IT Governance and Skills: Investing in IT for Business Value

Industry Context

> **"At its most basic definition, IT Governance is the process by which decisions are made around IT investments. How decisions are made, who makes the decisions, who is held accountable, and how the results of decisions are measured and monitored are all parts of IT governance."**
>
> — Forrester, March 2005, IT Governance Framework, by Craig Symons

Although IT executives may have different interpretations of the word 'governance', most would agree in general terms with the above definition from Forrester. How governance is approached in different organisations will, of course, vary according to each company's culture and structure. Different governance models and funding models will also be required to suit different stages of a company's development – for example, from a high-growth, start-up phase to a phase of cost-reduction and consolidation.

Given all the variables, what are the main principles of effective IT governance? Stability is important because many IT investments involve long-term projects and returns, and any governance process requires time to take hold, just as the individuals involved need time to become effective as a unit. Another essential factor is high-level executive sponsorship of the governance process, ideally from the CEO, to provide a strategic perspective.

Arguably, however, the most critical element of effective governance is the existence of clear business objectives for IT investments. The dual role of IT is to support the business by 'keeping the lights on', and to help move it forward by enabling an organisation to achieve its strategic objectives. The majority of companies spend less than 30 per cent of their IT budgets on projects that will support business growth because the remaining 70 per cent is needed for keeping the lights on. Consequently, IT governance can be at its most effective when it achieves the balance between keeping the lights on and business growth that is most favourable to the company's success.

Measuring Value, Not Costs

Many companies are already taking steps to reduce the cost of keeping the lights on. They have found that it is no longer viable for individual business units to make their own IT decisions and create silos of systems, applications and data. The high costs of duplication, combined with the growing need for companies to share information and respond quickly to market forces, have led to centralisation and standardisation of IT architectures and assets.

At the same time, however, developments such as Web 2.0 are generating huge demand for business units to be free to create new, differentiated services at the edge of an organisation. Managing this tension between centralisation and innovation is a big challenge, and it requires business and IT leaders to work together more closely than ever before, sometimes in new ways.

More effective collaboration between IT and the business – and, consequently, better governance – often requires a change in the existing perceptions of IT. While IT does not function in isolation – on the contrary, it has never been more integral to business operations – many companies measure only the costs of IT investments, not the value they bring to the business. Assuming that an organisation has clear business objectives for its IT investments, however, it makes sense to measure the success of those investments in terms of their contribution to the achievement of business goals.

Viewing IT in isolation creates other pitfalls too. When business and IT executives have finished making their IT investment decisions, it is typically seen as the sole responsibility of the IT group to deliver the appropriate solutions. Yet good IT execution – on time, within budget and to the required quality standards – is only part of the story. IT projects must be implemented in such a way that they produce the required business results, meaning that the business must remain involved. Only by investing in user training and other aspects of change management, for example, will business leaders get the maximum benefit out of the company's investments in IT solutions.

Cisco's Perspective

Central to Cisco's approach to governance is a focus on what IT does for the business, instead of a focus on IT costs and how to reduce them. In figure 1, 'experience' describes the experience that customers have of working with Cisco; it also applies to partners, suppliers and employees. IT is responsible for enabling the operational excellence that is required by Cisco's business capabilities to create the best possible experience. Cisco's governance ethos ensures that IT has an impact on the company's business strategies at the top of the pyramid, as well as further down, and that high-level executives participate in IT investment decisions. The key objective is to ensure that technology is always best aligned to meet the company's business goals.

Cisco starts the decision-making process by translating its corporate business goals into IT goals. This means that business and IT are aligned from the beginning, with both a business and a technology architecture being defined for each goal and managed by the Business Process Operations Committee (BPOC) and the Enterprise Architecture Council (EAC) respectively.

Cisco's operating model (figure 2) encompasses all aspects of how the company works, from its vision and growth strategy to the operational realities of keeping the lights on. Although IT does not lead every aspect of the model, IT is always engaged at critical points in the process. This helps to avoid the temptation to view governance simply as a means whereby the business controls the IT budget. In Cisco's governance model, business and IT work in partnership to make IT successful, because the success of IT leads to business value and business success.

