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THE GENIUS OF GOOD GOVERNANCE

The complex processes, management, and decisions essential to good business should extend to technology if you want to get ahead of the competition.

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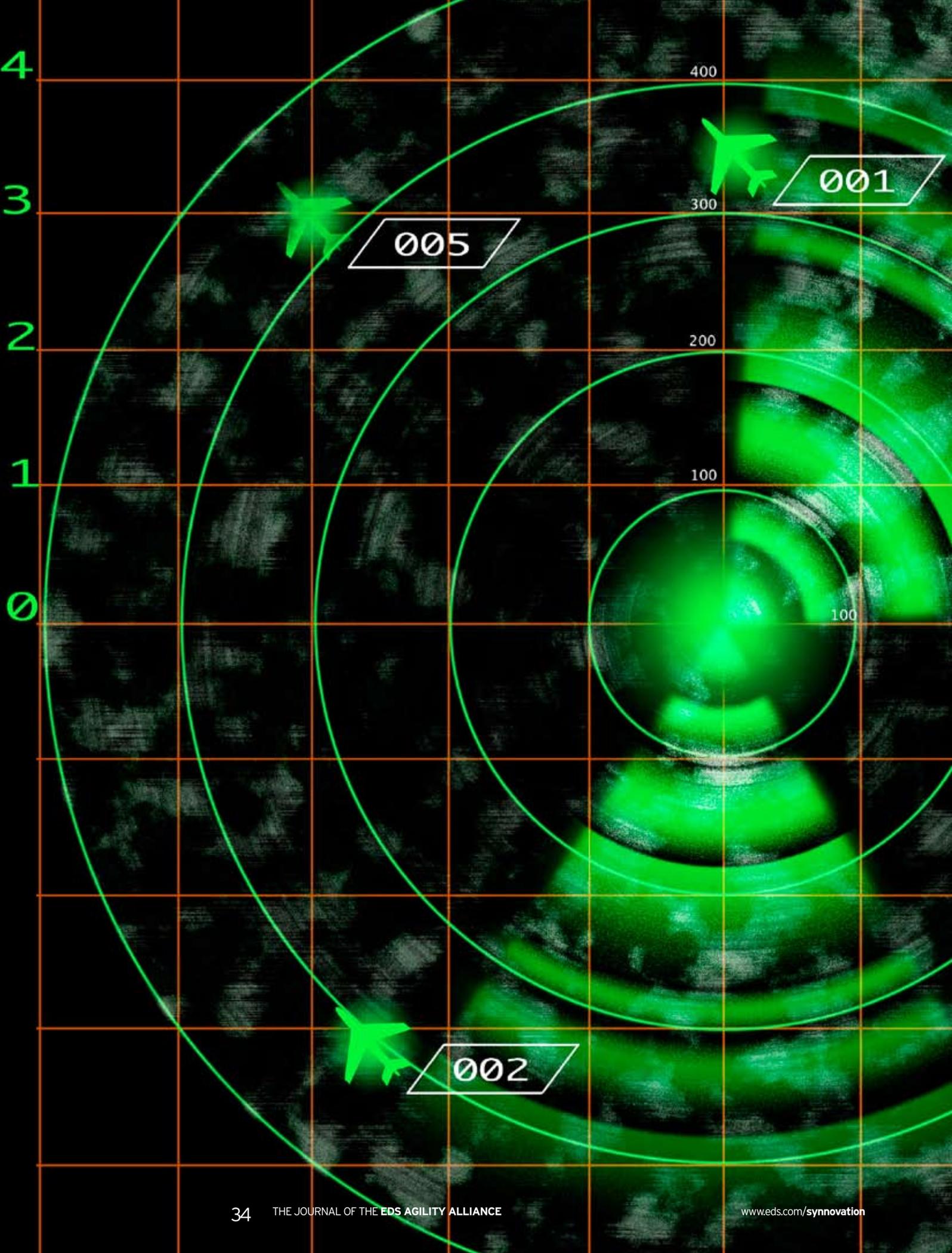
READY FOR TAKE-OFF

Putting IT governance on your radar drives value to your business.

