

IMPLEMENTING IT Governance

A Practical Guide to Global Best Practices in IT Management

Areas of Work	Description/Components	Deliv
Business Plan/ Objectives (Demand Management)	<ul style="list-style-type: none"> Strategic Business Plan – Vision, Objectives, Financials, Operations, SWOT, Imperatives), Initiatives (Alternatives that Support Imperatives), etc. Capital Planning/Expense Planning & Budgeting Business Performance Management (Key Metrics) Transition from Current State to Future Desired State 	<ul style="list-style-type: none"> Plan Final Bala Met BCG
IT Plan, Objectives, Portfolio Investment and Approvals (Demand Management & Alignment)	<ul style="list-style-type: none"> IT Plan is aligned with the Business Plan –IT portfolio investment, rationalization, selection, prioritization, funding and approval (Portfolio Management Model (for New, Change • Programs and Projects and/or Operational and Infrastructure Functions) IT Capital/Expense Budget IT Performance Management (Define Metrics and Measurement Criteria) 	<ul style="list-style-type: none"> IT St Plan Port (Invi Eng Busi Autl McF Pop
IT Plan Execution & Delivery (Resource & Execution Management)	<ul style="list-style-type: none"> Program, Project and Operating Plans (Capital Plans, Project Plans and Budgets) Policies, Standards, Guidelines & Processes (e.g. Management Control, Enterprise Architecture, Security, PMO, IT Service Management, ITIL, ISO, etc.) Processes (PMO, Help Desk, Security, Control, Workflows, Change, Risk, etc.) Financial, program, project, application, maintenance and operational accountability 	<ul style="list-style-type: none"> Asse PMR ITIL (ISO Frar Infra Ope Con
Performance Management, Controls, Risk, Compliance and Vendor Management (Execution Management)	<ul style="list-style-type: none"> Manage and measure plans, budgets programs, projects, operations & risks Define and track key performance indicators (KPI) & critical success factors Compare planned milestones to actuals and take appropriate corrective actions Outsourcing and Vendor Selection, Tracking, Measurement Business and IT Continuity, Security, Contingency and Disaster Recovery 	<ul style="list-style-type: none"> Bala Perf RFL Mar Sarb Com Man Con
People Development, Continuous Process	<ul style="list-style-type: none"> Human capital development, succession planning and bench strength Organizational, Learning, Maturity Models, Standards Managing Change and Transformation (e.g. culture, environment, etc.) 	<ul style="list-style-type: none"> Ado Eme Gov Star PCM

Dr Gad J Selig PMP COP

Implementing IT Governance

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**A Practical Guide to
Global Best Practices in IT Management**

Dr Gad J Selig PMP COP



Colophon

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Foreword

IT governance is vital to the success of the IT function within corporate enterprises on a global basis. Dr Selig's book on this very topic is a great resource for all IT practitioners, and brings together every critical aspect relating to IT governance.

This book lays out a roadmap to executing within a solid governance model. It looks at all aspects of establishing, maturing, growing and sustaining an IT ecosystem. The combination of case studies and disciplined approaches to building well structured processes, committed leaders and change agents will help the board, executive management and, most of all, CIOs and IT professionals, think through what has worked, what can work and how to deploy IT governance successfully.

Being a CIO for many years in the highly intensive technology industry, I have developed a respect for the process side of running IT like a business. There has always been a need to match governance for IT with the rapid advances in new technology. This requires effective implementation of guiding principles and controls, to ensure corporate enterprises optimize their investments.

In my experience, Information Technology and its effective management is a fundamental cornerstone of any well-run business. Insuring that this cornerstone is optimized is all about optimizing the business side of IT. Successful CIOs recognize that IT has become far more than a means of increasing efficiency and reducing costs. Rather, they see IT as a prime stimulus for, and enabler of, business innovation and transformation – and themselves as key collaborators in a process that develops business and IT strategies in concert.

The need to cultivate a holistic management model for the information technology function is critical, especially in fast growing firms. The opportunity to push a product's time to market, scale the core infrastructure and be a change agent for the firm, are all part of governing the IT activity.

Those IT practitioners, who are faced with how to scale a core delivery function and how to push innovative approaches into the business models, will especially benefit from this book's special focus on communication and building business cases.

I have known Dr Selig more than 10 years and have conducted joint teaching with him. He is a seasoned IT veteran, who has organized a set of proven, fundamental approaches for the IT professional and has a passion for sharing these approaches. In this book, Dr Selig's practical business experience and academic experience provide a great combination that represents a valuable contribution to advance the field. Whether you are a Board member, a CEO, a practicing CIO or a student of IT, this book will guide you through complex business and technological roadmaps that work and are pragmatic.

Richard Lefave
CIO
Sprint Nextel
Overland Park, KS

Dr Selig's book on IT Governance is an excellent addition to the knowledge base of the business of Information Technology.

I have spent 25 years in the IT world, going from technician to running IT groups. I am currently CEO of a company whose success is very heavily reliant on information technology. I have also taught Management Information Systems as an adjunct professor, at the MBA level for several years. Dr Selig's book is an excellent compilation of information on the governance of IT in business.

The book has many of the concepts that I have been familiar with and used over the years, as well as new ideas and information that I had not come across previously. While it is extremely comprehensive, it is written in a very business-friendly way, where the ideas are presented in a bulleted fashion, using easy to follow and find topics.

I look forward to using this book for the executives and management in my own organization, as well as using it myself to teach this course at some point. All the prep work is done – all I have to do is use the book to prepare the syllabus.

IT Governance gives you the Who, What, Where, When and How to properly organize, align and manage the IT function in any organization. Dr Selig provides a good balance between the People, Technology and Process perspectives of IT oversight.

The book reinforces the fact that IT cannot run as an independent silo. It must be aligned properly with the business and all angles of the organization. Dr Selig shows the balance, that IT is there to support the business, but also that, when properly aligned, IT can significantly help the business prosper.

Dr Selig's book is an excellent instructional text, as well as a thorough source of reference. Each topic has a very detailed list of informational details. It is a must-have for every executive or manager who deals with IT, as well as every professor teaching any business or IT course.

Michael Bodetti
President and CEO,
TNT Expense Management

Preface

There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things, because the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new.

The Prince by Niccolò Machiavelli

IT governance has become a major concern of the Board and executive management in enterprises on a global basis. Information technology (IT) has become fundamental and critical to sustain growth, innovation and transformation, reduce and contain costs, and support the ongoing business operations of most organizations.

The author views IT governance as the focal point for more effective IT management, around which there are many important issues such as alignment, leadership, planning, execution, accountability, managing change, key performance indicators and related topics. In other words, superior IT governance represents the path to world-class IT management practices.

This pragmatic and actionable ‘how to’ guide is intended to integrate together current and emerging best practices, industry standards and guidelines, and draw from over twenty IT governance best practice case studies. Effective IT governance focuses on adding and sustaining value and confidence across the business to ensure optimum performance results.

Introduction

According to Susan Dallas at Gartner, *“over 75% of businesses today have ineffective or non-existent IT Governance. Most enterprises should ‘blow up’ their existing governance models and start from scratch.”*

Effective IT governance represents a journey (not an end state in itself), which focuses on sustaining value and confidence across the business. Today, many companies start on a narrow path, or adopt a shotgun approach, and focus on the compliance component (eg Sarbanes-Oxley and others) of IT governance, without developing a more comprehensive framework, with a prioritized roadmap based on the highest value delivered to the organization.

In reviewing the current literature, completing over twenty case studies and conducting numerous private and public IT governance workshops and consulting assignments, both domestically and internationally, over the past few years (attended by thousands of executives, managers and practitioners) on IT/Business Alignment, Planning, Deployment, Program/Project Management, IT Service Management, Outsourcing, Governance and Performance Management, it is clear that much has been written and documented about the individual components of IT Governance. However, much less has been written about a comprehensive and integrated IT/Business Alignment, Planning, Execution and Governance approach; a balanced approach consisting of both a strategic top-down framework and roadmap, together with bottom-up implementation principles and practices, which address the broad range of IT issues, constraints and opportunities in a planned, co-ordinated, prioritized, cost effective and value delivery manner.

The purpose of the book is not to repeat in greater details what has been published previously, but to describe each of the major components in an overall comprehensive framework and roadmap, in sufficient detail for executives, managers and professionals. It is hoped that the book can serve as a guide for any organization in any industry, to formulate and tailor an effective approach to IT governance for its environment, and to help transition the IT organization to a higher level of maturity, effectiveness and responsiveness.

The market for the book

Many executives, managers and practitioners have expressed the need for a comprehensive, yet practical guide, based on real world experiences, on the subject of implementing IT successfully.

The book has been written by a former business and IT executive and practitioner, who has managed businesses and IT organizations, guided strategic change and advised major public and private organizations on business and IT strategy and governance; he has also completed numerous consulting assignments, and conducted private and public workshops, as well as taught graduate business and engineering courses, on the fundamentals of managing and implementing strategy, innovation, management, IT governance and change.

Our intended audiences include the following groups:

- **Directors of corporate boards** – who have overall fiduciary accountability to provide oversight for the business and key functions of the business
- **Executives** – who are primarily responsible for developing and/or approving business/IT strategy, and then overseeing its implementation and governance (the ‘C’ suite of Corporate Officers)
- **Managers and professionals** – who are primarily responsible for implementing and governing IT in their organizations and institutions
- **Consultants and other advisors** – who are involved in advising, planning, organizing, directing and governing IT initiatives, to help transform businesses and organizations to compete more effectively around the world
- **Academicians, graduate and upper level undergraduate students** – who must teach and master a fundamental understanding of IT, and how it impacts businesses, management, employees, the regulators and investors

The need for a comprehensive, pragmatic and actionable ‘how to’ guide, to help managers and practitioners plan, deploy and sustain an effective IT governance environment and culture, has been expressed by many managers and professionals in the private, public and academic sectors.

Organization of the book

The book is divided into two parts and nine chapters, which cover the three critical pillars necessary to develop, execute and sustain a robust and effective IT governance environment - leadership, people and organization, flexible and scalable processes and enabling technologies.

Part I covers the overview; business/IT alignment, strategic planning, demand management; the integrated IT governance framework and leadership, teams and organization. **Part II** covers the process and technology topics including: execution and delivery management (includes program/project management, IT Service Management with IT Infrastructure Library (ITIL) and strategic sourcing and outsourcing); performance, risk and contingency management (eg COBIT®, the Balanced Scorecard and other metrics and controls) and enabling technologies.

Part I – Leadership, people, organization and strategy

Part I of the book focuses on the chapters covering business/IT strategy, alignment, leadership, teams and organization required to develop and execute an effective IT governance environment.

Chapter 1 – Introduction to IT/business alignment, planning, execution and governance

- covers the key IT/business alignment, planning, execution, governance issues, constraints and opportunities; discusses the roles of the Board, Executive Management and Practitioners; reviews the value propositions for IT governance, provides an overview of demand management, decision rights, Balanced Scorecard metrics and how much governance is required; reviews select regulations and their compliance requirements; identifies steps in making IT governance real, and provides an assessment technique to determine the current level of IT governance maturity in an organization, and illustrates a blueprint of a future state of IT governance

Chapter 2 – Overview of a comprehensive IT governance framework and related industry current and emerging best practice frameworks

- describes and illustrates a comprehensive IT alignment, execution framework and its major components; references and brief descriptions of related current and emerging industry best practices, standards and guidelines, including maturity models are discussed such as COBIT® 4.0, Strategic Planning, Portfolio Investment Management, ISO 9001, 17799, 20000 and 27001, PMBOK, OPM3, CMMI, P-CMM, ITIL®, PRINCE2™, PMMM, ITIM, SDLC/IDLC, Lean & 6 Sigma, eSCM, OPBOK, Baldrige, Kano, the Balanced Scorecard and AS 8000 and 8015.

Chapter 3 – Business and IT alignment, strategic/operating planning and portfolio investment management excellence (demand management)

- addresses the business and IT strategic planning cycle, executive steering groups, business/IT integration maturity model, IT planning through execution management flow, IT investment portfolio selection, prioritization and funding attributes and the customer/IT engagement (relationship building) model

Chapter 4 – Principles for managing successful organizational change, prerequisites for world-class leadership an developing high performance teams

- covers key leadership, people and soft skills and competencies required for success; it also covers the attributes of successful traditional and virtual teams in a global environment; it discusses technologies used by virtual teams located anywhere; it also reviews a framework for managing successful change in helping to transition organizations to higher levels of IT maturity and effectiveness

Part II – IT governance processes and technologies

Part II of the book covers an overview of the critical process components of IT governance, such as program and project management, IT Service Management, strategic sourcing and outsourcing, performance management and controls, select enabling technology characteristics, critical success factors and a composite checklist of required IT governance activities.

