

CIO Insights Research Synthesis

Next Generation IT Governance: Enabling Competitive Advantage

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The topic of IT governance has always been one of great importance to the successful operation of the corporate technology function. But in today's environment it is even more critical for driving strategic opportunity for the business. Well-designed and executed enterprise IT governance makes roles, responsibilities, and paths to execution transparent and creates the platform for generating business value. Forward-thinking CIOs are exploring ways to take IT governance to the next level—to enable their businesses to pull ahead in this hyper-competitive, global business environment and position IT in a leadership role delivering technology-enabled innovation. They are also experimenting with relaxing governance standards to foster innovation in high-growth areas of the business, by allowing the business to take responsibility for the added risk.

In this research, the Center for CIO leadership interviewed IT leaders to understand: how CIOs are evolving IT governance to enhance and enable strategic alignment with the business in a changing competitive environment; the role of IT governance not only in delivering robust and reliable IT systems but also in driving innovation and business opportunity for the enterprise; the approaches CIOs are taking to integrate and align IT and strategy into the overall governance of the enterprise; and the goals and challenges of next generation IT governance.

The Center's research¹ uncovered insight on:

- The position of enterprise IT governance in the larger business governance framework
- The biggest benefits of IT governance
- The desire to apply IT governance rules and processes not just to day-to-day operations, but also to innovation
- The greatest obstacles to introducing new aspects of IT governance and how to overcome them
- Strategies for selling the business on IT governance investment and involvement
- The need to evolve from ad-hoc analysis of enterprise IT governance results to formal metrics and reporting
- Action items to take enterprise IT governance to the next level

¹ 8 CIOs were interviewed for this research

Executive Summary

The Center's qualitative interviews uncovered perspectives on the obstacles and opportunities that exist for CIOs in establishing or evolving their IT governance models and mechanisms in order to cement IT's role as a strategic business partner. These interviews revealed a common set of themes and advice that will help CIOs adapt to next generation governance models that support not only ongoing operations but also innovation, as well as advance their leadership roles in the larger organization's governance structure.

- **Integration between enterprise IT governance and the larger organization's governance structures is critically important.** Those CIOs in organizations without mature business governance processes find introducing new IT governance structures more difficult, but have an opportunity to provide leadership in the area of overall business governance.
- **Strategic alignment and cost control are the two biggest benefits of mature IT governance.** However, strong IT governance delivers numerous other positive outcomes, both for the IT organization and the larger enterprise.
- **CIOs are working hard to figure out how to create new aspects of IT governance to support today's business needs: innovation, speed, and agility.** IT leaders are experimenting with a number of options, including bifurcated governance structures and partnering with the business to mitigate risk while easing governance controls in high-growth areas.
- **Change management is the single biggest challenge when introducing new aspects of IT governance.** CIOs must anticipate and address resistance from IT and the business to changes in the status quo.
- **IT governance processes must be transparent and inclusive.** CIOs report that broader business and third-party involvement in IT decision-making and management as well as transparency into the rules, roles, and regimented processes of IT governance are vital for success.

IT Governance: A Piece of the Enterprise Governance Whole

"The biggest issue I see in organizations is the need for having an integrated business and IT governance structure rather than one versus the other... from budgeting to portfolio prioritization to actual execution."

—IT services and software CIO

"Governance is like a diet: everybody thinks it's a good idea, but hardly anybody does it well and nobody is successful. Effective IT governance starts with understanding the strategic direction of the larger organization and then having a clear IT strategy—that people buy into—that aligns with that."

—University CIO

The CIOs interviewed were unanimous: for enterprise IT governance to succeed, it must be integrated with the larger organization's enterprise governance structure. How IT makes investment decisions, who makes those decisions, what the definitions of success and failure are—all must align with the way the business itself operates.

Those IT executives operating in organizations without strong enterprise governance reported difficulties and delays in establishing effective IT governance. *"In reality there's really not a lot of strong governance in any other group within the organization,"* reported the CIO of a state investment board. *"In fact, we're maybe in the lead on that."* Indeed, since he started introducing more formal enterprise IT governance practices two years ago, some of IT's best practices for decision-making, execution and measurement have seeped into the business. *"I've seen some of the processes we've started putting together for our own*

controls and governance start to materialize in other people's processes," he said. "They are figuring it out and implementing it themselves. So, it's a step in the right direction."

The Goals and Benefits of Mature IT Governance

"At this point, alignment is really the ultimate goal... but then taking that alignment a bit further and making sure not only are our resources aligned, but that our architectural goals and our applications development technologies are tightly aligned with the activities that the business is trying to move forward with. I'd like to make sure that we are sitting with the technologies in hand that are ready to meet their needs...whatever need might be coming."

