

GOVERNANCE OF INFORMATION TECHNOLOGY (IT)

Chapter 5

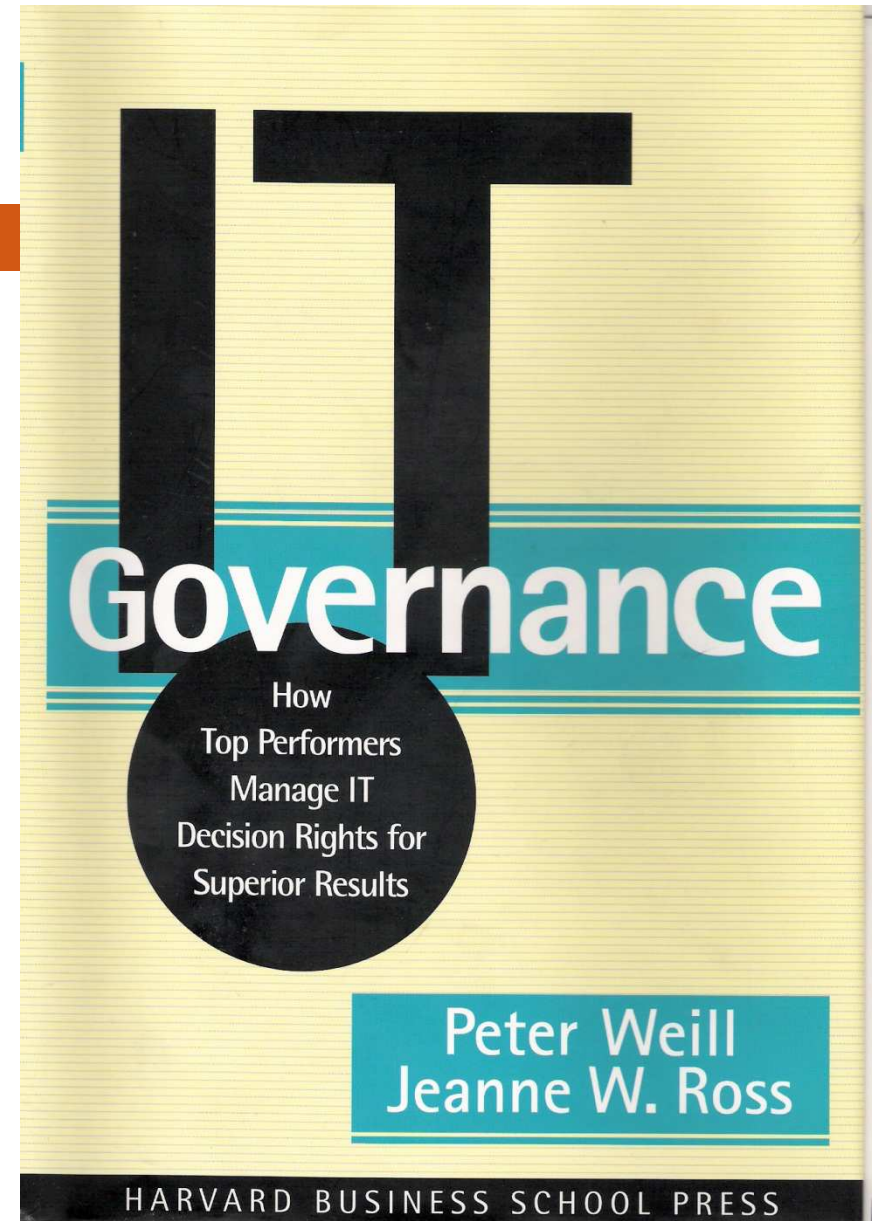
“To govern is not to solve problems, but to silence those who cause”.
Giulio Andreotti (1919-2013)

Summary

1. Introduction. Governing IT.
2. Management vs. Governance.
3. Decision-making and ...
4. ... structures of governance of IT.
5. Starting a framework for IT governance in their company without standards.
6. Business strategy, performance and governance of IT.
7. Align IT: indicators of progress.
8. The role of the CIO: IT leadership.
9. The value of IT.
10. ISO 38500, a conceptual model: the six principles of the standard.
11. Adapting the conceptual model of governance to the reality of the company.
12. Example Apps to aid decision-making for CIOs
13. Example Application Portfolio Management
14. To govern public enterprises, The 4 "E's"

Basic Reference

- **IT Governance: How Top Performers Manage IT Decision Rights for Superior Results by Peter Weill, Jeanne Ross (2004)**





