

IT Governance Frameworks

The DCG Approach

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Background

- In everything we do at DCG, we constantly review emerging and established best practices, test them against our experience and mold them into practical approaches to delivering value to our clients.
- This presentation represents our current approach to the challenge of governance at the business-IT interface.
- While we are confident that the principles here can be applied to many different governance problems, we prefer to stay focused.
- We freely acknowledge that our favorite ideas in this area come mainly from one source: The Center for Information Systems Research (CISR) at the MIT Sloan School of Management. We recommend, “IT Governance,” by Peter Weill and Jeanne W. Ross.

What is Governance?

- Effective governance addresses three questions:
 - What decisions must be made?
 - Who should make these decisions?
 - How will we make and monitor these decisions?

What decisions must be made?

Key IT Decisions

	<p>IT Principles Decisions High-level statements about how IT is used in the business</p>	
<p>IT architecture decisions</p>	<p>IT infrastructure decisions Centrally coordinated, shared IT services that provide the foundation for the enterprise's IT capability</p>	<p>IT investment and prioritization decisions</p>
<p>Organizing logic for data, applications and infrastructure captured in a set of policies, relationships and technical choices to achieve desired business and technical standardization and integration.</p>	<p>Business applications needs Specifying the business need for purchase or internally developed IT applications</p>	<p>Decisions about how much and where to invest in IT, including project approvals and justification techniques</p>

Questions Key to each IT decision: IT Principles

- What is the enterprise's operating model?
- What is the role of IT in the business?
- What are IT-desirable behaviors?
- How will IT be funded?

How will we make/monitor the decisions?

Sample IT Principles

1. Benchmarked lowest total cost of ownership
2. Architectural integrity
3. Consistent, flexible infrastructure
4. Rapid deployment of new applications
5. Measured, improving and communicated value and responsiveness
6. Enable the business
7. Ensure information integrity
8. Create a common customer view
9. Promote consistent architecture
10. Utilize industry standards
11. Reuse before buy: Buy before build
12. Manage IT as an investment
13. Early adoption without penalty
14. Commercial orientation of IT
15. Creation of business cases and measurement of IT impact
16. Share and reuse technology enterprise-wide
17. Federal IT organization
18. Develop project, process and technical competence within IT
19. Standardize project procedures
20. Standard technology platforms; single sign-on
21. Seamless escalation across multiple support levels leveraging centralized competence centers
22. Adopt a process view of the firm
23. Build a corporate infrastructure to support cross-functional processes
24. Build and leverage a standardized environment
25. Focus on the customer
26. Provide Business information
27. Integrate processes, functions and companies
28. Make it easy for customers to do business

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Questions Key to each IT decision: IT Infrastructure

- What infrastructure services are most critical to achieving the enterprise's strategic objectives?
- For each capability cluster, what infrastructure services should be implemented enterprise-wide and what are the service level requirements of those services?
- How should infrastructure services be priced?
- What is the plan for keeping underlying technologies up-to-date?
- What infrastructure services should be outsourced?

Questions Key to each IT decision: IT Architecture

- What are the core business processes of the enterprise? How are they related?
- What information drives these core processes? How must the data be integrated?
- What technical capabilities should be standardized enterprise-wide to support IT efficiencies and facilitate process standardization and integration?
- What activities must be standardized enterprise-wide to support data integration?
- What technology choices will guide the enterprise's approach to IT initiatives?

Questions Key to each IT decision: Business Application Needs

- What are the market and business process opportunities for new business applications?
- How are experiments designed to assess whether they are successful?
- How can business needs be addressed within architectural standards? When does a business need justify an exception to standards?
- Who will own the outcomes of each project and institute organizational changes to ensure the value?

Questions Key to each IT decision: IT Investment & Prioritization

- What process changes or enhancements are strategically most important to the enterprise?
- What are the distributions in the current and proposed IT portfolios? Are these portfolios consistent with the enterprise's strategic objectives?
- What is the relative importance of enterprise-wide versus business unit investments? Do actual investment practices reflect their relative importance

How will we make/monitor the decisions?

IT Investment Portfolio – How to allocate IT Dollars?

