BEST PRACTICE

IMPLEMENTING IT Governance

A Pocket Guide

Dr Gad J Selig PMP COP

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IMPLEMENTING IT GOVERNANCE: A POCKET GUIDE

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Colophon

Title:	Implementing IT Governance: A Pocket Guide
Author:	Dr Gad J Selig PMP COP
Publisher:	Van Haren Publishing, Zaltbommel, www.vanharen.net
ISBN:	978 90 8753 216 1
Edition:	First edition, first impression, June 2008 First edition, second impression, October 2011
Design and Layout:	CO2 Premedia bv, Amersfoort -- NL
Printer:	Wilco, Amersfoort-NL

For any further enquiries about Van Haren Publishing, please send an e-mail to: info@vanharen.net

Preface

Information Technology (IT) has become an integral part of many organizations and is fundamental to sustain business growth, innovation and transformation and support continuing operations in most organizations. Information Technology and its effective management is a fundamental cornerstone of any well-run business. Insuring that this cornerstone is optimized is all about optimizing the business side of IT. IT governance is vital to the success of the IT function within corporate enterprises on a global basis.

The purpose of the pocket guide is to provide a comprehensive checklist for the Board, executives, managers and most of all, CIOs and IT professionals. It provides a guideline to use in any organization and in any industry to formulate and tailor an effective approach to IT governance and to help transition the IT organization to a higher level of business/IT alignment, maturity, effectiveness, and value creation function for an organization. It is derived from the book entitled, "Implementing IT Governance – A Practical Guide to Global Best Practices in IT Management" published by Van Haren Publishing.

This title lays out a roadmap to executing within a comprehensive governance framework. It provides a comprehensive checklist that will help the board, executive management and, most of all, CIOs and IT professionals, think through what has worked, what can work and how to plan and deploy IT governance successfully. The pocket guide provides a summary checklist of all of the key components and critical success factors to make IT governance real, effective and sustainable. It represents a valuable resource for all business and IT practitioners, and brings together every critical aspect relating to IT management and governance.

The book reinforces the fact that IT cannot run as an independent silo. It must be aligned and integrated properly with the business and all facets of the organization. It represents an excellent instructional supplement, as well as a thorough source of reference. Each topic has a very detailed list of informational details. It is a must-have for every executive or manager who deals with IT, as well as every professor teaching business and IT courses. The full details of all material referenced in this Pocket Guide are found in the main title: Implementing IT Governance ISBN: 9789087531195

Acknowledgements

I gratefully acknowledge the help and support of a number of individuals, organizations and their members in the private, public and academic sectors, in conducting the research, editing the book, participating in developing the case studies, allowing me to consult for and/or teach them, and influencing, reinforcing and validating the findings, recommendations, critical success factors and lessons learned.

I would like to thank specific people for their help, contributions and insights: Michael Pellegrino of FujiFilm USA, Jaci Coleman of Peoples United Bank, Christine Bullen at Stevens Institute of Technology, Neal Bronzo of Pepsi Bottling Company, Stuart Werner at Li and Fung, USA, Kevin Laing at ATMI, Paul Bateman at AXA, Peter Waterhouse and Debra Cattani at CA, Charles Popper at the TechPar Group, Rebecca Brunotti, formerly of the General Services Administration – Federal Technology Services, Joann Martin at Pitney Bowes, Joseph Puglisi at EMCOR, Len Peters at Columbia Business School, Porter Sherman at UBS, Hank Zupnick at GE Real Estate, Sigal Zarmi of GE Commercial Finance, Nicholas Willcox at Unilever, Mike Bodetti at TNT Expense Management, Tarek Sobh, Ward Thrasher and Robert Todd at the University of Bridgeport, Michael Corbett at IAOP, Jane Siegel at ITsqc, Dick Lefave at Sprint Nextel, Peter Shay at TAC, Jim Shay at Syracuse University, Erran Carmel at American University and many others.

Special thanks go to Omur Yilmaz and Sujani Pradhan, my graduate assistants at the University of Bridgeport, who helped me with conducting research for the book and co-ordinating the many revisions to the manuscript. I also want to thank the many executives, managers and professionals who have attended my seminars and workshop over the years, as well my students who have attended my graduate classes. All of them

have contributed to my knowledge and challenged me to learn more and stay current in a rapidly changing field.

