Exploring “IT Governance”

IT Practitioner’s Views of the potential and pitfalls of deploying IT

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For many economists and marketers alike, Information Technology rates as one of the most dynamic industries over the last twenty years or more, both as an engine of growth among corporations and in terms of its positive effect on market economies as a whole. The slowdown in technology markets more recently (and certainly since September 11th 2001) has taken some shine off the reputation of IT, but in many ways the characteristics of its dynamism remains: the development of new technologies and products, new trends in the application and management of IT. At the time of writing, the UK and US economies have been said to be bordering on recession, and in this context it has been increasingly necessary to make a rational and convincing case for investment in IT. In fact, the need to demonstrate the value of IT in terms of a sound return on investment, as well as a mechanism for delivering real business advantage, has been rigorously debated in recent years. Perhaps the most positive contribution has been made by the “IT Governance Institute” which argues for responsible management of IT implementation in order to realise the potential of IT.

Fujitsu commissioned Benchmark Research, an independent market research agency which specialises in IT markets, to undertake a review of IT trends, in respect of ‘IT Governance’ and the outsourcing of infrastructure services. Between February and April 2002 Benchmark interviewed 15 senior IT professionals among large UK corporates including retail, finance and the government sector. The research provided a “snapshot” of senior IT professionals’ attitudes towards the value of IT and the use of outsourcing as a means of providing infrastructure solutions; this article offers a flavour of the research findings.

The IT Value Challenge!

“Traditionally IT was seen as another overhead and something that gets in the way rather than helping to move the business forward. Over time, and with more recent projects, people have really been able to see the benefits of IT.”

“IT Strategy is now seen as one of the key ‘underpinners’ of the business – it’s the bedrock of the business”

Organisational perceptions of IT and the extent to which it is valued, is coloured by a combination of cultural and historical factors surrounding an organisation. In our view, however, it is the level of technology dependence and the type of business conducted by the organisation which is most critical in determining attitudes towards the possibilities of IT. The most obvious generic example of technology dependency is in the Finance sector, where increasingly so many aspects of business administration and product developments depend on IT infrastructure.
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For example, the online financial services company ‘Egg’ offers its services entirely online and is, therefore, highly dependent on its internet infrastructure. Similarly, our research included an organisation which delivers its training services exclusively through the internet; in this organisation the role of IT is recognised not only as the primary mechanism for its services, but as an entity which is inseparable from the strategic direction of the business. IT infrastructure is critical to this organisation and it is essential that the infrastructure deployed is not only robust and reliable, but scalable to respond to demands for new products and services.

It is recognised that the level of investment required to provide the prerequisite IT infrastructure which in turn ensures reliable and effective services to organisations and their customers, often requires significant and sustained investment. But as one senior manager commented, “IT infrastructure is where a lot of cost is associated, but there are also a lot of opportunities to drive down these costs”. Through effective management and through standardising systems, there are opportunities to strip out IT costs. But insightful deployment of IT infrastructure can offer even greater rewards by supporting efficient organisation processes and more importantly, new tools or products to market. Our research found much evidence of the view that IT strategy is being increasingly recognised as impacting on enterprise performance and consequently, IT infrastructure and the management there of, is perceived to be central to delivering business advantage. In recent years the view of IT as enabler, and the rise of IT professionals within corporate governance has provided clear examples of IT’s value. Among the organisations included in this research, nearly all the organisations had board level responsibility for IT or board members had risen up the corporate ladder with a technology or IT background.

