Enabling IT Performance & Value with Effective IT Governance
Assessment & Improvement Practices

April 10, 2013
Today's Agenda: Key Topics

- Defining IT Governance
- IT Governance Elements & Responsibilities
- IT Compliance vs. Governance
- IT Alignment & Decision-Making
- IT Performance & Risk Management
- Assessment & Implementation Considerations
IIA Standards for IT Governance

Standard 2110-A2:
The internal audit activity must assess whether information technology governance of the organization sustains and supports the organization's strategies and objectives.
IT Governance Defined:

**IT Governance Institute (ITGI)**

IT Governance is the responsibility of the board of directors and executive management. It is an integral part of enterprise governance and consists of the leadership and organizational structures and processes that ensure that the organization's IT sustains and extends the organization's strategies and objectives.

- ITGI
IT Governance Defined:  
**ISACA COBIT 5**

ISACA’s COBIT 5 framework provides objectives that can be broadly applied to IT Governance efforts, including:

“Create optimal value from IT by maintaining a balance between realizing benefits and optimizing risk levels and resource use.”

Enable “IT to be governed… in a holistic manner for the entire enterprise, taking in the full end-to-end business and IT functional areas of responsibility, considering the IT-related interests of internal and external stakeholders.”
ITGI's Five Areas of IT Governance

The ITGI's five IT governance focus areas each present a distinct value proposition:

1. **Strategic Alignment**: Maximize opportunities for the business use of IT while providing transparency and assurance that IT objectives are being achieved.

2. **Risk Management**: Address legal/regulatory compliance needs and understand/manage key operational risks.

3. **Resource Management**: Appropriately align IT capabilities with business needs.

4. **Performance Management**: Utilize real-time data to continuously improve IT delivery.

5. **Value Delivery**: Optimize return on IT investments.
IT Governance Functions

**IT governance** responsibilities primarily reside between:

- Chief Information Officer (or IT function head)
- Enterprise IT oversight functions (i.e., steering committee)
- IT Managers

Audit & compliance are stakeholders of IT governance but executive & IT management are the drivers.
IT Governance & Business Value

According to Sloan (MIT), entities' effective governance can achieve 40% greater returns from IT investment through:

- Clarified business strategies and the role of IT
- Measurement of IT spend and value
- Assignment of accountability
- Learning from each implementation to become more adept at sharing and reusing IT assets

According to the ITGI, fewer than 40% of enterprises feel they have effective IT governance.

*Implies that over 60% of enterprises fail to realize opportunities for enhanced business success & value.*
Assessing IT Strategy Alignment & Decision-Making
Aligning Strategy & Execution

*IT governance enables "balanced & predictable" IT delivery*

IT focus and capability is driven by two dimensions:

**Strategy and Execution**

**Goal:** Maximize time spent in Quadrant II

* Based on "The Business Excellence Model", Six Disciplines, 2008, used with permission
IT Alignment Challenges

**What should IT focus on?**  
- Without confirming alignment, IT risks becoming fragmented as it moves in multiple directions

**What is the business strategy?**  
- Without clearly articulated business strategy, IT management may not be actively integrated
IT Strategic Alignment Benchmarking: Alignment Archetypes

The IT Process Institute (ITPI) identified three common IT alignment archetypes:

1. **Utility Providers:** Are not proactively engaged with the business; primarily focused on "keep the lights on" services.

2. **Process Optimizers:** Are more responsive to business needs; focus on business applications and processes as well as "keep the lights on" services.

3. **Revenue Enablers:** Are well integrated into the business strategy; focus on technology-enabled products as well as business processes and "keep the lights on" services.
IT Strategic Alignment Benchmarking: Key Alignment Considerations

Identifying the desired strategic alignment archetype is an essential component of IT performance and value.

✓ **Archetypes:** Are additive and can shift over time, but only with careful planning.

✓ **Performance:** Can be achieved with any archetype, but specific practices are required.