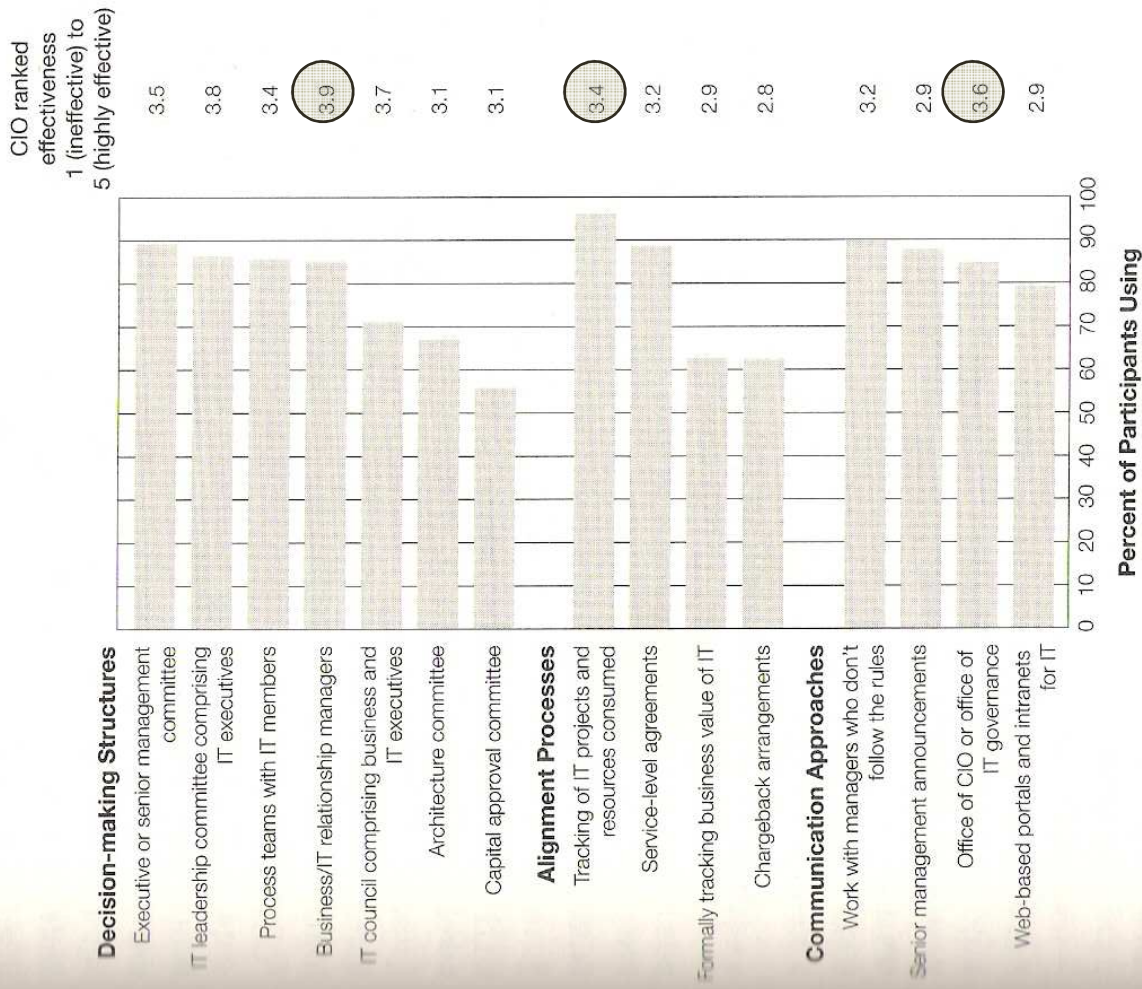
5. IT governance mechanisms

- There are three different types of mechanisms to move the governance of IT:
 - Decision-making structures: roles are responsible for IT decisions, such as committees, executive teams, managers ICT + business, ...
 - Alignment processes: they are formal processes to ensure that the daily behaviors are consistent with IT policies and provide the input / output for decisions.
 - Communications: they are ads, canals and educational efforts to disseminate the principles of IT governance, and policies and decisions that have been taken



FIGURE 4-1

Common Governance Mechanisms



Research conducted at 256 enterprises in twenty-three countries.