Chapter 5 – Program and project management excellence (execution management)

- program and project management is a major component of effective IT execution management; it discusses pragmatic and actionable ways to manage programs and projects within a flexible and scalable process, accommodating both fast track and complex initiatives; it provides multiple checklists, templates and metrics to help deliver programs and projects on time, within scope, within budget, with high quality and to the customer's satisfaction and/or get them back on track; it references a self-assessment maturity model that can be used to assess the current and targeted the future maturity level of an organization, and suggests a transition plan to get there

Chapter 6 – IT Service Management (ITSM) excellence (execution management)

- describes the principles and practices of IT Service Management, both versions 2 and 3, providing an overview of ITIL (IT Infrastructure Library) and its twelve process areas, including the relationships of the various processes to each other; specific objectives, benefits, and key performance indicators are covered; it illustrates a self-assessment maturity model for ITSM

Chapter 7 – Strategic sourcing, outsourcing and vendor management excellence (execution management)

- provides the fundamentals of strategic sourcing and outsourcing such as issues, concerns, opportunities, value propositions, outsourcing life cycle, the outsourcing business case, risks, modes of outsourcing (eg on-shore, rural shore, near shore, off shore, best shore, etc.), vendor selection, due diligence, contract negotiations and on-going management roles, including relationship management, metrics, escalation and disengagement considerations

Chapter 8 – IT governance performance management, management controls, risk management, business continuity and enabling technology excellence

- covers the principles and practices of achieving IT performance excellence using Balanced Scorecard metrics and linking critical success factors (CSFs) to historic and predictive key performance indicators (KPIs); it reviews COBIT; it also covers risk management, assessment

and mitigation strategies, and business and IT continuity planning and disaster recovery; finally, it describes a suite of technology tools that support and enable the key IT alignment, execution and governance functions and processes

Chapter 9 – Summary, lessons learned, critical success factors and future challenges

- summarizes the components required to anticipate and proactively (not reactively) implement IT governance effectively; it provides a summary checklist of all of the key components and critical success factors identified in each chapter, required to make IT Governance real, effective and sustainable

Acknowledgements

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Select organizations include: Center for Business Information Technology (CIBT) and Center for Interdisciplinary Business, Engineering, Technology Leadership at the University of Bridgeport and its Board members, many of whom allowed me to conduct case studies or workshops at their facilities, such as ATMI, Avon, Cigna, Columbia University Graduate School of Business, EMCOR, ESPN, FujiFilm USA, Gartner, GE Asset Management, GE Real Estate, Halbrecht Lieberman, HBO, Hyperion (now Oracle), IAOP, ITsqc, IPC Corp., People's Bank, Purdue Pharma, Pitney Bowes, Sikorsky Aircraft, Sprint Nextel, TNT Expense Management, UBS Financial and Unilever. In addition, many extraordinary managers and professionals helped me from the Society of Information Management (SIM), the Project Management Institute (PMI), the Information Technology Governance Institute and its sister organization, ISACA, the International Association of Outsourcing Professionals, the CIO Group and the Advisory Council (TAC).

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In addition, I would like to thank my publisher, Annelise Savill at Van Haren Publishing for her friendship, editorial suggestions and encouragement to complete this project, as well as my editor, Jayne Wilkinson.

I would like to dedicate this book to my wife, mate and life-long partner, Phyllis, for her love, dedication, understanding and support that she has given me throughout our time together. Our children, Camy, Dan, Gabe, our children through marriage, Beth and Andy, and our grandchildren, Jason, Jacob, and Jesse, also inspired me to finish the project, so that I could devote more time to them. I would most of all dedicate this book to my mother, Ruth, who passed away in November 2007, without whom this project would not have been possible.

Dr Gad J Selig
March 2008

About the Author

Dr Gad J Selig is the Director, Masters of Science in Technology Management and Dual Graduate Business and Engineering Degree Programs, and leads the Center for Inter-disciplinary Business, Engineering and Technology Leadership at the University of Bridgeport.

Dr Selig is also the Managing Partner of GPS Group, Inc., a consulting, research and education firm that focuses on strategic marketing and growth, business and technology transformation, IT strategy and governance, program/project management, strategic sourcing and innovation and managing change issues and opportunities, and provides:

- Marketing and Strategy Consulting Services: Business and Marketing Assessments, Plans, Processes and Strategies
- Technology Consulting Services: Information Technology Assessments, Plans, Processes and Strategies
- Education Services: Executive, Management and Professional Briefings, Seminars and Workshops, including select industry certification preparation workshops. Topics covered include: IT Governance, Business and Marketing Strategy and Plan Development, Program/Project Management, Strategic Sourcing and Outsourcing, Managing Accelerating Change and Innovation, World-Class Leadership and High Performance Teams, Strategic Marketing, Demand Creation and Growth and New Product Development and Commercialization.

Select clients include: ATMI, Air Products & Chemicals, Bank General of Luxembourg, Bridgeport Hospital, Bristol-Myers Squibb, Cendant, Cigna, Columbia University Graduate School of Business, CA (Computer Associates), Daston Corp., First Energy (GPU Telecomm.), FujiFilm USA, GE, IAOP, Intel, GSA's Federal Technology Services, JPMorganChase, Keyspan Energy (National Grid), Lehman Brothers, Object Edge, People's United Bank, Purdue Pharma, Robbins-Gioia, Syracuse University, Starwood Hotels and Resorts, TDK, Verizon and others.

Dr Selig has more than thirty years of diversified domestic/international executive, management and consulting experience, with both Fortune 500 and smaller companies in the financial services, utility, telecommunications, software and high technology, manufacturing and retail industries. His experience includes: marketing, sales, planning, operations, business development, mergers and acquisitions, general management (with full P & L responsibility), systems/network integration, strategic sourcing and outsourcing, MIS/CIO, electronic commerce, product development, project management, business process transformation, governance and entrepreneurship. Dr Selig has worked for the following companies: Marketing Corporation of America, Advanced Networks and Services, Continental Group, Contel Information Systems, NYNEX (Verizon), Standard Kollsman Industries, CBS and AT&T.

He earned degrees from City, Columbia and Pace Universities in Economics, Engineering and Business. He has authored three books and over 50 refereed articles and/or conference proceedings. He is a dynamic and popular speaker at industry conferences in the U.S. and abroad.

Dr Selig has been a board member of Telco Research, BIS Group, LTD. and AGS. He is a member of the Academy of Management, Project Management Institute, IAOP, ISACA and others. He holds a top secret clearance with the U.S. Federal Government.

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Table of contents

Foreword	V
Preface	VII
Introduction	VIII
The market for the book	IX
Organization of the book	X
Part I – Leadership, people, organization and strategy	X
Part II – IT governance processes and technologies	XI
Acknowledgements	XIII
About the Author	XV
List of Figures	XIX
List of Tables	XIX

Part I – Leadership, people, organization and strategy

1 Introduction to IT/business alignment, planning, execution and governance	3
1.0 What is covered in this chapter?	3
1.1 Overview	3
Today's business challenges	4
Scope and definition of enterprise governance and its relationship to business and IT governance	5
The Board's role in IT governance	5
Major challenges and issues faced by IT	6
1.2 Definition, purpose and scope of IT governance	9
Who benefits from effective and sustainable IT governance?	10
Value propositions from best-in-class companies on business and/or IT governance	11
Successful IT governance is built on three critical pillars – leadership, organization and decision rights, scalable processes and enabling technologies. . .	11
Results of ineffective IT governance can be devastating	12
The implications of Sarbanes Oxley Act (SOX) and other regulations on IT governance	13
1.3 Linking the CEO role to achieving business growth, improving profitability and creating an effective governance and compliance environment	14

	How much governance is required and when is enough, enough?	14
1.4	Overview of the integrated IT governance framework, major components and prerequisites	15
	Key work breakdown areas required to plan and manage an IT governance initiative	16
	IT governance – decision rights and authority	16
	IT/business steering and governance boards, working committees and roles	18
	IT demand management - sources and classifications	19
	Business/IT governance performance management and the Balanced Scorecard	21
1.5	Steps in making IT governance real	23
	Avoiding IT governance implementation pitfalls	23
	A first step - assess current maturity level of key IT governance components	24
	IT governance - current and future state transformation roadmap	24
	Future state of IT governance – a blueprint concept	25
	Key components of managing large scale enterprise change successfully, and providing the appropriate leadership and environment	25
1.6	Case study – global consumer goods company	29
1.7	Summary and key take aways	29
	Summary	29
	Key take aways	29
2	Overview of comprehensive IT governance framework and related industry best practice frameworks	33
2.0	What is covered in this chapter?	33
2.1	Overview	33
	Limitations of existing models, standards and frameworks	34
2.2	Integrated IT governance framework and roadmap	35
2.3	Select examples of current business/IT alignment and governance reference models, frameworks and standards	36
	COSO - Committee of Sponsoring Organizations of the Treadway Commission	37
	ITIM – IT Investment Management - stages of maturity and critical processes	38
	PMBOK® - Project Management Book of Knowledge	40
	OPM3® - Organizational Project Maturity Model	41
	PMMM® - Project Management Maturity Model	42
	CMMI® - Capability Maturity Model Integrated	42
	PRINCE2 – Projects in Controlled Environments	48
	ISO® 9001–2000 - quality and process improvement	48
	Six Sigma® and Lean – quality, process and VOC (voice of the customer) improvement	49
	ISO/ IEC 20000 – ITSM (IT Service Management) Standard	51
	COBIT® – Control Objectives for Information and Related Technology	53
	ISO 17799 and ISO/IEC 27001- 2005 IT Security Management	55
	Outsourcing Professional Body of Knowledge (OPBOK®)	58
	National Baldrige Quality Award	58
	The Generic Framework for Information Management	59
	Kano Model	60

2.4	Summary, implications and key take aways	63
	Summary and implications	63
	Key take aways	65
3	Business and IT alignment, strategic/operating planning and portfolio investment management excellence (demand management)	67
3.0	What is covered in this chapter?	67
3.1	Overview	67
	The role of the Board and executive management	68
	The changing role of the CIO	69
	Components of effective alignment	70
	Enablers of business/IT alignment	71
	Inhibitors of business/IT alignment	71
	Overcoming alignment obstacles and constraints	72
	Select alignment metrics	73
	Business and IT alignment and demand management	73
	A global insurance company example of a world class IT alignment governance process	74
3.2	Principles of aligning IT to the business more effectively	77
3.3	Setting a direction for improved alignment through planning related processes	79
	Key principles for effective business/IT strategic plan alignment	80
	High level flow – business/IT planning, investment approval, execution and evaluation	82
	Business and IT strategy and plan development frameworks	82
	Business and IT plan outlines	83
	Business and IT strategic planning cycle and alignment	83
3.4	Strategic IT investment portfolio alternatives	86
	The five stages of IT investment management maturity	90
3.5	IT engagement and relationship model and roles	90
3.6	Case study – financial services organization	91
3.7	Summary and key take aways	93
	Summary	93
	Key take aways	93
4	Principles for managing successful organizational change, prerequisites for world class leadership and developing high performance teams	95
4.1	What is covered in this chapter?	95
4.2	Overview	95
	Coping with the realities of change	95
	Major impediments to successful change	96
4.3	Framework for managing accelerating change	98
4.4	Organizing for the IT governance initiative	98
4.5	World class leadership principles and practices	101
	Key leadership and people skills and competencies required for success	101
	Leadership profiles for winning	102
	One CIO's rules for IT service and governance	104

	SMART (specific, measurable, assignable, realistic and time related)	106
	What management expects from an IT governance project manager	106
4.6	Principles for creating and sustaining high performance teams	107
	Problems and issues with teams	108
	A ‘win-win’ team attitude	108
	Building blocks for team development and effectiveness	109
	Select technologies for teams	111
4.7	Summary and key take aways	111
	Summary – checklist for managing accelerating change	111
	Summary – checklist for leadership and effective teams	113
	Key take aways	114

Part II – IT governance, its major component processes and enabling technologies

5	Program and project management excellence (execution management)	117
5.1	What is covered in this chapter?	117
5.2	Overview	117
	Key definitions	117
	Trends in program and project management	118
	Project management skills and competencies	118
	How much program and project management is required?	118
	Why is program/project management important?	120
	The five ‘W’s and 2 ‘H’s of project management	120
5.3	Project management is complex, but has significant value	121
	Major causes of program/project failures and challenges	121
	The cost of program and project management failure	121
	Actions to overcome project management obstacles	123
	Value propositions of project management from leading organizations	123
	Assessing the level of project management maturity in organizations	124
5.4	Principles for achieving excellence in program/project management	125
	Key attributes of successful program- and project-based organizational cultures and environments	125
	Project management life cycle phases and key components	128
	Basic project management mechanics	130
	Project management plan (PMP)	130
5.5	Making the choice – program and project management light or complex	132
	IT request and demand management gate review	132
	Program/project type/scale matrix	134
	Project management life cycle phases and related templates	135
5.6	Program and project governance excellence	135
	Prerequisites for effective project management execution and governance	135
	Program management office (PMO) – roles and areas of focus	140
	The discipline of the ‘eighty hour’ rule	141
	Mandatory and discretionary project management key performance indicators	141

	Sample project management ‘center of excellence’ organization and roles – major multi-national organization	143
5.7	Case study – US Federal Government Agency	144
5.8	Summary and key take aways	144
	Summary.	144
	Key take aways	147
6	IT Service Management (ITSM) excellence (execution management)	149
6.1	What is covered in this chapter?	149
6.2	Overview.	149
6.3	Principles for achieving IT Service Management excellence.	149
	Top concerns of CIOs.	149
	Select best practices for achieving superior IT Service Management.	150
	ISO/ IEC 20000 – ITSM standard overview.	151
6.4	What is ITIL and why is it different?.	152
	History and key elements of ITIL (IT Infrastructure Library)	152
	ITIL value proposition – select leading company examples	153
	Advantages of ITIL to customers, constituents and the IT organization	154
	Potential issues with ITIL	154
6.5	ITIL frameworks, certifications and qualifications.	155
	Background.	155
	ITIL v2 and v3 certification and qualifications	156
6.6	Major ITIL processes and functions	158
	Summary of ITIL Service Management processes – v2	158
	IT Service Support processes and functions	158
	IT Service Delivery processes.	162
	Information Security Management	165
	Summary of new or modified ITIL Service Management processes in v3	166
6.7	Steps in making ITIL real and effective	169
	ITIL process area maturity level ranking matrix.	169
6.8	Case study – global manufacturing company.	170
6.9	Summary and key take aways	170
	Summary.	170
	Key take aways	172
7	Strategic sourcing, outsourcing and vendor management excellence	173
7.1	What is covered in this chapter?	173
7.2	Overview.	173
	Strategic sourcing and outsourcing definitions.	174
	Major outsourcing trends and challenges.	175
	Why do organizations outsource?	176
	Benefits of outsourcing from a customer and service provider perspective	178
	Barriers to and risks of outsourcing.	178
	The information technology balancing dilemma	179
7.3	Principles and practices for outsourcing excellence from a customer perspective	179
	Key principles and practices for outsourcing excellence	180