Although the value of IT can, and is commonly demonstrated through service delivery not possible without key infrastructure, there are underlining pressures to show ‘value for money’ for IT by offering it as cost effectively as possible, and through hard evidence of returns on investment. The competitiveness of markets and ever increasing consumer expectations of new services and service levels underscore the need for responding to the market flexibly and quickly. Technology is part of the solution, but it needs to be applied quickly and cost effectively. At this point the concept of ‘IT Governance’ assumes a new level of relevance, and for many is a new imperative of good corporate governance and is vital for improving share holder value.
The Concept of IT Governance

“IT Governance is concerned with two things: that IT delivers value to the business and that IT risks are mitigated.”
(IT Governance Institute)

The IT Governance Institute maintain there is currently a significant gap between Senior Management’s expectation for IT to be implemented effectively and to deliver real value and the reality of IT implementation. Specifically, they say management expects IT projects to be delivered on time, to facilitate increased efficiency while minimizing IT risks, and for it to offer a return on business value. In reality, the Institute claims, typically IT projects are not implemented on time, and they often do not deliver the innovation or benefits which were promised. The concept of IT Governance is, in short, managing IT effectively so that enterprise and IT objectives are fully aligned.

The IT Governance Institute has published a number of papers and board briefings on the subject, all of which provide a great deal of theoretical and practical information. For the purposes of the research Benchmark undertook, IT Governance was defined as the following:

“IT Governance is how an organisation ensures that its IT sustains current enterprise objectives and supports future strategic objectives through effective performance measurement and risk assessment. It requires that:

- an organisation’s IT strategy is closely aligned with its enterprise strategy
- IT delivers value to the business (both enterprise and IT value)
- IT risks are mitigated against – transparency on risks and effective risk management in place
- IT performance is measured - including the use of balanced scorecards, used to assess goals and measure outcomes/performance against objectives”

Benchmark tested the extent to which organisations were IT Governance compliant through a series of direct attitudinal questions, using the scale “strongly agree” down to “strongly disagree”. (see table below). Respondents filled out a self completion questionnaire on the basis of how their organisation rated against IT Governance indicators. There is little doubt that IT professionals are convinced of the pivotal role of IT in terms of providing opportunities for organisations to realise competitive advantage. Similarly, the value of IT is exemplified through senior IT management’s involvement in enterprise strategy and the perceived importance of IT strategy as that which is complementary to enterprise strategy. To that extent, our research revealed strong signals of IT Governance.
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Collection of Brand Image Data

<table>
<thead>
<tr>
<th>Reaction to IT Governance Statements</th>
<th>Score</th>
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<tr>
<td>IT strategy is as important to the organisation as enterprise strategy</td>
<td>4.2</td>
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<tr>
<td>IT is a necessary competitive resource to differentiate and provide competitive advantage</td>
<td>4.1</td>
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<td>More IT effort is focused on firefighting/troubleshooting than delivering business improvements</td>
<td>3.5</td>
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<tr>
<td>The board of directors is regularly appraised of the IT and business risks the organisation faces</td>
<td>3.6</td>
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<tr>
<td>Senior IT management is involved in setting and evaluating enterprise strategy</td>
<td>3.9</td>
</tr>
<tr>
<td>IT strategy is planned and measured through clearly defined performance goals</td>
<td>3.3</td>
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<tr>
<td>IT projects regularly overrun and go over budget</td>
<td>2.9</td>
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<tr>
<td>IT strategy balances investments between supporting and growing the enterprise</td>
<td>3.7</td>
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<tr>
<td>IT performance is measured against enterprise objectives</td>
<td>3.3</td>
</tr>
<tr>
<td>The organisation adheres to the principles of IT Governance</td>
<td>2.6</td>
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However much IT is valued, or has already gained a prominent role within organisations, it is clear that the wider principles of rigorous and effective IT performance management, a key aspect of IT Governance thinking, falls very short of the mark. IT strategy is not generally being measured through performance goals, IT performance certainly is not generally being set against enterprise objectives, and respondents do not feel their organisations are anywhere close to the ‘academic’ definition of IT Governance.
Pragmatic IT Governance – Theory Into Practice

IT Governance in its ‘textbook’ form was not fully recognised among most of the individuals interviewed. However, in nearly all cases, the spirit of good IT planning as well as the ambitions of aligning IT and enterprise strategy was well appreciated. As we have seen, IT is very much viewed as increasingly important to organisations, and as a business enabler. IT strategy and planning is already increasingly more visible among senior management and, while performance measurement could be more rigorous, most organisations have made some headway in this respect or are planning to do so. It was also notable that most organisations have a stated risk assessment policy, or have engaged consultants to evaluate risk. IT Governance in the strict academic sense is probably unattainable, but our own research suggests willingness and some progress towards a pragmatic level of IT Governance. Assuredly, there is some way to go, particularly in rigorous performance measurement, and it is clear that the ability to fully align IT and enterprise strategy is not likely to be realised to the level defined by the IT Governance Institute, not at least, for the foreseeable future.

