



IT GOVERNANCE ROUNDTABLE: UNLOCKING VALUE

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IT Governance Institute®

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IT Governance Institute

3701 Algonquin Road, Suite 1010
Rolling Meadows, IL 60008 USA
Phone: +1.847.660.5700
Fax: +1.847.253.1443
E-mail: info@itgi.org
Web site: www.itgi.org

Acknowledgements

Participants

Paul Williams, CITP, FCA, MBCS, IT Governance Advisor, Protiviti UK, UK
Ali Hamza, PricewaterhouseCoopers, UK
Dr. Sharm Manwani, FBCS, Associate Professor of IT, Henley Business School, UK
Prof. M.J. (Jim) Norton, CITP, FBCS, FIET, FloD, FRSA, Institute of Directors, UK
John Thorp, CMC, I.S.P., The Thorp Network Inc., Canada
Chris Tiernan, CITP, FBCS, FIMIS, Grosvenor Consultancy Services LLP, UK

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Robert E. Stroud, CA Inc., USA
John Thorp, CMC, I.S.P., The Thorp Network Inc., Canada
Wim Van Grembergen, Ph.D., University of Antwerp Management School, and IT Alignment and Governance (ITAG) Research Institute, Belgium

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IT GOVERNANCE ROUNDTABLE: UNLOCKING VALUE

In December 2008, I had the opportunity to sit around the table in London, England, UK, with the following esteemed colleagues:

- Ali Hamza, PricewaterhouseCoopers, UK
- Dr. Sharm Manwani, FBCS, Associate Professor of IT, Henley Business School, UK
- Prof. M.J. (Jim) Norton, CITP, FBCS, FIET, FIoD, FRSA, Institute of Directors, UK
- John Thorp, CMC, I.S.P., The Thorp Network Inc., Canada
- Chris Tiernan, CITP, FBCS, FIMIS, Grosvenor Consultancy Services LLP, UK

As moderator, I chose to focus our discussion on the topic of unlocking value from IT-related business investments. We easily filled our allotted time with lively talk from a highly experienced team of individuals. Many useful thoughts and questions emerged together with exceptional insights on topics that currently challenge many enterprises. Much can be learnt from this collective wisdom.

I thank my colleagues for devoting time to generously share their thoughts and expertise.

Paul Williams, CITP, FCA, MBCS
IT Governance Advisor, Protiviti UK, UK

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Paul Williams (PW): Good morning. I'm going to be facilitating today's discussion. I am a past international president of ISACA and I currently chair its Strategic Advisory Group. My day job is varied; one of the things I do is act as IT governance advisor to a risk consultancy firm called Protiviti.

Ali Hamza (AH): I'm a partner with PricewaterhouseCoopers. I focus on IT effectiveness, primarily in the financial services sector. I have over 23 years of experience in consulting and implementation of large transformation and technology programmes.

Chris Tiernan (CT): I'm with Grosvenor Consultancy Services. I've been working with John Thorp and others on the development of the Val IT framework¹.

M.J. (Jim) Norton (JN): I have a number of different roles. I'm one of the senior policy advisors to the UK Institute of Directors (IOD)—covering technology. I'm a vice president and trustee of the British Computer Society and chairman of its professionalism board. And I am an external board member of the UK Parliament's Office of Science and Technology.

John Thorp (JT): I have spent 45 years in the IT field and, for the last 20 to 25 years, I've spent most of my time on the business side, helping businesses understand how to get measurable value from the use of IT. Ten to 12 years ago, at what was Fujitsu Consulting, I wrote a book called *Information Paradox*² about this topic, which still seems to get a lot of attention. And four years ago, just as I was planning to retire, I was recruited by ISACA and have now led the development of two releases of the Val IT framework—a governance framework to ensure that we get value from IT.

Sharm Manwani (SM): I'm Associate Professor of IT at Henley Business School. Previously, I held Divisional CIO roles at Philip Morris, Diageo and Electrolux. I'm a Fellow of the British Computer Society and serve as a judge for major computing awards. Currently, I'm leading a corporate programme at Henley that builds on IT governance using the COBIT and Val IT frameworks and also topics from my book, *IT-enabled Business Change: Successful Management*³.

What Is IT Governance?

PW: We're here this morning to talk about IT governance and how, properly applied, it can help organisations achieve better value from their investments in IT. But I'm aware that IT governance can mean a lot of different things to different people. So it would be helpful to go around the table and have each of you give a quick overview of what IT governance means to you.

AH: I guess it's an interesting question because you could interpret it to mean how you rationalise and approve your investments and, in the case of IT governance, the entire process of agreeing to budgets and investments, relating them back to business initiatives and strategic targets. That's one level. The other level is, how do you govern the use of IT? How do you govern the standards that are associated with IT, the implications of IT? How do you operationalise the use of IT?

JN: I think that's an interesting way of structuring it. Where is the dividing line? How do the two overlap with one another? Who gets involved in the middle? I think it's just as important to think about the roles.