In addition, I would like to thank my publisher, Annelise Savill at Van Haren Publishing for her friendship, editorial suggestions and encouragement to complete this project, as well as my editor, Jayne Wilkinson.

I would like to dedicate this book to my wife, mate and life-long partner, Phyllis, for her love, dedication, understanding and support that she has given me throughout our time together. Our children, Camy, Dan, Gabe, our children through marriage, Beth and Andy, and our grandchildren, Jason, Jacob, and Jesse, also inspired me to finish the project, so that I could devote more time to them. I would most of all dedicate this book to my mother, Ruth, who passed away in November 2007, without whom this project would not have been possible.

Dr Gad J Selig
May 2008

About the Author

Dr Gad J Selig is the Director, Masters of Science in Technology Management and Dual Graduate Business and Engineering Degree Programs, and leads the Center for Inter-disciplinary Business, Engineering and Technology Leadership at the University of Bridgeport.

Dr Selig is also the Managing Partner of GPS Group, Inc., a consulting, research and education firm that focuses on strategic marketing and growth, business and technology transformation, IT strategy and governance, program/project management, strategic sourcing and innovation and managing change.

Dr Selig has more than thirty years of diversified domestic/international executive, management and consulting experience, with both Fortune 500 and smaller companies in the financial services, utility, telecommunications, software and high technology, manufacturing and retail industries. His experience includes: marketing, sales, planning, operations, business development, mergers and acquisitions, general management (with full P & L responsibility), systems/network integration, strategic sourcing and outsourcing, MIS/CIO, electronic commerce, product development, project management, business process transformation, governance and entrepreneurship. Dr Selig has worked for the following companies: Marketing Corporation of America, Advanced Networks and Services, Continental Group, Contel Information Systems, NYNEX (Verizon), Standard Kollsman Industries, CBS and AT&T.

He earned degrees from City, Columbia and Pace Universities in Economics, Engineering and Business. He has authored three books and over 50 refereed articles and/or conference proceedings. He is a dynamic and popular speaker at industry conferences in the U.S. and abroad.

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Chapter 1
Introduction to IT/business alignment, planning, execution and governance

1.1 Overview

The issues, opportunities and challenges of aligning information technology more closely with an organization, and effectively governing an organization's information technology (IT) investments, resources, major initiatives and superior uninterrupted service, is becoming a major concern of the Board and executive management in enterprises on a global basis. Information technology (IT) has become a vital function in most organizations, and is fundamental to support and sustain innovation and growth.

Therefore, a comprehensive top-down approach, with bottom-up execution of IT governance, which includes all the activities of business/IT alignment, planning, execution and governance of IT, as well as the leadership of those entrusted with the task, is critical to achieve a cost effective solution. Effective 'management' includes the activities of planning, investment, integration, measurement and deployment, and providing the services required to manage a complex strategic asset.

None of this is easy, or obvious, and this pragmatic and actionable 'how to' pocket guide is intended to draw from about 200 current and emerging best practice sources, and over twenty IT governance best practice case studies.,

1.1.1 Major challenges and issues faced by IT

In our research, we compiled a list of IT challenges and issues, identified by multiple independent sources. There appears to be a common thread running through these issues and therefore, we have summarized them into strategic, value enhancing and execution questions.

Board and executive questions for IT:

- Does the IT strategy align with the business strategy?
- Is the IT investment justified, based on its contributions to the business?
- How likely will IT meet or exceed its plans, objectives and initiatives?
- Is IT being managed prudently or effectively? How is it measured?
- How is IT delivering value? Is there a consistent IT business case format used for justifying IT investments?
- Is IT developing and maintaining constructive relationships with customers, vendors and others?
- Is IT delivering projects and services on time, within scope, within budget and with high quality?
- Is IT staffed adequately, with the right skills and competencies?
- Is there a standard measurement for IT investment across the firm?
- How does IT management and operations compare to other best practice organizations?
- How is IT managing and planning for contingencies, disasters, security, and back-up?
- How is IT measuring its performance? What are the key performance measures?
- How effectively is IT communicating its progress and problems to its constituents?
- What controls and documentation have been instituted in IT? Are they sufficient?
- Does the Board review and possibly approve the IT strategy?