By Charlie Feld, EDS

Today,

every facet of customer and employee interaction has roots in the digital domain. Technology is more than mainstream; it is essential to daily business and commerce. Aligning business with technology is imperative—a unique but integral challenge in an always "on" world. And strong management and use of IT to achi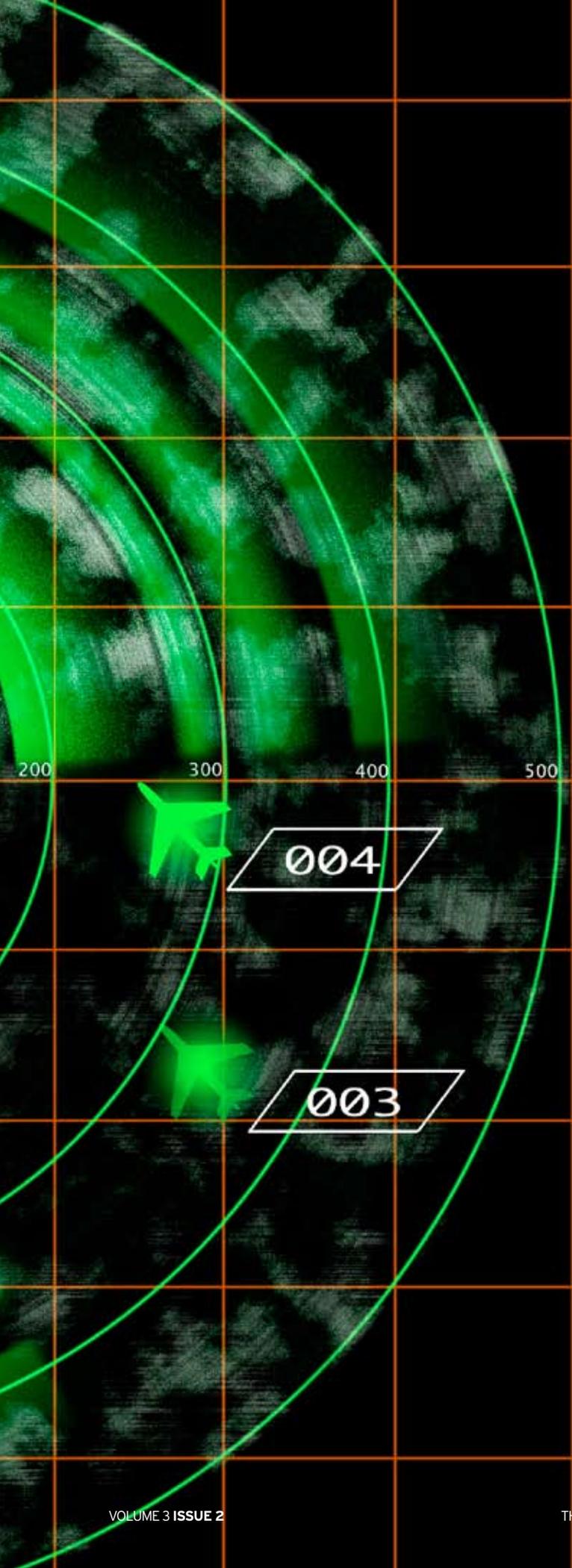eve corporate goals can significantly change the effectiveness and efficiency of an organization and give it a competitive advantage in the market.

In years past, IT issues were often contained within a single business process and limited to a specific technology. The IT team processed data in the basement—a useful but marginal function. And solutions found through IT required only a short-term commitment with one-time funding and execution. IT wasn't part of the big picture because it didn't have to be.

As the business and IT agendas converge, leaders who understand the importance of these intersections are starting to pull ahead of the competition. Inside the IT services marketplace, those intersections run throughout the spectrum of business and have become instrumental in the success of the organization. IT has the potential to drive value as a collaborative partner to the executive team or completely undermine value if ignored or poorly managed.