¹ ITGI, *Enterprise Value: Governance of IT Investments, The Val IT Framework 2.0*, 2008

² Thorp, John; *The Information Paradox—Realizing the Business Benefits of Information Technology*, Revised Edition, McGraw Hill, USA, 2003 (written jointly with Fujitsu; first published in 1993 and revised in 2003)

³ Manwani, Sharm; *IT-enabled Business Change: Successful Management*, British Computer Society, UK, 2008

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JT: I actually hate the term, 'IT project'. I believe there's only governance and governance includes IT. And I think that any time we label something as IT, it's seen as something that has to be thrown over to the IT department. In our book, we said that there was no such thing as an IT project; there's only organisational change enabled by IT. If you look at where most IT governance is today, it's focused on the 'factory'. We need a good factory. But if the factory is producing things you can't use or don't know how to use, it's not beneficial. The National Program for Information Technology and Health is a classic example of focusing on technology and not focusing on organisational change.

CT: Absolutely. You've been saying that for 12 years and I've been saying it for seven years.

SM: I think you've got to start with corporate governance and then determine where IT fits. Corporate governance people typically talk about how you deal with value and how you deal with risk. From that perspective, yes, IT does have a role to play—to support the business change. The interesting thing is that we've been talking about the need for it for so long that I believe the world has moved on—at least from the groups and the CIOs I talk to. We're less about *why* it needs to be that way and more about *how* we do it.

JN: The private sector has moved on. The public sector still has a way to go. Not in appreciation, but in action.

SM: That's the key point. There's more of an appreciation, but how do we do it? It's still extremely complex. One of the reasons is that when we talk about business change, we all know that, beyond technology, we have to deal with the processes, information and people. I talk to many groups about IT, about the 'I' and the 'T'—information and technology. That entire area of information governance is huge. When we look at what's happened recently in the financial services sector—information governance, information asymmetries, information ignorance—we see that these are important concepts that we need to address in practice. That's the challenge.

PW: What would you say is the current level of maturity in governance of IT? And in this context I am using the broad term of 'enterprise governance of IT'. There was an excellent quote in an editorial in *ComputerWeekly* about a year ago that said governance of IT is a little bit like corporate social responsibility—one of those things that, while being important, is easy to put off until tomorrow. Do you feel that it is still very much the case that entities—whether public- or private-sector—will get around to it 'one day'? Or is momentum building up? Is it really beginning to happen? Is the level of maturity increasing significantly?

JT: Having spent the last 12 years going around the world talking about IT governance (even though I don't like that term for this discussion), I would say that it's largely focused on the operational issues at the factory. When I started to talk about business governance of IT 12 years ago, I think people looked at me as if I were from another planet. Now people discuss it, but they're not doing anything yet. They're at the point of talking about it, but they don't really know what to do about it or they're not willing to do something about it.

JN: In my experience with medium-sized and small companies (that are typically the vast majority of IOD members), the board of directors is still frightened of understanding information and communications technology (ICT). As an example, one of my brighter ideas a few years ago was to run a course on 'IT for non-IT directors', to which Chris was a contributor. And virtually nobody came. They accepted that they had to be financially literate, and they'd turn up in droves for 'finance for non-finance directors', but not for 'IT for non-IT directors'! We'd rather be ignorant than have a little knowledge.

CT: The Massachusetts Institute of Technology (MIT) in the USA runs a course with the same name. Lack of interest may be a particularly British thing.

JT: No, I don't think it is. There is a lack of business engagement in the governance of IT. And it's the number one issue. How do you get them to actually get involved?

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AH: And the engagement has different ways of manifesting itself. Where there is awareness of the need to have business-driven programmes and initiatives, some companies, just by appointing a business person, see that as labeling the initiative a business initiative. And it's far from that. It's to your point, Jim—where do you start? Do you start from a solution—a technology solution—looking for a problem to solve? Or do you start with a business problem, trying to find a solution from a process, technology and organisational point of view? I think that's where organisations are still struggling.

JN: But there still is a need to build a common language and it needs to be built from both ends. I think there's a lot of work on the IT side to improve the business awareness of IT folks—so that they can speak in a sensible language. Progress from the other side is probably slow.

PW: But how can that change? It has to change if we are going to get anywhere.

JN: I can tell you what I'm doing about it. I am an external examiner for the IOD's examinations. We run board dilemmas and one of the typical ones is IT-enabled business change.

AH: I've seen it in financial services organisations. Many of them manage portfolios of IT projects, but I've seen only a few where they manage portfolios of business initiatives, including those that have IT components. I think starting there is a good point—so you're not separating IT. It's really a portfolio of initiatives that the board and the executive team are dealing with on a day-to-day basis.

JT: What we promote now through Val IT, what was promoted in my book and what I've been pushing for the last 12 years, is managing a portfolio of programmes of business change. It has to be owned by the business, but it includes IT projects. We suggest that you don't even do a business case for an IT project because it's just part of the cost of the overall programme.

SM: The large companies are attacking this issue. We're designing a programme at Henley that addresses both of these components. The first part is about strategy in creating the portfolio and the second part is about how you implement those programmes of change. And Ali's point is well taken—particularly on those programmes where you have a business sponsor and you are business-driven—we have no guidelines for what their experience should be, what they should do, how they should be measured, when they should be fired. We don't really know how to deal with that side.

One action I took as a CIO was to recruit business-IT hybrids, having been one myself. We were between IT and the business, and we would translate from one language to the other. I now feel that, while that's a reasonable approach, it is only a first step. What you have to do is become more pervasive. We have to educate both sides.

CT: There's an interesting piece in your book about the experience—how very few people have done it twice.

