

PART ONE

IT Governance Concepts

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Importance of IT Governance for All Enterprises

COMPUTERS AND INFORMATION TECHNOLOGY (IT) applications first burst into the business world primarily in the United States and Europe starting in the early 1960s. It was a new business technology then and many companies were offering competing computer hardware and software products to major corporations at that time. Companies at all levels wanted to get up to speed with this new technology, and massive investments were made in installing new systems and hiring and training the programmers and analysts to build and launch them. Despite some failures along the way, we are all using and benefiting today from these types of computer hardware and software products.

Today, IT systems supported by ever-changing and improving technologies are a major component of almost all business activities. However, our IT activities have not been supported by some of the same standards and procedures found in other business areas. For example, accounting systems and financial standards are supported by recognized accounting principles that are reviewed by independent auditors and follow governmental financial accounting rules, such as those of the Securities and Exchange Commission in the United States. Similar best practices rules and standards exist for other areas of business activity, such as in many aspects of marketing and quality control. This is not the case for IT systems and processes. Despite the fact that IT operations are facing increasing governmental and professional compliance requirements and face a wide range of systems-related risks, there is an ongoing need for better IT governance practices today.

IT governance is a concept that was almost unknown not too many years ago. We thought about enterprise governance from the roles and activities of senior management and the board of directors, but IT functions in those earlier enterprises were just viewed as very important support functions and not as major business activities. Our overall thinking of enterprise governance really changed in the United States in the early years

of this century after the failure of a major U.S. corporation called Enron. That failure was so sudden and almost unexpected that U.S. governmental regulators investigated and found that many corporate governance and financial practices were lacking. The result was the Sarbanes-Oxley Act (SOx) in the United States. These legislative rules have had a major impact on financial reporting and corporate governance practices, first in the United States and then worldwide. Sarbanes-Oxley has also had a major related impact on the need for effective IT governance.

Today, senior managers, IT managers, and practitioners think of IT governance in many varying but different ways. Some see IT governance as “command-and-control” rules over IT initiatives imposed by internal auditors, non-IT executives, and outside consultants; others consider it a corporate mechanism that implements a Big Brother approach to apply top-down constraints to overall IT activities. From the perspective of the IT practitioner who is building and managing systems to improve business productivity, IT governance is sometimes seen as an unnecessary evil that hampers IT-related creativity and productivity in the enterprise. In any case, IT governance does not impose upon enterprise management and their IT functions with stringent regulations, standards, and policies. Rather, good IT governance is a set of policies and best practices that should serve as a strategic enabling force to improve enterprise business operations. It is embraced by all levels in the organization and reaches far beyond the four walls of IT enterprise operations.

Good IT governance aligns an enterprise strategically to support the evolution of an IT architecture that delivers consistent and scalable business value. IT governance helps measure a business’s growth and success, including its financial health. The chapters following present an emerging and comprehensive view of IT governance that addresses enterprise root business performance criteria along with the important factors of compliance adherence and risk management. As the chapters following discuss important aspects of each, we will refer to governance, risk, and compliance factors by their initials, GRC. This is an acronym that is frequently found in business publications today.

IT governance is about the way an enterprise accomplishes the delivery of mission-critical business capabilities using IT strategies, goals, and objectives. IT governance is concerned with the strategic alignment between the goals and objectives of the business and the utilization of its IT resources to effectively achieve the desired results. Exhibit 1.1 shows this IT governance concept and how it fits in with overall enterprise strategies.

Although Exhibit 1.1 is very general, it shows IT governance concepts—the purpose of this book—in the center but within overall enterprise strategies and operations. This is always a key concept to keep in mind. Too often, an aggressive IT director may tend to think that his or her ideas for improving and running IT systems and operations are almost more important than other enterprise activities. We should always keep in mind that although IT operations are usually critical to overall business operations, they must fit into overall business activities and strategies. Although the head of IT, the enterprise chief information officer (CIO), may feel that he or she has the best idea for some change or improvement in IT operations, that idea should be subservient to other corporate activities. For example, a CIO may recognize the importance of implementing service level agreements (SLAs), or informal contracts between users and IT, as discussed in Chapter 17, and as a good way to improve IT operations.