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5. IT governance mechanisms

- Decision-making structures:
 - Business monarchy:
 - Through executive committees vary greatly depending on the nature of the company:
 - CEO & senior executives (DBS Bank)
 - Subset of senior executives (ING)
 - Subset of senior executives + CIO (UPS, Dow Corning)
 - ...
- Federation:
 - Through committees of senior executives from all business units (Brady Corporation, Old Mutual South Africa) including CEO, CFO, CIO.



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- IT monarchy:
 - IT equipment leadership
 - IT functional heads, CIO, responsible for the business units
 - It usually commission decisions on infrastructure and architecture
 - 85% of companies have used this mechanism
 - Committees architecture
 - Technical experts, usually collaborates with the previous (Campbell Soup)
 - 85% of CIOs have a committee of architecture

5. IT governance mechanisms



- Processes of Alignment
 - The decision-making structures are the first step in designing the governance of IT but effective governance are not only decisions
 - Alignment processes are technical IT management processes to ensure that the entire organization is involved in the effective use of IT.
 - Should "bring everybody on board" both providing input to decisions as disseminating the output of decisions

5. IT governance mechanisms



- The approval process of IT investments
 - It serves to ensure that investments generate sufficient returns for the company in relation to other alternative investment opportunities.
 - Many companies use standardized application forms IT investment to estimate metrics such as ROI or project risk.
 - No standard forms= decision makers are complicated to compare projects



5. IT governance mechanisms

- The approval process of IT investments
 - However, forms can not tell how a given project contributes to the strategic goals of the company:
 - Many companies let their business units to set their priorities, so that the investment committees determine the set of projects that provide the greatest strategic benefits.
 - UPS organizes its investments around its nuclear processes (core)
 - USAA has an Integration Steering Committee to bring together all the strategic priorities of ICT projects with no ICT. A high% of the investments are for the management of customer relationships, e-commerce, workflow and intranet.

5. IT governance mechanisms



- The approval process of IT investments
 - Without an effective approval process IT investments, money invariably goes towards local solutions rather than business objectives. Thus, the benefits are overestimated because it fails to jointly consider the impact of the combined projects
 - This process is critical for determining whether IT is enabling strategy or simply a huge spenditure

5. IT governance mechanisms



- Exception process architecture
 - Technology standards are critical to the efficiency of IT, but occasional exceptions are not only appropriate but are necessary.
 - Exceptions allows companies to learn.
 - Companies use the exceptions process to meet unique business needs and detect when the existing standards may be are becoming obsolete
 - The exceptions are an escape valve to reduce organizational pressures



5. IT governance mechanisms

- Service Level Agreements (SLA)
 - 90% of companies have a list of their services, alternative levels of quality and related costs.
 - Through negotiations IT services and business units, SLA leads to joint services offered and their costs.
 - These negotiations clarify the requirements of the business units, reporting government decisions on infrastructure, architecture and applications required.
 - SLAs are used to compare with external suppliers, with the result or adjust the internal cost or outsource the service
 - Commonwealth Bank of Australia, estimated to save 20% of IT costs through outsourcing

5. IT governance mechanisms



- Service Level Agreements (SLA)
 - The SLA also cause the business units are aware of their requests.
 - Not the same response time of 3s for Web transactions than less than 1s one obviously on costs, either.
 - The SLA force IT units and external providers to think that "sell" their services and constantly seek to reduce their costs.

5. IT governance mechanisms



- Service Level Agreements (SLA)
 - The challenge of translating Business service requirements in IT services
 - IT costs are personnel, process time, storage capacity, etc. Business units require services such as billing, web access, fast response time for queries ...
 - IT units must translate their costs to charges that the business units can understand.
 - The SLA have value if they serve to communicate, lower costs and better use of resources
 - Well-designed SLA encourage professionalism on both sides of the process of demand and generate value in both entities and in the IT business.

5. IT governance mechanisms



- Charge Policy

- It is the accounting for allocating costs of IT datacenters to business units.
- It serves to reflect the cost of shared services used by business units, can be a supplement or an alternative to the SLA.
- The very nature of IT costs for calculation of costs and spark debate, lack of confidence or not using shared services
- If used effectively, charges can encourage useful discussions on governance decisions about IT.

5. IT governance mechanisms



- Monitoring of projects
 - 90% of companies monitor resource consumption of projects.
 - A variety of tools like capability Maturity Model or as simple as a traffic alert to detect overruns or delays are used.
 - A methodology is needed to measure the efficiency of the milestones in the implementation and quickly identify and correct deviations.