	Avoiding the major sins of outsourcing	181
	Customer's outsourcing planning checklist	181
	Outsourcing life cycle	182
	Steps in making outsourcing real	184
7.4	Vendor selection, contract negotiations and governance process	184
	Steps in vendor selection and RFIs, RFQs and RFPs	184
	Vendor evaluation criteria and weights	185
	Key contract negotiation pointers	185
	Outsourcing governance process, organization, escalation and metrics	188
7.5	Case study - Telecommunications	189
7.6	Summary steps in vendor/outsourcing selection, negotiations and management and key take aways	191
8	Performance management, management controls, risk management, business continuity and enabling technology excellence	193
8.1	What is covered in this chapter?	193
8.2	Overview.	193
8.3	Principles for achieving performance management and control excellence.	195
	What critical success factors and key performance indicators should be tracked? .	197
	Select examples of additional KPIs in support of IT governance	199
	Governance calendar.	200
8.4	COBIT® and key management controls	203
	IT performance, control and compliance framework	204
8.5	Risk assessment, management and mitigation	204
	Risk management objectives and definition.	204
8.6	Business and IT continuity and protection plan checklist	209
8.7	Enabling technologies to improve IT governance	211
8.8	Summary and key take aways	214
	Summary.	214
	Key take aways	214
9	Summary, lessons learned, critical success factors and future challenges	215
9.1	What is covered in this chapter?	215
9.2	Migration plan for making IT governance real and sustainable	215
9.3	Composite checklist for implementing and sustaining successful IT governance in organizations	216
	Chapter 1: Introduction and executive overview	216
	Chapter 2: Integrated IT governance framework	218
	Chapter 3: Business/IT alignment, strategic/operational planning and portfolio investment management.	219
	Chapter 4: Leadership, teams and managing change	222
	Chapter 5: Program and project management excellence.	224
	Chapter 6: IT Service Management.	226
	Chapter 7: Strategic sourcing, outsourcing and vendor management.	227
	Chapter 8: Performance management and management controls.	229
9.4	Lessons learned	230

9.5	Critical success factors	230
9.6	Implications for the future and personal action plan	231
Glossary		233
References		265
References		274
A.	Strategic Planning, IT/Business Alignment and Portfolio Investment Management	274
B.	Program/Project Management and SDLC	276
C.	Governance, Performance Management, Management Controls, Quality & Risk	277
D.	IT Service Management (including IT Infrastructure Library)	279
E.	Strategic Sourcing, Outsourcing and Vendor Management	280
F.	Leadership, Teams, Managing Change & Innovation	281
G.	External Links	282
Appendix 1 – Sarbanes Oxley		283
Appendix 2 – Select IT governance and other frameworks and standards		293
Appendix 3 – Managing accelerating change and transformation		295

List of Figures

Figure 1.1	Today's business challenges	4
Figure 1.2	Enterprise governance versus business governance versus IT governance	5
Figure 1.3	Major challenges for IT	8
Figure 1.4	Linking the role of the CEO to the success of strategic enterprise initiatives and governance	15
Figure 1.5	Integrated IT governance framework.	17
Figure 1.6	Key work breakdown areas for IT governance	17
Figure 1.7	IT governance decision rights (financial service organization)	18
Figure 1.8	IT/business steering and governance boards, committees and roles	20
Figure 1.9	IT demand management: classifications.	21
Figure 1.10	Select Balanced Scorecard metrics for business and IT governance.	22
Figure 1.11	High level assessment of current state and targeted future state based on the CMMI® model	25
Figure 1.12	IT/business alignment maturity assessment model.	26
Figure 1.13	IT governance – current and future state transformation flow	27
Figure 1.14	Future state IT governance: a blueprint concept	28
Figure 1.15	Case study: global consumer goods company.	30
Figure 1.15	Case Study - Global Consumer Goods Organization	31
Figure 2.1	The generic IT governance model	34
Figure 2.2	Integrated IT governance framework	37
Figure 2.3	High level IT governance maturity levels.	38
Figure 2.4	IT Governance maturity self assessment framework.	39
Figure 2.5	IT investment management maturity stages (ITIM)	40
Figure 2.6	PMI's knowledge areas.	41
Figure 2.7	OPM3 Framework	42
Figure 2.8	PM Solutions' Project Management Maturity Model (PMMM®)	43
Figure 2.8	PM Solutions' Project Management Maturity Model (PMMM®) (cont'd)	44
Figure 2.8	PM Solutions' Project Management Maturity Model (PMMM®) (cont'd)	45
Figure 2.9	CMM/CMMI process areas by maturity level	46
Figure 2.10	PRINCE2 process model.	49
Figure 2.11	Overview of ITIL (IT Infrastructure Library) processes	53
Figure 2.12	COBIT domains, processes and related best practice frameworks	54
Figure 2.13	The Generic Framework for Information Management.	60
Figure 2.14	The Kano Framework	61
Figure 2.15	Enterprise technology architecture.	63
Figure 2.16	Summary of current and emerging frameworks that enable IT governance and continuous improvement.	64
Figure 3.1	IT/Business Alignment Maturity Assessment Template	69
Figure 3.2	IT/business alignment, project selection and portfolio investment management triangle	74
Figure 3.3	Strategic IT investment spend alternatives.	75
Figure 3.4	High level flow: business/IT planning, investment approval and execution	82

Figure 3.5	Business Strategy and plan development framework	84
Figure 3.6	IT strategy and plan development framework	85
Figure 3.7	IT plan presentation template	86
Figure 3.8	Business plan organizational elements	87
Figure 3.9	IT plan outline: financial services company	87
Figure 3.10	IT plan outline: major university.	88
Figure 3.11	IT plan outline: generic.	88
Figure 3.12	IT strategic planning cycle: steps and outcomes.	89
Figure 3.13	Strategic planning process and timetable: manufacturing company	89
Figure 3.14	Business/IT plan initiatives alignment template: manufacturing company.	90
Figure 3.15	Business/IT engagements and relationship model	91
Figure 3.16	Case study - financial services organization	92
Figure 4.1	Framework for managing change and related questions	99
Figure 4.2	IT Organization structure for a food company	100
Figure 4.3	IT Organization structure for a manufacturing company.	101
Figure 4.4	The IT governance skills iceberg	102
Figure 4.5	The leadership competency model.	103
Figure 4.6	Summary of operating characteristics present in world class teams.	110
Figure 4.7	Select technologies for teams	111
Figure 5.1	Key program and project management definitions.	118
Figure 5.2	Project management is complex and requires multiple skills and competencies	119
Figure 5.3	The cost of project management failure.	122
Figure 5.4	Select actions to overcome major project management obstacles	123
Figure 5.5	Project management expertise used as a marketing tool with customers.	124
Figure 5.6	Project management life cycle phases and key components	129
Figure 5.7	Generic project business case outline	131
Figure 5.8	IT project request gate approval process flow	132
Figure 5.9a	Business/technical/financial business case checklist	133
Figure 5.9b	Business/technical/financial business case checklist	133
Figure 5.9b	Business/technical/financial business case checklist (cont'd)	134
Figure 5.10	Program/project type-scale matrix	136
Figure 5.10	Program/project type-scale matrix (cont'd).	137
Figure 5.11	Project management life cycle phases and related templates	138
Figure 5.12	Project type-scale matrix ranking of IT projects.	139
Figure 5.13	Program/project governance and escalation hierarchy	140
Figure 5.14	“Project Management Office”.	142
Figure 5.15	Project management ‘center of excellence’ organizational roles.	143
Figure 5.16	Case study – US Federal Government Agency.	146
Figure 6.1	Benefits map of IT Service Management	150
Figure 6.2	IT Service Management Lifecycle (ITILv3)	156
Figure 6.3	– ITIL v3 Service Lifecycle, related processes and select activities.	157
Figure 6.4	– ITIL v3 – qualification and certifications	158
Figure 6.5	– ITIL v2 – Service Management processes and functions.	159
Figure 6.6	ITIL v2 Process areas: maturity level ranking matrix	170
Figure 6.7	Case study - global manufacturing company	171
Figure 6.7	Case study - global manufacturing company (Cont'd)	172

Figure 7.1	The modular corporation	175
Figure 7.2	Outsourcing is a global reality	176
Figure 7.3	Outsourcing motivations – build versus buy	177
Figure 7.4	The information technology balancing dilemma	179
Figure 7.5	Five stages of outsourcing	183
Figure 7.6	Key deliverables and ‘go/no go’ decision criteria by outsourcing stage	183
Figure 7.7	Vendor selection, evaluation, contract negotiations and award process flow	185
Figure 7.8	RFIs, RFQs and RFPs	186
Figure 7.9	Scoring and selecting potential vendors	187
Figure 7.10	Outsourcing governance and escalation roles – customer and vendor	190
Figure 7.11	Case study: Textron and AT&T	190
Figure 7.12	Summary checklist for managing successful outsourcing deals	191
Figure 8.1	A framework for IT performance management, analysis, control and reporting: organizational levels and groups served	194
Figure 8.2	IT governance – How it works: major communications company	196
Figure 8.3	A framework for making IT performance management and management controls more consistent and sustainable.	197
Figure 8.4	The Balanced Scorecard.	198
Figure 8.5	CSFs, KPIs and their key attributes related to IT.	199
Figure 8.6	High level IT Balanced Scorecard metrics used as part of a monthly executive operations review for a financial services organization	200
Figure 8.7	Select Scorecard metrics - financial, project management, Service Management and vendor management, IT HR management and customer satisfaction	201
Figure 8.7	Select Scorecard metrics - financial, project management, Service Management and vendor management, IT HR management and customer satisfaction (cont’d)	202
Figure 8.7	Select Scorecard metrics - financial, project management, Service Management and vendor management, IT HR management and customer satisfaction (cont’d)	203
Figure 8.8	Governance calendar	204
Figure 8.9	COBIT® - IT processes by domain	205
Figure 8.10	Risk analysis process flow schematic	207
Figure 8.11	Risk assessment matrix	208
Figure 8.12	Risk management and mitigation template	209
Figure 8.13	Business/IT continuity plan and checklist outline	210
Figure 8.14	Case Study - Leading Software Company	212
Figure 8.14	Case Study - Leading Software Company (cont’d)	213

List of Tables

Table 3.1	Attributes of aligned and unaligned organizations	72
Table 3.2	IT project screening matrix	77
Table 4.1	Doran's attributes adopted for IT governance (illustrative example)	106
Table 5.1	Trends in project management.	118

Part I – Leadership, people, organization and strategy

Part I of the book covers Chapters 1 through 4. It focuses on an overview of IT governance, alignment and strategy, planning, leadership, world class teams, organization and managing change. It also references current and emerging best practice industry frameworks, guidelines and standards that are useful and applicable to IT governance and its major components.

1 Introduction to IT/business alignment, planning, execution and governance

On Change and Innovation:

*“Never be afraid to try something new.
Remember, amateurs built the Ark,
Professionals built the Titanic!”*

- Anonymous

1.0 What is covered in this chapter?

This chapter contains:

- an overview and execution summary of the key IT/business alignment, planning, execution, governance issues, constraints and opportunities and processes
- discussion of the roles of the Board, and responsibilities of executive management and the CIO
- a review of the value propositions for IT governance
- an overview of IT demand management, decision rights, Balanced Scorecard metrics and how much governance is required
- identifying the steps in making IT governance real
- discussion of an assessment technique to determine the current level of IT governance maturity in an organization, and illustration of a blueprint of an ideal, future target state of IT governance

1.1 Overview

The issues, opportunities and challenges of aligning information technology more closely with an organization, and effectively governing an organization’s information technology (IT) investments, resources, major initiatives and superior uninterrupted service, is becoming a major concern of the Board and executive management in enterprises on a global basis. Information technology (IT) has become a vital function in most organizations, and is fundamental to support and sustain innovation and growth.

Therefore, a comprehensive top-down approach, with bottom-up execution of IT governance, which includes all the activities of business/IT alignment, planning, execution and governance of IT, as well as the leadership of those entrusted with the task, is critical to achieve a cost effective solution. Effective ‘management’ includes the activities of planning, investment, integration, measurement and deployment, and providing the services required to manage a complex strategic asset.

None of this is easy, or obvious, and this pragmatic and actionable ‘how to’ guide is intended to draw from about 200 current and emerging best practice sources, and over 20 IT governance best practice case studies, some of which are featured in the book.

The purpose of the book is not to repeat in greater detail, what has been published previously. Instead, it aims to describe each of the major IT governance components as part of an overall comprehensive framework and roadmap, in sufficient detail for executives, managers and professionals; to serve as a guideline and starting point for any organization in any industry; to develop and tailor a workable and realistic approach to its environment, strategies, priorities, capabilities and available resources; and to transition IT organizations to a higher level of maturity, effectiveness and responsiveness.

Today’s business challenges

The pace of change is accelerating on a global basis. Reducing costs, increasing speed to market, continuous improvements and innovation, greater compliance, more effective accountability, globalization, and more demanding and sophisticated customers, are some of the many pressures facing business and IT executives.

Figure 1.1 illustrates select pressures and trends that organizations must deal with, in a rapidly and dynamically changing global environment.

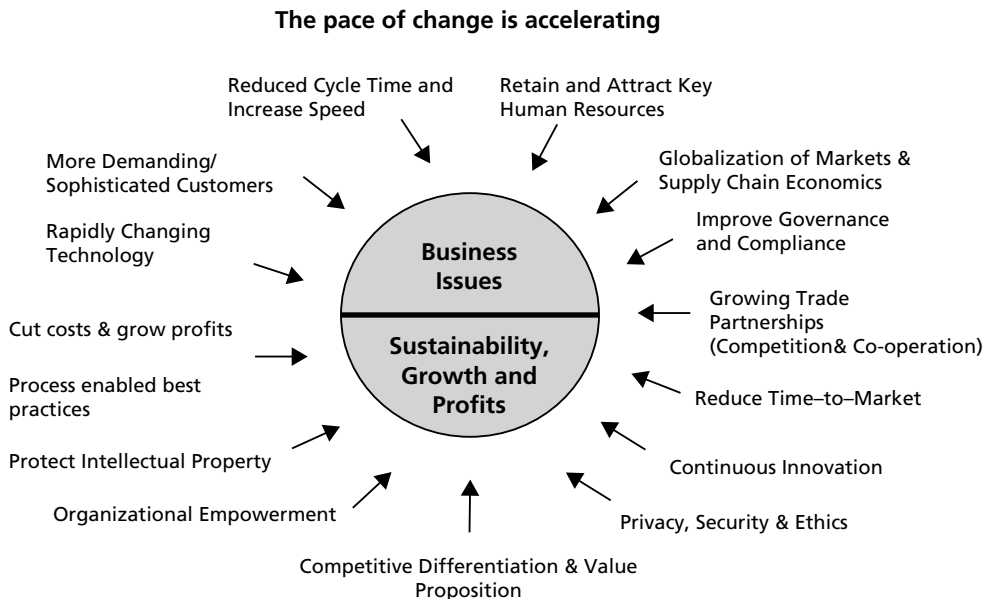


Figure 1.1 Today’s business challenges

Scope and definition of enterprise governance and its relationship to business and IT governance

According to the International Federation of Accountants (IFAC),

“enterprise governance constitutes the entire accountability framework of the organization.”