—State investment board CIO

"When you go to an IT organization and you tell them, 'You have to be agile,' and 'You have to do more with less' and 'You have to make things simple, not complex' and on top of everything 'You have to have the services up and running all the time'... Having a very structured IT organization is quite critical and makes a whole world of difference."

—Financial services CIO

There is no question about the top two goals for enterprise IT governance today: *strategic alignment is the number one outcome sought by CIOs, followed by cost cutting.* And, by all accounts, mature IT governance is delivering those benefits to the business. The CIOs we interviewed saw the role of strong IT governance to help in other ways—both internally for the IT function, and externally for the business. Other positive outcomes cited by the IT leaders interviewed included:

IT Benefits

- Better IT performance management and delivery
- Improved data integrity
- Improved customer service
- IT knowledge management
- Improved systems availability
- Greater transparency

Business Benefits

- Better risk management
- Enabling the business to make better decisions
- Legislative compliance

There's a catch, however, to moving from today's IT governance needs to build the next generation governance structure, as several CIOs explained. The business *expects* IT to align with business. And any CIO who doesn't control costs won't last long. Reliability, risk management, compliance, transparency—all are simply IT table stakes in the 21st century. What the business wants from IT now to take them forward is agility, speed, and innovation. But figuring out what governance mechanisms to put in place to meet these new expectations—which can be difficult to quantify and measure—is a major challenge for today's CIO. Some options CIOs are exploring include two-tiered governance structures, joint IT-business accountability for innovation and related risk, and involving a wider range of technology stakeholders in IT governance processes. (See Next Generation IT Governance: Moving from Day-to-Day Operations To Strategic Innovation, below.)

Next Generation IT Governance: Moving from Day-to-Day Operations to Strategic Innovation

"It's always a struggle to balance internal IT requirements versus business requirements. I haven't seen a governance structure yet that is completely successful at that. CIOs focus too much on the today and they leave very little for tomorrow."

—Financial Services CIO

Every CIO knows that IT delivery must always be a top priority. If enterprise systems fail, all bets are off. Thus, the vast majority of IT governance remains focused on running the business of IT. The CIOs interviewed reported spending 70 to 80 percent of their governance efforts on day-to-day IT operations and 20 to 30 percent on innovation. But IT leaders want that to change—and, more importantly their stakeholders want that to change. One

Beware of Business-Driven IT Governance

To achieve strategic alignment, the business must take a role in IT governance. But, warned one financial services CIO, be careful about handing over the keys to the IT governance kingdom. In her case, IT governance has swung back and forth, from IT making unilateral decisions to the business taking complete control. Neither worked out well for the enterprise. The company is now trying to create an enterprise IT governance platform that balances IT and business involvement because, she said, *"When the business takes control of IT governance, you put service at risk."*

bank CIO said his company's president recently charged him with focusing 35 percent of IT effort on innovation, up from 20 percent in recent years. *"The CIO must always be thinking that his first and main concern overall is that technology has to work seamlessly and that the service has to be up and running—with no exceptions,"* said another financial services CIO. *"On the other hand, he has to have the capacity and the ability to enable business innovation."*

Attaching Governance to Opportunity

Innovation and governance can be like oil and water. *"What I find is in our high-growth divisions, they are less comfortable with the rigor of the governance that we are applying from a corporate point of view,"* said the CIO of an energy company. *"So how do you tie governance to the growth strategy?"* This particular CIO puts the onus on the business to argue for less governance—and to take responsibility for the added risk such a decision brings. *"If they can get that through the audit committees, then we would apply less stringent governance in those areas,"* he said. *"They are happy to manage certain aspects of the added risk based on their business objectives and strategies."*

Agility and Flexibility Key to Innovation

The key for most CIOs, however, is to continue to evolve their already mature IT governance processes to enable greater IT agility and alignment, trusting that those close connections and faster response times will foster IT and IT-enabled business change. *"Where I see IT bringing innovation within the organization is more in how we facilitate the faster implementation of those new business ideas,"* said the CIO of a state investment board. *"When they say, 'Hey, I want to be in this market, how do we get there?' we really have to be out in front of the business of saying, 'Ok we can get there tomorrow, and we can deliver these six different services within those markets.' We have to be pointed and ready to go."* And at the same time, as

another CIO pointed out, getting to this point of responsiveness is not an easy path for many, and will take time to evolve. *“Everybody acknowledges the need to focus more on business agility and flexibility, but most IT organizations are still not there.”*