JT: A few years ago I was working with a board of a large financial institution and the CFO said, 'We need—IT needs—to help business across the bridge'. I think that's a lot of what we're talking about here. I talk about information technology (IT) and information management (IM). I think IM needs to be in the business and IT can be behind the wall. And, at the moment, it's blurry. We need to understand that technology probably is a commodity, but the use of it isn't. And the business has to take ownership of the use of it.

The Role of the CIO

PW: Who do you think should lead the charge within enterprises on this? For any change to happen, someone has to lead it. Do you see it being the CIO? Do you see it being the CEO?

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CT: I would say that it's usually an enlightened CIO who leads the charge. It doesn't always end up there, nor do I think it should. But, generally, it takes that person to wake up and bring the business along.

JN: An enlightened CIO is not going to get noticed, not going to get any leverage, unless the board has taken notice of what's being said.

CT: There has to be a CEO who wants this to happen.

JT: Ultimately, I agree, although certainly we have been successful at a lower level in getting things going. There has to be an executive. It doesn't always have to be the CEO.

AH: A CIO is a business visionary who understands how to leverage technology.

JN: If the CIO is simply a technologist, it's not going to work.

SM: You have to distinguish between the role and the title. The role of CIO, if we define it in the way I believe we all want to define it—as the business visionary who understands both the business and the technology side—can be performed by a whole range of people. It could be the CEO, CFO, COO. What's happened, of course, is that too many people have given the title of CIO to people who don't actually do that particular role. That's a big issue. When I have asked whether business change is a profession, it has created an interesting debate.

JT: Sometimes we get hung up on whether it should be the CFO or CIO. It's much more dependent on the individual than on the title. I can go to an organisation where a CEO did it, or a CFO or a CIO.

CT: The individual needs the trust of the board.

PW: This brings me to the reporting lines of the CIO. How important is it that the CIO has an equal voice on the executive board? ITGI has recently published a global survey⁴ on IT governance, talking to CEOs. One of the questions asked was, 'What are the reporting lines of your CIO?' And, in the majority of cases, the CIO still reports to the CFO. This quite surprised me because I thought that had changed significantly.

How important is it that the CIO reporting lines are right, and what should those reporting lines be?

AH: I think the CIO should understand the business direction and the strategy of the institution, and come in with ideas of how technology, operations and other aspects of the CIO's responsibility could help drive and achieve these strategies.

JT: I go one step further. I think the CIO should have a voice in how technology should influence the strategy, let alone support the strategy. I don't think that technology should lead, but understanding where technology could take you gives you other strategy options.

JN: I'd like to take it one stage further. I agree with both points, but it does depend on the work environment of the board. And, sadly, too many boards are staffed by people who still cannot overcome their functional specialism when they step into the boardroom. They do not take collective responsibility. And if the CIO is there as another board member, it's a problem. The CIO should be there only if the board is a properly functioning board that takes collective responsibility.

PW: How often does that happen? How often are they in the collective responsibility mode?

⁴ ITGI, *An Executive View of IT Governance*, USA, 2009

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CT: It depends on the personalities around the table.

SM: It's interesting. I've reported to the CFO, CMO, CEO and in one case to four managing directors in different organisations. A lot depends on the individuals. Ultimately, you need the trust of the CEO. You must be able to pick up the phone and say, 'Look, I want to discuss these things with you. These are the issues. How do we make this happen?' I've found that, if the CFO or CMO has been with the organisation for a while, and depending on the particular individual, he/she has the political antenna. IT people may not come in with the political antenna. They need people around who have that antenna, who can guide them.

JT: The primary case in our book was a resource company in Canada. The CIO reported to the CFO. And it was the CFO who actually drove the governance activity in IT because he 'got it' [understood it]. He was good enough to make it happen. So it's very dependent on the individual.

CT: You can make any organisation work if you've got the right people.

PW: But what is the defining moment where people suddenly 'get it'? What can be done to actually help them get it?

JT: Well, you can wait for a crisis. Or you can have them work it out beforehand. It's difficult. During a previous roundtable discussion, we had a CEO who said, 'This is never going to be top of mind. It's always the day-to-day issues that take the top. Suddenly, a day-to-day issue is a major IT crisis. You've got my attention'. But it's very hard to get people to look beyond the day-to-day stuff and think about this. It's not exciting. It doesn't get you in the papers.

CT: There's a wonderful quote attributed to Henry Kissinger about 'the urgent often pushing out the important'.

SM: As a CIO, I would say 'no' to a big IT project. People would say, 'You're supposed to be supporting us'. I'd say, 'I can't see a business case for this'. You need to challenge them through the whole process, so they can articulate the business benefit, and then you can support them. But not until then. It's a chain of challenges—an entire series of, 'What are you doing that for'?

Measuring Success

JN: Even in the private sector it's amazing how many people still do not have a proper benefits realisation plan. When you ask them if the project was a success, they say it was. When you ask them if they quantified it, they say they did not.

JT: When we put Val IT together, one of the things we wanted to do was commission research to correlate the practices we put into Val IT. The big challenge we found was that no one collected any benefits. When I speak to a CEO and he/she says they didn't get value out of a particular project, I'll then ask what they expected to get. And the CEO will respond that they didn't really know. I then say that perhaps they could have started with that.