- Managing the IT Portfolio requires providers and users to agree on indicators of success.
- Enterprises with better returns from IT pay particular attention to these indicators
- One approach classifies IT assets into 4 classes, each supporting a different management objective:
 - Strategic – to gain competitive advantage
 - Informational – to provide information
 - Transactional – to process transactions and cut costs
 - Infrastructure – to provide shared services and integration
- Another classification vector:
 - Research
 - Invest
 - Maintain
 - Sunset
- IT investments can expose firms to four kinds of risk:
 - Market
 - Financial
 - Organizational
 - Technical

Who should make these decisions?

One person every time

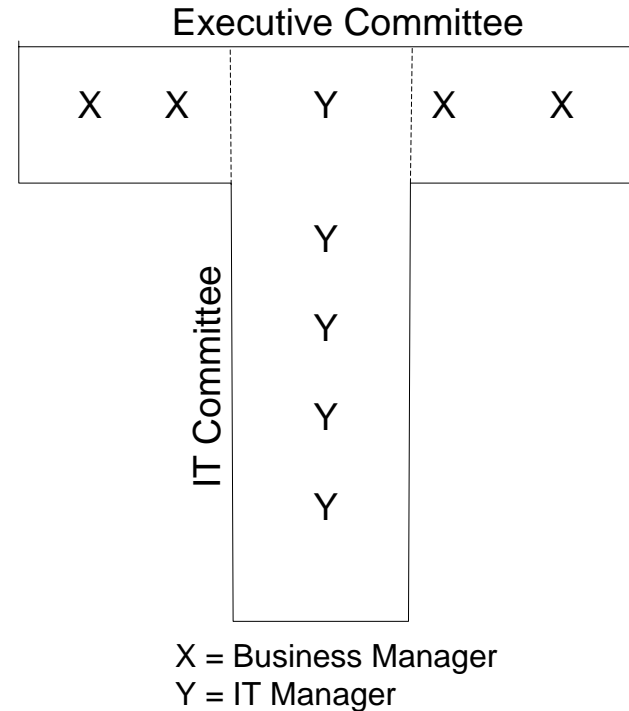
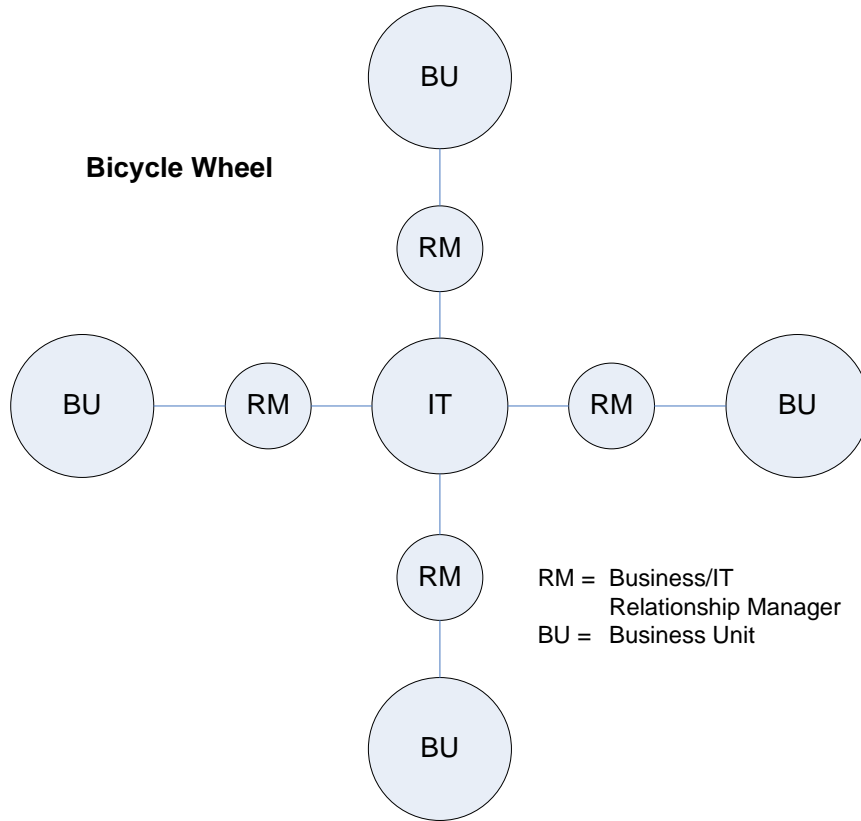


How will we make/monitor the decisions? Who has input rights?

