Audit Department

Sharing Industry Best Practices for Continuous Improvement

Whitepaper:
Adding Governance Structures = Adding Value

Author:
John Rosenbrook, Hamburg 2009

Phone +44-20-8144 2909 request@audit-department.com

Introduction

Boards and executive management have long known the need for enterprise and corporate governance. However, most are beginning to realize that there is a need to extend governance to information technology as well, and provide the leadership, organisational structures and processes that ensure that the enterprise's IT sustains and extends the enterprise's strategies and objectives.

ISO 38500 Requirement

If Information Technology is a part of your business, governance now extends to and includes information and the IT infrastructure that supports your business. Shareholder expectations of boards, and of the individual directors on boards, are clear:

1. The board of directors will actually direct the management of the company, including strategic and IT business plans and fundamental structural changes;
2. The board will see to the hiring of competent and honest business and IT managers;
3. The board will understand the business of the firm and develop and monitor a business and IT strategy;
4. The board will monitor the managers as they carry out the strategy and the operations of the company;
5. When making a business decision, the board will develop a thorough understanding of the transaction and act in good faith, on an informed basis, and with a rational business purpose;
6. The board will operate with basic honesty, care, and loyalty; and
7. The board will take good-faith steps to make sure the company complies with the law.

 – 27 Old Gloucester Street – London WC1N 3AX
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These IT governance expectations demand an appropriate IT governance framework. That can be difficult and time-consuming to do from scratch. Based on original research, publications, resources and symposia on IT governance from the IT Governance Institute (ITGI) and in collaboration with ISACA, we offer you the assessment of your IT Governance processes to understand the current level of efficiency and to provide you with recommendations where and how your company might be able to improve the ability to create value out of their investment.

Challenges in the Value Creation Process

The main six typical challenges in creating value can be described by the following symptoms. These will be the starting point of our assessment.

1. Problems in delivering technical capabilities

Often an enterprise's delivery processes and competencies within its IT function are not mature enough to effectively and efficiently deliver the technology capabilities needed to support business operations and enable business change. This challenge highlights the need to improve IT governance and management processes either before, or in conjunction with, the introduction of value management practices.

2. Limited or no understanding of IT expenditures

Rarely do executives enjoy a sufficiently transparent view of IT expenditures and IT-enabled investments across all IT services, assets and other resources. Often, decision makers can only estimate how much they are investing, what benefits they are gaining for the expense, and what the full business rationale for the commitment might be. Expenditures are frequently sourced from many different uncoordinated budgets, resulting in significant duplication and conflict in demand for resources.

3. Business abdication of decision making to the IT function

When the roles, responsibilities and accountabilities of the IT function and other business functions are unclear, then the IT function tends to usurp the driver's seat, determining which IT-enabled business investments should be pursued, prioritising these business investments based on the IT function's limited insights, and inappropriately relieving the business of its responsibility in defining and defending the business rationale used to justify every single IT-enabled investment decision.

4. Communication gaps between the IT function and the business

Close collaboration between the IT function and other business functions is crucial to value creation. When such a partnership is absent, communication suffers, inefficiencies mount, synergies fail to emerge, and the work environment tends to devolve into a culture of blame. In some cases, the IT function is relegated to the role of follower, instead of innovator, and is engaged in investment proposals too late in the decision making process to contribute significant value. In other cases, the IT function is blamed for not delivering value from IT-enabled investments—value that only other business functions, in partnership with the IT function, can deliver.

5. Questioning of the value of IT

Ironically, while most enterprises continue to invest more and more in technology, many of their key executive decision makers continue to question whether value is actually realised from these investments. Frequently, the dominant focus is merely on managing IT costs rather than understanding, managing and leveraging IT's role in the process of creating concrete business value. As IT-enabled investments increasingly involve significant organisational change, the failure to shift focus from cost to value will continue to be a major constraint to realising value from these investments.

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6. Major investment failure

When IT projects stumble, the business costs can be enormous—and highly visible. Project cancellations can trigger unexpected ripples of impact across the business. Delays can cost millions. And budget overruns can starve other projects of crucial resources. Amongst the most common examples of IT investment failures are poorly planned enterprise resource planning (ERP) and customer relationship management (CRM) initiatives. In fact, Gartner estimates that these large-scale IT debacles represent the largest major cause of value leakage. Exacerbating this issue is the fact that, in many cases, problems are ignored until it is far too late to take any corrective action.

Audit Department can help you selecting the best approach. Each of the following approaches is linked to the symptoms and to the domains and processes defined by the Val IT framework. While differences between enterprises can be vast, our experience has shown that there are only a limited number of distinct starting points.

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Potential Approach 1:
Build Awareness and Understanding of Value Management

Challenge

The need to create value is not adequately appreciated by key decision makers and stakeholders in the enterprise. Value does not just naturally 'emerge' from normal business plans or activities; it has to be actively created. The problem is that, while the concepts of value management have been around for decades, the notion of value creation and preservation through business change in modern enterprises is usually treated as an implied principle and not a conscious and pervasive tenet to guide behaviour

Symptoms

There is no shared understanding of what constitutes value for the enterprise, what level of effort is required to realise it or how to measure value. As a result, opportunities to realise value are missed or fail in execution, and value is often eroded or destroyed.