AH: The old paradigm of how you measure success for IT initiatives or business initiatives is: Does the initiative come in on budget and on time? So, what is the use of coming in on budget and on time if you don't achieve the benefits? That's the new paradigm—Does a programme achieve the business benefits that it promises to achieve in the business case? If there *is* a business case.

JT: The Standish Group does a study every two years. They consider success to be a project delivered on time, on budget and to specification. Well, if it didn't deliver value, I don't consider it a success. Actually, if it was over-budget, over-schedule or didn't deliver to specification, but delivered value, I think that's probably a success.

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CT: It's the difference between the IT manager and the change director. The IT manager cares only whether it was delivered on time and on budget.

PW: You find that the emphasis is often on the delivery or the solution that works rather than on getting value from it. Organisations have the project management offices to help with the delivery of technical solutions. But the ones that you're talking about with Val IT are managing all this through the economic life of the particular programme. So, we talk about changing the emphasis of project management offices toward value management offices—to give them that fuller scope than is currently implied.

JN: And that's one of the key issues with the public sector, particularly central government IT in the UK. I ran a government agency for five years. I was a founder of what's now called the Prime Minister's Strategy Unit. But it was very obvious to me that, amongst those of us doing the implementation, public-sector IT started from the presumption that it would fail—probably for good reasons, because it never involved the users. It never did the business change. So, they knew it was going to fail from day one. You will never find a more slavish set of adherents to the ultimate detail of PRINCE2 on the basis that, 'You can't fire me because I followed every stage in this process. The fact that there's no output, no deliverable, isn't my problem'.

JT: We just commissioned a study on adoption and the maturity level of adoption and practices. We found that the COBIT practice that has been adopted is that the technology was implemented (user accepted). In the case of the National Program for Health, they selected the technology before they talked to the people who would have to use the technology!

CT: Of course, they ring fenced⁵ the IT budget and made no budgetary provision for all the business change elements.

JT: When they announced this thing six years ago, I said, 'If you think it's about technology, you're missing the boat. It's going to cost three times as much, and it won't work'. And I was almost right.

AH: We all know that large programmes, whether business or IT, often fail. There is a high percentage of programmes that fail—higher than ones that succeed. It's when you start a large investment, let's say in business change, that you should include technology. It should have an exit strategy that says, 'We're going to measure the success of this programme as it goes along. If we're going on a three- or four-year journey, and if the programme doesn't meet these particular criteria at certain milestones, we're going to pull out or reduce our investments'. I'm amazed at how many people understand that, but yet don't incorporate it into their initiatives.

JT: When I talk about governance, as I was doing last night, I mention that the word 'governance' comes from a Greek word, meaning to steer a ship. I use the analogy of going on a journey on a ship. You need to plot where you want to go. You have things called 'dead reckonings' that you check every hour into the trip to see where you are. Often you aren't where you thought you should be. When it comes to IT, we hope we'll get back on course. Actually, what you're doing is saying, where am I? How did I get here? Can I get back on course? If I can't get back on course, can I set another course that will get me to my destination? Or do I have to go somewhere else?

SM: Once you start something, it's almost impossible to stop.

AH: It's almost impossible because there is an emotional attachment to it.

SM: There may also be significant contracts. Somebody may have signed away millions of pounds.

AH: Even those arguments are the reason why you should have an exit process that is objective and defined early on.

⁵ 'Ring fence' is a British English term meaning 'to guarantee that funds for a particular purpose will not be spent on anything else'.

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JN: Coming back to Paul's point about governance, if you go back to the public sector in the UK, you could largely fix the problem by changing one sentence in the guidance—and it's about governance. The Treasury Green Book (of procurement guidance) allows you to have an IT project. If you just scrubbed out 'IT project' and put in 'business change project', and then subjected the entire project to a very good discipline of gateway reviews, you'd get to the following: No budget for people and process? No project.

I spoke with the then Chief Secretary of the Treasury who actually came out of the IT industry. I said, 'You've got to change the guidance'. The problem is that the change multiplies the upfront costs by a factor of four. A typical Ministry of Finance (like our UK Treasury) doesn't like the idea of that, even if it reduces the life cycle costs dramatically and even if the project might then be a success. It was unacceptable to increase the upfront costs by a factor of four. They continue with IT projects. My suggestion was that we do only a quarter of the proposed projects, but do them well. It's a classic governance failure.

PW: One of the things I find is that, within many organisations, cancelling a project is often seen as a sign of failure and weakness, whereas actually it's the other way around. Cancelling a project is actually strong governance and it is about making that right decision so you're not continuing to put good money after bad. And it's about releasing resources to put into things that make more sense.

SM: I have an example from football where a contract said that if the team was in the bottom three for more than a few weeks, the manager was only going to get a fraction of the usual payout. I consider that learning—thinking about an exit clause and failure, and how to deal with it.

Change Programmes and Why We Don't Learn

JT: I think that one of the fundamental things we have to understand is this concept of programme. We have to get away from the IT project and into a programme of change. It does mean more upfront costs. And some say that it costs more. A CFO I know found it doesn't cost more—they put a lot more effort up front, but on fewer things. They got the selection process through the portfolio management approach and are taking the programme view of what things should be worked on rather than trying to do things they shouldn't be working on. So it does end up being resource-neutral, but it's a different way of looking at things. 'Why don't we learn'? is a good question.