5. IT governance mechanisms

- Formal tracking business value
 - It is difficult to assign value to IT companies IT rule well are those who best understand the value of IT.
 - It is whether the expectations of reducing project costs or increasing profits actually it materializes.
 - With practice, it serves to make more realistic estimates of the benefits of a system
 - JPMorgan Chase tracks the number of projects that do not follow standard technologies to detect the viability of these technologies.



Practising Alignment

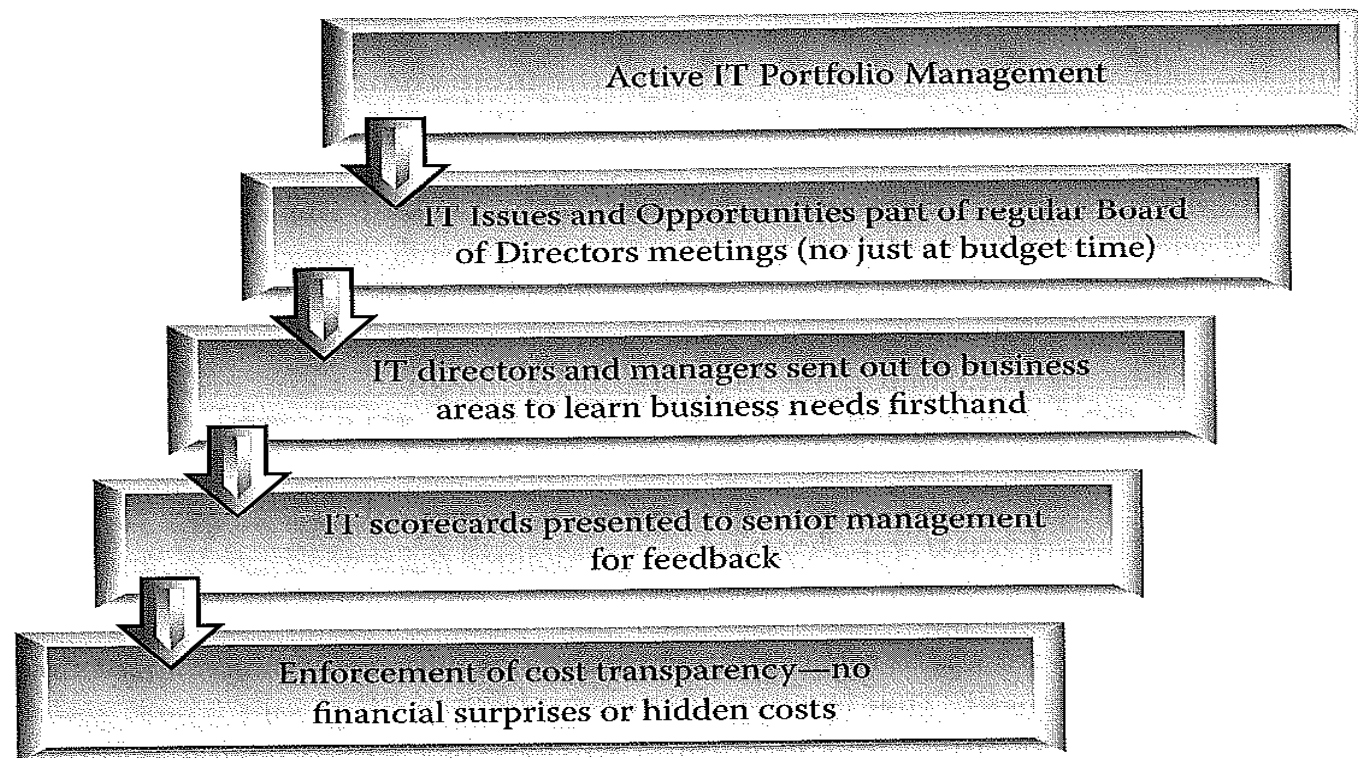


Figure 2.1 Example techniques to improve alignment.

5. IT governance mechanisms



- Communications
 - "Spread the word" broadcast-related decisions and desirable behaviors in the business processes
 - Communication channels:
 - Announcements of senior managers
 - Clarify priorities
 - Demonstrate commitment
 - Marketing principles / architecture / infrastructure ...

