

Boards Need to Pay More Attention to IT Governance

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Although Information Technology permeates throughout every level of an organization and receives significant capital and operational dollars, boards and management still tend to focus their attention primarily on finance, personnel, capital/physical assets, and intellectual property. How can an organization ensure that its investment in IT – often beyond 50 percent of the annual total capital investment – supports the company and its strategies? By creating or modifying its Information Technology governance structures, an organization can meet the challenge of managing and controlling IT.

To accomplish this goal, boards and management must extend governance to include information and Information Technology. In fact, over the past decade, increased governance is being mandated as a result of the corporate scandals associated with Enron, Worldcom and others, in the form of legislation such as Sarbanes-Oxley (U.S.), Bill 198 (Canada) and IFRS. The same principles of control that apply to finance are now making their way into the corporate use of Information Technology, no matter which industry, business or non-profit sector the organization serves.

What is IT Governance?

IT governance is the responsibility of the board of directors and executive management. It is 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 objectives¹.

Since 1998 the IT Governance Institute (www.itgi.org) has been evolving its framework for IT governance: *Control Objectives for Information and related Technology (COBIT)*. This model describes the control objectives for thirty-four IT processes and the management guidelines and outcome measures for the processes. Furthermore in the past couple of years, the IT Governance Institute (ITGI) has created a framework which is dedicated to helping enterprises optimise the realisation of value from IT investments called Val IT.

In general, IT oversight primarily refers to IT governance at the board level. The words "governance" and "oversight" are, in practice, interchangeable. IT governance is the framework of processes, procedures, and controls imbedded in all levels of an organization directing what IT decisions must be made and who should make these decisions. Governance starts at the top and the board must provide the leadership and oversight responsibilities that include setting strategy, managing risks, delivering

value, and measuring performance. Certainly the old adage applies: you can't manage what you don't measure.

IT governance needs to apply at multiple levels (board, executive management, business unit, departments) within an organization. The same principles of clarity, transparency, accountability, and team-oriented collaboration must occur at all levels. The business unit executive and the CIO not only need to be singing from the same songbook, they need to be synchronized and singing from the same page.

Why is IT Governance Important?

Weill and Rossⁱⁱ found that the best predictor of IT governance performance is the percentage of managers in leadership positions who can accurately describe IT governance. They found the above average governance-performing firms had return on assets more than 20 percent higher than firms with poorer governance pursuing the same strategy. Good IT governance pays off. Companies with solid IT governance are more effective and receive more value from their IT investments.

Generally companies focus on two key IT strategies:

- use Information Technology as a competitive differentiator
- use Information Technology to reduce operational costs and drive efficiency

Because Information Technology affects every area of an organization, boards need to review how critical IT is for the delivery of their company's strategy. Many boards abdicate the oversight of IT to management. They expect management to optimize IT efficiency and deliver projects on time and on budget. Even within companies, the CEO and the senior management team will sometimes abdicate IT governance to the CIO or IT Director. Why? Is it because IT requires more technical insight in order to understand how it can help the company; is it because IT is complex; or is it because IT has usually been set up as a department separate from the business? Whatever the reasons, organizations should not let "technical literacy" be a roadblock: good IT oversight requires governance skills, not technical skills.

Taking abdication one step further, once an IT-enabled project is approved, some sponsoring business executives will sometimes "pass the ball" to IT to get it done. The lack of effective organization IT governance often leads to projects not completed on time, over budget, or not delivering what is expected. A 2006 study conducted by The Standish Group found that only 35 percent of all IT projects succeeded while the remainder (65 percent) were either challenged or failedⁱⁱⁱ.

As part of the organization's overall oversight, IT governance consists of the structures and processes to ensure that IT sustains the organization's objectives and strategies.

In the past, many organizations focussed only on financial governance and over the past decade the mandate of the Audit Committee continues to expand. Today that practice of stewardship also extends to IT as boards begin to understand the reliance on IT in their organization.