- Is a risk management policy, assessment and mitigation practice followed for IT?
- Is IT compliant to federal, state, country (for global organizations) regulations, and to internal policies and controls?
- Are IT audit policies, procedures and processes in place and followed?
- Is there a succession plan in place for the CIO and key direct reports?

1.1.2 Summary of key strategic, value enhancing and execution questions:

Strategic questions - Are we doing the right thing?

Is the investment in IT:

- in line with our business vision and strategy? is the board and/or executive operating management involved and committed?
- consistent with our business principles, plan and direction?
- contributing to our strategic objectives, sustainable competitive differentiation and business continuity support?
- providing optimum value at an acceptable level of risk?
- representing a long-term view (roadmap)
- including an architectural roadmap, based on a detailed analysis of the current state or condition of IT?
- Does the CIO have a seat at the "C" table?

Value questions – Are we getting the benefits?

Is there:

- a clear and shared understanding and commitment to achieve the expected benefits? In what areas? How?
- clear accountability for achieving the benefits, which should be linked to MBOs and incentive compensation schemes, for individuals and business units, or functional areas?

Are they:

- based on relevant and meaningful metrics?
- based on a consistent benefits realization process and sign-off?

Delivery and execution questions – Are we deploying well and effectively? How do we measure our results?

Metrics include:

- scalable, disciplined and consistent management, governance, delivery of quality processes
- appropriate and sufficient resources available with the right competencies, capabilities and attitudes
- a consistent set (of metrics) linked to critical success factors (CSFs) and realistic key performance indicators (KPIs)
- succession planning

Major IT challenges must be dealt with as part of an IT planning and governance process

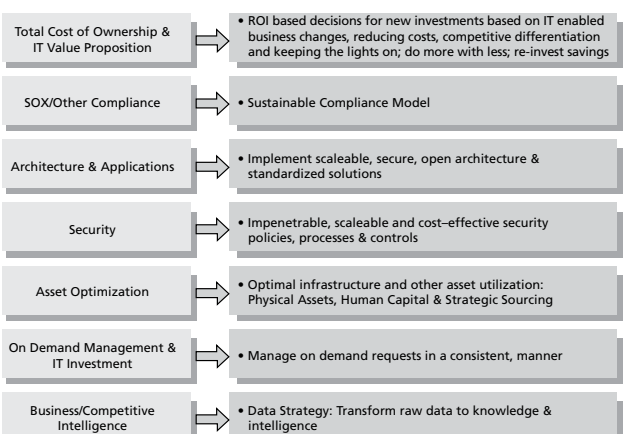

Figure 1.1 Major challenges for IT

Figure 1.1 summarizes the major IT challenges being addressed by a large, global software organization, as part of its IT planning and governance process.

Basically, it comes down to the need for a plan that can be executed. At the same time, the role of the CIO is also undergoing significant change. Successful CIOs recognize that IT has become far more than a means of increasing efficiency and reducing costs. Rather, they see IT as a prime stimulus for, and enabler of, business innovation – and themselves as key collaborators in a process that develops business and IT strategies in unison.

1.2 Definition, purpose and scope of IT governance

Definition of IT governance:
Governance formalizes and clarifies oversight, accountability and decision rights for a wide array of IT strategy, resource and control activities. It is a collection of management, planning and performance review policies, practices and processes; with associated decision rights, which establish authority, controls and performance metrics over investments, plans, budgets, commitments, services, major changes, security, privacy, business continuity and compliance with laws and organizational policies.

