



Welcome

Thanks for reading this second edition in the new series of The Infonomics Letter.

We know that the world's financial markets are in poor shape – but just four weeks ago, did we expect it to get this challenging? Aggressive overconfidence is replaced by unadulterated fear, and a self-perpetuating spiral has emerged. The fear of severely reduced economic performance is producing exactly that situation. Naturally, this will affect how organisations use and invest in IT.

Even in good times, success with IT is elusive. Now, in difficult economic times, organisations face an even greater need for effective executive direction and control of their IT. Today's key irony is that until they invest in effective top level governance of IT, many organisations will make imprudent decisions that may further weaken their long term performance, rather than helping to minimise the depth and duration of downturn.

As your organisation – or your client's organisation – looks at its IT spend, will it:

- Retain, or close off the projects it will need to drive better performance?
- Retain, or eliminate tired, troublesome and redundant business systems?
- Persist with demonstrably risky approaches to IT, or strengthen governance to increase the likelihood of achieving business goals?
- Abandon, or nurture the great ideas that will position it for the new growth period that inevitably follows the downturn?
- Cast out, or retain and preserve the corporate knowledge and skill held by veteran staff?
- Know where the opportunities are, and take advantage of them, or be left gasping in the wake of those organisations that are more nimble and effective in controlling risk?

These are fundamental questions for every organisation at the top of its leadership tree. They should be addressed with clear understanding of business drivers and constraints as well as the technology opportunities and limitations. Organisations with effective corporate governance of IT will make good decisions.

Others may not do so well.

Mark Toomey
31 October 2008.

Australia's Gershon Review

In April 2008, the new Australian Government commissioned British Efficiency Expert Sir Peter Gershon to review the Australian Government's Use of Information and Communication Technology. The "Gershon Report" was released for public consumption on October 16th.

Gershon's major conclusion is that there has been weak governance of IT at the top levels of the Australian Government, and naturally, his key recommendations are focused on fixing that weakness. Sir Peter also estimates that, with improved planning and management, government will be able to substantially reduce its expenditure on "Business and Usual".

Industry reaction, and general press commentary has been entirely predictable. But, this industry response is profoundly short-sighted. It demonstrates a serious problem – the Australian IT industry (which is dominated by multinational hardware, software and services vendors) appears to understand neither the intention of, nor the prospective benefits of Sir Peter's primary recommendations.

Infonomics has been well aware, as an independent observer, of the top level governance weakness in Australian Government use of IT. There have been numerous well documented examples of IT failures in both operational and project contexts. One of the most profound, and most extensively documented was the example of the Australian Customs Service, which introduced a new system for clearing of cargo imports on 12 October 2005. For three weeks, Australia's sea ports choked, with the systems comprehensively unable to process the workload. We wrote about it in the November 2005 edition of "The Infonomics IT Governance Letter", and produced a paper that chronicles the evolution of the problem. A consultants report commissioned by Customs, and a subsequent review by the National Audit Office confirmed that the project had suffered serious deficiencies in its top level governance.

At the time of the failure, it was believed within Customs that it had very effective governance of IT. The contrast between this belief and reality was stark, but serves well to illustrate one of the key problems in many organisations – the understanding of exactly what governance of IT is all about. In the case of Customs, the belief was

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that governance of IT was all about the internal controls and processes of the IT function. This view was fundamentally flawed – as IT is merely a tool that enables business change, and the essential focus for governance is on directing the business change, or business use of IT. In this regard, Customs was patently deficient.

Customs is far from the only example in the past few years of Australian Government agencies having at least moderately effective internal control of IT, but failing to provide proper business direction and control – the fundamental elements of governance. Sir Peter Gershon has clearly recognised these weaknesses and has bluntly told the new government to fix this problem if it wants IT to be effective and efficient.

Any organisation, be it government or private, that has weak governance at the top is likely to make poor decisions, fail to plan adequately, experience a comparatively high rate of failures and breakdowns, and fail to realise the potential value of its spend. Gershon identified all of these symptoms in Australian Government.

It stands to reason that any organisation with strong and effective governance of IT will make good decisions, plan ahead effectively, be successful in its investments, avoid breakdowns and their consequences, and realise the value of their investments. Gershon's recommendations are clearly intended to promote such a situation.