- International Federation of Accountants (IFAC)

Enterprise governance is the set of responsibilities and practices exercised by the Board and executive management, with the goal of providing strategic direction, ensuring that plans and objectives are achieved, assessing that risks are proactively managed, and assuring that the enterprise's resources are used responsibly.

Enterprise governance deals with the separation of ownership and control of an organization, while business governance focuses on the direction and control of the business, and IT governance focuses on the direction and control of IT. Figure 1.2 compares and differentiates the key characteristics of enterprise versus business versus IT governance.

Enterprise Governance	Business Governance	IT Governance
Separation of Ownership & Control	Direction & Control of the Business	Direction and Control of IT
<ul style="list-style-type: none"> • Roles of Board and Executives • Regulatory Compliance • Shareholder Rights • Business Operations & Control • Financial Accounting & Reporting • Risk Management 	<ul style="list-style-type: none"> • Business Strategy, Plans & Objectives • Business Processes & Activities • Innovation and Research • Intellectual Capital • Human Resource Management • Performance Metrics and Controls • Asset Management 	<ul style="list-style-type: none"> • IT Strategy, Plans & Objectives • Alignment with Business Plans and Objectives • IT Assets and Resources • Demand Management • Value Delivery and Execution Management (PM and ITSMD) • Risk, Change & Performance Management

Figure 1.2 Enterprise governance versus business governance versus IT governance

The Board's role in IT governance

Historically, the Board of Directors of public companies has focused, through committees, on such issues as audit, executive compensation, executive succession and planning.

With the growing importance of IT in an increasing number of organizations, the Board is becoming a committee that focuses on IT strategy, investments and governance as well. Based on a report by the IT Governance Institute,

“IT governance is the responsibility of the Board of Directors and executive management. It is an integral part of enterprise governance and consists of the leadership and organizational structures and processes that ensure that the organization's IT function sustains and extends the organizations strategies and objectives.”

- IT Governance Institute, 2003

Major challenges and issues faced by IT

In our research, we compiled a list of IT challenges and issues, identified by multiple independent sources. There appears to be a common thread running through these issues and therefore, we have summarized them into strategic, value enhancing and execution questions.

Board and executive questions for IT:

- Does the IT strategy align with the business strategy?
- Is the IT investment justified, based on its contributions to the business?
- How likely will IT meet or exceed its plans, objectives and initiatives?
- Is IT being managed prudently or effectively? How is it measured?
- How is IT delivering value? Is there a consistent IT business case format used for justifying IT investments?
- Is IT developing and maintaining constructive relationships with customers, vendors and others?
- Is IT delivering projects and services on time, within scope, within budget and with high quality?
- Is IT staffed adequately, with the right skills and competencies?
- Is there a standard measurement for IT investment across the firm?
- How does IT management and operations compare to other best practice organizations?
- How is IT managing and planning for contingencies, disasters, security, and back-up?
- How is IT measuring its performance? What are the key performance measures?
- How effectively is IT communicating its progress and problems to its constituents?
- What controls and documentation have been instituted in IT? Are they sufficient?
- Does the Board review and possibly approve the IT strategy?
- Is a risk management policy, assessment and mitigation practice followed for IT?
- Is IT compliant to federal, state, country (for global organizations) regulations, and to internal policies and controls?
- Are IT audit policies, procedures and processes in place and followed?
- Is there a succession plan in place for the CIO and key direct reports?

Top issues identified and ranked by over 100 CIOs in a CIO Magazine survey completed in 2006 (CIO Magazine, 2006):

1. align IT strategy with the business strategy and governance
2. meeting the business needs effectively
3. infrastructure and Service Management (reliability and scalability)
4. coping with accelerating change (and become one of the key drivers of innovation)
5. dealing with senior management and the Board (get a seat at the 'C' table)
6. managing costs, budgets and resources (internal and external)
7. keeping up with technology
8. recruiting and retaining staff
9. executing projects effectively (time, cost and resource management)
10. maintaining skills and knowledge (continuous learning)

Select issues addressed by a panel of CIOs of global organizations, such as Pepsi, GE, Ogilvy and Mather and Footstar, at a recent Society for Information Management (SIM) Chapter meeting (Selig, March 15, 2007):

- How do you align the IT strategy with the business strategy? What processes and tools are used? Who is involved? What worked? What did not?
- How, and in what areas, is IT delivering value to your organizations? How is it measured?
- How do you ensure that IT delivers on its plans and commitments, and executes effectively? Program/project management? IT Service Management and delivery? Security? Business and IT continuity? Performance metrics? Other?
- How is IT developing/sustaining constructive and positive relationships with its customer community? Executive management? Vendors?
- What IT controls, governance and compliance frameworks, processes, tools and techniques are being used? What worked? What did not?
- Has your business aligned itself with technology, innovation, the customer, and is it open to managing accelerating change?
- How is IT performance measured? What KPIs are used at CIO level? Above CIO Level? Below CIO level?
- How effective is IT in marketing and communicating its progress and performance results to its constituents? What tools and techniques are used? How often?
- How do you sustain continuous improvement initiatives to increase the level of IT maturity and effectiveness, staff development, constituent ownership and decision rights?
- How are you sustaining compliance processes and reporting?
- Does the Board/operating committee/senior business leadership, review and approve the IT strategy, priorities and funding? Major changes to plan, programs and budgets?

Summary of key strategic, value enhancing and execution questions:

Strategic questions - Are we doing the right thing?

Is the investment in IT:

- in line with our business vision and strategy?
- consistent with our business principles, plan and direction?
- contributing to our strategic objectives, sustainable competitive differentiation and business continuity support?
- providing optimum value at an acceptable level of risk?
- representing a long-term view (roadmap)
- including an architectural roadmap, based on a detailed analysis of the current state or condition of IT?

Value questions – Are we getting the benefits?

Is there:

- a clear and shared understanding and commitment to achieve the expected benefits?
- clear accountability for achieving the benefits, which should be linked to MBOs and incentive compensation schemes, for individuals and business units, or functional areas?

Are they:

- based on relevant and meaningful metrics?
- based on a consistent benefits realization process and sign-off?

Delivery and execution questions – Are we deploying well and effectively? How do we measure our results?

Metrics include:

- scalable, disciplined and consistent management, governance, delivery of quality processes
- appropriate and sufficient resources available with the right competencies, capabilities and attitudes
- a consistent set (of metrics) linked to critical success factors (CSFs) and realistic key performance indicators (KPIs)
- succession planning

Figure 1.3 summarizes the major IT challenges being addressed by a large, global software organization, as part of its IT planning and governance process.

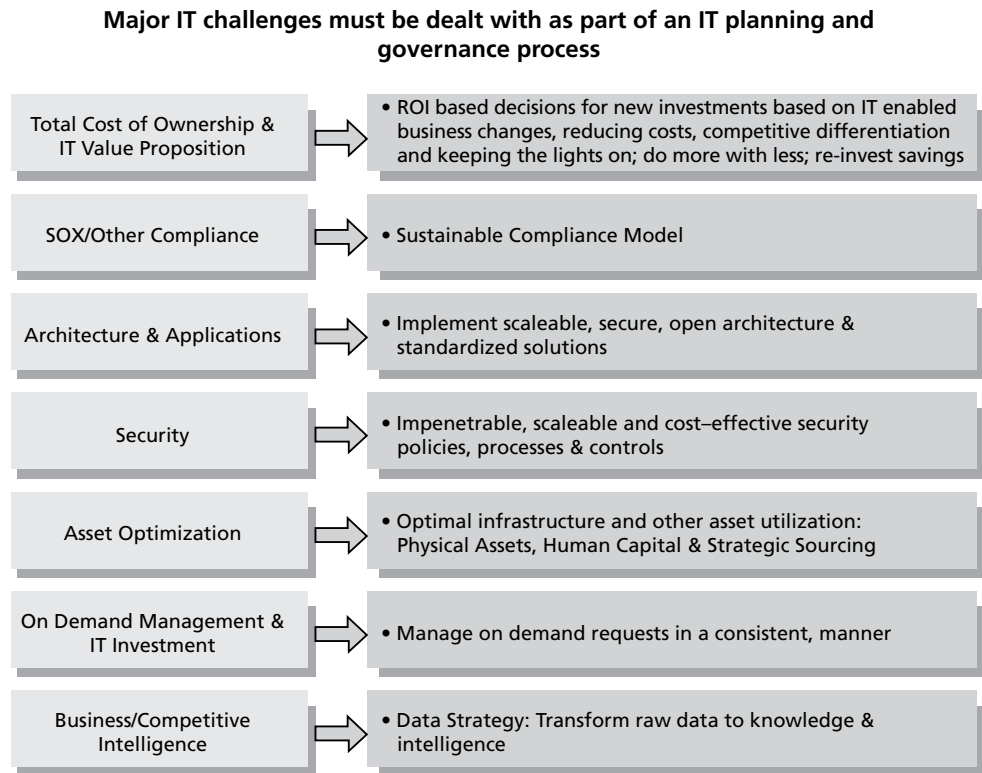


Figure 1.3 Major challenges for IT

Basically, it comes down to the need for a plan that can be executed. At the same time, the role of the CIO is also undergoing significant change. Successful CIOs recognize that IT has become far more than a means of increasing efficiency and reducing costs. Rather, they see IT as a prime stimulus for, and enabler of, business innovation – and themselves as key collaborators in a process that develops business and IT strategies in unison. Throughout the book, we address many of these challenges and issues.

1.2 Definition, purpose and scope of IT governance

Definition of IT governance:

Governance formalizes and clarifies oversight, accountability and decision rights for a wide array of IT strategy, resource and control activities. It is a collection of management, planning and performance review policies, practices and processes; with associated decision rights, which establish authority, controls and performance metrics over investments, plans, budgets, commitments, services, major changes, security, privacy, business continuity and compliance with laws and organizational policies.

Purpose of IT governance

IT governance:

- aligns IT investments and priorities more closely with the business
- manages, evaluates, prioritizes, funds, measures and monitors requests for IT services, and the resulting work and deliverables, in a more consistent and repeatable manner that optimize returns to the business
- maintains responsible utilization of resources and assets
- establishes and clarifies accountability and decision rights (clearly defines roles and authority)
- ensures that IT delivers on its plans, budgets and commitments
- manages major risks, threats, change and contingencies proactively
- improves IT organizational performance, compliance, maturity, staff development and outsourcing initiatives
- improves the voice of the customer (VOC), demand management and overall customer and constituent satisfaction and responsiveness
- manages and thinks globally, but acts locally
- champions innovation within the IT function and the business

Scope of IT Governance:

Key IT governance strategy and resource decisions must address the following topics:

(Modified from Weill and Ross, 2004; Popper, 2000)

- **IT principles** – high level statements about how IT is used in the business (eg scale, simplify and integrate; reduce TCO (Total Cost of Operations) and self fund by re-investing savings; invest in customer facing systems; transform business and IT through business process transformation; strategic plan directions, PMO (project management office), sustain innovation and assure regulatory compliance, etc.)
- **IT architecture** – organizing logic for data, applications and infrastructure captured in a set of policies, relationships, processes, standards and technical choices, to achieve desired business and technical integration and standardization
- **SOA architecture** – service oriented architecture (SOA) is a business-centric IT architectural approach that supports the integration of the business as linked, repeatable business tasks or services; SOA helps users build composite applications that draw upon functionality from multiple sources within and beyond the enterprise to support business processes
- **IT infrastructure** – centrally co-ordinated, based on shared IT services that provide the foundation for the enterprise's IT capability and support

- **business application needs** – specifying the business need for purchased or internally developed IT applications
- **IT investment and prioritization** – decisions about how much and where to invest in IT (eg capital and expense), including development and maintenance projects, infrastructure, security, people, etc.
- **people (human capital) development** – decisions about how to develop and maintain global IT leadership management succession and technical skills and competencies (eg how much and where to spend on training and development, industry individual and organizational certifications, etc.)
- **IT governance policies, processes, mechanisms, tools and metrics** – decisions on composition and roles of steering groups, advisory councils, technical and architecture working committees, project teams; key performance indicators (KPIs); chargeback alternatives; performance reporting, meaningful audit process and the need to have a business owner for each project and investment

Who benefits from effective and sustainable IT governance?