CT: There is an issue that people are working in an area for the first time. How many people volunteer to do it for a third time? These things take years, anyway. And they're looking for re-entry into some other part of the organisation.

JN: But the answer is in your own question. And that is, we got used to what we did 10 years ago—used to IT projects taking two, three, four years. If it takes more than three *months* now, you're in serious trouble. So it is a programme with a series of individual projects that have deliverables that come onstream every three or four months.

JT: But, by definition, a major organisation's change programme may be a multi-year programme. That can be chunked up such that it's delivering measurable, demonstrable value. And you can pull out at any point. You have survivors.

PW: People have been saying that for decades. One thing we learn from history is that we don't learn from history. Why?

SM: One reason is the dichotomy between the engineering discipline of information technology and the fuzzy area of change management. When you bring these two cultures together, there is a clash. Jim, you mentioned earlier the slavish adherence to PRINCE2. That's a classic structure. The reality in the front end is this incredibly fuzzy alignment phase. You get clarity through that rather than through a series of structures or steps. It requires a whole set of skills—profession, art, magic. And from that you can define something called a programme. Well, what does that actually mean?

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It means translating that, classically, into a series of projects. I believe the UK Office of Government Commerce (OGC) has done a fantastic job in articulating the difference between projects and a programme. But for me, it's that front end. And then it comes back to Chris's point about the person who carries that through, who carries the 'can', if you like—the role of a sponsor. We did some research on this. For me, it's always hard and soft. This is why it's so difficult. We're always trying to balance hard and soft. And the sponsor has the same challenge—to balance the soft skills of leadership with the hard skills of stewardship. That isn't easy. It's particularly difficult on the government side because of the political dimensions. But it's also difficult in the financial services sector where you must deal with a lot of people.

Who is it that gets appointed to the role of sponsor, and how?

Sponsorship

PW: I think it gets back to Chris's point that somebody can be in a position of sponsoring a massive programme of change without ever having done it before—without understanding the issues, risks and interdependencies. And if you have a sponsor starting off with that disadvantage, then how do you overcome that?

JN: I think there's another issue and that is, who can that person turn to? This comes back to, what is the structure in the board about monitoring risk? Where are the non-executives?

AH: Paul, I think you asked a good question earlier—why people who understand organisations don't understand that, if you don't slice programmes into manageable components and you don't measure progress and success, you're not likely to succeed from an overall programme point of view. The person I see getting the most responsibility in terms of failure and success while writing these programmes is the programme director. And it's unnatural for a director to say that he/she wishes to be measured every two or three months. That person has to manage across the organisation, across programmes, and is putting his/her job on the line. So I think it goes back to structure and governance. Who is responsible for this programme of change? I don't think it should be an individual. It should be a team of executives, including the programme management director, who takes on that responsibility. It's not just one person who can solve these kinds of problems.

JT: The board is collectively responsible. I think that we have a few cultural problems. One regards leadership. We have a belief that one person can do this. In today's complex world, that's not realistic. The second regards blame. We think in terms of accountability and 'who do we shoot when it goes wrong'? We don't think in terms of collectively working together to make it successful. The third regards continually trying to put certainty into something that is uncertain. Change programmes involve a lot of uncertainty. We're not good at recognising this need nor at managing uncertainty. We're very uncomfortable with uncertainty. We need governance processes that recognise that, people who recognise that, and people who support that.

The Role of Non-executives

PW: Jim, you mentioned the role of non-executives. That's always been of interest to me. I think we mentioned earlier that it is sometimes very difficult to engage the board on issues relating to IT. It's a bit of a black hole to them and they don't understand it. I've always felt that it would be good for a non-executive, or an appointed director as they are called in the USA, to fill that gap—to have someone there who has that knowledge, the experience, to ask the right questions and get informed answers. But it doesn't happen. I think it was in an Ernst & Young survey of non-executives (a couple of years ago) where this was specifically looked at. The survey showed that IT is an area where skills are conspicuously absent. What's your experience? Do you feel that non-executives could have a much stronger role to play here?

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JN: Indeed, they have a legal duty to do so. I agree with Chris that the problem for the executive team is that the person running it may not have done it before. The non-executive should have done it before. And that's where the non-executive can provide knowledge and support. The non-executive is not there to say that the executives have it wrong. The non-executive is there to ask what the executives need in order to accomplish it.

PW: So why doesn't it happen? Why aren't enterprises appointing non-executive directors with that specific range of skills?

JN: I don't see it happening and the only thing I can suggest is the point I made earlier—that boards shy away from the IT issue. The logical and positive thing to do is bring people onto the board who bring that expertise. At present, boards don't want to learn about it themselves, even at the awareness level.

JT: Do we want to bring people on who understand IT or people who understand organisational change?

CT: There's also a bit of an iceberg effect. It's perceived to be of a certain size, but there's this other bit that's floating underneath that's three times bigger. We're not dealing with a three- or four-million-pound issue as it appears on the surface, but with 15 million pounds.

Managing Risk

JN: I think it's an even bigger issue than that—how do boards manage risk? And I don't mean just business change risk. Is there a risk committee? What is its reporting structure? They need to get the management of risk right and then go on to that subset of risk that is about the management of business change.