But what happens when organisations become successful at an essential capability like using IT to improve performance? Naturally, the organisation will exploit this advantage, and use its capability to create even more value.

So if the Australian Government gets its governance of IT right from the top, as Sir Peter Gershon recommends, it may well arrive at the situation where it is so good at using IT to improve the machinery of government and the lives of its citizens, that it increases, rather than decreases its overall expenditure on IT.

Implementing the recommendations of the Gershon Report will involve extensive cultural change for the people in the upper echelons of the Australian Government. In establishing new governance frameworks, including ministerial and department secretary level governance committees, it will be necessary for these individuals to collectively and individually take on new roles and new behaviours.

Gershon used AS8015 (ISO/IEC 38500) to provide the clear definition of corporate Governance of IT against which he measured the existing arrangements. Organisations that want to

achieve good governance of IT should adopt the behaviours recommended through the six principles for good governance in the standard, and should ensure that the three primary tasks of governance – evaluate, direct, and monitor – are being done properly at every level in the system of governance.

While Gershon did not explicitly report on the government's performance in respect of the six principles in AS8-15/ISO 38500, the text of the report makes it abundantly clear that there are many opportunities for improvement against the principles.

Consider first, the **Responsibility Principle**: Gershon is clearly telling the government that it has a responsibility at ministerial level to set the overall tone for use of IT in government. At the same time he is telling the heads of the major departments that they have a responsibility not only to ensure that the use of IT is successful within their own departments, he is telling them that they are also responsible for ensuring that IT is efficient across the whole of government. Anybody who looks at the behaviours around government IT in recent years will know that this responsibility has not been given high levels of prominence.

Consider the **Strategy, or Planning Principle**: It asks organisations to plan for the benefit of the organisation – which at a minimum should be seen as the overall machinery of government and at the broadest, the entire Australian Nation. But Gershon's report says bluntly that planning has focused on the needs and desires of individual agencies, leading to them competing with each other for scarce resources, and failing to take advantage of the opportunities that present at a whole-of-government level. Gershon also identifies serious failures of planning in respect of data centres, where clearly even individual departments have not planned sufficiently far ahead.

Look at the **Acquisition Principle**: Acquisitions – decisions to spend money or allocate resources should be made on the basis of proper formal analysis and comparison of options. This principle applies equally to new projects and ongoing Business as Usual spend. But Gershon has found that there has been very little scrutiny of the Business as Usual scenario, with the result that a far too significant portion of the government's overall IT spend has been washed down the drain of excessive operating costs. Should we be surprised that the industry is lamenting – it has enjoyed the easy profits of an insufficiently managed operational expense for far too long,

and needs to respond to the report now by learning how to help government achieve high degrees of efficiency, rather than continuing to encourage the high cost regime of the past.

Now the **Performance Principle**:

Organisations, including government, should ensure that their IT performs well whenever required. Had this been the case, the Gershon review would never have been needed – and so we are unsurprised to see findings and recommendations specific to this principle. In respect of projects, Government has to do considerably better at identifying and managing to full realisation, the benefits of IT investment. But it is not just project benefits where Gershon has identified weakness. With evidence that much of Australia's government computing being dependent on a single electric power feed into the capital, it is clear that risk analysis has been seriously deficient – particularly at the macro, or big picture level. Further, Gershon has identified deficiencies in staffing arrangements, where government is grossly over-reliant on contract staff, and in overall management of the IT industry, where government should be ensuring that the industry and the IT marketplace is effective and efficient.

The **Conformance Principle**: Organisations should be clear about both internal and external rules, and should follow them. However, Gershon has found that the Australian Government has hitherto been quite weak in establishing and enforcing its internal rules. The central agency that should be setting and ensuring conformance with the rules has not had the authority, nor the top level engagement, to be able to clearly define and ensure conformance with relevant rules. In the future, AGIMO should be much stronger and empowered through the top level governance committees to make and enforce appropriate rules for effective, efficient and acceptable.

Finally, the **Human Behaviour Principle**:

There is extensive evidence that success with IT depends more on the human elements of change than on the technology itself. But Gershon has found a tendency in Australian Government to avoid dealing with the human issues. When Commercial off the Shelf (COTS) package solutions are adopted there is a tendency to excessive customisation. In our experience, this tendency is often driven by reluctance to change the way an organisation works, as such change puts people out of their comfort zones, and disrupts the "local practices" that often arise in inefficient and poorly managed businesses. Avoiding change to process, people and structure drives up the cost and blocks the wider

application of a particular system. This is bad enough, but the much greater impact is that the practice often blocks access to the benefits that would have justified the investment in the first place. In adopting new behaviours to implement the Gershon Report, the Australian Government will need to ensure that it becomes highly adept in dealing with the human factors relevant to organisational change.