Purpose of IT governance
IT governance:

- aligns IT investments and priorities more closely with the business
- manages, evaluates, prioritizes, funds, measures and monitors requests for IT services, and the resulting work and deliverables, in a more consistent and repeatable manner that optimize returns to the business
- maintains responsible utilization of resources and assets
- establishes and clarifies accountability and decision rights (clearly defines roles and authority)

- ensures that IT delivers on its plans, budgets and commitments
- manages major risks, threats, change and contingencies proactively
- improves IT organizational performance, compliance, maturity, staff development and outsourcing initiatives
- improves the voice of the customer (VOC), demand management and overall customer and constituent satisfaction and responsiveness
- manages and thinks globally, but acts locally
- champions innovation within the IT function and the business

Scope of IT Governance:

Key IT governance strategy and resource decisions must address the following topics: (Modified from Weill and Ross, 2004; Popper, 2000)

- **IT principles –** high level statements about how IT is used in the business (eg scale, simplify and integrate; reduce TCO (Total Cost of Operations) and self fund by re-investing savings; invest in customer facing systems; transform business and IT through business process transformation; strategic plan directions, PMO (project management office), sustain innovation and assure regulatory compliance, etc.)
- **IT architecture –** organizing logic for data, applications and infrastructure captured in a set of policies, relationships, processes, standards and technical choices, to achieve desired business and technical integration and standardization
- **SOA architecture –** service oriented architecture (SOA) is a business-centric IT architectural approach that supports the integration of the business as linked, repeatable business tasks or services; SOA helps users build composite applications that draw upon functionality from multiple sources within and beyond the enterprise to support business processes
- **IT infrastructure –** centrally co-ordinated, based on shared IT services that provide the foundation for the enterprise's IT capability and support

- **business application needs –** specifying the business need for purchased or internally developed IT applications
- **IT investment and prioritization –** decisions about how much and where to invest in IT (eg capital and expense), including development and maintenance projects, infrastructure, security, people, etc.
- **people (human capital) development –** decisions about how to develop and maintain global IT leadership management succession and technical skills and competencies (eg how much and where to spend on training and development, industry individual and organizational certifications, etc.)
- **IT governance policies, processes, mechanisms, tools and metrics –** decisions on composition and roles of steering groups, advisory councils, technical and architecture working committees, project teams; key performance indicators (KPIs); chargeback alternatives; performance reporting, meaningful audit process and the need to have a business owner for each project and investment

Successful IT governance is built on three critical pillars – leadership, organization and decision rights, scalable processes and enabling technologies

Effective IT governance is built on three critical pillars. These pillars include: leadership, organization and decision rights, flexible and scalable processes, and the use of enabling technology (Luftman, 2004; Board Effectiveness Partners, 2004; Melnicoff, 2005; Pultorak and Kerrigan, 2005):

- **Leadership, organization and decision rights -** define the organization structure, roles and responsibilities, decision rights (decision influencers and makers), a shared vision and interface/integration touch points and champions for proactive change:
  - roles and responsibilities are well defined with respect to each of the

IT governance components and processes, including the steering and review hierarchies for investment authorizations, resolution of issues and formal periodic reviews
- clear hand-off and interface agreements and contracts exist for internal and external work and deliverables
- motivated leaders and change champions with the right talent, drive and competencies
- meaningful metrics
- CIO is a change agent who links process to technology within the business, and provides the tools for enablement and innovation

- **Flexible and scalable processes -** the IT governance model places heavy emphasis on the importance of process transformation and improvement: (eg planning, project management, portfolio investment management, risk management, IT Service Management and delivery, performance management, vendor management, controls and audits, etc.):
  - processes are well defined, documented, measured
  - processes define interfaces between organizations and ensure that workflow spans boundaries and silos including organization, vendors, geography, technology and culture
  - processes should be flexible, scalable and consistently applied, with common sense

- **Enabling technology -** leverage leading tools and technologies that support the major IT governance components:
  - processes are supported by software tools that support the IT imperatives and components (eg planning and budgeting, portfolio investment management, project management, risk and change management, IT Service Management and delivery processes, financial, asset and performance management and scorecards, etc.)
  - tools provide governance, communications and effectiveness metrics to accelerate decisions, follow-up and management actions

If any one of the above pillars is missing or ineffective, the IT governance initiative will not be effective or sustainable. In addition, over dependence on one dimension over the others will result in sub-optimal performance.

IT governance – decision rights and authority

Peter Weill and Jeane Ross (Weill and Ross, 2004) identified the concept of IT decision rights as an important component of effective IT governance. The purpose of a decision rights matrix is to identify the IT decision influencers and decision makers in an organization, to clarify the decision roles and authority levels for the major IT areas. It eliminates confusion, identifies accountability and clearly defines decision roles and scope.