PW: With all the things that have been happening of late in financial markets and the issues with managing risk, you're saying that companies need to get a better grip on how they manage risk. Do you think that what has been happening in recent weeks and months will actually help to move that agenda forward so that there will be a greater emphasis on how we identify and manage risk?

JN: I have to say something that is probably rather controversial—I think that all the work that was done by Turnbull on risk management actually has led us down a blind alley because there are far too many boards that do that activity once and then forever tweak the numbers. And there is no incentive there—and there should be—to go back and do a zero-based risk assessment at least once a year. I fell down that hole, which is why I feel so passionately about it. We thought we had a handle on risk. And, of course, there was one we completely missed because it wasn't around when we set up the matrix. The matrix is useful but it's only useful insofar as you keep recalibrating, as opposed to just tweaking the numbers. I think that requires radical work within the company. The only way I've found to do it is to cause this to happen at the middle-management level—by different functions challenging others. So put someone from one function into another to let a different set of eyes look at the risk—but in a disciplined way because you know it's going to happen to your function at some point.

PW: A lot of enterprises don't have a risk committee, but they do have an audit committee. I've always felt that this is an area where an audit committee could take more of a lead. Part of the role of the audit committee is to handle risk. And it's not just financial risk; it also includes operational risk. We're finding that experience and skills in the areas we've talked about often don't exist on the audit committee.

JN: You don't have time in the audit committee. I was part of a structure with a risk committee composed primarily of executives and one non-executive—me! That risk committee reported through the audit committee.

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AH: PricewaterhouseCoopers often is asked to perform in an external quality assurance or risk advisor role on major programmes. That's another way that organisations are dealing with getting an objective observer who has lots of experience and involvement in similar initiatives and who also reports directly to the board.

PW: I find that often happens after problems have been identified rather than it being a matter of course. You often get called in after things already have started going off the rails. It's difficult getting things back on track.

AH: Timing is certainly an issue. It needs to be initiated early in the process. There also is a need to be objective, independent and empowered to report to the board. So there is governance around how that all could be used.

CT: That's how you achieve follow-through. I was on a board that commissioned a study. The finance director said, 'Well, that's done'. I asked about the results and whether anything should be cancelled.

JT: Quite often the bad news is known but is filtered out or not listened to because of the ownership, the ego. There's a bank in Australia that lost \$400 million. The sponsor ended up being fired. We knew at the beginning that things weren't working, but the person who was fired wouldn't listen since this was their pet project.

AH: That story could apply anywhere in major economies, right?

JT: What we're doing is changing human behavior and that's not an easy thing to do. You go back to the law of the common. It's very difficult to get people to work for the collective good rather than for their own good.

Value Management

PW: John, one of the things recommended within Val IT is a cohesive approach to portfolio management so you continually review major programmes through some sort of structure. In my experience, it's definitely the minority of organisations that attempt to do that. Is that other people's experience as well?

JT: I think there are more and more, but more and more is still very little. It's happening more, but it's not happening very much.

CT: I think a key aspect is how these programmes come into existence in the first place. If you have a regime made up of pet projects, then nobody wants them reviewed because they just want them done. If they're never reviewed, then there is no learning. Nobody knows how much it costs or was lost.

JT: How many organisations do good, comprehensive business cases of investment? I've asked this question for the last 10 years around the world of thousands of people. I would say that out of about 10,000 people, 50 hands have gone up.

AH: How many of those actually monitor the businesses cases?

JT: That's what I meant when I referred to the process. They don't build good business cases. If they build a reasonable business case, it's just to get the money and run. They don't use the business case as an operational tool going forward.

PW: Unless you have value management processes to give you an entire feedback loop as to whether you've actually succeeded or not, business cases are never going to be effective, are they? You know that you can put anything in a business case because no one's going to bother coming back later to see whether you've achieved those objectives.

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JT: And that's where I think this analogy of governance as steering a ship is so valuable—determining where you want to go, how you're going to get there, determining where you expect to be along the way (dead reckonings) and taking appropriate action if you're not where you expect to be. Processes need to be put into place to accomplish all this.

AH: I think the financial services and private sectors are different from the public sector. I advise clients to relate to financial targets—look at your strategy, identify targets in terms of growth or costs, then try to structure the programme of change to achieve those targets. At least you have something to measure success against, right? And the public sector has its own challenge since financial benefit is not necessarily the primary outcome. It's the public good that's the outcome. I think clarity of objectives and targets is very important in an organisation. There are initiatives that don't necessarily or shouldn't result in financial benefits, right? But we'll deal with those separately because they require a different kind of discipline in terms of saying what success looks like.

SM: I agree. You should always put a financial number to it. The reality is, the more that we get into these business change programmes, the less clear it is. In my experience, we can say that we're going to change customer satisfaction, which will lead to increased sales and subsequently to increased profitability, but what are people buying into? The board buys into the logic of your argument and they buy into you as an individual—that you have the capability to deliver. Then they'll look at the numbers. The reality with the maturity level of business cases and benefits management is that it is so low. I have a very simple three-level maturity model that I follow. One, is there a business case? Two, do you have a post-implementation review of those benefits? Three, are you monitoring, tracking and realising those benefits *en route*? And most people are still at level one. So, it's a big challenge. It's surprising how weak that logic is—being able to articulate the logic of the business benefits. It may be because of pet projects, but that's the role of the CIO.