Everyone in an organization benefits from effective IT governance. According to Charles Popper (Popper, January 2003), the following audiences benefit:

- What executives get
 - business improvements that result from knowledgeable participation in IT decision-making from an enterprise perspective
 - ensures that key IT investments support the business and provide optimum returns to the business
 - ensures compliance with laws and regulations
- What mid-level business managers get
 - convinces senior business managers that their combined business-IT resources are being managed effectively
 - helps to communicate with peers in IT to ensure that business services for which they are responsible will meet commitments
- What senior IT managers get
 - obtains sponsorship and support and a clear focus on important strategic and operational initiatives
 - improves customer relationships by delivering results in a more predictable and consistent manner, with the involvement of the customer
- What program/project and operations managers get
 - helps in resolving issues, reviewing progress and enabling faster decisions
- What everyone gets
 - facilitates communications about how IT contributes to the business
 - improves co-ordination, co-operation, communications and synergy across the organization
 - less stress

Value propositions from best-in-class companies on business and/or IT governance

Based on primary and secondary market research, it is possible to identify a number of benefits attributed to major organizations relating to improved governance business and/or IT structures and environments (Selig, March 15, 2006):

Effective and sustainable governance:

- lowers cost of operations by accomplishing more work consistently in less time and with fewer resources without sacrificing quality (General Motors)
- provides better control and more consistent approach to governance, prioritization, development funding and operations (Kodak)
- develops a better working relationship and communications with the customer (Nortel)
- provides for a consistent process for more effectively tracking progress, solving problems, escalating issues and gate reviews (Cigna)
- aligns initiatives and investments more directly with business strategy (GE)
- improves governance, communications, visibility and risk mitigation for all constituents (Robbins Gioia)
- facilitates business and regulatory compliance with documentation and traceability as evidence (Purdue Pharma)
- increases our customer satisfaction by listening proactively to the customers and validating requirements on an iterative and frequent basis (Johnson and Johnson)
- reuse of consistent and repeatable processes helps to reduce time and costs and speeds up higher quality deliverables (IBM)

Successful IT governance is built on three critical pillars – leadership, organization and decision rights, scalable processes and enabling technologies

Effective IT governance is built on three critical pillars. These pillars include: leadership, organization and decision rights, flexible and scalable processes, and the use of enabling technology (Luftman, 2004; Board Effectiveness Partners, 2004; Melnicoff, 2005; Pultorak and Kerrigan, 2005):

- **Leadership, organization and decision rights** - define the organization structure, roles and responsibilities, decision rights (decision influencers and makers), a shared vision and interface/integration touch points and champions for proactive change:
 - roles and responsibilities are well defined with respect to each of the IT governance components and processes, including the steering and review hierarchies for investment authorizations, resolution of issues and formal periodic reviews
 - clear hand-off and interface agreements and contracts exist for internal and external work and deliverables
 - motivated leaders and change champions with the right talent, drive and competencies
 - meaningful metrics
 - CIO is a change agent who links process to technology within the business, and provides the tools for enablement and innovation

- **Flexible and scalable processes** - the IT governance model places heavy emphasis on the importance of process transformation and improvement: (eg planning, project management, portfolio investment management, risk management, IT Service Management and delivery, performance management, vendor management, controls and audits, etc.):
 - processes are well defined, documented, measured
 - processes define interfaces between organizations and ensure that workflow spans boundaries and silos including organization, vendors, geography, technology and culture
 - processes should be flexible, scalable and consistently applied, with common sense
- **Enabling technology** - leverage leading tools and technologies that support the major IT governance components:
 - processes are supported by software tools that support the IT imperatives and components (eg planning and budgeting, portfolio investment management, project management, risk and change management, IT Service Management and delivery processes, financial, asset and performance management and scorecards, etc.)
 - tools provide governance, communications and effectiveness metrics to accelerate decisions, follow-up and management actions

If any one of the above pillars is missing or ineffective, the IT governance initiative will not be effective or sustainable. In addition, over dependence on one dimension over the others will result in sub-optimal performance.

Results of ineffective IT governance can be devastating

A number of negative impacts may result from poor IT governance. These include the following (IT Governance Institute, *The CEO's Guide to IT Value and Risk*, 2006):

- business losses and disruptions, damaged reputations and weakened competitive positions
 - Nike lost an estimated \$200 million, while running into difficulties installing a supply chain software system
 - Hershey attempted to install SAP several years ago and at that time, was not successful; it cost the company significant money and lots of embarrassment
 - Whirlpool ran into significant trouble in attempting to implement a supply chain management system, which did not provide accurate inventory counts at various inventory stages
- schedules not met, higher costs, poorer quality and unsatisfied customers
- core business processes are negatively impacted (eg SAP and other enterprise resource planning systems impact many critical business processes) by poor quality of IT deliverables
 - an operational meltdown of the Southern Pacific-Union Pacific merger was traced largely to the inability to co-ordinate their IT systems
- failure of IT to demonstrate its investment benefits or value propositions

Poor regulatory compliance procedures, controls, audits and/or unethical executive business practices resulted in the demise of such companies as Enron and Andersen, and the jailing of former heads of Tyco and Worldcom. Others such as Parmalat and Global Crossing have also been impacted by compliance issues.

The simple fact is that a poorly executed IT operation will result in the business not working. In addition, business and IT continuity and resumption plans have become critical.

The implications of Sarbanes Oxley Act (SOX) and other regulations on IT governance

In general, governance should be the responsibility of the Board of Directors and executive management in organizations. In order to develop an effective compliance program, executives must understand that compliance can and does involve more than just SOXs. It can involve multiple national, international, local and industry specific regulations, as well as best practices, guidelines and frameworks.

Compliance with a growing number of regulations and laws, regarding financial disclosure, privacy, environmental conformance and others, etc. developed by the SEC, FDA, EPA, Sarbanes-Oxley, HIPPA, Basel II and specific industry-focused regulations, in banking, insurance, brokerage, healthcare, pharmaceutical and others, are creating new and greater IT reporting and systems support requirements for organizations. Much like IT governance, to achieve sustainable compliance, this complex and confusing mix can be approached most effectively as a single comprehensive compliance program that addresses people, process and technology (Sun Microsystems and Deloitte, 2006).

Regulatory, audit and management requirements generally determine the level of management and administrative controls that a company deploys. As an example, Section 302 of Sarbanes-Oxley requires CFOs and CEOs to personally certify and attest to the accuracy of their companies' financial results. Section 404 of Sarbanes-Oxley focuses on financial controls and requires IT to be able to document and trace a company's financials (eg profit and loss, balance sheet, etc.) back to the systems, software and operational processes and sources of the transactions that comprised the numbers. A company has to demonstrate a documented audit trail to be in compliance, and to further demonstrate how an organization plans to sustain that compliance effort. Within IT, the Sarbanes-Oxley Act:

- improves financial reporting/disclosures – new requirement to report on internal controls for financial statements – Section 404
- expands insider accountability – new requirements for code of ethics for executive management and protection for whistleblowers
- means that the external auditors can insist that any gaps in IT controls must be addressed before an overall opinion is reached on the effectiveness of the internal company controls
- requires a back-up for all 'financially significant files, storage of those files and periodic restoration of back-up files'
- requires IT change management tracking and documentation for financial systems
- requires the maintenance of logs for user access to financial data bases, security logs, administrative logs, problem and incident logs, as well as an independent review of the logs to detect any activities that could adversely impact financials
- requires systems documentation and verification that data is properly handed off from one system to another
- strengthens overall corporate governance

In a growing number of companies subject to SOXs, the CIO must internally certify the accuracy of the information audit trail each quarter to support the CEO/ CFO SOX certifications.

There is a growing library of books, articles and documents that provide recommendations on how to deal with these regulatory and legal requirements (Anand, 2006; Ernst and Young, 2005; Forrester Research, March 14, 2004; Protivity, December 2003), In addition, Appendix 1 provides an illustration of a template, used by a manufacturing company as a guideline to help the company track SOX compliance activities and reports.

1.3 Linking the CEO role to achieving business growth, improving profitability and creating an effective governance and compliance environment

The role of the CEO and the executive management team is complex, and requires a balance between sustaining growth and profitability while optimizing organizational effectiveness and complying with the growing and confusing number of regulatory requirements.

Executing enterprise-wide strategic initiatives and managing effective business operations is a complex undertaking that requires effective corporate and IT governance to play a growing role in how the CEO and the executive team deploy the organization's strategy.

As Michael Cinema, President and CEO of Etienne Aligner Group stated, *“The Board of Directors is well aware of its role to oversee the company's organizational strategies, structures, systems, staff, performance and standards. As President, it is my responsibility to ensure that they extend that oversight to the Company's IT as well, and with our growing reliance on IT for competitive advantage, we simply cannot afford to apply to our IT anything less than the level of commitment we apply to overall governance.”*

- IT Governance Institute, 2003

Figure 1.4 identifies the attributes that must be addressed for effective growth and profitability. Effective governance is a prominent component for both.

How much governance is required and when is enough, enough?

There are few, if any, standards or guidelines developed that identify and clearly lay out in more detail what level of governance is required for either management or regulatory compliance by an organization. Generally, it is dependent on a number of variables such as:

- investment \$ (capital and expense) criticality to the organization (mission critical)
- degree of business dependency on technology
- strategic corporate value proposition and alternatives for focus (eg growth centric, customer centric, process centric, cost centric, etc.)
- management philosophy and policy (eg first mover versus follower)
- program/project and/or operational importance
- complexity, scope, size and duration of initiative

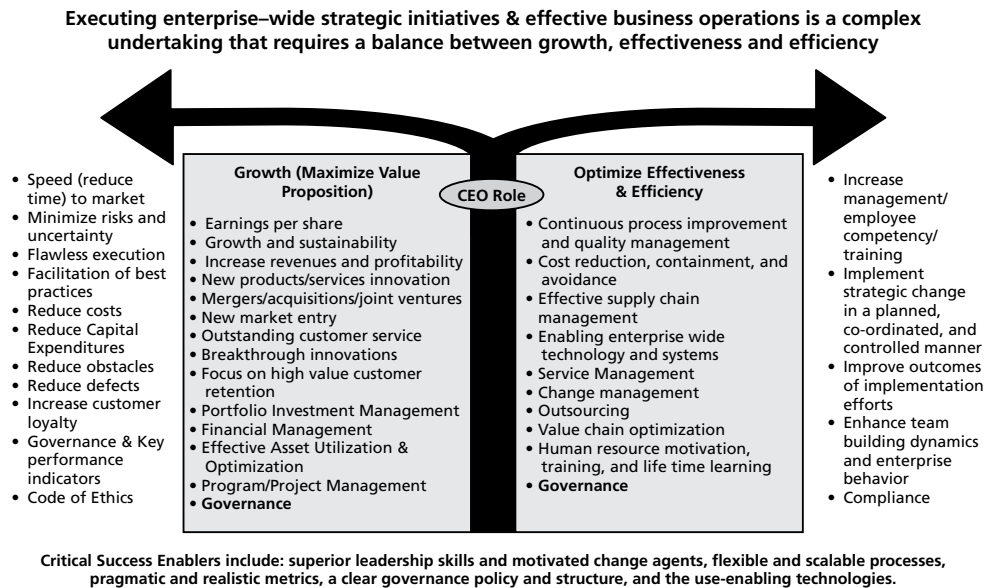


Figure 1.4 Linking the role of the CEO to the success of strategic enterprise initiatives and governance

- number of interfaces and integration requirements with business
- degree of risk and potential impact (of doing or not doing)
- number of organizations, departments, locations and resources involved
- customer or sponsor requirements
- regulatory, legal, control and compliance required
- degree of accountability desired and required
- level of security required or desired
- audit, documentation and traceability requirements

Chapter 2 discusses many of the current and emerging standards, guidelines and frameworks either developed or being developed, that help improve the overall IT alignment, execution, governance, control, strategic sourcing and outsourcing management and performance management processes.

1.4 Overview of the integrated IT governance framework, major components and prerequisites

Grounded in industry best practice research and required to plan, develop, deploy and sustain a cost effective approach to IT governance, the blended and integrated governance framework consists of five (5) critical IT governance imperatives (which leverage best practice models and are ‘must do’s’) and address the following work areas:

- **business strategy, plan and objectives (demand management)** - this involves the development of the business strategy and plan which should drive the IT strategy and plan
- **IT strategy, plan and objectives (demand management)** – this should be based on the business plan and objectives, and will provide the direction and priorities of the IT functions and resources; this should also include portfolio investment management investments, a prioritization scheme and identify the decision rights (who influences decisions and who is authorized to make the decisions) on a wide variety of IT areas; in addition, the CIO is responsible for the infrastructure investments such as servers, networks, systems software and management
- **IT plan execution (execution management)** – this encompasses the processes of program and project management, IT Service Management and delivery (including ITIL – IT Infrastructure Library), risk and threat management, change management, security, contingency plans and others
- **performance management and management controls (execution management)** – this includes such areas as the Balanced Scorecard, key performance indicators, COBIT, and regulatory compliance areas; more details on these topics are provided in Chapters 2 and 8
- **vendor management and outsourcing management (execution management)** – since companies are increasing their outsourcing spending, selecting and managing the vendors and their deliverables has become critical
- **people development, continuous process improvement and learning** - it is critical to invest in people, knowledge management, and sustain continuous process improvement and innovation initiatives

For each IT governance imperative, a description of the key components are provided and further detailed in subsequent chapters. Step one for a new CIO is to assess the current IT governance environment and what shape IT is in.

Figure 1.5 illustrates each of the major work areas or components of the IT governance framework, including a short description of each component and provides select references.

Key work breakdown areas required to plan and manage an IT governance initiative

Today, many companies start on a narrow path or shot gun approach without developing a more comprehensive framework, with a prioritized roadmap based on the highest value delivery to the organization. A good place to start the IT governance initiative is to decompose it into manageable and assignable work packages - as in a work breakdown structure - and assign these work packages to champions and owners responsible for them.

Figure 1.6 illustrates such a work breakdown for the major and key work areas of IT governance, including planning, execution and performance management.

