individuals feel personally responsible for business innovation? Can individuals and organizations learn quickly from their experience? Does the organization leverage innovative ideas and the spirit of entrepreneurship? These are some of the important conditions of optimized organizations.

Using The Scorecard

We have adopted a seven-step approach that focuses on understanding evaluation criteria, maximizing process enablers, and minimizing inhibitors.

1. Set the goals and establish a team.

Ensure that there is an executive business sponsor and champion for the assessment. Next, assign a team of both business and IT leaders. Obtaining appropriate representatives from the major business functional organizations: Marketing, Finance, R&D, Manufacturing and Distribution is critical to the success of the assessment. The purpose of the team is to fairly score the IT Governance ranking. Once the process is understood, the team is expected to define opportunities for enhancing the harmonious relationship of business and IT.

2. Understand the business-IT linkage.

The IT Governance Scorecard is an important tool in understanding the business-IT linkage. The team evaluates each of the six criteria. A trained facilitator can be valuable in guiding the important discussions.

3. Complete the scorecard.

The effort depends on the number of participants, the presence of an experienced facilitator, the degree of consensus required, and the level of detail of the recommendations. Each of the criteria is assessed individually by a team of IT and business unit executives to determine the ranking. The scorecard permits any criterion to be allocated to two or more rankings if there is an overall recognition that the organization truly has an uneven performance. While the scorecard anticipates each criterion, within a control category, will be equally weighted, the team can agree to modify the weighting. The overall ranking is calculated using the category weightings. These have been preset using feedback from many users of the scorecard, but can be modified. Generally, it is the discussions that ensue during the process that promote understanding of both the current maturity level of the organization's governance and how the organization can best proceed.

4. Analyze and prioritize gaps.

The Bottom Line

Focus on IT Governance can raise the value of IT to a higher level. We believe mid-sized companies should strive to attain an overall scorecard ranking in the range of 2.8 to 3.5 with some performance criteria reaching Level 4 performance. Infology does not believe that mid-sized companies can derive sufficient benefit from an overall Level 4 or 5 ranking to justify the investment required to achieve the result. Our pragmatic approach provides significant improvement with timely return on investment, while working in a framework guiding the strategic direction for future improvements.

The team must remember that the purpose of this step is to identify activities that will improve Business-IT integration. Once it is understood that the different opinions held by the participants reflect the opportunities for improvement, the group agrees on ranking. The gaps between where the organization is today and where the team believes it should be in the future are prioritized after consideration of value to the business and ease of completion.

5. Specify actions.

The prioritized list of gaps will drive focus on specific actions. Build a governance roadmap with clearly defined deliverables, ownership, timeframes, resources, risks, and measurements for each of the prioritized gaps.

6. Choose and evaluate success criteria.

This step necessitates revisiting the goals and regularly discussing the measurement criteria used to evaluate the implementation of the roadmap projects. The review of the measurements should serve as a learning vehicle to understand how and why the objectives are or are not being met.

7. Sustain improvement.

Some problems just won't go away. Why are so many of the inhibitors IT related? This last step in the process is often the most difficult. To sustain the benefit from IT, a "Sustained Improvement Behavior" must be developed and cultivated. By adopting such behavior, companies can increase the potential for a more appropriate level of IT Governance and reinforce their ability to gain business value from IT investments. Hence, continuously improving IT governance standards to improve IT integration is key.



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and enable superior value creation.*

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This white paper builds on a body of work which Infology uses to assess and improve IT performance through IT Governance.

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