Despite that fact, IT is seldom run as a management function. Many companies still have that "basement mentality," relegating IT services to an isolated function instead of a pervasive organizational competency. A 2006 survey by the nonprofit IT Governance Institute shows that only 17 percent of the world's companies have implemented an IT governance solution of any kind, with another 19 percent

considering, or starting to consider, putting such a framework in place. Of the CEOs and CIOs responding to the survey, a staggering 36 percent were not considering instituting IT governance at all.

It is a big business mistake, according to a recent industry publication, *IT Governance: How Top Performers Manage IT Decision Rights for Superior Results*. In this book, IT experts Peter D. Weill and Jeanne W. Ross make the case that IT is failing to have an impact in many businesses because companies fail to plan—they don't have a prescribed road map or process to guide or monitor decisions relating to IT that could actually capitalize on IT systems.

Their research shows that organizations with formalized and documented IT governance systems are nearly twice as profitable than firms with poor (or no) governance, given similar strategic objectives. Just as corporate governance systems help drive smart decisions about corporate assets, Weill and Ross say those same corporations should be using an IT governance system to make smart decisions about IT investments.

Governance in general and IT governance in particular are critical corporate functions. But what does that mean specifically?

Just the term itself, "governance," clouds the issue because it means so many different things to different constituencies. It is applied in the business world to many different levels and areas throughout the organization. "Corporate governance," for example, usually refers to the management of the firm and the relationship among stakeholders, the board of directors, and senior leaders.

At another level, "project governance" refers to the complex relationship between business owners and providers and the processes set in place to accomplish a specific project.

"IT governance," like its counterparts, is a defined way of making decisions,

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working with others, and moving through processes that are specifically touched by technology. And as everyone in business knows, that cuts a pretty wide swath these days.

Consider a much simpler definition. Governance is the management and processes around *what* we are going to do (investments and plans), *how* we are going to do it (methods), and *who* gets to decide (decision rights and roles and responsibilities). It's simply a framework.

Ideally, this framework—or governance model—optimizes processes by aligning each action to enterprise objectives and corporate goals, moving the organization to a higher managerial "maturity level" and implementing operational improvements to ensure success. This would guarantee that investments in both capital and human resources are aligned with technology and larger enterprise needs. Clearly, this goes far beyond the traditional roles of the IT department.

In other words, *it takes more than a change in technology to achieve business results.* An enterprise must adjust its approach to IT governance and move it to a higher level of maturity to realize business, financial, and productivity gains. This can mean a significant change from the current internal operational model to one that engages the senior leadership team and is more integrated with the overall enterprise objectives.

Optimally, an organization should consider upgrading the way it works internally when it upgrades its technology. Only by moving to a more mature approach can it capitalize on IT investments. But what do these levels look like? And why make the change? A quick overview of the EDS Enterprise Maturity™ Model paints a vivid picture:

Enterprise Maturity Level 1

The *Point Solution* approach is the least mature business model. It is characterized by individual departments making decisions,

applications that are designated or purchased for specific projects, and problems being solved as they arise, without regard to related issues. Each organization dictates its own solution—very targeted, no peripheral vision, no shared data or platforms, narrow processes, and project-based funding. (For example, an airline might implement a baggage handling solution in this manner, disconnected from other operations and focused on a singular task.)

Enterprise Maturity Level 2

The *Functional* approach moves decision-making to the managerial level, or to roles that are assigned to a function. This opens the aperture a little wider and allows decisions to be made about an entire functional area. It has a standard direction, but there are still areas of the company that are doing their own disconnected thing. Conversely, from a customer standpoint, you are not seeing the end-to-end picture but, rather, portions of their interaction. (For example, the "below wing" airport systems that schedule crews, prepare and conduct flights, and maintain aircraft records—but don't connect to passenger interactions like check-in and gate changes.) Funding and decision rights are in the mid-management ranks.