Figure 1.2 provides an illustrative example of a partial IT governance decision rights matrix for a financial services organization.

IT/business steering and governance boards, working committees and roles

Many top performing companies have established multi-level and multi-disciplinary business/IT steering and governance boards and working committees, with clear roles and responsibilities, to ensure appropriate commitments, sponsorship, escalation, ownership, more effective communications and more formal visibility and commitment of the Board, executive management and other constituents.

Why are they important?

They:

- help to ensure alignment across all of the parts of an organization; it is recognized that the demand for IT resources will exceed available resources/budget, and establishing organization wide and business unit priorities is essential

A decisions rights matrix identifying decision influencers and decision makers is necessary to clarify decision roles and authority levels for the major it governance components

IT Governance Component	Input to Decision	Decision Authority	Comments/Examples (Varies by Organization)
IT Principles (High value statements about how IT will be used to create business value)	Business Units	IT Senior Leadership Group & CIO; Executive Officer Group	• Scale, simplify, integrate • Reduce cost of IT & self fund • Re-engineer/consistent processes • Invest in customer facing systems • Investment $ Threshold Approvals • Key Performance Indicators/CSFs
IT Investment, Plan, Prioritization, Critical Success Factors and Key Performance Indicators (KPIs)	Business Units	IT Steering Committee (ITSC) (Business & IT Executives), Projects over $500K:	• ITSC recommends priority to CEO for any projects requiring over $500K • Identify, track and measure critical success factors and associated KPIs
Business Applications	Business Units and Corporate Functional Unit Heads	IT Steering Committee	Significant business application spend must be approved during the annual budgel process, and if over $500K, approved by ITSC
IT Infrastructure and Architecture; Outsourcing & Vendor Management; +++Others	IT Steering Committee IT Steering Committee + Business Units	IT Architecture/Technology Review Board (and Business Units (for related applications) Senior leadership (Depends on scope)	Significant infrastructure spend must be approved during the annual budget process, and if over $500K, approved by ITSC. Significant outsourcing initiative should be recommended by ITSC & approved by Executive Officer Group

Figure 1.2 IT governance decision rights (financial service organization)

- provide a forum for investment decision-making which is synchronized with the business
- build an enterprise view and help to eliminate stovepipe systems, processes, and duplication of effort across the organization

What (charter) should they focus on?

Boards should aim:

- to review and approve strategic plans, major programs/projects and establish priorities among competing requests for resources to ensure that everyone is aligned on those initiatives with highest 'value add' to the organization as a whole

- to establish and support processes where needed, to effectively fulfil the charge outlined
- to conduct formal periodic reviews of major initiatives, and operational service performance

Roles and responsibilities:
They:
- review and approve overall IT plans
- review, prioritize, approve major IT investments
- conduct formal periodic project progress and performance reviews
- final escalation point for major IT/business issues resolution
- support and sponsor IT governance policy and process improvement programs impacting the Executive Steering Board membership organizations, and help deploy them in their organizations

Other steering and working committees:
- Successful IT governance requires multi-level and multi-functional participation. Many organizations establish additional business/IT working committees at the business unit level, as well as major functional areas such as supply chain management, global financials, marketing and sales, research and development, and others as necessary.
- Program and projects working groups focus on specific initiatives.

Figure 1.3 illustrates an example of the IT/business steering and governance boards and roles at multiple levels for a large organization.

IT demand management - sources and classifications

Typically, requests for IT services should be identified and accommodated for in the strategic and tactical plans and budgets. If they are not, they are classified as 'out-of-plan'. Therefore, each request should be evaluated on its own merits against consistent evaluation criteria discussed in more detail in Chapter 3.