It's the football analogy again—if the manager is not allowed to choose the players, then he/she should resign. If the CIO is not allowed to challenge the business case, he/she should resign. There should be that ethical dimension to it.

JT: You need the business case. In Val IT we talk about the results chain (a Fujitsu term) and going through a modelling exercise with the stakeholders to determine the outcomes we're trying to achieve. Often this is not done. Understanding the intermediate outcomes that get you there also is critical, as is knowing the things that are necessary and how you are going to measure that those things are happening. We sometimes spend a lot of time trying to measure something that can't be measured. What you have to do is get out on the table how you believe this is going to contribute to that outcome. You can identify some indicators to look at to determine whether your thinking is correct.

JN: To what extent are we finding that other parts of the organisation can't inter-relate their own indicators in the sense of determining how improved customer satisfaction translates into future revenue? Doesn't that expose deficiencies or decrease the opportunity to improve in other parts of the organisation?

PW: I agree that, without a robust business case, everything else will be on a somewhat shaky foundation. One of the things that rarely is factored into a business case is risk. It's always about accentuating the upside without necessarily considering the potential downside. That obviously has an effect in terms of the expected return. I advise organisations to apply the same sort of investment principles to business change projects as they apply to a standard investment portfolio, which is all about risk and reward. The higher the risk that you're taking in this particular initiative, the higher the return you're expecting at the end of the day. But it just doesn't happen in my experience.

CT: If you just look at it from the perspective that we're only going to look at the benefits, the costs only go up by an extra quarter, and it's a year late. Most people think they did very well. When you run those numbers through, you actually need twice the benefits. What if the benefits disappear because of the risk factors?

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JT: The business case needs to have three dimensions. First is a term I don't particularly care for—alignment. The business case can be great, but if it's not aligned with where you want to go, why are you doing it? Second is that it has to have business worth, both financial and non-financial, rather than 'tangible' worth, which is a fuzzy word. Third is that it has to have risk, both delivery and benefits—the risk of not being able to deliver the capability and the risk of not being able to use the capability to drive value. And then those all have to be factored together into an evaluation.

Alignment

PW: But the alignment issue is an interesting one. Looking at the results of the CEO survey mentioned earlier shows that more than 25 percent indicate that organisations don't establish and maintain alignment between business and IT strategy. That's a bit scary.

AH: If we asked the CIOs or the people responsible for IT whether their organisation has a business strategy, I wonder what the result would be. I find that a lot of IT strategies are developed without a real understanding of the direction of the business.

JT: I did a lot of work regarding IT strategy—another term I don't like. I found that I had to come up with a term—strategy translation—to take what someone says about strategy and turn it into something that someone else can relate to and evaluate against. It's very difficult to do portfolio management and alignment with business objectives when there aren't any clearly stated business objectives. And I think that's a huge problem.

CT: It's a fantastic opportunity. You go in as a CIO and talk to anyone in the business. You can shape their thinking.

PW: If you're going in as a new CIO. But if you're already there, if you've presided over the current situation, then I think you often have a conflict of interest.

PW: One of the other questions asked in the survey was whether an organisation measures the value of IT investment to the organisation. Forty-three percent say no.

JT: Are we just dreaming that this is the way it's going to be? Are we just banging our heads against a wall? What will it take to get people off the fence and do this?

AH: I used to be very project-oriented in my naïve early years. Now I use the word 'journey' a lot more than 'project'. If you look at the past 20 years, tremendous progress has been made; 20 years ago nobody talked about business cases. Now, we at least talk about the business case and whether it exists or not, whether it has the right component or not. I think it's a slow process. There's a silver lining in putting more rigour into managing risk and investments. That will filter into managing these programmes.

CT: I think this is something that has just risen to the top of the pile. If you think back over the years that we've been in IT, you think of some of the conversations that used to go on in the 70s: 'there is no way we're going to introduce this technology into the architect's department because they need the practice of drawing' and 'if they don't go through that exercise, then we'll have no future architects'. And there were a huge number of those sorts of discussions that were equally as frustrating as what we're dealing with now.

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Making It Happen

PW: But if an organisation comes to you and says they are aware of all this but want to know how to ‘up’ their game—how do they start, where do they start—what would you tell them?

JN: What does your business need? It has to start from the business strategy. For example, if times are tough and we want to retain customers, I would ask what they are doing to drive customer retention, how they are better using technology to do that. It has to be grounded in the business strategy. It has to be grounded in the current financial reality.

AH: What does success look like? It’s a tough question to answer, but it is a question that needs to be answered.

JN: I think one of the challenges for CIOs might be to convert fixed costs to variable costs. Perhaps I don’t want those rooms full of whirring machines. Maybe I want to outsource.

SM: That’s a key point—that it is a contingent approach. When I’ve gone into organisations as a CIO the issues have been very different. At one company, the technology didn’t work, so you have to sort that out. In another case, the organisation didn’t know which way to go and you have to craft a strategy. A big challenge was faced in Italy where we had acquired a company and that meant a major programme to enable the merger. I actually did bring a business group together at the end of two years to say that it was time to create a business strategy. If I’d gone in with the classic approach—to define the business strategy up front—it would have been a waste of time. We had very clear targets from the group to say that you’re going to take out X millions of pounds and this is how we want you to do it. So deliver.