Another aspect of Human Factor explicitly referenced by the Gershon report is the need for a formal career structure for IT specialists in government. The lack of a career structure, combined with the opportunity for greater financial reward outside government has driven many IT specialists into the contracting market, and into the ranks of the consulting firms that give them a sense of belonging, while then charging the government a great deal more for essentially the same service that government could have obtained from these people as employees. Gershon has been clear about the need for Australia to rebalance the system, so that government has the essential long term skills and capabilities to manage, deliver and operate its enabling IT machinery.

The opportunity presented to the Australian Government by the Gershon Report is profound. Where the previous government appeared to view IT as a mysterious black box that should be excised from view, Gershon has made clear the need for IT to be viewed as an integral and essential enabler to effectiveness and efficiency. As government adopts the recommendations, it is clear that many people and particularly at the top levels will need to embrace new ideas and new skills. New mechanisms and structures and processes will need to be designed, implemented and refined in order for the Gershon recommendations to be fully implemented.

By implementing the Gershon recommendations, Australia will become an exemplar of good governance of IT in the government arena. Isn't it fortunate then that Australia is the centre of global excellence in this regard, being the nation that created the world's first practical standard for corporate governance of IT.

Now is the time for the Australian Government to heed the advice of the world's leading experts, including its own appointee, Sir Peter Gershon, by adopting the Australian and International Standards for Corporate Governance of IT: AS8015 and ISO/IEC 38500.

Why should we get excited about ISO/IEC 38500?

By Infonomics' London Agent, Chris Ogden.

ISO/IEC 38500 was introduced in June 2008. It is significant because, for the first time, a major, independent global standards body has recognised the need to provide senior business and government decision-makers with more effective advice on how they can direct and control their organisation's use of IT from the business, or demand angle. In the same way that most Boards are now familiar with ISO 9000 as a symbol for quality, Boards will soon become aware that IS 38500 is a symbol for "we've got IT under control".

What happens today when the boardroom agenda turns to information technology?

- Sadly, for many boards that's a silly question. Too many of them don't understand information technology and never seriously consider it – even though it is troublesome and often quite worrying!
- Some boards make a valiant attempt to consider IT, but on those occasions they endure a period of babble about things that the directors simply do not comprehend, leaving them to make decisions in the dark. Should we be surprised when things eventually go wrong?
- For some boards, the conversation about IT is meaningful, focused on the role of IT in producing business outcomes, and enables the board to make informed decisions.

The truth is that many business leaders are poorly equipped to ask insightful questions and make informed judgements about how their organisations use information technology. Many, when they read about the latest "computer disaster", must wonder whether the world's IT specialists will ever get their act together.

The new International Standard – ISO/IEC 38500 is designed to precisely fill the gap – to empower the leaders of any organisation to evaluate, direct and monitor their IT situation without need for recourse to the intricate depths of the technology.

Today, business cannot work without IT. In the 24 hour economy, IT is crucial to the delivery of service, whether as an internet business, a manufacturing enterprise, a major retailer or a 24hour distribution business. No IT means no business.

Yet IT failures – or "computer disasters" as they

are often portrayed in the media - are still all too common. Consider recent examples:

- Heathrow Terminal 5 - the disastrous launch of the new terminal was caused by the failure of baggage handling systems and the inability of staff to use these systems.
- The NHS Care Records System has been said to be several years behind schedule and massively over the initial £6bn budget. NHS Trusts have been unable to get to grips with the new technology.
- The London Stock Exchange – on a recent, critical, Monday in the current financial crisis, excessive load effectively shut down the exchange for a good part of the day.
- British Gas was forced to employ thousands of additional staff, and lost a million customers, after experiencing problems with its new billing system.

These examples are the tip of the iceberg – they are just the ones that made a significant enough impact to be noticed by the popular press. But they demonstrate very strongly that failures in IT can cause significant financial loss. They can also impact reputation and cause major damage to the brand. Public services can suffer and careers can be blighted. IT problems are a global phenomenon, and the costs of not doing IT well are immense.