Solution

Establish broad-based awareness of the need for value management; nurture understanding of what is involved in developing this capability; and build a strong internal executive and management commitment to improving and sustaining value creation over time

What should change

Organisational and individual behaviour should change to take a broader enterprise-wide view and a more disciplined, value-driven approach to decision making.

Benefits

The benefits include increased understanding and acceptance of the need for IT and the other business functions to work together in partnership, supported by clear roles, responsibilities and accountabilities related to value management, leading to increased value realisation from IT-enabled investments.

Potential Approach 2: Implement or Improve Governance

Challenge

Processes, roles and responsibilities, and accountabilities related to realising value from IT-enabled investments need to be clearly defined and accepted.

Symptoms

The roles, responsibilities and accountabilities of IT and other business functions are unclear. Business decisions are made by the IT function; IT decisions are made by the business. A 'culture of blame' predominates, with persisting confusion relating to accountability, responsibility and sponsorship.

Solution

Establish a governance framework with clearly defined roles, responsibilities and accountabilities. Ensure that it is supported by strong and committed leadership, appropriate processes, organisational structures and information, and a well-aligned reward system.

What should change

Organisational and individual attitudes and behaviours should evolve toward a broader, more strategic enterprise perspective. Executives and managers should take a more disciplined, value-driven approach to decision making and accountability.

Benefits

More effective and efficient decision making leads to increased trust between the IT function and the rest of the business, and results in increased value realisation from IT-enabled investments.

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Potential Approach 3:
Undertake an Inventory of Investments

Challenge

Little, if any, visibility exists into the number, scope and cost of current and planned IT-enabled investments or the resources either allocated or needed to support these investments.

Symptoms

Overall expenditures on IT across the enterprise are not known, and often come from many different and uncoordinated budgets, with significant duplication. There is extensive conflict in demand for resources.

Solution

Establish portfolios of proposed and active investments, IT services, assets, and other resources, and apply portfolio management disciplines to their management.

What should change

Organisational and individual attitudes and behaviours should change to take a broader enterprise view and embrace greater transparency. The appropriate processes and practices must be in place to support this.

Benefits

There is an increased understanding of exactly what sums of money are being spent on which investments, in which areas of the business and by whom. There is also better identification of opportunities to increase value through improved allocation of funds, reductions in overall enterprise cost by eliminating redundancies, more effective use of resources, and reduction in risk from better understanding of the 'health' of portfolios.

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Potential Approach 4:
Clarify the Value of Individual Investments

Challenge

There is no consistently applied process for determining the value of potential or current investments (where value is total life-cycle benefits net of total life-cycle costs adjusted for risk and, in the case of financial value, the time value of money).

Symptoms

There is persistent questioning of whether IT investments have generated value. Business cases for IT-enabled investments are non-existent or poorly prepared and are usually considered merely an administrative checklist required to secure funding. No pre-investment information exists on costs or analytical rigour defining benefits or value. There are few or no metrics to enable monitoring value creation. It is assumed that the IT function, will 'magically' deliver value.

Solution

Establish a process to develop and update comprehensive and consistently prepared business cases for IT-enabled investments, including all of the activities required to create value. The business case should be developed through a top-down approach, starting with a clear articulation of the desired business outcomes and progressing to a description of what actions need to be accomplished by whom. These business cases should be updated and used as an operational tool throughout the complete economic life cycle of the investment.

What should change

Organisational and individual attitudes and behaviours should change to put more effort into the planning of investments and the development and regular updating of business cases.

Benefits

A more objective assessment of business cases enables 'apples to apples' comparisons across different types of investments. There are better opportunities to weigh individual investments based on their relative value against other investments available and a stronger track record in selecting the best. There is less uncertainty and risk that the value projected will not be realised.

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Potential Approach 5:
Conduct Investment Evaluation, Prioritisation and Selection

Challenge

There is no consistently applied process for objectively evaluating the relative value of all proposed and current IT-enabled investments—especially with respect to prioritisating and selecting those investments with the highest potential value and enabling their ongoing evaluation.

Symptoms

Most investment decisions are subjective. Many are often highly political. Once a decision is made to proceed with an investment, it is rarely revisited (usually only when a crisis has occurred). Poorly performing investments are rarely remediated or cancelled early enough to mitigate losses and, if cancelled, are regarded as failures for which someone should be held accountable.

Solution

Implement portfolio management disciplines to categorise IT-enabled business investments. Establish and rigorously apply criteria to support consistent and comparable evaluation of the investments throughout their full economic life cycle.

What should change

Organisational and individual attitudes and behaviours should change to take a broader enterprise view and embrace greater transparency.

Benefits

There is increased opportunity to create value through selecting investments with the greatest potential to deliver value. This is followed by active management of those investments and early cancellation of investments when it is apparent value cannot be realised.

Our Country offices in London, Hamburg and Milan will be looking forward to your individual requests and can help you in defining the ideal package for your individual requirements.

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