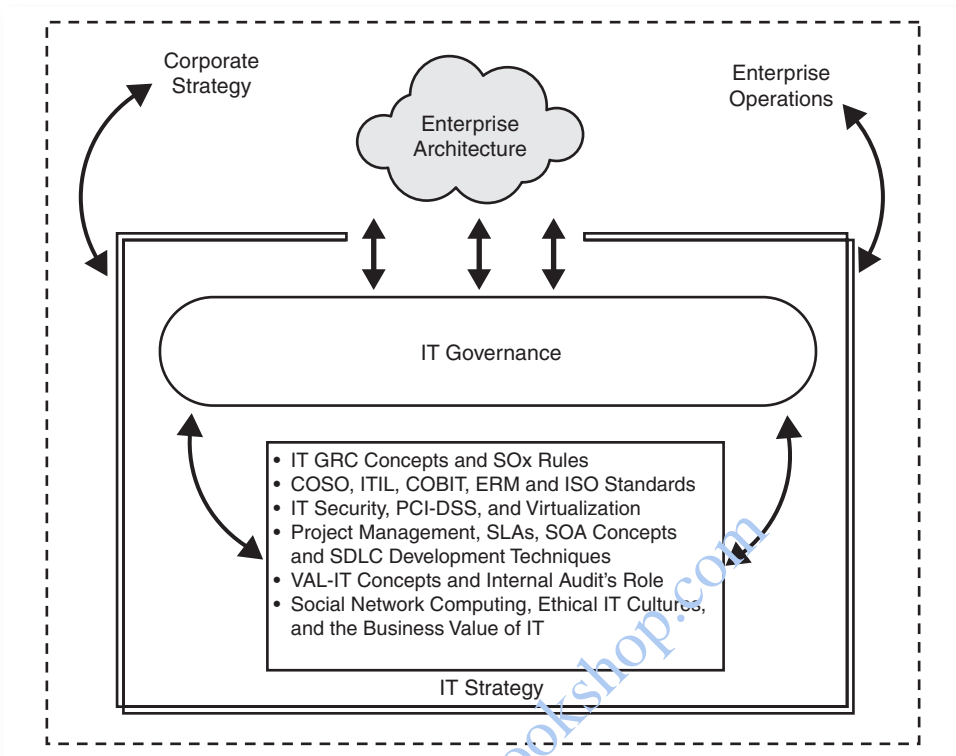


EXHIBIT 1.1 IT Governance Concepts

If senior management does not like this idea, the CIO should accept senior management's direction and go forward and make other improvements where possible.

Our point here is that enterprise IT architecture sets the overall big-picture rules for enterprise activities and IT governance. The chapters following suggest many areas for improving IT systems and operations. With an objective of improving overall enterprise IT governance, however, all of these IT governance improvements must fit into the big picture of corporate operations.

The IT governance section in Exhibit 1.1 points to a series of other activities. Each of these roughly corresponds to the chapter topics outlined in the Preface to this book and described in the chapters going forward. In them, we have tried to outline many of the issues that are important for improving IT governance. They must be closely connected with links to overall business operations.

IT governance disseminates authority to the various layers in the organizational structures within the business, while ensuring appropriate and prudent use of that authority. This does not refer simply to hierarchical structures; we should always remember that network structures allow for specialization, teaming, and building infrastructure to support those teams. Specialization allows the sum of the parts of the organization to be greater than the whole. We should also remember that IT governance is not only for large organizations. Smaller enterprises have a need for good IT governance

practices as well. However, there are obviously a smaller number of control points to be deployed in a smaller operation, and the focus of our chapters points to the larger enterprise.

As the chapters following have defined it, IT governance affects business performance, and it ideally helps an enterprise to outperform its competition. A key theme here is that IT governance *defines* business performance, specifically the performance of IT resources as they are applied to the business's strategic objectives. Good IT governance leads directly to increased productivity, higher quality, and improved financial results. Poor IT governance, on the other hand, often leads to programmatic waste, bureaucracy, lower morale, and diminished overall financial performance.

To underscore the importance of good IT governance practices, consider the production of goods or services for typical enterprise business customers. These customers generally have visibility into a business only where they interface for the purpose of ordering or making requests, receiving value through the sale or production of products, or providing information through surveys or marketing analyses. It is the efficiency and coordination of internal business processes that comprise end-to-end customer experience; this is an aspect of business performance and should be measured and improved. In order to positively impact business performance, IT governance process must have focus and visibility on these overall end-to-end business processes with which customers interact. Poor IT governance loses sight of the customer in favor of satisfying regulations, standards, and policies *in isolation*. Local gains in process efficiency and productivity often do not provide favorable results in the context of the end-to-end business processes. Furthermore, the implementation of externally imposed regulations on internal business processes must be accounted for in ways that positively impact customer experiences, not simply as the apparent overhead of compliance; doing otherwise simply introduces risk into an enterprise. Good IT governance addresses whole end-to-end business processes and coordinates the activities of the enterprise over time and across organizational boundaries.

IT governance, as discussed in these chapters, should not be considered just in a new enterprise initiative. It is not a project that separately begins and ends but rather should be a key element in the fabric of an enterprise that transcends time, leadership, and other initiatives. Whether enterprise IT governance processes have grown unintentionally through evolving process improvements or grown intentionally through a deliberate project, the questions a senior manager should ask include: "How good are my IT governance processes at effectively delivering strategic business value year after year?" and "Are my processes repeatable, predictable, and scalable, and are they truly meeting the needs of my business (outside of IT) and my customers?"

It is no more likely that a single IT governance process will work for all IT business processes than it is for every one of an enterprise's customers to be satisfied with the exact same product or service configuration for any given product or service that a company produces. Therefore, a number of IT governance-related processes must be considered. This integrated collection of available IT governance processes is what we describe in the chapters following as the *IT governance landscape*.

IT governance is a subset of enterprise governance, which at the highest level drives and sets what needs to be accomplished by improving overall management processes.

IT governance itself encompasses systems, the overall IT infrastructure, and communications. Product development governance, like IT governance, is a subset of enterprise governance and overlaps with IT governance. Product development governance is targeted for enterprises that develop products (as opposed to IT service delivery discussed in Chapter 17, for example). IT development governance should be applied to development organizations and programs, and is a subset of IT and product development governance.

The chapters following introduce and describe many important frameworks and concepts—with names such as COBIT or ITIL—that are well understood by many IT professionals but may be less familiar to the senior enterprise executive. However, these are all important tools and processes to improve enterprise IT governance, as Chapter 2 will discuss. In our IT-centric world today, the senior enterprise executive should understand why IT governance and the related concepts of IT-related compliance activities and risk management are important. This is an overall goal of this book.

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