✓ **Assessment:** Requires verification the IT archetype fits appropriately with the enterprise strategy.
## IT Strategic Alignment Benchmarking:

### Alignment Value Drivers

<table>
<thead>
<tr>
<th>Model</th>
<th>Purpose</th>
<th>Alignment Value Drivers</th>
</tr>
</thead>
</table>
| Utility Provider | Provide common infrastructure & capabilities that support basic information & transaction management. | 1. Actively identifies opportunities to use emerging technology to meet objectives.  
2. Has an effective process & methodology for justifying & prioritizing IT investment decisions.  
3. Develops and enforces enterprise infrastructure standards.  
4. Has a project management office function to provide oversight to business-prioritized IT projects. |
| Process Optimizer | Provide common services;  
and  
Optimize key business functions & processes with a focus on driving competitive advantage. | 1. Actively identifies opportunities to use emerging technology to meet objectives.  
2. Develops and enforces enterprise infrastructure standards.  
3. Justifies IT investments primarily by business process optimization that enables competitive advantage.  
4. Understands business needs, and this understanding is pervasive at the IT executive and VP levels. |
| Revenue Enabler    | Provide common services;  
and  
Optimize key business functions;  
and  
Technologically enable products & services to enter new markets. | 1. Proactively educates all IT personnel on business objectives, so that everyone in IT understands how IT adds value to the business.  
2. Acts in concert with the business when setting IT strategy and priorities.  
3. Has a strong track record of rejecting bad projects.  
4. Has a formal, periodic process in the IT organization for identifying what is needed by the business.  
5. Includes the IT budget cycle as part of the business unit budgeting process. |
IT Strategic Alignment Benchmarking: *Current State Results Example*

Current State Analysis

- **Utility Provider**
  - Current: 65
  - IPTI - Utility Provider: 64
  - ITPI - Process Optimizer: 43
  - ITPI - Revenue Enabler: 29

Chart showing current state analysis for different categories.
IT Strategic Alignment Benchmarking: Future State Results Example

(Example)
IT Strategic Alignment Benchmarking: 

**Potential Outcomes**

- Should there be a shift in "IT Leader" reporting structure or reporting level (e.g., CIO/EVP vs. Director/VP)?

- Should the organization structure include strong set of IT Managers reporting to the IT Leader to oversee IT operations?

- Does IT need to conduct more technology research and provide external customer-focused recommendations?

- Do project investments, require additional justification, including business case with cost savings and/or revenue impacts?
<table>
<thead>
<tr>
<th>Model*</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Monarchy</td>
<td>C-level executives individually, or as one or more committees, drive decisions.</td>
</tr>
<tr>
<td>IT Monarchy</td>
<td>One or more IT executives (e.g., CIO, CTO, IT Director, etc.) drive decisions.</td>
</tr>
<tr>
<td>Federal</td>
<td>C-level, IT executives, and business leads collaborate to make decisions.</td>
</tr>
<tr>
<td>IT Duopoly</td>
<td>IT executives work with C-level or individual groups of business leads to make decisions.</td>
</tr>
<tr>
<td>Feudal</td>
<td>Business unit leads and/or process owners drive IT decisions.</td>
</tr>
<tr>
<td>Anarchy</td>
<td>Individual end users drive IT decisions.</td>
</tr>
</tbody>
</table>

*Framework based on IT Governance (Peter Weill/Jeanne Ross), HBS Press ©2004
## IT Decision Making Domains

<table>
<thead>
<tr>
<th>Domain*</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT Principles</td>
<td>High-level statements defining how IT will be used, provide services, and manage risk.</td>
</tr>
<tr>
<td>IT Architecture</td>
<td>Standardization of technical capabilities, core IT processes, organizational structures, and IT performance measures.</td>
</tr>
<tr>
<td>IT Infrastructure</td>
<td>Strategies for shared IT capability (human &amp; technology) delivered as services.</td>
</tr>
<tr>
<td>Business Applications</td>
<td>Managing the continuous business needs / requirements for IT applications.</td>
</tr>
<tr>
<td>IT Investments &amp; Priorities</td>
<td>Decisions about IT investments including project approvals and justification.</td>
</tr>
</tbody>
</table>

*Framework based on [IT Governance](http://example.com) (Peter Weill/Jeannine Ross), HBS Press ©2004
## IT Decision-Making Analysis:

**Desired State Gap Analysis Example**

Defining the desired state for each IT decision domain identifies gaps and helps drive improved governance for IT decisions.