5. IT governance mechanisms



- IT communication ways:
 - Formal committees
 - Most committees are governance structures, are a formal mechanism for extending decisions
 - Governance of IT Office or CIO
 - CIO is primarily responsible for ensuring alignment between corporate governance (other assets) and IT
 - It is an effective mechanism to educate the business about governance

5. IT governance mechanisms



- Communication channels:
 - Working with unconformists
 - It is not a thankless job, but necessary
 - Visit the "offended" to explain the decisions and determine why the effect occurs unwanted: ignorance or bad faith.
 - "Social work"
 - Web portals
 - Central communication channel:
investments, innovations, metrics, services



5. IT governance mechanisms

FIGURE 4-3

High-Impact but Challenging Mechanisms

Mechanisms	Objectives	Desirable Behavior	Undesirable Behavior Observed
Executive and senior management committee	Holistic view of business, including IT	Seamless management incorporating IT	IT ignored
Architecture committee	Identify strategic technologies and standards—enforcement?	Business-driven IT decision making	IT police and delays
Process teams with IT membership	Take process view using IT (and other assets) effectively	End-to-end process management	Stagnation of functional skills and fragmented IT infrastructure
Capital investment approval and budgets	Consider IT as another business investment	Prudent IT investing—different approaches for different investment types	Paralysis by analysis Small projects to avoid formal approval
Service-level agreements	Specify and measure IT service	Professional supply and demand	Manage to SLA, not business need
Chargeback	Recoup IT costs from business	Responsible use of IT	Arguments about charges and warped demand
Formal tracking of business value of IT	Measure IT investments and contribution to business value often using balanced scorecard	Makes transparent: goals, benefits, and costs	Separates IT from other assets Focus on money, not value



5. Caso Study: Carlson

- Carlson is a conglomeration of marketing, hospitality and travel valued at about 20 billion in 2004, central Minneapolis:
 - Regent International Hotels, Radisson Hotels & Resorts, TGI Friday's restaurants, Carlson Marketing Group, Carlson Wagonlit Travel, Radisson Seven Seas Cruises, ...
 - 180,000 employees in more than 140 countries

5. Caso Study: Carlson

- In 2000 the CEO, Marilyn Carlson saw that different companies compete rather than collaborate with them => change in desirable behavior and instructed the CIO to define the role of IT in a business built
- Carlson IT principles:
 - Although applications can be different for each company will be presented in a shared web portal and if necessary data will be shared between companies
 - Carlson will have a shared IT infrastructure

FIGURE 4-4

Governance at Carlson Companies



GOVERNANCE ARCHETYPE	DECISION										
	IT Principles		IT Architecture		IT Infrastructure Strategies		Business Application Needs		IT Investment		
	Input	Decision	Input	Decision	Input	Decision	Input	Decision	Input	Decision	
Business Monarchy	Chairman and CEO										Invest. comm.
IT Monarchy		CIO		CIO EAO							
Feudal							All business leaders	Business CIOs Some business leaders CTAC			
Federal			CTAC								
Duopoly					EAO CEOs of business units	IT council CSS board				IT council CSS board CIO	

Most common pattern for all firms.

Governance mechanisms:

CSS board—Carlson Shared Services: CFO and CTO of each operating group

CIO—CIO staff

CTAC—Carlson Technology Architecture Group (one in each operating group)

EAO—Enterprise Architecture Organization

Invest. comm.—Investment committee; subset of executive committee

IT council—CIOs and CTO of operating groups

5. Caso Study: Carlson

- Processes of Alignment:
 - Service Catalogue (valued)
 - For example, if a business wants a service network with a 99.99% reliability, as shown cost at home or by an external
 - The office of the CIO and the different companies share investments balanced architecture as the expected benefits.
 - Each request has an approval process that requires sufficient detail so that it can deploy



5. Carlson

- Processes of Alignment:
 - process architecture exceptions:
 - If a proposal for a business unit does not follow current standards assessed by the EAO, if interest only to a company's decision is passed to the CTAC, if you want more, a working group is set to define a new standard for Carlson
 - Communication Tools
 - Ads for the CEO: "integrated Carlson"
 - Formal committees communicate with leaders of the business units

5. Recap

- The mechanisms of governance must display three characteristics:
 - Simple: to define unambiguously the responsibilities of everyone
 - Transparent: formal processes
 - Adjusted: the best positioned individuals are selected for the decision-making processes

5. Recap

- The mechanisms do not work in isolation, its impact depends on the interactions among the mechanisms and their design must take into account:
 - Choose mechanisms of all three types: decision structures, alignment and communication
 - Limit the number of decision-making structures: avoid contradictions and disconnections
 - Provide members overlapping between structures
 - Implement mechanisms at multiple levels within the company
 - Clarify responsibilities: goals and metrics