Enterprise Maturity Level 3

The *Portfolio* approach moves decisions to the leaders of the portfolio areas (for example, customer interactions), usually one or two levels down from the CEO. This allows development of strategic goals and moves to a horizontal, rather than vertical, service point of view. Technology interfaces and customer interactions tie together. However, while you are seeing more of the picture, it is still from the internal view since customers and suppliers will have to traverse multiple portfolios or process areas, trying to achieve a seamless experience.

Enterprise Maturity Level 4

The ideal method—the *Enterprise* approach— ties external business processes to applications, integrates all data and events, looks at long-term implications of decisions (cost and benefits), and utilizes multiyear planning. Decisions are made at the executive level, with end-to-end business processes and shared data sources as opposed to tower-driven vertical execution. The customer looks from the outside in at the true experience

and transcends all process boundaries.

For example, in level three (portfolio approach), all direct customer-facing processes can execute perfectly, but if there is not a clean airplane at the gate with crew, fuel, and catering on-board and instruments properly maintained, then the overall customer experience has fallen short of expectation. The enterprise approach requires executive (and many times board member) support since it will transcend all functions and necessitate a multiyear plan and investment. Given those conditions, it will also require a full and compelling business case. For the investment it requires, it should drive growth, improve productivity, enhance quality, or differentiate the customer experience.

Within this enterprise approach, the stakes become very high because of the dependence on technology. In this kind of real-time, self-service world, the definition of "systems integration" is much larger than business process, applications, and infrastructure. It is critical to align "full stack" technology architecture to the overall business plan and to integrate business processes, security, applications, and infrastructure throughout the enterprise. You must also look at total cost of ownership since the "run" and "sustain" costs are often more significant than the "build" investment.

Clearly, IT governance is significantly more than just processes for IT operations.

But moving to the next level can be a real challenge. Decentralized or functionally aligned organizations may be rigid, but they are also very comfortable. Management and executive leaders with no technical experience can leave the IT issues to the technical staff. Decisions can be made on the spot, often during meetings, and don't have to be checked against larger enterprise goals. And problems are addressed as they occur, since no escalation routes exist.

Another challenge for many enterprises is that the financial planning window for IT is generally a calendar year with quarterly "true-ups." That's too small an aperture for enterprise investment management and productivity. It's like having a one-year plan to buy planes or to build manufacturing plants versus a multiyear plan for these types of "capital estates."

Because of the substantial organizational changes needed to improve internal governance, leaders are reluctant to commit to the move. But taking governance to a higher maturity level—aligned at a minimum by major processes or portfolio, but
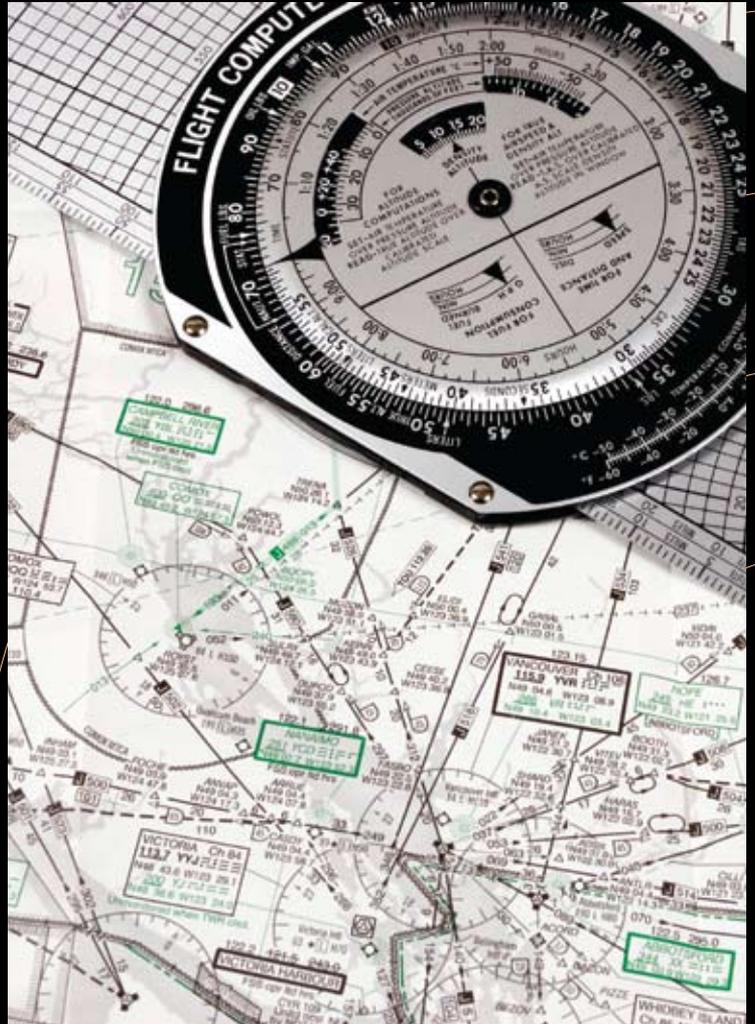
Benefits and Value of a Strong Governance Structure