- Business Monarchy
 - A group of business executives or individuals (CxO's).
 - Includes committees of senior business executives.
 - Excludes IT executives acting independently.
- IT Monarchy - Individuals or groups of IT executives
- Feudal - Business Unit Leaders, key process owners or their delegates
- Federal
 - C-level executives and business groups (e.g. Business units or processes);
 - May also include IT executives as additional participants.
 - Equivalent of the central and state governments working together.
- IT Duopoly - IT executives and one other group (e.g. CxO or business unit or process leaders)
- Anarchy - Each individual user

How will we make/monitor the decisions?

Duopoly Types



Best/worst Choices

Decisions Archetype	IT Principles		IT Architecture		IT Infrastructure Strategies		Business Application Needs		IT Investment	
	Input	Dec.	Input	Dec.	Input	Dec.	Input	Dec.	Input	Dec.
Business Monarchy										
IT Monarchy										
Feudal								-		
Federal	+	-		-		-	+			-
Duopoly	-	+					-			+
Anarchy										

How Top Financial Performers Govern

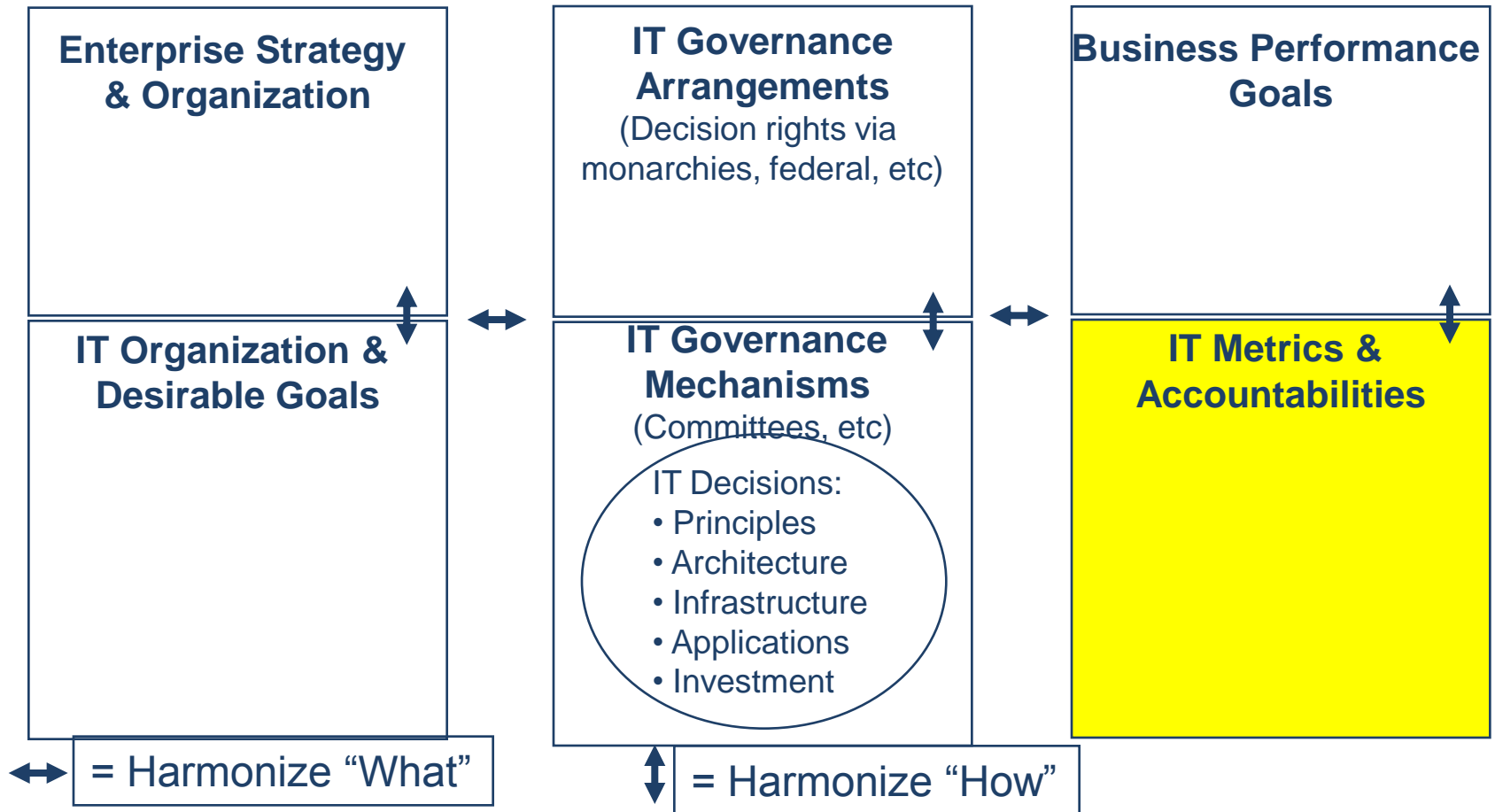
Decisions Archetype	IT Principles	IT Architecture	IT Infrastructure Strategies	Business Application Needs	IT Investment
	Decision	Decision	Decision	Decision	Decision
Business Monarchy	Profit Growth	Profit	Profit	Growth	Profit Growth
IT Monarchy			Profit		
Feudal					Growth
Federal					
Duopoly				Profit	
Anarchy	ROA	ROA	ROA	ROA	ROA