<table>
<thead>
<tr>
<th>Role</th>
<th>IT Principles</th>
<th>IT Architecture</th>
<th>IT Infrastructure</th>
<th>Business Application Needs</th>
<th>IT Investment &amp; Priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>D</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>D</td>
</tr>
<tr>
<td>Functional Leadership (Ex: CFO)</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>D</td>
</tr>
<tr>
<td>CIO</td>
<td>D</td>
<td>D</td>
<td></td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>IT Managers</td>
<td>I</td>
<td>I</td>
<td>D</td>
<td>D/E</td>
<td>D/I</td>
</tr>
<tr>
<td>Business Staff</td>
<td>I</td>
<td>I</td>
<td></td>
<td>D</td>
<td>I</td>
</tr>
<tr>
<td>IT Staff</td>
<td>I</td>
<td>I/E</td>
<td>I/E</td>
<td>I</td>
<td>I</td>
</tr>
<tr>
<td>Customers</td>
<td>I</td>
<td>I</td>
<td></td>
<td>I</td>
<td>I</td>
</tr>
</tbody>
</table>

**Decision Model:**
- **Duopoly**
- **IT Monarchy**
- **Federal**
- **Duopoly**

**(D) Decision:** Ownership of quality and end results

**(E) Execution:** Correct execution of processes and activities

**(I) Input:** Input of knowledge & information

*Gap / Change from Current State*
IT Decision-Making Analysis: Desired State Governance Design Example

Specific structures, functions, and decision-making processes are needed to enable IT Governance objectives.

Example Governance Structure

Executive Management Committee
- Define broad IT strategy (Annually)

IT Steering Committee
- Track metrics across ALL IT & review investments (Monthly)

IT Architecture Committee
- Define & monitor technology standards (Continuous)

IT Service Management Office (SMO)
- Oversee/evolve IT processes & functions (Continuous)

IT Portfolio Management Office (PMO)
- Analyze portfolio & manage programs (Continuous)

Business Process Owners (BPOs)
- Input to IT initiatives and decisions

IT Operations
IT Decision-Making Analysis:
IT Budgeting & Demand Process Example

- Strategic
  - "Enterprise-Wide"
    - ERP Upgrade
    - New Cross-Function System
    - Major Network Investment
  - "Function-Specific"
    - "Siloed" Application
    - SaaS Application
    - Minor Enhancements
  - "Keep the Lights On"
    - Windows Upgrade
    - Desktop / Laptops
    - Server Patching

- Tactical
  - Approval
  - Output
  - IT Budget

- Operational
  - Approval
  - Output

- IT Steering Committee
- IT PMO
- BPOs
- IT Ops.
Assessing IT Performance & Value Delivery
IT Performance & Value:  
A Question of Time & Place

Performance targets are not "one-size-fits-all"…

IT performance requirements will vary based on the state of the organization with multiple considerations that influence IT governance (e.g., cost/risk appetite, strategic alignment model, etc.)

…as a result, IT governance cannot be static.

As organizations evolve, so should their IT governance:

✓ Continuously evaluate the current state
✓ Identify appropriate target state(s)
✓ Identify steps to improvement

Continuous monitoring and improvement are key to ensuring IT performance and IT value delivery.
IT Performance Benchmarking: 
*Linking Controls to Performance Results*

ITPI research has identified foundational control sets linked to IT performance:

*For smaller organizations, three controls predict 45% of performance variation:*

1. Unauthorized access detection
2. Unauthorized change consequences
3. Known errors management

*For larger organizations, nine controls predict 60% of performance variation:*

1. Problem root cause analysis
2. Current configuration data availability
3. Thorough change testing
4. Clear IT roles / responsibilities
5. Security log review / resolution
6. Service level consequences
7. Configuration mgmt. process
8. Release testing (pre-production)
9. Configuration mgmt. database
IT Performance Benchmarking:

**ITPI “Top Performer” Benefits**

In relation to Low and Medium Performers, Top Performers generally:

- Authorize and successfully implement 5 - 14 times more IT changes
- Increase the number of successful changes by 11% - 25%
- Support 2.6 - 6.6 times more software applications per IT staff
- Support 1.3 - 1.9 times more servers per System Administrator
- Increase customer satisfaction by 18% - 30%
- Automatically detect 12% - 76% more potential security breaches

At the same time, Top Performers experience a reduction in:

- Time spent to repair large IT system outages by 35%–58%
- The number of "emergency" change requests processed by 29%–55%
- The number of late projects by 20% - 50%
- Unplanned IT work by 12% - 37%
- Repeat audit findings by 39% - 52%
IT Performance Benchmarking:  
*Control Analysis Results Example*

Benchmarking results help identify the current state of IT performance, and when mapped to a desired future state, can help identify “quick-wins” for control improvements.
### Maturity Mapping – IT Governance Model

<table>
<thead>
<tr>
<th>Process Maturity</th>
<th>Realization of Value Proposition</th>
<th>Current State</th>
<th>Management Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial / Ad hoc</td>
<td>Repeatable</td>
<td>Defined</td>
<td>Managed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Optimized</td>
<td>Strategic Alignment</td>
</tr>
</tbody>
</table>

**Key Takeaway:** "Optimized" is not an appropriate target for **most** organizations

(Example)
Final Thoughts & Considerations
IT Governance Assessment: Context & Approach

IT governance assessment does not need to follow a "one-size-fits-all" audit program approach. When planning a review, the audit team can decide what context is needed to make the audit more impactful.

**Common variations include:**

- ✓ Enterprise-Level Governance
- ✓ Service / Process Area(s)
- ✓ Outsourced Service Provider
- ✓ Strategic Initiative(s)
- ✓ Decision-Making & Strategy Alignment
IT Governance Assessment: Process Perspective

Potential process areas for audit consideration include:

• Strategy Definition & Planning
• IT Oversight Functions (e.g., steering committee)
• Program, Project and Portfolio Management
• Risk Management & Compliance
• Management Information / Reporting
• IT Operational Processes (e.g., change / service, continuity, security, etc.)
## IT Governance Assessment: Key Considerations

<table>
<thead>
<tr>
<th>Strategic Alignment</th>
<th>Risk Management</th>
<th>Resource Management</th>
<th>Performance Measurement</th>
<th>Value Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Define IT Value Proposition</td>
<td>Determine Risk Appetite / Tolerance</td>
<td>Optimize IT Resources (e.g., people, technology)</td>
<td>Measure Strategy Implementation</td>
<td>Deliver Against Benefits Strategy &amp; ROI</td>
</tr>
<tr>
<td>Linkage between Business and IT Plans</td>
<td>IT Risk Awareness</td>
<td>Optimize Investment in Resources</td>
<td>Measure Value Delivery to IT Value Proposition</td>
<td>Meeting Business Requirements</td>
</tr>
<tr>
<td>Deliver Value to Products and Services</td>
<td>Transparency</td>
<td>Optimize Knowledge (training, career development)</td>
<td>IT SLAs</td>
<td>Execute the IT Value Proposition</td>
</tr>
<tr>
<td>Increase Managerial Effectiveness</td>
<td>Identify Risk Exposures</td>
<td>Align Capabilities</td>
<td>Operational &amp; Strategic Metrics</td>
<td>On Time / Within Budget</td>
</tr>
<tr>
<td>Assist in Competitive Positioning</td>
<td>Risk Accountability</td>
<td>Co-sourcing / Outsourcing</td>
<td>Reporting</td>
<td>Integrity &amp; Accuracy of Information</td>
</tr>
<tr>
<td></td>
<td>Risk Tracking / Trending</td>
<td>Asset Management</td>
<td>Communication</td>
<td></td>
</tr>
</tbody>
</table>

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IT Governance Takeaways

Well-designed IT governance practices empower management and enable value across the enterprise.

IT governance does not have to be complex:

✓ Organizations should leverage established enterprise (business) processes

✓ IT governance should integrate and be compatible with corporate governance structures and practices

To realize IT governance benefits and enhance IT effectiveness, enterprises need to:

✓ Continuously assess their approach to IT governance

✓ Determine whether business needs are still being met
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