IT Governance Principles & Key Metrics
Governance and Organizational Opportunities

• Refine Resource Allocation
  – Develop comprehensive Staffing Plan/Resource Load to manage resources
  – Strategic Top-Down Approach to Budget Planning; develop preliminary plans for Maintenance, Enhancement, New Development

• Develop Performance and Business Metrics for I/T
  – Make business accountable for technology plans; implement ROI Process to articulate business value of project
  – Explore performance management metrics: example – Balanced Scorecard

• Refine Organization model
  – “Tweak” governance process to provide ownership business users

• Project Management
  – Implement SDLC to manage project lifecycle
  – Create release schedule for enhancement and maintenance; better manage change
Three levers can be used to optimize an IT Organization’s Governance system - structure, enablers, and process

- **Structure**: consists of the actual design of the organization units, the reporting relationships, roles, accountabilities, and policies that define work for the units, the resources allotted to them and the formal definitions of the linkages among units.

- **Enablers**: consists of organization programs, practices, systems or tools which make the structure work as intended and promote the desired types of behavior; examples include training and performance management.

- **Behavior**: consists of how people communicate and share information, how decisions are made, how conflict is resolved, etc.; includes values and culture.

![Diagram showing the relationship between structure, enablers, and behavior]
An organization's on the role of IT coupled with the maturity of Business Environment

New Market Entrant

**The Butler:**
"IT provides support services but is not strategically important"
- Minimized governance
- Anticipate business needs
- Portfolios for focus
- Low governance overhead

**The Entrepreneur**
"IT is the driver of our business model"
- No time for ‘IT governance’
- Principles for speed/quality balance
- Cost usually not a factor

**The Grinder**
“IT is a cost of doing business”
- Governance as self-protection
- Principles for focus
- Benefits realization for value

**The Team Player**
"We are dependent on IT systems in our business operations"
- Formal collaborative governance
- Clear decision rights
- Focus on benefits realization
- Agile governance processes
- Strong ROI criteria

Mature Market

IT Role: Tactical/Utility

IT Role: Strategic/Transformational
A critical component for successful decision making is defining a business case process that accurately balances business unit priorities with enterprise strategies and objectives.

The following types of measures are suggested for consideration in defining the business case process:

<table>
<thead>
<tr>
<th>Quantitative</th>
<th>Qualitative</th>
<th>Risk</th>
<th>Dependency</th>
<th>Business Case Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Return on investment</td>
<td>- Competitive Advantage</td>
<td>- Company Reputation</td>
<td>- Project dependencies on other organization entities’ involvement</td>
<td>- Measures performance</td>
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<tr>
<td>- Return of portfolio (of projects)</td>
<td>- Opportunity Costs</td>
<td>- Execution</td>
<td>- Other organization entities’ project dependencies on current projects</td>
<td>- Develops accountability</td>
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<td>- Customer portfolio</td>
<td>- Customer Satisfaction</td>
<td>- Personnel Development</td>
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<td>- Manages projects as a portfolio</td>
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<td>- New customer acquisition</td>
<td>- Brand equity</td>
<td>- Brand Value</td>
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<td>- Manages variability</td>
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<td>- Customer retention</td>
<td>- Compelling customer experience</td>
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<td>- Investment for future returns</td>
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<tr>
<td>- Project risk level</td>
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<tr>
<td>- Project hurdle rate</td>
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<td>- Project break-even term</td>
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<tr>
<td>- Discount rate</td>
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<tr>
<td>- Economic benefit (NPV $)</td>
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<tr>
<td>- Initial Investment</td>
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<tr>
<td>- Assumptions Risk</td>
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The following process is an example of the decision making process for a Governance Process

- Business Unit Identifies a New Project
- Business Steering committee discusses project with IT
- Steering Committee Reviews Project Proposal
- IT Governance Board approves IT Plan

- They ratify the Steering Committee decisions on project prioritization changes
- They authorize or decline additional funding requests

- Develops Business Case
- Assesses project tradeoffs with approved projects
- IT and business work together considering tradeoffs between proposed project and enterprise implications
- Business prioritizes project in project list based on business case
- They confirm the positioning of the project in their project portfolio
- If the business unit wants to deactivate a current project to activate proposed project, can authorize it
- If the proposed project requires additional funding, the Steering committee will present the request to the IT Governance Board
Looking at your IT spend in the context of a value chain can help articulate the business value of the spend.