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How will we make/monitor the decisions?

IT Governance Design Framework



Which Governance Archetypes are used for Different Types of Decisions?

Decisions Archetype	IT Principles		IT Architecture		IT Infrastructure Strategies		Business Application Needs		IT Investment	
	Input	Dec.	Input	Dec.	Input	Dec.	Input	Dec.	Input	Dec.
Business Monarchy	0	27	0	6	0	7	1	12	1	30
IT Monarchy	1	18	20	73	10	59	0	8	0	0
Feudal	0	3	0	0	1	2	1	18	0	3
Federal	83	14	46	4	59	6	81	30	93	27
Duopoly	15	36	34	15	30	23	17	27	6	30
Anarchy	0	0	0	1	0	1	0	3	0	1
No Data or Don't know	1	2	0	1	0	2	0	2	0	0

 = Most common input pattern

 = Most common decision pattern

How will we make/monitor the decisions?

Common Governance Mechanisms

- “Historical performance in a large number of enterprises can indicate only what worked elsewhere so senior management must combine these general findings with the firms unique goals, strategies and cultural norms.”
- Simple
- Transparent
- Suitable
- Choose mechanisms from all 3 types:
 1. Decision-making
 2. Alignment
 3. Communication
- Limit decision-making structures
- Provide for overlapping membership in decision-making structures
- Implement mechanisms at multiple levels in the enterprise
- Clarify accountability

Common Governance Mechanisms

Decision-making

	Percentage of Participants Using	CIO-ranked effectiveness 1 (ineffective) to 5 (highly effective)
Decision-making structures		
Business-IT relationship managers	>80	3.9
IT Leadership committee comprising IT executives	>80	3.8
IT Council comprising IT and business executives	>70	3.7
Executive or senior management committee	>80	3.5
Process teams with IT members	>80	3.4
Architecture committee	>60	3.1
Capital Approval committee	>50	3.1

Common Governance Mechanisms: Alignment Processes

	Percentage of Participants Using	CIO-ranked effectiveness 1 (ineffective) to 5 (highly effective)
Alignment Processes		
Tracking of IT projects and resources consumed	>90	3.4
Service Level agreements	>80	3.2
Formally tracking business value of IT	>60	2.9
Chargeback arrangements	>60	2.8

Common Governance Mechanisms: Communication Processes

	Percentage of Participants Using	CIO-ranked effectiveness 1 (ineffective) to 5 (highly effective)
Communication Processes		
Office of CIO or office of IT Governance	>80	3.6
Work with managers who don't follow the rules	>80	3.2
Senior management announcements	>80	2.9
Web-based portals and intranets for IT	>70	2.9

Proposed Approach

1. Identify the relevant stakeholders, their broad IT goals and their IT constraints through interviews.
2. Develop a common set of definitions and a “Table of Contents” for the Application Governance Framework. The resulting outline will cover an end to end governance flow including the processes listed on the next slide.
3. Once the content has been agreed upon, develop each section more fully.
 - As appropriate, the governance model will define each process and identify the input to the process, the resulting output, the responsible resource, the audience, policies and procedures, tool interfaces, etc.
 - The result will be a ‘package’ characterized as a document defining the business of running IT and describing how an organization would do business with IT.
 - In some instances those practices may already be defined and the framework may simply reference the specific procedure with a statement regarding policy for complying with that procedure.
4. The resulting Application Governance Model will be thoroughly documented and presented to senior management.