



"turning data into dollars"

Tom's Ten Data Tips – January 2007

IT Governance

IT Governance is about encouraging and leveraging creative powers throughout the enterprise, while at the same time ensuring compliance with the company's strategic direction and policies. This conundrum can be resolved by installing the appropriate decision structures. Good IT Governance simultaneously empowers and controls. In short, IT Governance keeps resources productive and aligned.

IT spend is a big portion of cost for many corporations. Worldwide, 1.2 Bn in 2006, estimated at 1.5 Bn in 2010 (source: IDC). Clearly, efficiency gains *can* make a difference. As customers come to value their privacy, information sharing will become even more restricted. IT will play an increasingly important role, as proprietary information about products, services and customers is the cornerstone of sustainable competitive advantage.

1. CIO's Are No Longer (Only) IT Specialists

CIO's are no longer expected to be IT specialists, but rather business partners. As businesses become more dynamic and volatile, a 'new' view on IT is needed. This calls for new metrics to evaluate the performance of IT (see also tip #6).

The contemporary view is to evaluate the ROI of IT investments over the course of the active life-cycle of applications. Given the premium for agility, committing to fixed investments brings additional risk of obsolescence. Hence the move toward IT as an outsourced service. Business needs change constantly, so enterprises need to build flexibility into their architecture.

2. Centralized Governance Works Best For Cost Containment

Governance models can be ordered from centralized to decentralized. Empirical research (Weill, 2003) has shown that companies using centralized governance models tend to lead on profit.

A centralized governance arrangement enables sharing and reuse of assets. Also, a unified architecture (which is nearly impossible to enforce in a decentralized model) can leverage procurement power,

constrain maintenance requirements, and facilitate sharing of expertise across businesses.

A growth strategy, on the other hand, is best served by a decentralized decision structure. Individual business units then have maximum flexibility to adapt to customer needs.

3. Effective Governance Should Aid In Gaining Benefits From Standardization

There is a “natural” tendency for IT standardization to be at odds with innovation. Identification of business needs for IT often has two conflicting objectives: creativity and discipline. You must be willing to sacrifice functionality, in order to maintain architectural integrity. Good governance makes this tension transparent, and elucidates the tradeoffs that invariably arise. Standardization is desirable from cost-management and maintenance perspectives. Flexibility to innovate is necessary, but should not be allowed to mushroom. The art lies in allowing for innovations to fail, but in managing that process like a VC would manage entrepreneurs.

Effective governance aids in gaining benefits from standardization, without stifling business opportunities where innovation is needed. Data integration does *not* happen by accident, rather it is the result of design.

4. A Business Case for IT Innovation Should *Never* Rest Squarely On Savings

IT is often pushed to quantify expected savings as a result from a software implementation. Excellent idea, even if some (explicit please!) assumptions are necessary to estimate “soft” measures for cost savings.

However, it is extremely important that the business case rests predominantly on business gains, such as higher cross-sell, customer retention, more efficient operations, customer profitability, etc. The reason for this, is that it is the only natural way that IT and business partners will align. Otherwise, savings in one (narrow) area might easily lead to inefficiencies, or customer *dissatisfaction* elsewhere in the business. Regardless, the increasing interwovenness of IT and organizational processes results in *joint* responsibility for IT effectiveness.

5. Effective Decision Structures Are Founded On Clear Responsibilities

For IT Governance to work well, the decision structure needs to match the development phase of the organization, and the roles within the decision structure need to be clear to all involved.

The decision making process should be distributed to professionals best positioned to weigh the requirements, business needs and long term implications. Are they qualified to take on this responsibility? Others should be involved to inform the decision process, and it is adamant that these roles are clear. Otherwise one runs the risk of letting stakeholders with the bigger budget dominate decision making.

6. TCO Has Limited Merits

Total Cost of Ownership was meant to broaden the (cost-) perspective from initial purchase to include maintenance and peripheral cost. Current markets are more dynamic than they used to be. When choosing among alternative futures, TCO is much less useful. Its merit lies in making cost drivers apparent when comparing applications *within* an existing portfolio.

TCO is highly deceptive when comparing alternative investment strategies because the different time and commitment horizons can not be represented well in such calculations. As a result, vendors always seem able to find some way to make *their* offering less expensive, even when this might not result in a better overall return for the shareholder. This financial model just doesn't fit every situation.

7. IT Group Structure Influences Its Problem Solving Qualities

Group structures can be ranked along 3 dimensions:

- Who are involved in decisions? Just the manager, one-on-ones, or the group as a whole?
- Who makes the final decision? Is this the manager, or will the manager execute a consensus decision reached by the group?
- How much are participants involved? Does the manager decide by himself, ask diagnostic questions and then decide himself, do members participate in analysis one-on-one or as a group, and who then makes the final decision (manager or group)?

As you move from "manager" to "group", and from "low" to "high" involvement in problem analysis, several processes change. How many

of the group's resources are being mobilized, how much will the group feel committed to the eventual outcome, how much do people feel recognized, and how much will they develop through the decision process.

More "involved" processes require more time to finalize. When there's an emergency, you don't begin by organizing a focus group! However, persisting in 'crisis mode' will drain resources and commitment from the group, and do little to develop potential.

8. Shared Leadership Makes Groups Far More Robust

True leadership is far more than having been *appointed* the manager. A leader has the ability to make the group behave in (permanently) new ways. Thus, *any* group member can be a leader.

In fact, the most powerful and robust groups, that are most likely to hold up under stress, are those where leadership is shared evenly among team members. On one extreme you have the "single point of failure" symptom, on the other rests the balanced team where each member is equally dispensable. Roles may be widely different, as long as all members have an equal chance of changing the group's course.

9. IT Should Be Managed As A Cost *Unless* It Provides A Competitive Edge

Whether you see IT expenses as a cost rather than an investment may be largely a philosophical matter. How best to Manage IT expenses should be related to the strategic direction of your business.

If, and this is a big if, IT plays a role in gaining a true competitive edge it makes sense to regard IT cost as investments. The difference is whether IT is essential for success, or rather an expensive necessity. However, if IT 'merely' serves to facilitate operations, it should rather be managed as any expense.

Technology changes so rapidly that any long term commitment is a risky tactic. Legacy can easily become an anchor dragger, where depreciation in investments become prohibitive. Low investment/commitment equals high agility for the business.

10. IT Principals Should Follow From, And Be In Line With Business Principals

Clarity and focus with regards to IT principals lead to better results. A *small set of clearly articulated* IT principals will go furthest to guide decision making on how to use IT for the business. An example of an IT principal might be: maintain architectural integrity throughout the enterprise, or, reuse first if possible, then buy, before considering in-house development.

Ideally, business principals follow from the corporate strategy, and are clearly tied to IT principals. This is evidenced when IT staff and management can relate business goals to IT principals (e.g. claim price leadership related to benchmarked lowest TCO), and strategic debate centers around a management lexicon of fundamental principals that are open for debate. The "*debate*" part is essential to allow for innovation where clear business goals justify new ways for IT to support operations.