IT governance – decision rights and authority

Peter Weill and Jeane Ross (Weill and Ross, 2004) identified the concept of IT decision rights as an important component of effective IT governance. The purpose of a decision rights matrix is to identify the IT decision influencers and decision makers in an organization, to clarify the

Identifies the major areas that must be addressed on the journey to a higher level of IT governance maturity and effectiveness

Areas of Work	Description/Components	Deliverables/References
Business Plan/ Objectives (Demand Management & Alignment)	<ul style="list-style-type: none"> Strategic Business Plan – Vision, Objectives, Financials, Operations, SWOT, Imperatives (Must Do's), Initiatives (Alternatives that Support Imperatives), etc. Capital Planning/Expense Planning & Budgeting Business Performance Management (Key Metrics) Executive and Other Steering & Review Councils; Organization Structure 	<ul style="list-style-type: none"> Plan Document Financials Balanced Scorecard Metrics BCG; Porter; Hamel
IT Plan, Objectives, Portfolio Investment and Approvals (Demand Management & Alignment)	<ul style="list-style-type: none"> IT Plan is aligned with the Business Plan – IT Capital/Expense Budget IT portfolio investment, rationalization, selection, prioritization, funding and approval (Portfolio Management Model (for New, Change Programs and Projects and/or Operational initiatives and Infrastructure Functions) Fund major Initiatives IT Performance Management (Define Metrics and Measurement Criteria) 	<ul style="list-style-type: none"> IT Strategic/Tactical Plan/ Metrics Portfolio Mgt. Model (Investment Criteria); ITIM Engagement Model - Roles Business Rules & Authorization McFarlan, Cash; Luftman; Popper; Selig
IT Plan Execution & Delivery (Resource & Execution Management)	<ul style="list-style-type: none"> Program, Project and Operating Plans (Capital Plans, Project Plans and Budgets) Policies, Standards, Guidelines & Processes (e.g. Management Control, Enterprise Architecture, Security, PMO, ITIL, Enterprise Architecture, etc.) Processes (PMO, Help Desk, Security, Administrative SOPs, Workflows, Change, Risk, etc.) Financial, program, project, application, maintenance and operational accountability 	<ul style="list-style-type: none"> Assess Implications of PMMM, PMBOK, CMMI, ITIL, SDLC, CoBit, Security (ISO 17799), Prince2, eSCM Frameworks Infrastructure & Operational Integrity, Continuity & Security
Performance Management, Controls, Risk, Compliance and Vendor Management (Execution Management)	<ul style="list-style-type: none"> Manage and measure plans, budgets programs, projects, operations & risks Define and track key performance indicators (KPI) Compare plans to actuals and take appropriate corrective actions Outsourcing and Vendor Selection, Tracking, Measurement Business and IT Continuity, Security, Contingency and Disaster Recovery 	<ul style="list-style-type: none"> Balanced Scorecard & KPIs Performance Management RFI, RFQ, RFP and Contrac Management; Sarbanes-Oxley ++ Compliance Management Controls/ COBIT
People Development, Continuous Process Improvement & Learning	<ul style="list-style-type: none"> Human capital development Organizational, Project & Operational Maturity Models and Standards Managing Change and Transformation (e.g. culture, interoperability) Training and Certification (e.g. Individual and Organization) 	<ul style="list-style-type: none"> Adopt Current and Emerging Industry and Government Best Practices Standards & Guidelines PCMM; ITSM; ISO; ITIM Career Development and Certification

Figure 1.5 Integrated IT governance framework

The IT Governance Initiative must be decomposed into manageable and accountable work packages and deliverables and assigned to owners for planning, development, execution and continuous improvement

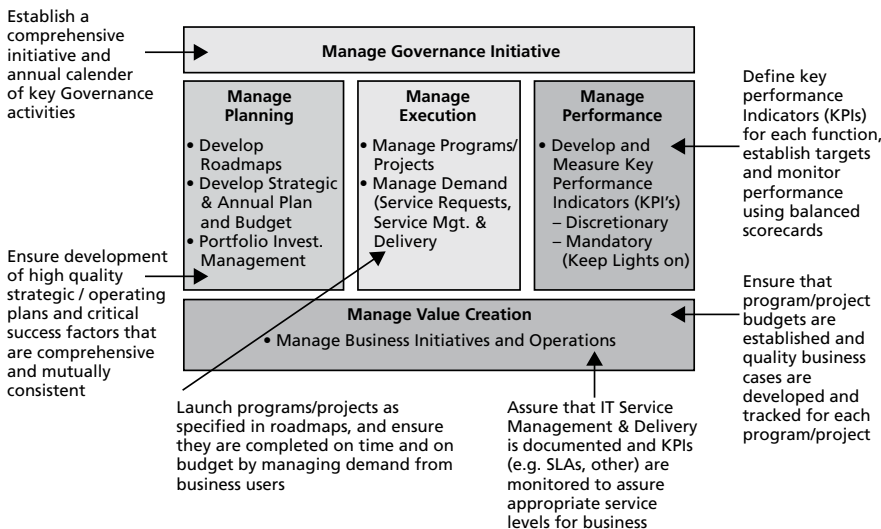


Figure 1.6 Key work breakdown areas for IT governance

decision roles and authority levels for the major IT areas. It eliminates confusion, identifies accountability and clearly defines decision roles and scope.

Figure 1.7 provides an illustrative example of a partial IT governance decision rights matrix for a financial services organization.

A decisions rights matrix identifying decision influencers and decision makers is necessary to clarify decision roles and authority levels for the major it governance components

IT Governance Component	Input to Decision	Decision Authority	Comments/Examples (Varies by Organization)
IT Principles (High value statements about how IT will be used to create business value)	Business Units	IT Senior Leadership Group & CIO; Executive Officer Group	<ul style="list-style-type: none"> • Scale, simplify, integrate • Reduce cost of IT & self fund • Re-engineer/consistent processes • Invest in customer facing systems • Investment \$ Threshold Approvals • Key Performance Indicators/CSFs
IT Investment, Plan, Prioritization, Critical Success Factors and Key Performance Indicators (KPIs)	Business Units	IT Steering Committee (ITSC) (Business & IT Executives), Projects over \$500K:	<ul style="list-style-type: none"> • ITSC recommends priority to CEO for any projects requiring over \$500K • Identify, track and measure critical success factors and associated KPIs
Business Applications	Business Units and Corporate Functional Unit Heads	IT Steering Committee	Significant business application spend must be approved during the annual budget process, and if over \$500K, approved by ITSC
IT Infrastructure and Architecture; Outsourcing & Vendor Management; +++Others	IT Steering Committee IT Steering Committee + Business Units	IT Architecture/Technology Review Board (and Business Units (for related applications) Senior leadership (Depends on scope)	Significant infrastructure spend must be approved during the annual budget process, and if over \$500K, approved by ITSC. Significant outsourcing initiative should be recommended by ITSC & approved by Executive Officer Group

Figure 1.7 IT governance decision rights (financial service organization)

IT/business steering and governance boards, working committees and roles

Many top performing companies have established multi-level and multi-disciplinary business/IT steering and governance boards and working committees, with clear roles and responsibilities, to ensure appropriate commitments, sponsorship, escalation, ownership, more effective communications and more formal visibility and commitment of the Board, executive management and other constituents.

Why are they important?

They:

- help to ensure alignment across all of the parts of an organization; it is recognized that the demand for IT resources will exceed available resources/budget, and establishing organization wide and business unit priorities is essential
- provide a forum for investment decision-making which is synchronized with the business
- build an enterprise view and help to eliminate stovepipe systems, processes, and duplication of effort across the organization

What (charter) should they focus on?

Boards should aim:

- to review and approve strategic plans, major programs/projects and establish priorities among competing requests for resources to ensure that everyone is aligned on those initiatives with highest 'value add' to the organization as a whole
- to establish and support processes where needed, to effectively fulfill the charge outlined
- to conduct formal periodic reviews of major initiatives, and operational service performance

Roles and responsibilities:

They:

- review and approve overall IT plans
- review, prioritize, approve major IT investments
- conduct formal periodic project progress and performance reviews
- final escalation point for major IT/business issues resolution
- support and sponsor IT governance policy and process improvement programs impacting the Executive Steering Board membership organizations, and help deploy them in their organizations

Other steering and working committees:

- Successful IT governance requires multi-level and multi-functional participation. Many organizations establish additional business/IT working committees at the business unit level, as well as major functional areas such as supply chain management, global financials, marketing and sales, research and development, and others as necessary.
- Program and projects working groups focus on specific initiatives.

Figure 1.8 illustrates an example of the IT/business steering and governance boards and roles at multiple levels for a large organization.

IT demand management - sources and classifications

Typically, requests for IT services should be identified and accommodated for in the strategic and tactical plans and budgets. If they are not, they are classified as 'out-of-plan'. Therefore, each request should be evaluated on its own merits against consistent evaluation criteria discussed in more detail in Chapter 3.

Demand for IT services generally comes in several flavours — mandatory ('must do's' such as addressing service interruptions, standard maintenance, keeping the lights on and/or regulatory compliance) and discretionary ('could do's' if aligned, feasible, cost justified, strategic and/or

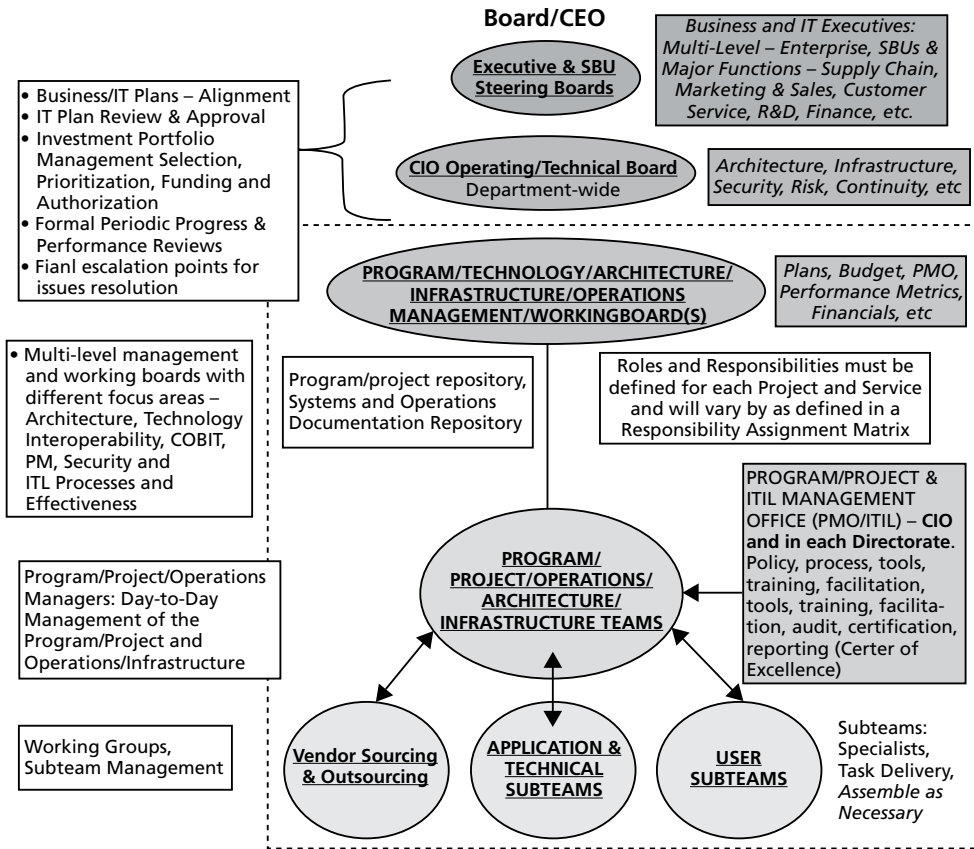


Figure 1.8 IT/business steering and governance boards, committees and roles

requested by executive management). Both mandatory and discretionary requests should be approved by the business/IT leadership in the IT strategic and operating plans, or in accordance with an organization’s decision rights and approval authority guidelines established for IT.

The following considerations will further help prioritize business needs with IT:

- clearly define and relate the value (eg cost reduction, containment and avoidance; increased revenues; faster access to information; shorter time to market etc.) that IT provides in support of the business
- identify value adding activities (eg value chain and other business models/attributes) and strategies that would enhance them through IT.
- focus on listening to the voice of the customer
- ensure that all IT initiatives are evaluated using a consistent, but flexible set of investment selection, prioritization and review criteria, to assure a strong link to the business plan, project implementation and on-going operations

- develop a strategic IT plan that identifies major initiatives, technical/architecture, operational, organizational, people development and financial objectives and measurements in support of the business

Figure 1.9 illustrates a demand management chart for a major bank.

Classification	Type of Request or Demand Mgt.	Comments/Description
Mandatory or Core (Business Enablement)	Service Interruption (Break & Fix)	A problem caused the disruption of IT service and must be fixed and restored as soon as possible
	Maintenance	Scheduled maintenance must be performed to keep applications and infrastructure operating efficiently
	Keep the Lights On and Legal/Regulatory	The costs and resources required to support the basic steady state operations of the business, including some components of infrastructure
Discretionary* (Require ROI)	Major New/Change (Complex) Initiatives (Full Risk Mitigation)	Complex new initiatives or major changes (major enhancements or modifications) to systems, processes or infrastructure that provide new or additional functionality or capacity
	Fast Track (New/Change) (Simple or Limited Scope)	Simple new initiatives and minor changes that do not required the rigor and discipline of a complex initiative and be fast tracked.
	Standard (Repetitive) Request	Describe product/ service (functions, features and price in a product/service catalogue)
Strategic	Major initiative – Realistic ROI may not be doable – too early	A strategic initiative may fall into several categories – first market mover (new product or service); R & D; competitive advantage, etc.

* Note: Criteria for differentiating between complex or fast track initiatives or service catalogue listings will vary for each organization.

Figure 1.9 IT demand management: classifications

IT demands generally come in several flavors – mandatory or core, discretionary and strategic – These should be identified and resourced in the IT strategic and operating plan and budgets - If they are not in the plan, each request should be evaluated on its own merits against consistent alignment, investment and service criteria. A steady state (normalized and repeatable) service could be included in a service catalogue.

Business/IT governance performance management and the Balanced Scorecard

A performance management plan must be developed for IT. The development of the performance management plan should be a collaborative effort between the business and IT. It should be based on a number of objectives, such as strategic, financials, customer, quality, process innovation, operational and service effectiveness which, in turn, support an organization's business vision, mission, plans, objectives and financials.

It is important to measure the performance of IT in terms that can be understood by the business. It is equally important to have two types of reporting systems based on critical success factors and key performance indicators: those that are developed by IT for the external (out of IT) environment, such as executive management, the Board and the business managers, and those developed for internal use by IT management.

The execution of these plans and objectives must be monitored and measured by a combination of Balanced Scorecard key performance indicators (KPIs), as well as formal and informal status review meetings and reports (eg report cards, dashboards). Figure 1.10 illustrates high level business and IT Balanced Scorecard categories and related metrics. The outcomes should link critical success factors to KPIs that are measurable, part of a standard reporting system and linked to a governance component. If one cannot measure the result, they do not count. Chapter 8 provides more details on performance management, controls, Balanced Scorecard and other metrics.