Over the past ten or more years, an entire sub-industry has emerged, peddling a panacea to the problems with IT, under the banner of "IT Governance". But all the frameworks and tools and all of the training and restructuring and other activities carried out under the "IT Governance" banner have resulted in neither the eradication of the problems with IT nor the consistent realisation of significant measurable value from IT investments. Why? Most of the existing approaches to governance of IT have essentially been for the technologists – the providers of IT – rather than for the benefit of those with responsibility for the business. "Supply side" tools have been in abundance; "demand -side" guidance have been non-existent.

A common thread across many "IT failures" is an intense focus on the technology, with limited (at best) recognition that new technology systems alter the way people and organisations work. Changes in IT can only be truly effective when there is adequate attention to, and careful planning of the way the new or changed technology is used in practice. Viewing IT as no more than a collection of computers, software and the Internet is missing the point. To paraphrase

Bill Clinton, it's a *system*, stupid. Success with IT comes not from looking at the technology, but from looking at how the organisation uses the technology to build more effective business systems, through which they produce results.

When IT is viewed as merely the technology, Boards and Executive teams often, understandably, find it difficult to know which questions to ask and what direction to provide. And since technologists are notoriously poor at communicating effectively with people who do not have in-depth knowledge of IT, the Board's important role of providing oversight and strategic direction regarding the use of IT is severely compromised.

ISO/IEC 38500 provides a framework for the effective Governance of IT based around six core principles for good behaviour and good governance.

Building directly on the framework established in the standard, Infonomics has developed a toolkit to help business leaders understand and more effectively control their organisation's IT situation. Together, Infonomics and Business Next are helping UK organisations to take advantage of the standard, providing sophisticated but very straight-forward guidance and resources for Boards. At the core of this system is an 84-point checklist that Boards can use to assess how well their organisations are performing in their Governance of IT.

The Infonomics resource kit helps the people at the top of small, medium and large organisations to understand why and how they should govern the use of IT, to assess the effectiveness of their governance arrangements, and to improve the way that they direct and control the use of IT. Together with Board level briefings and set-up coaching, the kit enables all Boards to gain the confidence to fully exercise their vital role of ensuring that current and future use of IT contributes positively to the performance and health of their organisations.

Integrating ISO 38500 and the frameworks

Infonomics Letter reader Matthew Sigal asked: It would be great to see follow up on (if or) how ISO 38500 relates to more tactical standards and cases around implementation.

This is a topic that can and will bear extensive discussion, in both academic and practical circles. Indeed, in my own forthcoming book (Corporate Governance of Information Technology: A Guide to ISO 38500), I have devoted extensive

discussion to the relationship between the standard and frameworks like CobiT and ITIL.

The essential point is that ISO 38500 does not replace any of these frameworks. Rather, it provides strong context in which to justify their use, and its principles provide a powerful reinforcement.

The principles in ISO 38500 focus on behaviour. It would be reasonable to say that poor behaviour will defeat most process models. While good behaviour will reduce the need for rigorous process definitions, the best arrangement is clearly where good behaviour underpins a well-defined and properly implemented process model. Thus organisations adopting or improving their process for directing and controlling the use of IT should find use ISO 38500 in conjunction with their chosen process frameworks.

We will discuss this topic further in future editions.

Infonomics Calendar

This edition of the Infonomics Letter is being finalised in a Korean Airlines Airbus 330, en route from Melbourne to Seoul. This is the beginning of a busy calendar, focused on communicating the importance and value of ISO 38500, with an international standards meeting as well. The agenda is:

- 29 October: ISACA Conference, Seoul;
- 30 October: NIA Briefing, Seoul;
- 3 November: Masterclass, London;
- 3 November: Canada-UK Chamber of Commerce Briefing, London;1
- 6 November: Intellect UK Briefing, London;
- 6 November: Association of Project Managers, Chilterns Branch briefing, Reading;
- 27/28 November: 2 day Masterclass, Kuala Lumpur;
- 1-2 December: Conference and Half day workshop, Wellington;
- 3-5 December: Standards Workgroup meeting, Wellington;
- 9 December: ASL/BiSL Foundation Conference, Netherlands;
- 10 December: Masterclass (tbc), Netherlands.

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