**IT Value Chain**

**Primary Processes**
- Design
  - IT Principles
  - IT Architecture
    - Applications
    - Data
    - Technology
    - Information Directory
    - Data Modeling
    - Solution Alternatives
  - Process Modeling
  - Process and Information Specs
  - Application Specs
- Build and Implement
  - Build vs. Buy vs. Outsource
  - Custom Application Development
  - Package Installation
- Operate
  - Utility (Data Center)
  - Respond to Problems
  - Provide Information
  - Access
  - Security, Backup, and Recovery
  - Distributed Computing
  - Desktop Installation
  - LANs
  - Data Communication
  - Voice Communication
- Maintain and Service
  - Maintain IT Infrastructure
  - Help Desk
  - Systems S/W Technical Support
  - Applications S/W Technical Support
  - Problem and Change Management
  - EUC Help Desk
  - Workstations
  - Service Levels
  - User Liaison

**Support Processes**
- Resource Management
  - Personnel Planning
  - IT Personnel Training
  - Skills and Competency Mgmt.
  - Compensation Policy
  - Recruiting
  - User Training
- Technology Development
  - R&D
  - Emerging Technology Research
  - Tools and Techniques
  - Standards and Specifications
- Procurement
  - Purchasing
  - Vendor Negotiations
  - Vendor Evaluation and Management Contracts
  - Sourcing Decisions
  - Alliance/Partnership Management

**Leverage**
IT Metrics

Key Metrics to Help Manage Business
Key Metrics

• Provide insights and examples of budgeting best practices.
• Introduce tools and techniques to aid in the collaboration of IT and business
• Discuss the importance of developing various scenario plans and introduce tools that can facilitate the creation and implementation of these plans
• Identify key IT Spending performance indicators for the business and for IT; provide toolkit for collecting this data in your own organization.
• Use metrics that can be used a “translators” within organizations to enable effective two-way understanding between Finance and IT
• We recommend specific governance processes and organizational structures to facilitate process
• Apply portfolio management techniques to articulate business - provide tips on how to effectively measure and communicate “IT cost to deliverables and value” for new initiatives, incremental enhancements, and the often overlooked but necessary maintenance efforts
Two type of IT Spending Metrics

- **Spending Metrics for Management**: Connected to business Outcomes (effectiveness metrics) which measure if you working on the right things – qualitative
  - Examples:
    - New products availability/market share, improved customer loyalty, combined ratio – hard to quantify IT impact but needs to be attempted
    - IT Cost per function (Policy, claim, etc.)
  - Accurate and timely and HONEST Forecasting – being under-budget can be just as bad (sometimes worse) than over budget.
    - Scenario Planning: Plan for downturns in the market – be the first to the table to discuss cost reductions. . . . With exception of marketing, IT probably has the most variable spend.
    - Discretionary “cash” spend. What amount of cash do I have for project and enhancements?

- **IT Spend Management Metrics**: Measure how well IT is operating (Efficiency metrics) – highly quantitative
  - Trend analysis is key – spot outliers/deviation from time periods
  - Examples
    - TCO: How much per Unit
    - Lights-on vs. Discretionary (great metric, but no context for business)
    - People (FTE, Staff Augmentation), cost per hour metrics, staffing trends
    - HWSW
    - Services (biz continuity, outsourced function)
Plotting projects using a Portfolio approach can help visualize project spend

Breakthrough
Breakthrough/Frontier Applications - new platform and/or establishes a new core customer solution. Enable significant change in the business model from new markets, products and services, production capabilities and delivery channels, or by providing a sustainable competitive advantage. Potential exist to spearhead the entry of the firm into a new business. High risk & high return for these projects.

Platform
Platform/Enhancement Applications - Required competency (ante to compete). Must do as cost effectively as possible with high reliability, suitability. Contributions to productivity, customer satisfaction, production and product and service access. Usually provide transactional and data support to operations or assist in operational decision making.

Incremental
Extending the life of customer solutions. Examples: Applications such as payroll or general ledger that are necessary to the operation of the business but make little or no competitive or financial operating contribution.

Maintenance/Infrastructure
Production support (7X24), break/fix: services supporting the execution of business and IT departmental processes. Examples: data center operations, network operations and help desk services.
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