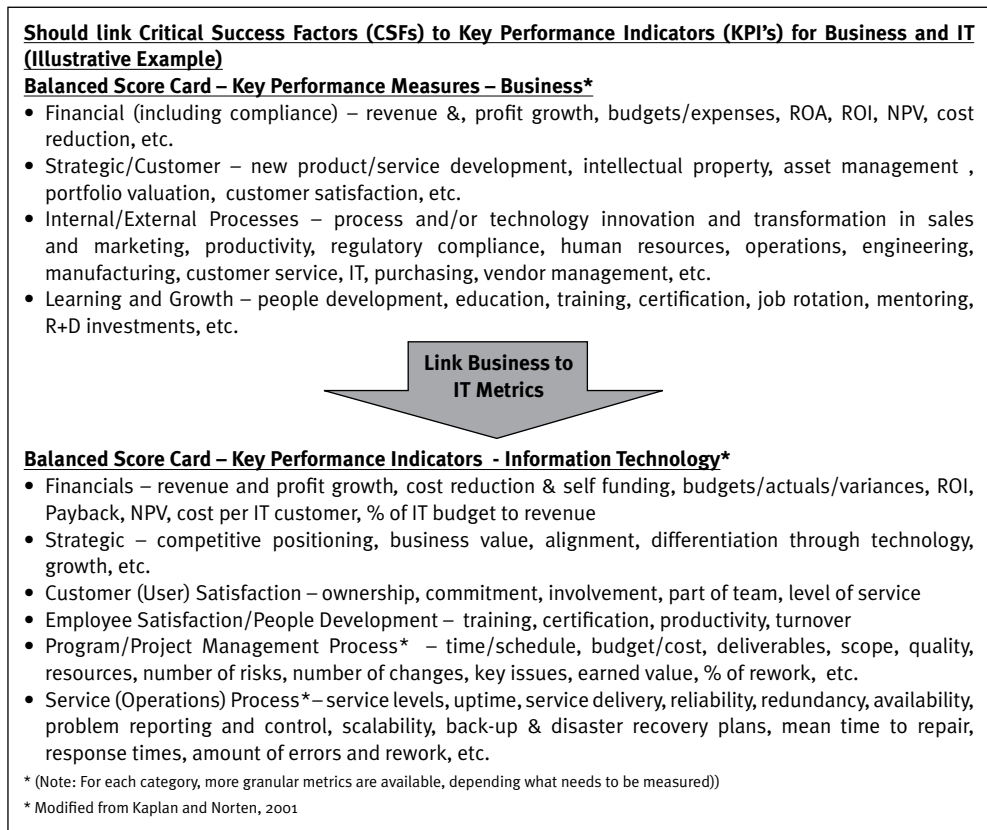


Figure 1.10 Select Balanced Scorecard metrics for business and IT governance

1.5 Steps in making IT governance real

IT governance represents a journey towards continuous improvement and greater effectiveness. The journey is difficult, but can be facilitated by the following steps:

- must have a corporate mandate from the top - the Board and the executive team (including the CIO) are committed to implementing and sustaining a robust governance environment
- must have dedicated and available resources - identify executive champion and multi-disciplinary team (to focus on each IT governance component)
- do homework – educate yourself on past, current and emerging best practices
- market the IT governance value propositions and benefits to the organization - develop and conduct a communications, awareness and public relations campaign
- develop a tailored IT governance framework and roadmap for your organization based on current and emerging industry best practices
- assess the ‘current state’ of the level of IT governance maturity, or other frameworks that relate to specific IT governance components, such as project management maturity model (PMMM), vendor management (eSCM), performance management (Balanced Scorecard) and others, as a reference base (where are we today?), using a leading industry best practice framework such as CMMI or another framework that may apply to a specific component of IT governance
- develop a ‘future state’ IT governance blueprint (where you want to be) and keep it in focus
- decompose the IT governance components into well defined work packages (assign an owner and champion to each process component)
- develop an IT governance action plan, identify deliverables, establish priorities, milestones, allocate resources and measure progress
- sponsor organizational and individual certifications in the IT governance component areas, where they are available (eg PMP, ITIL, IT Security, IT Audit, BCP, Outsourcing, eSCM, COP, etc.)
- identify enabling technologies to support the IT governance initiative
- establish a ‘web portal’ to access IT governance policies, processes, information, communications and provide support
- market and communicate the IT ‘value proposition’ and celebrate wins
- plan for and sustain IT governance process improvements and link to a reward and incentive structure; create a ‘continuous IT governance improvement’ group to sustain the framework
- do not focus on specific ROI as a measure of success - use TCO (Total Cost of Operations) and business innovation and transformation metrics as measures of improvement

Avoiding IT governance implementation pitfalls

To avoid IT governance implementation pitfalls, key factors to remember include the following:

- treat the implementation initiative as program or project with a series of phases with timetables and deliverables
- remember that implementation requires cultural change and transformation, which requires:
 - marketing of the value proposition and overcoming resistance to change
 - managing culture change and transformation

- obtaining executive management buy-in and ownership
- mobilizing commitment for change at multiple organization levels
- manage expectations of all constituents – IT governance takes time and represents a series of continuous improvement processes
- demonstrate measurable and incremental improvements in the environment and communicate them to the constituents

A first step - assess current maturity level of key IT governance components

As an organization develops its IT governance strategy, IT is useful to assess the level of maturity of the IT governance. An industry standard methodology that is useful for this purpose is SEI's Capability Maturity Model Integrated (CMMI®) framework (Software Engineering Institute, 2002 and 2005). The model consists of five levels of maturity and can be used to analyze the current state of the major IT governance components, as well as to establish a targeted future state maturity level for each major IT governance component:

The framework consists of five levels of maturity:

1. **Initial level:** The IT governance processes are characterized as ad hoc and occasionally even chaotic. Few processes are defined and success depends on individual efforts.
2. **Repeatable level:** Basic IT governance processes are established. The necessary discipline is evolving to repeat earlier successes.
3. **Defined level:** The IT governance processes are documented, standardized, and integrated into the management policies and procedures. All governance processes are implemented using approved, versions as part of the IT governance policy and framework.
4. **Managed level:** Define, collect and make decisions based on each IT governance component's measurements. IT governance processes and metrics are quantitatively understood, reported and controlled on an enterprise level.
5. **Optimizing level:** Continuous process improvement is enabled by quantitative feedback from the process, from piloting innovative ideas and from adopting external industry best practices and standards.

Figure 1.11 provides an illustration of the CMMI® model levels and illustrates an insurance company's current state maturity level and its objective for a targeted future state maturity level.

Figure 1.12 was developed by Luftman suggesting an overlay framework to the CMMI model that focuses on assessing an organization's maturity based on the following six factors: communications, value, governance, partnership, architecture and skills (Luftman, 2004).

IT governance - current and future state transformation roadmap

In order to develop and/or improve the IT governance process, an organization must assess its current and future governance state and develop a transition roadmap for its IT transformation.

Figure 1.13 illustrates a roadmap for an organization to follow, as IT transitions from its current state to its desired future state or environment.

Illustrates an organization's current and future targeted state of IT governance maturity. All organizations require a roadmap and plan to move up to higher levels of maturity and effectiveness

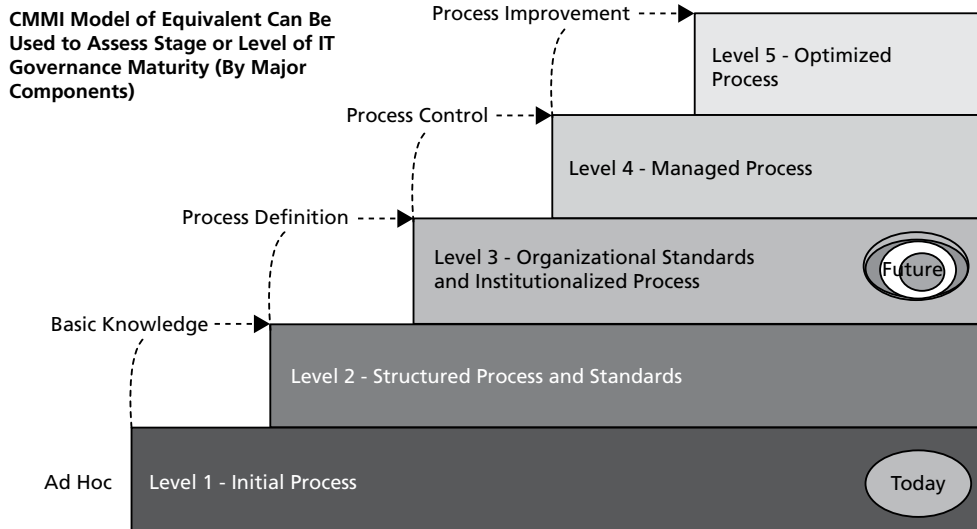


Figure 1.11 High level assessment of current state and targeted future state based on the CMMI® model

Future state of IT governance – a blueprint concept

When all is said and done, most organizations would like to have an effective IT governance process and environment. Figure 1.14 identifies a blueprint of the 'ideal' future state and the key components that are necessary for effective governance deployment and strategic planning (business/IT alignment driven), application and infrastructure development (metrics driven) programs and projects and IT service support and delivery (metrics driven). Other components that should be added include architecture, security, business continuity, back-up and disaster recovery and related areas.

Key components of managing large scale enterprise change successfully, and providing the appropriate leadership and environment

As organizations transition to a more mature and effective governance environment, a 'sea change' has to occur, either through incremental and/or radical change that could involve large scale change, depending on an organization's level of maturity, management philosophy and cultural readiness.

John Kotter, a Harvard University professor, is a recognized expert on leadership and managing change successfully. According to Kotter (with some modification by the author), the four key principles for managing large scale change successfully include (Kotter, 1996):

- engage the top and lead the change
 - create the 'value proposition' and market the case for change
 - committed leadership
 - develop a plan and ensure consequence management

Relates IT/business alignment criteria to assist enterprises to evaluate their level of maturity and set a direction to improve, in six areas.

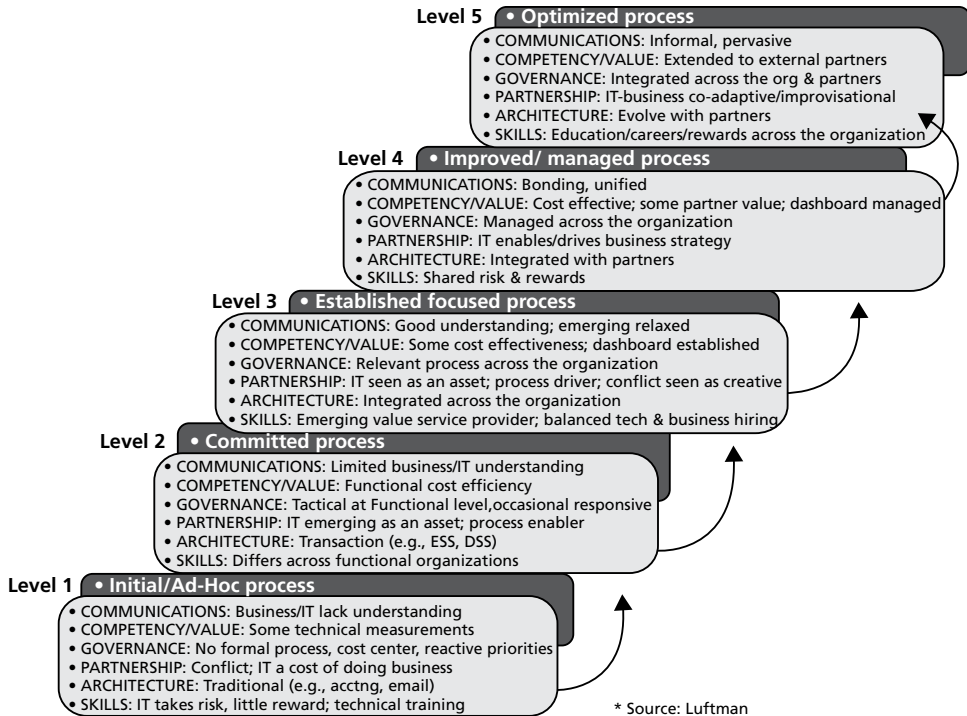


Figure 1.12 IT/business alignment maturity assessment model

- cascade down and across the organization and break down barriers including silos
 - create cross-functional and global teams (where appropriate)
 - compete on ‘speed’
 - ensure a performance driven approach
- mobilize the organization and create ownership
 - role out change initiative
 - measure results of change (pre-change versus post-change baselines)
 - embrace continuous learning, knowledge and best practice sharing
- attributes of effective change teams and agents
 - strong and focused leader
 - credibility and authority (charter) to lead the initiative
 - ‘chutzpa’, persistent and change zealots
 - ability to demonstrate and communicate ‘early wins’ to build the momentum
 - create a sense of urgency and avoid stagnation
 - knock obstacles out of the way, diplomatically or otherwise

By applying Kotter’s principles to facilitating the transition to a successful IT governance culture and environment, the following steps can be followed:

IT Governance Process Improvement Flow - In order to develop and/or improve a governance process (business or IT), an organization must assess its current & future IT governance state and develop a plan to transform IT.