Organisations fall short on IT Governance in a number of areas:

Firstly, while the practice of measuring the performance of individual IT projects is widespread and most organisations felt project management processes had improved, there is little evidence of organisations evaluating projects through an extended life cycle or being re-appraised beyond the initial project implementation stage.

Secondly, and most crucially, few organisations are using advanced or comprehensive performance measures of IT against detailed enterprise objectives. One organisation included in the research had invested in internet infrastructure for online customer booking of hotel rooms, and part of the success criteria of its implementation was targeted improvements in occupancy utilisation. This was a rare example of where an organisation embraced the idea of aligned IT and enterprise strategy, to the point of measuring IT success against very clear and specific enterprise objectives. Most organisations felt that IT performance should be measured against enterprise objectives, but in practice it was considered very difficult to achieve, not least because of the creative and intellectual planning required, but also because of a perceived administrative burden.
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Thirdly, while the use of Service Levels Agreements is extensive as a means of mitigating poor supplier performance, the concept of ‘risk and award’ contracts was non-existent among the sample of organisations included in this research. The concept of risk and reward was almost universally recognised: delivery of achieved performance is shared to the benefit of both parties of the contract, while poor performance below the minimum standards enshrined in the contract results in a financial penalty to the contractor. A small number of organisations had investigated the concept in some detail, but none had progressed it to the contract stage, either because the contractor was averse to the level of risk, or because neither party was able to articulate a risk and reward formula that seemed practicable. Our research would confirm the view that apart from several high profile risk and award contracts these types of contracts are likely to be rare. Barclays £35 m contract with IBM, announced in January 2002, which included a reward element worth £7m, is a case in point - high profile, but a rare example.

Infrastructure Solutions, Vendor Management Challenges

Most organisations included in the research took the widely held view, that outsourcing or external sourcing enables an organisation to concentrate on core competencies, while establishing clear and controllable costs. Additionally, it is an easy route for ‘plugging-in’ required skills quickly and effectively.

“you’re calling on a huge group of people with a range of experience, and who work with a vast array of other companies and, therefore, bring in the expertise and experience from those projects. You will never get that experience internally”

But it is also clear that performance levels of suppliers varies enormously, and in many cases the external provider fails to show sufficient ‘strategic input’ into the clients infrastructure solution. This most common criticism in this respect is the view that many suppliers are “too contract driven” and, therefore, struggle to add sufficient value to the relationship beyond the terms of the contract.

It is, however, difficult to generalise. Our own research also found much evidence of well founded supplier relationships, making very positive contributions to the running of clients IT infrastructure.

“I think it varies tremendously from our experience of service providers. Sometimes they have high quality people at the operational level, sometimes the management has a lot to be desired. And then there’s the other side where the management have oversold the product or service, and they cannot deliver”
External IT suppliers, are of course, vital to most organisations, even where outsourcing is at a minimal level. Where a plethora of vendors serve an organisation, there can be intra-vendor relationship problems. Most of the organisations included in our research identified the need to rationalise the number of suppliers to a number which facilitated better management. Using a handful of strategic suppliers may be desirable, but it is not always practical. Some analysts have predicted a trend towards the management of multiple IT suppliers being divested to new lead ‘pivotal’ suppliers. The suppliers would be charged with managing complex intra-supplier relationships and ensuring consistent service delivery. It is too early to verify this development, but our own research indicates the reverse – the continuing desire of clients to be at the centre of vendor management. While effective service delivery is a must for enduring supplier relationships, it is not unusual to receive uneven service levels across different suppliers. That is a joint management challenge, but a challenge which client organisations are more than comfortable leading.

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