A board needs to approach IT governance in the same way it approaches every other aspect of its organization's operation: with transparency and accountability. Management needs to know its responsibility to the board in delivering IT services and meeting established objectives.

IT governance allows the board to ensure the most effective use of resources to deliver IT benefits and manage risks. The purpose of IT governance is to direct IT endeavours to fully integrate within the business.

IT oversight is needed at the board table, and governors and executive managers must ask themselves:

- Can the organization sustain and grow without IT?
- Is IT fully aligned and integrated with business strategies?
- Are the top executives satisfied with the organization's IT governance; can they explain IT governance and describe the effectiveness of it without deferring to the CIO or IT Director? Do they abdicate or engage in IT governance?
- Can the organization measure returns from IT investments?
- Does the board approve IT strategy?
- Is IT regularly on the board agenda?
- Is IT able to act on, first, initiatives that produce innovation and, second, results that they promised?

If the answer to one or more of these questions is "No" then stronger IT oversight is required.

Some key messages from ITGI's PriceWaterhouseCoopers conducted 2008 IT Governance Survey^{iv} include:

- *Although championship for IT governance within the enterprise comes from the C-level, in daily practice IT governance is still very much a CIO/IT director issue.*
- *The importance of IT continues to increase.*
- *Self-assessment regarding IT governance has increased and is quite positive.*
- *Communication between IT and users is improving, but slowly.*
- *There is still substantial room for improvement in alignment between IT governance and corporate governance—as well as for IT strategy and business strategy.*
- *Action is being taken or plans are underway to implement IT governance activities. A large increase is evident when compared to the 2006 report.*
- *CobIT awareness has exceeded 50 percent, and adoption and use remain around 30 percent.*
 - *Twenty-five to 35 percent of respondents apply CobIT to the letter or are very strict.*
 - *Fifty percent of respondents indicate that CobIT is 'one of the reference sources'.*
 - *In general, there is high appreciation of CobIT, as has been seen in prior reports.*
- *Major obstacles to adoption and use of Val IT principles include uncertainty regarding the return on investment (ROI) and lack of knowledge/expertise.*

In a subsequent survey of executives' opinions on whether IT is performing, the IT Governance Institute^v found that key messages from executive management included:

- *Take ownership of IT governance and assume overall accountability over IT*
- *Make the CIO reporting line as direct as possible to the top executive decision body*
- *Pay more attention to the potential for innovation IT can offer*
- *Start measuring the value IT brings (or does not bring) to the enterprise*
- *Use external advisors as the most effective source of knowledge and guidance in relation to IT governance*

Risk

The TSX Guidelines refer to the board's overall stewardship function^{vi}.

"The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for:

(c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks"

If an organization depends on IT, what are the risks with respect to security, reliability and compliance? Risk exists when delivering any IT-enabled project. At a high level, if an IT system goes down, business continuity will be effected. Because their data centres were destroyed, many companies did not survive man-made or natural disasters of 9/11 or Hurricane Katrina. If a situation arose in which the organization's data centre was not available, what would the impact be?

Conclusion

Good IT governance improves IT performance and results in value from investments in Information Technology. Lack of board IT oversight puts the company at risk in a similar way that failing to audit its financial statements would. Board members should ensure that the information they receive is sufficient to carry out their duties of governance and risk monitoring.

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ⁱ Definition from IT Governance Institute's "Board Briefing on IT Governance" second edition 2003.

ⁱⁱ IT Governance - How Top Performers Manage IT Decision Rights for Superior Results by Peter Weill and Jeanne W. Ross 2004.

ⁱⁱⁱ Cook, R.; 'How to Spot a Failing IT Project', CIO Magazine, 17 July 2007.

^{iv} IT Governance Institute commissioned PriceWaterhouseCoopers to conduct a survey with the results published in the report - IT Governance Global Status Report 2008.

^v IT Governance Institute commissioned PriceWaterhouseCoopers to conduct a survey on: An Executive View of IT Governance 2009.

^{vi} TSX National Policy 58-201 Corporate Governance Guidelines, www.tsx.com.