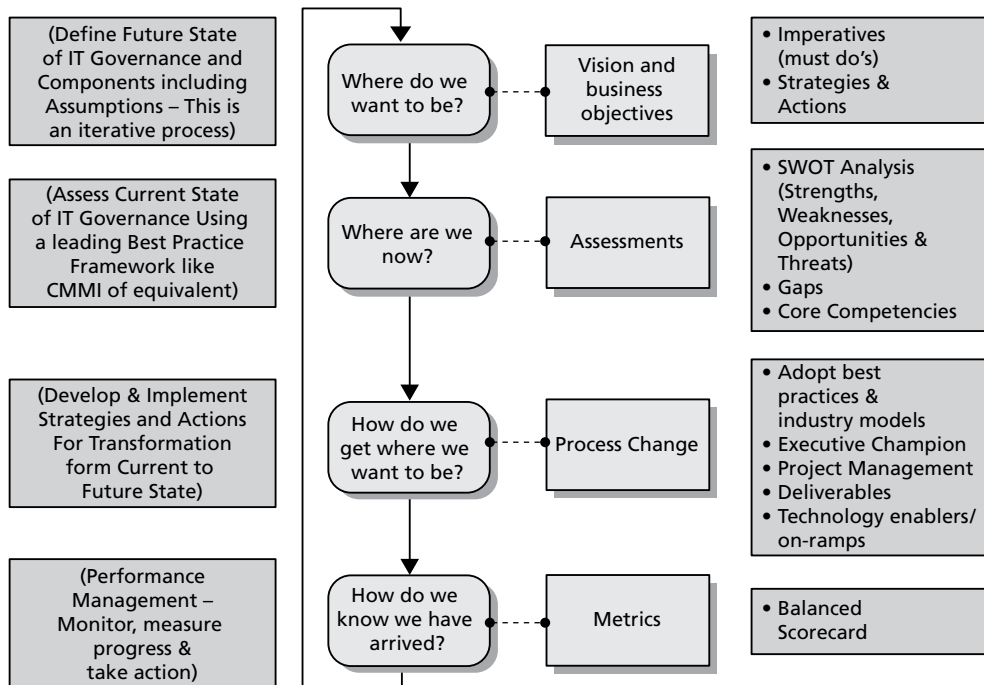


Figure 1.13 IT governance – current and future state transformation flow

- **proactively design and manage the IT governance program** – requires executive management sponsorship, an executive champion and creating a shared vision that is pragmatic, achievable, marketable, beneficial and measurable; link goals, objectives and strategies to the vision and performance evaluations
- **mobilizing commitment and provide the right incentives** – there is a strong commitment to the change from key senior managers, professionals and other relevant constituents; they are committed to make it happen, make it work and invest their attention and energy for the benefit of the enterprise as a whole; create a multi-disciplinary empowered ‘Tiger Team’ representing all key constituents to collaborate, develop, market and co-ordinate execution in their respective areas of influence and responsibility
- **make tradeoffs and choices and clarify escalation and exception decisions** – IT governance is complex, and requires tradeoffs and choices, which impact resources, costs, priorities, level of detail required, who approves choices, to whom are issues escalated, etc.; at the end of the day, a key question that must be answered is, ‘when is enough, enough?’
- **making change last, assign ownership and accountability** – change is reinforced, supported, rewarded, communicated (the results are through the web and intranet), and recognized and championed by owners who are accountable to facilitate the change so that it endures and flourishes throughout the organization

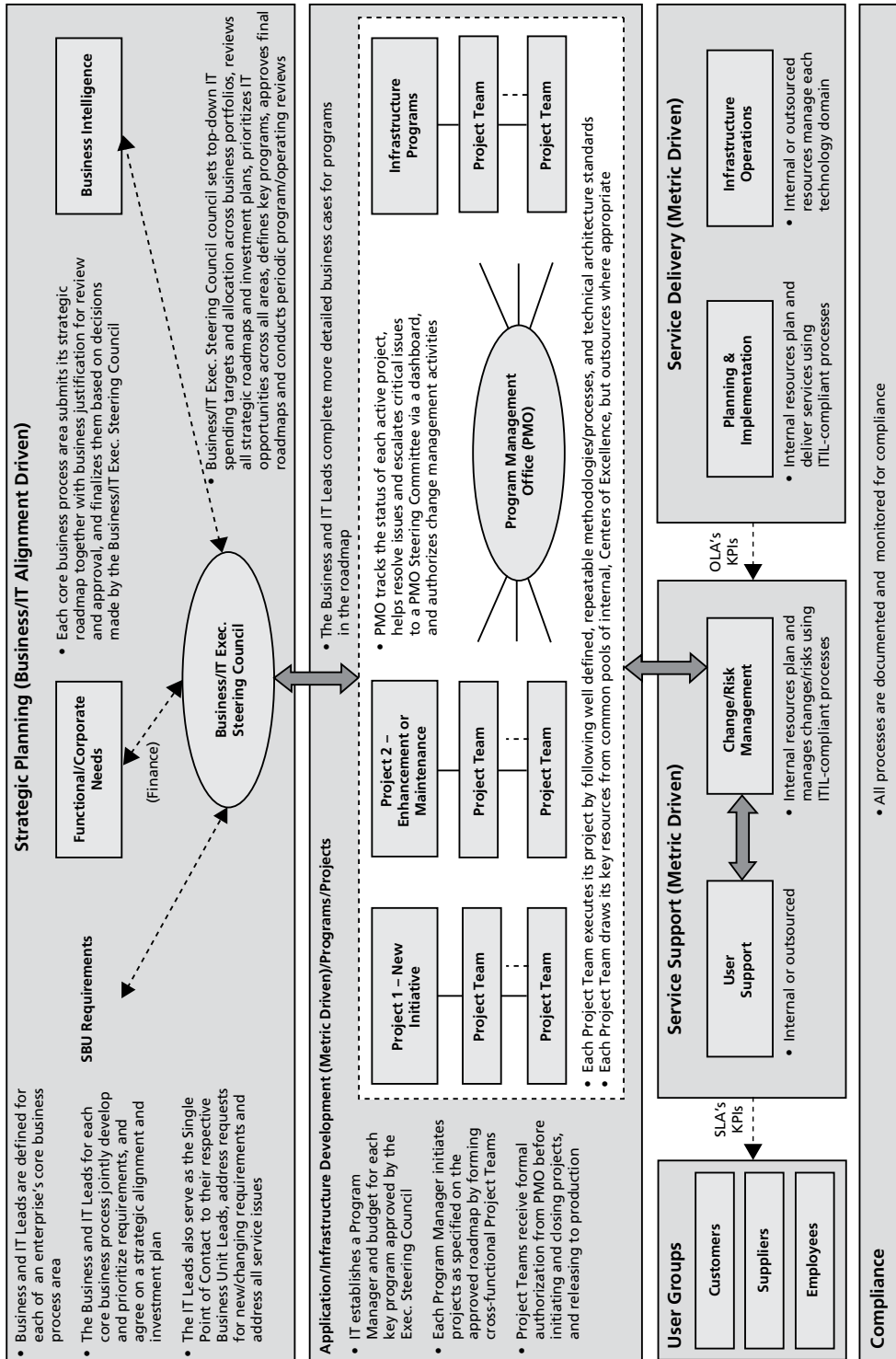


Figure 1.14 Future state IT governance: a blueprint concept

- **monitoring progress, common processes, technology and learning** – develop/adapt common policies, practices, processes and technologies which are consistent across the IT governance landscape and enable (not hinder) progress, learning and best practice benchmarking; make IT governance an objective in the periodic performance evaluation system of key employees and reward significant progress

1.6 Case study – global consumer goods company

A number of IT governance case studies are included in the book, representing mid-size to large global organizations in a variety of industries, including consumer products, manufacturing, financial services, pharmaceuticals, entertainment and other diversified industries. The identities of the organizations have been kept confidential. The data for each of the case studies was collected through interviews with CEO's, CIOs, direct reports to the CIOs and other executives and professionals, as well as a review of appropriate plans, budgets, metrics, controls and processes and has been disguised to protect the identity of the participating organizations.

The format of the case studies is consistent with Figure 1.15, which represents an IT governance case study for a global consumer goods organization.

1.7 Summary and key take aways

Summary

IT governance is a broad and complex topic with many parts. IT governance represents a journey. It is not a one time event, and to achieve higher levels of IT maturity, IT governance should be persistently and relentlessly pursued, both from a top-down and a bottom-up perspective. Creating and sustaining a more effective IT governance environment will take time and resources, and should be focused on achieving incremental IT governance successes in priority areas, based on their value proposition or reduction of major 'pain point' to the organization.

It is critical to break down or segment the IT governance initiative into manageable, assignable and measurable components or work packages, with targeted deliverables. It is important to define clear roles for the Board, executive management and the IT governance project team, including ownership and accountability for each component and the overall initiative.

IT governance requires all three critical pillars to succeed: leadership, organization and people, scalable and flexible processes and enabling technologies.

Key take aways

The approach to IT governance must be consistent, but yet scalable, and tailored to each organization's environment and management style, key issues, opportunities, level of maturity, audit/legal requirements, available resources and cultural readiness. Remember, IT governance represents a journey, hopefully, towards higher levels of IT maturity, effectiveness and integration with the business.

Figure 1.15 – Case Study - Global Consumer Goods Organization

<p>Environment</p> <ul style="list-style-type: none"> • Annual Revenue range – \$8 – 12 Billion • Number of Employees – 40,000 – 50,000 • Number of IT Employees –1,200 – 2,000 • IT spend as a % of revenues – 2 – 3% • Very competitive industry with operations in 50 –70 countries • Brand management driven with strong focus on marketing and sales • CIO reports to CEO and is a member of the Executive Management Team & Seats at the “C” table • Company is transitioning from a decentralized environment to a more coordinated regional & global management environment to take advantage of operating synergies 	<p>Approach</p> <ul style="list-style-type: none"> • Company has been moving towards a more coordinated global and regional operating environment by establishing various steering committees that focus on the specific functional/ process areas such as Supply Chain, Marketing and IT to assist in working and creating synergies across global regions • Senior IT management representatives are members of each of the key business councils • Recently, IT is establishing a strategic planning process, which will link to the portfolio investment process, capital and expense budget process and program/project execution process • IT established a global architecture group to coordinate consistent hardware and software (e.g. Operating Systems, Major Application Packages, etc.)
<p>Issues and Challenges</p> <ul style="list-style-type: none"> • IT strategic plan process is new & not yet linked to annual operating plan & budget • IT has many disparate applications, operating systems and hardware inherited from a historical decentralized environment that is slow and difficult to change. Global IT consistency is a challenge • Tensions of a matrix organization Regional IT Managers report into regional business heads with dotted line to CIO 	<ul style="list-style-type: none"> • Established a strong Project Management Office, which is in the process of developing a uniform and consistent process which will be rolled out globally across all regions in a coordinated and collaborative manner • Involved the business owner to assure closer alignment between the business and IT.
<p>Results - Alignment</p> <ul style="list-style-type: none"> • CIO sits on the Executive Management Operating Council and is an equal peer/partner with business & assures a closer alignment of IT support for business • A 3 year financial plan is developed for IT, about 50% is dedicated to supporting the business unit applications (charged back) and 50% to infrastructure and keeping the lights on • IT portfolio investment management is a rolling process & identifies IT capital spend by geography and functions. It is prioritized based on discretionary and mandatory criteria with top down and bottom up input • Balanced scorecard and report card metrics are linked to critical success factors of business and IT(financials, cost performance, quality, etc.) • Established an customer/IT engagement (single point of contact) model to improve relationships, build trust and focus on priorities of major business functions 	<p>Results - IT Service Management & Delivery</p> <ul style="list-style-type: none"> • A variety of metrics and tools are used to measure the efficiency, capacity and availability, utilization and service-ability of the operations and infrastructure assets and group • Elements of ITIL processes have been and are being implemented in the IT operations and infrastructure area • The IT infrastructure (Operations and Telecommunications) are centralized through the CIO organizations with strong dotted line coordination throughout the globe

<p>Results - Program/Project Management</p> <ul style="list-style-type: none"> • Established a PMO center of excellence • Developing a flexible and scalable PM process to handle fast track and complex projects • Implementing a global Portfolio/Project Management tool (Nikku) 	
<p>Results – Performance Management & Management Controls</p> <ul style="list-style-type: none"> • Select IT metrics are included in the IT monthly status report (e.g. key line items designated as green, yellow and red) • An annual user satisfaction survey is conducted by IT measuring 8 areas of IT delivery: communications, responsiveness, up-time, alignment, business process transformation, IT process transformation (streamline IT process), project, relationship mgt. and application support • A monthly Serbanes Oxley report is issued & tracks a number of required categories • A narrative IT annual report is issued reporting news, strategies, etc. 	<p>Lessons Learned</p> <ul style="list-style-type: none"> • IT governance is a journey towards continuous improvement • Cultural and organizational transformation is difficult, but necessary to survive • Involve local, regional and corporate management employees in direction setting and execution initiatives in a spirit of cooperation, communications, trust and partnership • Establish global centers of excellence (located in multiple regions) for IT and let them lead by example: Web/e-business, Core center applications, Infrastructure, PMO/SDLC, Enterprise Data Architecture, Advanced Technology, Etc.

IT Mission & Key Management Principles – Consumer Goods Organization (Illustrative Example)

IT Mission		
<ul style="list-style-type: none"> • Enable business growth • Advance Business Transformation • Increase the productivity of associates and Sales Representatives • Support our global operating model 		
Growth Enablers		
<p style="text-align: center;">Maintain a deep understanding of our business</p> <ul style="list-style-type: none"> • Anticipate business needs • Proactively identify how information and technology can drive the direct selling business model • Partner with the business to implement hard to do transformation • Leverage our cross-functional and cross-geography view 	<p style="text-align: center;">Achieve business alignment</p> <ul style="list-style-type: none"> • IT strategy in step with business strategy • Forge strong relationships with business partners • Communicate early, frequently and simply • Ensure IT talent is aligned with growth strategies 	<p style="text-align: center;">Deliver contemporary business solutions</p> <ul style="list-style-type: none"> • Champion integration and collaboration • Reduce the number of solutions while supporting business differences across markets • Provide information for business decision-making • Affordable and suitable alternatives
Operational Levers		
<p style="text-align: center;">Lead through process discipline</p> <ul style="list-style-type: none"> • Comply fully with our project management and software development methodologies • Adhere to IT Governance policies and procedures • Ensure adequate controls and KPIs • Sponsor appropriate certifications 	<p style="text-align: center;">Provide the best value</p> <ul style="list-style-type: none"> • Implement make vs buy decisions that deliver speed, competitive advantage, affordability • Leverage worldwide IT resources • Effectively manage services and assets 	<p style="text-align: center;">Maintain Service Excellence</p> <ul style="list-style-type: none"> • Systems are reliable and available to optimize revenue and representative service • The enterprise is secure, controlled and protected • Disciplined problem, change & risk management

Figure 1.15 Case study: global consumer goods company