I think there’s a single loop where you analyse the situation, determine what’s required and then make it happen. The double loop is asking what our capability is to do it again. There is no simple, direct answer. There isn’t a process answer to this.

JN: And so much of it is the organisation learning. You can’t oil the wheels from the outside.

SM: How do you facilitate that? I think it comes back to your point earlier about the role of a non-executive or expert advisor. I have been a programme coach. You need people who’ve done it before, who have the trust and credibility, and can operate on different levels. When I go into an organisation, I have the credibility at the sponsor level, CIO level and project manager level since I’ve served in those roles. They can see that I have an objective view. I’ve never been involved in the public sector political discussions that Jim talks about. Some of us must wonder whether there was any way we could have influenced things.

CT: In all sorts of failures there’s a significant role with intuition, desire or all these sorts of things. Think about cell phones. Thirty years ago you couldn’t imagine that we’d have billions of cell phones now. One of the key aspects is trying to get rid of more of the weak projects—the things that are doomed.

PW: One of the things I find is that there’s not an awful lot of experience shared when things go right. I think that there’s always lots of publicity given to things that go wrong. We can learn from that. But when things go well, and they do, we don’t share the positive lessons. And that always quite surprises me. I’m really not sure why.

JN: There was a very good report recently on IT and business change by the National Audit Office (NAO). I have a sneaking suspicion they’re mostly triumphs of the individual *against* the system as opposed to *because* of the system.

SM: Well, that’s a lesson.

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CT: That's what was said of the first British (the one and only British) satellite that's up there. Despite the best efforts of politicians, the programme was a success.

JN: When I ran a government agency, I realised that my IT function was not optimal in terms of size. I inherited 35 civil servants and 65 external contractors—mostly on phenomenal salaries. I indicated that I couldn't work within the civil service structure because we couldn't pay properly. I wanted my IT provided by a joint venture between the Secretary of State and a professional IT company, so that it was off the public balance sheet. In the end, I achieved this through a long and complex European procurement. I established a joint venture—35 percent owned by the Secretary of State and 65 percent by CMG. It was a roaring success. We could not be de-skilled as there were reserved places in the venture for civil servants. We used open book accounting. My successor at the agency was hauled before the public accounts committee over it. Not because it wasn't a roaring success, but because it went over budget (four-fold) in costs for advisors.

The profit and loss statement showed that we recovered those costs in the first six months. It was a considerable success. But my successor wasn't hauled over there to say it was a great success. Instead, he was hauled over there to be grilled as to why he budgeted so poorly. Of course, they knew it was his predecessor who handled the budget, but they weren't interested in his predecessor. He was now the accounting officer, so he was one being crucified. Of course, it was stupid. It's much more fun to find blame.

Concluding Thoughts

PW: How about going around the table for final words of wisdom or thoughts?

SM: I don't believe we've talked enough about information governance as opposed to IT governance—the issue of value, from leaving valuable secrets on a train to not understanding the value of financial instruments. We do such a poor job of managing information.

JT: I'd like to talk about how we evolve from automation through information to transformation. I think that most of the problems occur during the transformation stage because we haven't sorted out the information. We still haven't worked out how to obtain the specific information we need and how to get high-quality information up, down and across organisations. And yet, that is what we base our transformation on. I think it is a huge problem.

JN: We shouldn't link it solely to IT. I had my headquarters blown up by the provisional IRA in 1996. We had everything locked away and all the backups. Just down the street, there was a large merchant bank. They were desperate to get hold of the borough surveyor the next day because the entire area was sealed off. They thought they had stuffed 50 million of bearer bonds somewhere in a desk drawer. And they didn't know whether the bonds were blowing down the Thames!

AH: I think that's a great point because, as you probably know, we're currently engaged in running the administration of major firms. With data losses, etc., the whole concept of contingency planning and disaster recovery takes on new practical meaning. Focus on IT has taken a different lead. Should organisations be doing contingency planning for financial failure or data loss?

JN: You asked how the current situation affects things. I think it will drive even more organisations to put additional money into the World Wide Web and into new forms of marketing. I think the area that isn't going to suffer is the Internet.

AH: That's an interesting topic and it's important for organisations to understand where the Web is going.

JN: A year ago, a competition for advertising was held with school children. They were equipped with hi-tech solutions and they came up with a series of ads. The total cost was one-tenth of what an agency would have charged. There are interesting opportunities out there.

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PW: Well, there are those who say that every corporate IT strategy committee should have a 14-year-old sitting on the committee because it's the children who actually understand this far better than the adults!

JN: IBM has the best job title: 'Metaverse Evangelist'!

PW: I've not come across that term, but I am coming across more 'evangelists' of different types in people's job titles.

JT: Well, I think that's an interesting point. There's a great book called *The Wisdom of Crowds*⁶. It says that, in almost any circumstance, if you take 100 people who are independent—not related to each other—and ask them a question, they will almost invariably outperform an expert in their response. And we have thousands of people in organisations, making the decisions. The power of networking—social networking and the Web—is a governance issue.

AH: And that's a part of Web 2.0—that's the whole concept.

JT: I think that's an interesting thought—what that means in terms of governance. Decision making could be dispersed.

CT: I agree. And the real challenge for governance is the constructive use of social networking. But then, who owns the data? And who's accountable?

⁶ Surowiecki, James; *The Wisdom of Crowds*, Reed Elsevier, USA, 2005