



Executive Brief # 1

Corporate Governance of Information and Communication Technology

What is IT Governance?
Some working definitions

What is IT Governance Anyway?

It's hard to say when exactly the term IT Governance moved into common use. But it's not hard to see that the term has acquired many different meanings over the past few years and so it's not surprising that argument rages. It can be quite difficult for managers, executives and directors to find a suitable definition of IT Governance – and one that will serve as a foundation stone for their own efforts in developing or upgrading their organisation's approach and performance.

One way to get a start on defining IT Governance is to start from the point of view of the consequences of poor IT Governance. We all know what that looks like – an organisation unable to perform as it should because its IT systems are inadequate, with its IT projects failing to deliver, and its IT costs spiralling out of control. This leads to a basic premise that IT Governance must have something to do with ensuring that IT is performing as it should to support the organisation, that the IT costs are appropriate, and that IT projects are generally successful.

This brief discussion does not attempt to go through an exhaustive discussion of IT Governance. Nor does it attempt to derive a formal definition of IT Governance. Instead, it looks briefly at a key distinction, and looks at two highly consistent definitions – each of which should stand the test of time.

Governance vs Management

It is interesting to note that some commentators and even some practitioners appear unable to make clear distinction between the concepts of "governance" and "management". This is not an IT specific issue – the problem extends into broader matters of corporate governance, where there is a tendency for those who do not understand the difference to demand that directors become increasingly involved in management, rather than focusing on effective governance. Some may be surprised that dictionaries provide quite clear distinction between the two concepts, and by applying the dictionary definitions to the roles of board and management, one can readily formulate this distinction:

- Governance is the process of setting parameters for, and monitoring the performance of management.

Understanding this distinction should help eliminate a lot of muddled thinking that prevails in the current marketplace. However, the distinction still does not give us a clear view of IT Governance.

Does the Market help us understand IT Governance?

IT Governance is a hot topic today – much more so than just a year ago. Unsurprisingly, there are many players in the IT Governance market. Take a moment to try a web search on "IT Governance". You should get over 500,000 entries. Restrict the search to Australia and you still get 5,000 plus.

Look a little closer at the search results and you will discern software vendors with catchy phrases like "Maximize IT value by aligning & managing the complete IT portfolio" and "Make more informed real-time decisions to manage the business of IT with an IT Governance Dashboard". There are newspaper articles such as "Coleman delivers for RailCorp IT division¹" discussing how some organisations are overhauling their approach to IT Governance. White papers from various vendors abound, and you can look at publicly accessible IT Governance frameworks implemented by public sector and educational organisations. There are books too – and some of them are very good.

But, using the distinction above, you may also see that much of what is being touted in the market as IT Governance is in fact tools for IT Management. Some of it is undoubtedly very good IT management too – but perhaps it cannot deliver all of the potential value on its own – because without proper attention to the fundamental governance issues, it may well operate under inappropriate parameters.

This perhaps explains why past efforts by organisations to improve IT Management have sometimes failed to deliver the anticipated breakthroughs in performance. Even the best IT Management frameworks will fail to perform well if the parameters for their operation are set incorrectly.

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Formal Definitions of IT Governance

The IT Governance Institute (www.itgi.org) defines IT Governance as: "An integral part of enterprise governance and consists of the leadership and organisational structures and processes that ensure that the organisation's IT sustains and extends the organisation's strategies and objectives". ITGI prefixes its definition with the assertion: IT Governance is the responsibility of the board of directors and executive management".

*Peter Weill and Jeanne W. Ross*² define IT Governance as: "Specifying the decision rights and accountability framework to encourage desirable behaviour in the use of IT".

*AS8015-2005*³ defines Corporate Governance of ICT: "The system by which the current and future use of ICT is directed and controlled". AS8015 continues: "(Corporate Governance of ICT) involves evaluating and directing the plans for the use of ICT to support the organization and monitoring this use to achieve plans. It includes the strategy and policies for using ICT within an organization".

There is strong synergy across these definitions – each makes it clear that governance of IT is as much about the *use* of IT and not just about how IT is delivered. They make it clear that IT Governance involves systems, structures and frameworks, and they are all consistent with the distinction made earlier, that governance involves the setting of parameters and monitoring of performance.

For organisations that aim to optimise their current and future use of IT, the basic AS8015 definition is probably the most straight-forward. The notion of "system" is fundamental. The System of IT Governance necessarily includes the management processes and tools employed, as well as the setting of the parameters and the monitoring of performance and outcomes.

Thus, a "System of IT Governance" is a collection of processes, policies, rules, roles and tools that together enable an organisation to make effective, efficient and acceptable use of ICT through: organising and aligning IT activity to corporate intent; understanding its IT activities and capabilities; allocating and focusing IT resources; monitoring IT activity for appropriate performance; reducing risk of expensive IT failures; and detecting and correcting emerging IT problems.

The System of IT Governance is the superstructure that provides engagement of all the relevant stakeholders, from the boardroom to the coalface. It puts all the methodologies (including for example ITIL, CobiT and Prince2) and tools and processes in context, enabling the organisation to use them effectively, appropriately and persistently. And, while standard processes and tools may be employed, the parameters for operation will be unique to each organisation. AS8015 provides useful top-level guidance with regard to parameters. Its six principles for good governance invite organisations to think deeply, and establish clear, consistent policies and rules in six areas: Responsibility for ICT; Planning ICT to serve the business; Acquiring ICT Validly; Ensuring that ICT Performs Well; Ensuring that ICT Conforms with Formal Rules; and Respect for Human Factors.

Improving IT Governance

Evidence presented by Weill and Ross² and in numerous other publications, such as "Achieving Value from ICT: Key Management Strategies"⁴ shows conclusively that effective IT Governance is directly related to superior organisation performance and higher return on investment for initiatives that have substantial IT components.

Organisations seeking to develop and improve their systems of IT Governance should clearly articulate what they are aiming to achieve (**objective**); why it is important (**value**); the resources, techniques and tools you will employ (**approach**); how you will know if you are actually achieving the results you seek (**performance**); and the situations you will need to manage along the way (**risk**) that could cause the objective to be not delivered.

An powerful way to establish a baseline for planning an IT Governance improvement program is to benchmark your current capability using the Infonomics AS8015 Alignment Diagnostic.

¹ The Age, Melbourne, 5th July 2005, reporter: Agnes King.

² IT Governance: How Top Performers Manage IT Decision Rights for Superior Results, Harvard Business School Press, 2004.

³ AS8015-2005: Corporate Governance of Information and Communication Technology, Standards Australia, 2005.

⁴ Dept of Communications, Information Technology and the Arts, Opticon Australia and The Australian National University, April 2005