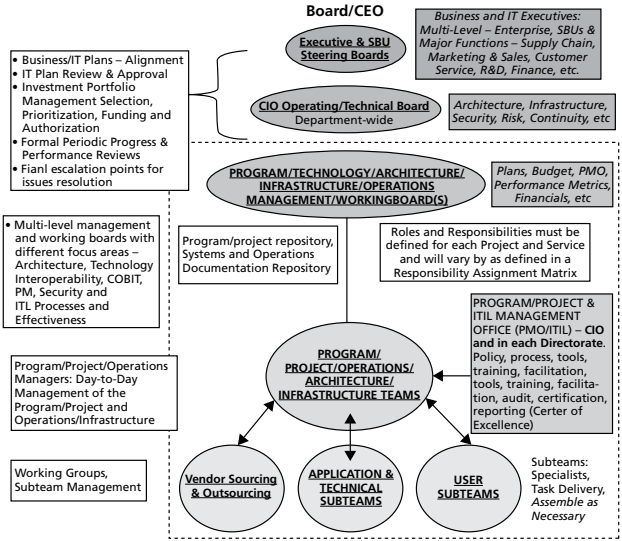

Figure 1.3 IT/business steering and governance boards, working committees and roles

Demand for IT services generally comes in several flavours — mandatory ('must do's' such as addressing service interruptions, standard maintenance, keeping the lights on and/or regulatory compliance) and discretionary ('could do's' if aligned, feasible, cost justified, strategic and/or requested by executive management). Both mandatory and discretionary requests should be approved by the business/IT leadership in the IT strategic and operating plans, or in accordance with an organization's decision rights and approval authority guidelines established for IT.

The following considerations will further help prioritize business needs with IT:

- clearly define and relate the value (eg cost reduction, containment and avoidance; increased revenues; faster access to information; shorter time

to market etc.) that IT provides in support of the business
- identify value adding activities (eg value chain and other business models/attributes) and strategies that would enhance then through IT.
- focus on listening to the voice of the customer
- ensure that all IT initiatives are evaluated using a consistent, but flexible set of investment selection, prioritization and review criteria, to assure a strong link to the business plan, project implementation and on-going operations
- develop a strategic IT plan that identifies major initiatives, technical/ architecture, operational, organizational, people development and financial objectives and measurements in support of the business

Figure 1.4 illustrates a demand management chart for a major bank.

Classification	Type of Request or Demand Mgt.	Comments/Description
Mandatory or Core (Business Enablement)	**Service Interruption (Break & Fix)**	A problem caused the disruption of IT service and must be fixed and restored as soon as possible
	Maintenance	Scheduled maintenance must be performed to keep applications and infrastructure operating efficiently
	Keep the Lights On and Legal/ Regulatory	The costs and resources required to support the basic steady state operations of the business, including some components of infrastructure
Discretionary* (Require ROI)	**Major New/Change (Complex) Initiatives (Full Risk Mitigation)**	Complex new initiatives or major changes (major enhancements or modifications) to systems, processes or infrastructure that provide new or additional functionality or capacity
	Fast Track (New/Change) (Simple or Limited Scope)	Simple new initiatives and minor changes that do not required the rigor and discipline of a complex initiative and be fast tracked.
	Standard (Repetitive) Request	Describe product/ service (functions, features and price in a product/service catalogue)
Strategic	**Major initiative – Realistic ROI may not be doable – too early**	A strategic initiative may fall into several categories – first market mover (new product or service); R & D; competitive advantage, etc.

* Note: Criteria for differentiating between complex or fast track initiatives or service catalogue listings will vary for each organization.

Figure 1.4 IT demand management classifications

Business/IT governance performance management and the Balanced Scorecard

A performance management plan must be developed for IT. The development of the performance management plan should be a collaborative effort between the business and IT. It should be based on a number of objectives, such as strategic, financials, customer, quality, process innovation, operational and service effectiveness which, in turn, support an organization's business vision, mission, plans, objectives and financials.

It is important to measure the performance of IT in terms that can be understood by the business. It is equally important to have two types of