Established Processes
- A road map to follow and a frame of reference for investments
- Single global resource structure to identify roles, responsibilities, and the level of accountability and empowerment
- Understanding of how and where everyone, including suppliers and customers, fits into the overall structure

Delineated Decision-Makers
- Clear identification of approvers who are empowered to act in predetermined situations, thereby increasing efficiency
- Identification of appropriate decision-makers and decision thresholds at the global, regional, and local levels
- Decision-makers integrated into a single structure, as opposed to unknown or multiple, uncoordinated decision-makers

Open Exchange of Information
- Communication routes established up, down, and across the enterprise, regardless of geographic locations
- Successes and failures shared and leveraged across the enterprise

Flexible and Responsive Systems
- Governance model that is scalable to global, regional, or local solutions
- Increased client satisfaction because of the increased ability to address issues and situations in a more proactive manner

ideally across the enterprise—does have significant advantages. A strong governance process helps achieve several objectives:

- All-encompassing business systems prioritization and change processes
- "Enterprise objectives," rather than lower-level functional decision-making during execution
- Alignment of priorities, funding, and resources
- Comprehensive multiyear IT plans that are cost effective and executed in a timely manner
- Balance of global and regional needs through common standards and priority setting
- Elevation of decision-making, decision rights, and accountability to the appropriate level to gain optimal resource allocation across the technical infrastructure
- A defined process for working with alliances, partnerships, and other strategic relationships
- Measurable business results for the investment over time

Hallmarks of this higher level are detailed in the sidebar on page 39.

This governance model does more than incorporate IT into daily operations; it emphasizes disciplined decision-making and sets common criteria and processes for those decisions across the organization. The model has, as a foundation, an understanding of the industry and the enterprise's business context, then links business strategies to IT investment and delivery in a time-sequenced plan. Factoring in scarce resources and limited budgets to ensure that human resources are aligned correctly, the road map then becomes an approach that achieves maximum value in the shortest time with the most efficient operating cost.

If implemented well, this change also minimizes business risk, disruption, and resource depletion, integrating change as seamlessly as possible. It has

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the potential to move the entire organization toward a more collaborative and transparent operating culture, changing the approach to IT governance by elevating the decision-making process and bringing it closer to the company's overarching strategies.

An excellent example of this change is, once again, illustrated through the airline industry. Passenger airlines are still struggling to recover from the combined impact of 9/11, higher than expected fuel costs, and increased pricing transparency via Internet and online distribution. They are also trying to deal with significant cost pressures due to discounting, insurance, security, and labor contracts. At the same time, customers are demanding a better experience throughout the reservation and ticketing process, in the airports, and on board the planes. Models of operation that worked well in the past are barely maintaining the status quo.

Within the enterprise maturity model, some airlines are still at the point solution or functional levels. Applications reflect a historical tendency toward "functional stovepipes," with operations such as checking in the passenger, handling their baggage, and alerting them to flight changes all being handled independently and without any central nervous system. These are the airlines that lose your luggage when your flight is delayed, not because of a poor baggage handling system but because the information about flights and passengers is contained in other systems and is not connected in real time.