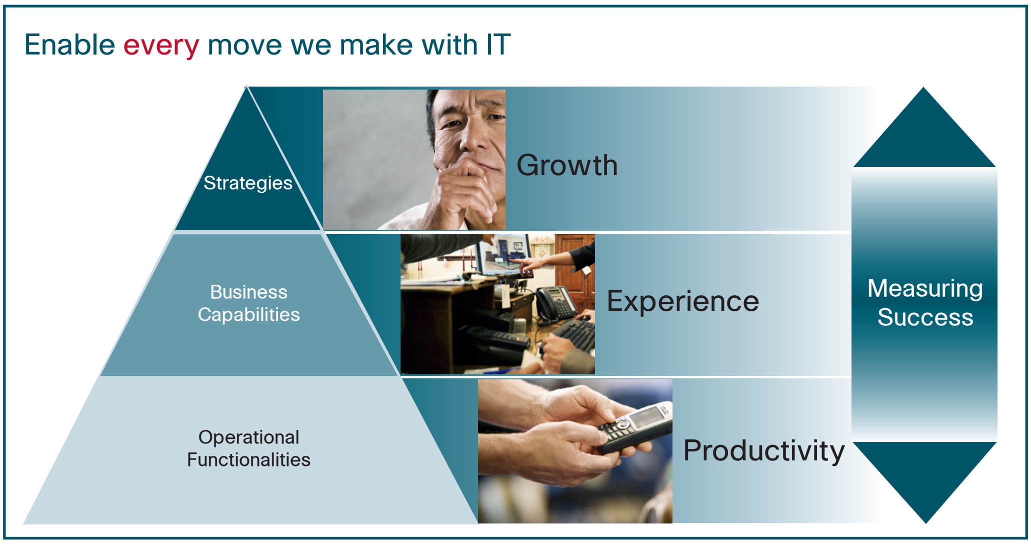

Figure 1: Cisco's governance model focuses on what IT does for the business

Cisco uses IT portfolio management techniques to help prioritise IT projects and to expose issues such as significant overlap, gaps in coverage or a potential imbalance in favour of one particular process. As part of its change management approach, Cisco often removes the old process when a new one is introduced – for example, employees could no longer submit paper-based expense claims when Cisco deployed its online solution.

A Dynamic Approach that Reflects Business Change

Cisco's current models for IT funding and governance are the result of trial and error over several years, and reflect changes in the company's business needs and aspirations. Initially Cisco's application development was funded directly by the business units, while infrastructure and data centre investments came from a centralised budget. At the time this approach simplified the governance process and created a lot of business value in a short time, helping to support Cisco during a phase of rapid growth. It also resulted in application and systems silos which prevented the company from obtaining an end-to-end view of its business.

To resolve the problem, Cisco transformed itself into a process-orientated organisation, in a move that suited the company's cost-reduction phase from 2001 – 2005. The company created five cross-functional, enterprise-wide processes: Idea to Offering, Market to Sell, Quote to Cash, Forecast to Delivery and Issue to Resolution. A sixth process, Support the Business, encompasses functions such as finance and HR. Cisco is currently modifying its IT governance model again to provide a more seamless customer experience, by introducing higher levels of integration between processes that contain customer-facing systems.

Cisco IT Operating Model

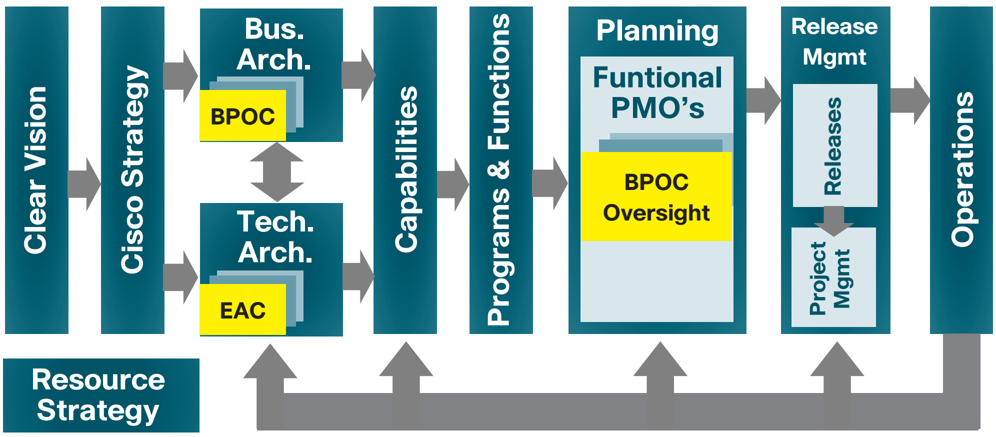

Figure 2: Business and IT are aligned from the beginning of the process

In addition to changing the way in which IT investment decisions are made, Cisco has also changed the way in which they are measured. The most profound difference is that Cisco now measures the contribution of IT in terms of business process objectives. In the 'Quote to Cash' process, for example, Cisco measures items such as the percentage of no-touch transactions and the number of on-time shipments, both of which have a direct effect on the quality of a customer's experience. In the same way, Cisco's contact centre operation now measures the value of calls, in terms of positive outcomes such as customer satisfaction, instead of the volume.

When Skills and Outsourcing Come into Play

Issues such as skills and outsourcing are typically within the remit of the CIO and the IT organisation, and therefore lie outside the scope of IT governance. Nevertheless, skills and outsourcing sometimes come into play as part of the IT governance process – when strategic decisions are being taken about the enterprise-wide introduction of advanced new technologies, for example, and when those decisions involve significant investments. Under such circumstances, it might be appropriate for a company to consider re-allocating some of its skilled IT staff from tasks that 'keep the lights on' to the advanced technology project. Outsourcing some of the functions related to keeping the lights on might also be a valid option, if skilled staff are in short supply.

Cisco has learned from experience that it is important to embark on outsourcing for the right reasons. Cisco uses a 'Core versus Context' model to help executives decide whether outsourcing is appropriate, and at what stage of the product or service lifecycle.

Managing IT Governance for Business Success

Cisco uses the following guiding principles to improve the effectiveness of its own IT governance model:

- Ensure that the business is fully engaged in IT governance at the highest level
- Remember that companies require different IT funding and governance models at different stages of their lifecycle – and stability in between
- Execute IT projects in close collaboration with the business, to maximise IT investments and achieve the desired results
- Measure your IT investments in terms of the value they contribute to the business.

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