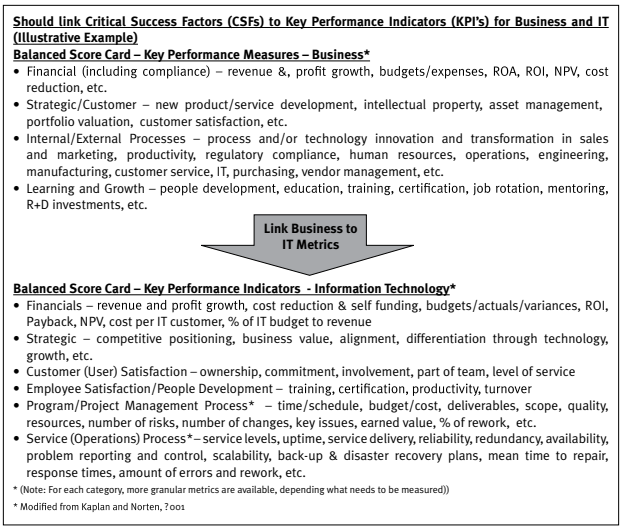

Figure 1.5 Select Balanced Scorecard metrics for business and IT governance

reporting systems based on critical success factors and key performance indicators: those that are developed by IT for the external (out of IT) environment, such as executive management, the Board and the business managers, and those developed for internal use by IT management.

The execution of these plans and objectives must be monitored and measured by a combination of Balanced Scorecard key performance indicators (KPIs), as well as formal and informal status review meetings and reports (eg report cards, dashboards). Figure 1.6 illustrates high level business and IT Balanced Scorecard categories and related metrics. The outcomes should link critical success factors to KPIs that are measurable, part of a standard reporting system and linked to a governance component. If one cannot measure the result, they do not count. Chapter 8 provides more details on performance management, controls, Balanced Scorecard and other metrics.

1.3 Steps in making IT governance real

IT governance represents a journey towards continuous improvement and greater effectiveness. The journey is difficult, but can be facilitated by the following steps:

- must have a corporate mandate from the top - the Board and the executive team (including the CIO) committed to implementing and sustaining a robust governance environment
- must have dedicated and available resources - identify executive champion and multi-disciplinary team (to focus on each IT governance component)
- do homework – educate yourself on past, current and emerging best practices
- market the IT governance value propositions and benefits to the

organization - develop and conduct a communications, awareness and public relations campaign

- develop a tailored IT governance framework and roadmap for your organization based on current and emerging industry best practices
- assess the 'current state' of the level of IT governance maturity, or other frameworks that relate to specific IT governance components, such as project management maturity model (PMMM), vendor management (eSCM), performance management (Balanced Scorecard) and others, as a reference base (where are we today?), using a leading industry best practice framework such as CMMI or another framework that may apply to a specific component of IT governance
- develop a 'future state' IT governance blueprint (where you want to be) and keep it in focus
- decompose the IT governance components into well defined work packages (assign an owner and champion to each process component)
- develop an IT governance action plan, identify deliverables, establish priorities, milestones, allocate resources and measure progress
- sponsor organizational and individual certifications in the IT governance component areas, where they are available (eg PMP, ITIL, IT Security, IT Audit, BCP, Outsourcing, eSCM, COP, etc.)
- identify enabling technologies to support the IT governance initiative
- establish a 'web portal' to access IT governance policies, processes, information, communications and provide support
- market and communicate the IT 'value proposition' and celebrate wins
- plan for and sustain IT governance process improvements and link to a reward and incentive structure; create a 'continuous IT governance improvement' group to sustain the framework
- do not focus on specific ROI as a measure of success - use TCO (Total Cost of Operations) and business innovation and transformation metrics as measures of improvement

Avoiding IT governance implementation pitfalls

To avoid IT governance implementation pitfalls, key factors to remember include the following:

- treat the implementation initiative as program or project with a series of phases with timetables and deliverables
- remember that implementation requires cultural change and transformation, which requires:
  - marketing of the value proposition and overcoming resistance to change
  - managing culture change and transformation
  - obtaining executive management buy-in and ownership
  - mobilizing commitment for change at multiple organization levels
- manage expectations of all constituents – IT governance takes time and represents a series of continuous improvement processes
- demonstrate measurable and incremental improvements in the environment and communicate them to the constituents

IT governance - current and future state transformation roadmap

In order to develop and/or improve the IT governance process, an organization must assess its current and future governance state and develop a transition roadmap for its IT transformation.

Figure 1.7 illustrates a roadmap for an organization to follow, as IT transitions from its current state to its desired future state or environment.