Airlines at the portfolio level are doing a better job. They've aligned management by task, grouping together all the aspects of areas like passenger travel (check-in, boarding, baggage, flight info, terminal services) and servicing the aircraft (maintenance, engineering, inventory, and so on). This change in oversight to a higher level helps with seeing the bigger picture and improves the service to the end customer.

However, there is still a disconnect. Flight crews and gate assignments are now integrated, but on the passenger side, the pre-flight baggage and post-flight baggage are being monitored by separate, disconnected applications and databases. It is easy to see how communication breaks down.

The airlines that will survive and thrive are those that are moving operations and the supporting technology to the next level. They are responding to market demands for quick, passenger-friendly technology that provides a seamless experience. And they are seeing the value in structuring their overall

governance in much the same way. Management now looks at the whole of customer experience, with visibility into the full spectrum from creation and promotion of products through sales and purchase, passenger check-in and alerts, rebooking, baggage management, and post-flight needs.

On the airline operations side, there is a high-level management of resources like crews and gates, coordination between facilities and aircraft, and better synchronization among the ground, maintenance, and flight-readiness personnel. And at the optimal or highest enterprise maturity level, the two portfolio areas—customer interaction and airline operations—merge through end-to-end business processes and shared data sources as opposed to tower-driven vertical execution. The result is a fully integrated customer experience, where the airline passenger never sees or senses a disconnect from the time he or she buys a ticket to the moment it's time to retrieve baggage and leave the airport.

The end result of this paradigm shift—in the airline business and elsewhere—is a high-quality and efficient operating services infrastructure that meets customers' specific and unique needs.

Fortifying this seamlessness is, of course, the technology. IT capabilities can play a critical role in advancing governance within an organization, providing the means of literally connecting the disparate points, functions, and portfolios. Implementation of a strong framework that includes technology tools like Service-Oriented Architecture and Enterprise Systems Management provides a way for all of the pieces and parts to work together. Shared databases, triggering of events, and correlation of components are invaluable in raising an organization to the next level.

But blending IT into business operations and objectives, even at its highest levels, is a complex process. A comprehensive IT strategy looks at the challenges from many different angles, including the following:

- **Business context**—the realities associated with a company's business and their implication on its IT function. This can include mergers, market pressures, industry trends, cost pressures due to discounting, insurance, security, labor contracts, and customer needs and expectations.
- **Application portfolio**—the state of a company's business applications and their ability to support today's and tomorrow's business. Applications can reflect and often perpetuate a company's historical tendency toward "functional stovepipes,"

with departments using software specific to their area; data architecture that is inconsistent or outdated can be a problem when trying to integrate business process; and too many IT initiatives or significant mission-critical IT work taking place outside of systems can make organizational focus and execution difficult.

- **Technology infrastructure**—the degree of simplicity, uniformity, and sufficiency that a company's technology infrastructure represents. Examples of poor technology infrastructure include a wide technology footprint, being unprepared or unsure how to rapidly capitalize on new technologies being introduced, lack of a clear architectural foundation and strategy creating technology islands, and operational capabilities and disciplines being deficient when measured against industry best practices.
- **Organizational capability**—the readiness of a company's human assets to perform consistently with the needs of the organization. Some of the primary concerns include IT staff being too focused on short-term ROI targets, a need for significant changes in work processes and culture when implementing organizational change, and, in many cases, a marked need for leadership team development on both the business and IT side.
- **Governance, which is the "glue" that binds it all together**—the decision-making process and its impact on IT's ability to meet its objectives, including overall systems of prioritization and governance processes, "enterprise objectives" that are not affected by lower-level functional decision-making during execution, and alignment of priorities, funding, and resources that are cohesive and integrated.

Taking all these factors into account is what the maturity model is about, blending IT advantages with smart management across the enterprise. You can't have level four technology systems with level two organization and governance. They go together, and your entire enterprise will be paced by its weakest link. Level-setting the elements makes for an incredibly complex management task, but it will dramatically change the organizational efficiency and effectiveness of the company as a whole. |s|

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