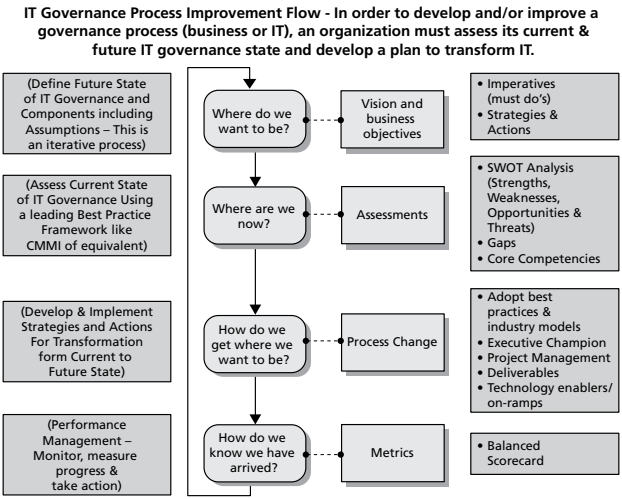

Figure 1.6 IT governance – current and future state transformation flow

Future state of IT governance – a blueprint concept

When all is said and done, most organizations would like to have an effective IT governance process and environment. Figure 1.8 identifies a blueprint of the 'ideal' future state and the key components that are necessary for effective governance deployment and strategic planning (business/IT alignment driven), application and infrastructure development (metrics driven) programs and projects and IT service support and delivery (metrics driven). Other components that should be added include architecture, security, business continuity, back-up and disaster recovery and related areas.

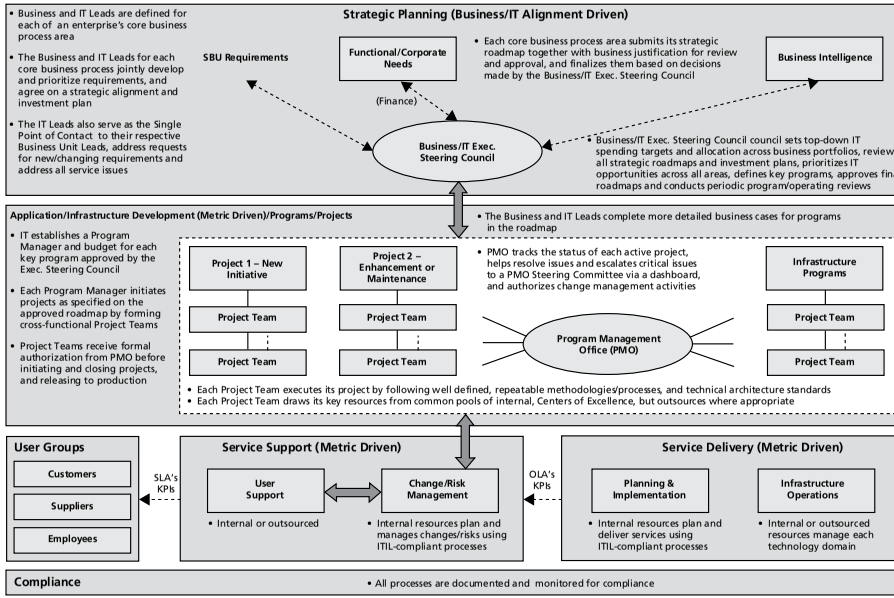

Figure 1.7 Future state IT governance: a blueprint concept

1.4 Summary and key take aways

Summary

IT governance is a broad and complex topic with many parts. IT governance represents a journey. It is not a one time event, and to achieve higher levels of IT maturity, IT governance should be persistently and relentlessly pursued, both from a top-down and a bottom-up perspective. Creating and sustaining a more effective IT governance environment will take time and resources, and should be focused on achieving incremental IT governance successes in priority areas, based on their value proposition or reduction of major 'pain point' to the organization.

It is critical to break down or segment the IT governance initiative into manageable, assignable and measurable components or work packages, with targeted deliverables. It is important to define clear roles for the Board, executive management and the IT governance project team, including ownership and accountability for each component and the overall initiative.

IT governance requires all three critical pillars to succeed: leadership, organization and people, scalable and flexible processes and enabling technologies.

Key take aways

The approach to IT governance must be consistent, but yet scalable, and tailored to each organization's environment and management style, key issues, opportunities, level of maturity, audit/legal requirements, available resources and cultural readiness. Remember, IT governance represents a journey, hopefully, towards higher levels of IT maturity, effectiveness and integration with the business.