Open Up IT Governance to Stakeholders

If you want to use IT governance to deliver technology-enabled business innovation, you need to invite more people to the IT governance table. As we heard from one financial services CIO, CIOs need to involve vendors, business partners, consultants and other third parties to contribute. The university CIO has expanded his universe of IT governance steering committee members—not just students, faculty, and staff, but also alumni and local

community leaders and businesses. He has given that IT steering committee three distinct areas of IT to focus on: delivering, leading and innovating. Delivering is self-explanatory. *“Leading is working to advance the strategic mission of the college,”* he explained. And innovating is *“really partnering with people and collaborating to develop into new areas where we just have to go because of demand or competition.”* He advocates for casting a wide net, even in traditional command-and-control cultures. *“It’s less often done in private sector or government organizations where you can be*

more command driven, if you will. But I think it is also less effective,” he explained. *“What I’ve learned is that governance is about consensus building and gaining commitment to an idea and a set of operating principles.”* And it’s about trying to please everyone even when you know you can’t, commented one bank CIO. *“I support the centralized IT for a bank that supports eight lines of business,”* he said. *“If you’re supporting those many lines of business something’s got to give.”* Having an IT steering committee with broad membership is critical, he explained. *“Once it’s decided there, IT is no longer to be blamed for investment decisions.”*

The Value of Rigor and Transparency

IT has always held itself to a high standard of excellence on the operational front, providing near-perfect uptime and availability and providing a degree of transparency regarding operational performance. As one CIO noted, *“IT is asked to be much more transparent than any other part of the organization. We have dashboards around our system status. We tell people what we are doing and why. If there is a change, we let people know.”*

Death by Committee

Too much governance, it turns out, can be a bad thing. One university CIO explained that before he came on board, IT governance committees had sprung up like weeds. *“Every time there was an issue or concern or new initiative, new committees would form that had broad membership across the campus,”* he said. *“That becomes unmanageable because each committee tends to be very issue-focused and less strategic. There were lots of well-meaning people—very smart people—not focusing at the right level to accomplish the strategic mission of the college.”* The CIO has brought members from each committee into a single group that will address IT policies and programs at a higher level. *“The idea is to make sure that people are aligned around that strategic IT plan that correlates directly with the strategic direction of the college,”* he explained.

CIOs must apply the same rigor and transparency to IT governance. Having well-defined and repeatable processes for how IT decisions are made, who makes them, how they are measured, and who is responsible for their delivery is key for buy-in and successful execution of the governance approach. IT needs *“an organizational structure and approach that’s rigorous around setting priorities and being clear on direction,”* said a university CIO. *“And that’s where having a kind of rubric or set of principles comes in: what’s on the table, how they are prioritized, what ideas will go forward, how will funding be allocated to those ideas that go forward and things like that.”* Visibility into these principles goes a long way in driving

the behaviors and actions desired, and creating the change needed.

“The main focus of IT governance should be having clarity of who makes decisions and, once those decisions are made, how they are leveraged, how they are measured, and who is accountable,” agreed a financial services CIO. *“I believe in having clarity. It really makes all of the sense in terms of good governance.”* As she described it, many IT organizations have clear processes for decision-making, but lack an understanding of who is responsible for the ultimate execution and delivery. Taking the vision through to execution and accountability makes the difference in IT governance that drives results, rather than simply added processes and procedures.

Do You Need a Two-Tiered Governance Model?

One CIO who’s worked in IT services and software companies advocates for a bifurcated governance model, with one side devoted to what he calls the “factory of IT” and the other to business-enabled innovation. Factory IT decision-making and metrics revolve around assets, people, and technology while innovation governance is focused on agility and business results. A bank CIO separates governance this way: “run the bank” and “change the bank”. Since the company’s leadership wants to beef up the emphasis on the “change the bank” portion of IT’s portfolio, IT has been freed up to partner with the business to explore new projects with no definitive financial benefits—something that would be unheard of in the past. These are things *“the bank or the steering committee just feels could be something strategic even if there is no clear direction where the technology may be going,”* he said. *“We will pursue at least one of those per year.”* Taking this approach to separate the goals for the IT governance structure may help you get that illusive balance to deliver what’s needed now while enabling future innovation.

Next Generation IT Governance: The Biggest Challenges and the Importance of a Soft Touch

When asked what was most difficult thing about introducing a new enterprise IT structure over the last two years, one state investment board CIO had to chuckle: *“Well, really, trying to implement it has been the hardest thing about it,”* he said. *“The challenge is the cultural change. It’s becoming much more of a soft-skills focused effort than I originally anticipated it being.”*

All of the interviewees agreed with this view on the role of ‘soft skills’. While good governance relies on rigor and repeatable processes, ingraining those new requirements into a culture requires a soft touch. The three biggest challenges to introducing new aspects of IT governance are change management, change management, and change management. *“You can have all of the executive support in the world, but if your*

people don't buy it, you're dead," said the financial services CIO. "It has to do with framing. It has to do with communication. It has to do with understanding how people are feeling."

Slowing the Process

The need for culture change can sometimes bring a halt, or delay to the smooth implementation of even the most thought-out approach to IT governance. *"I figured anybody could read some best practices on policy and procedures and standards, but trying to bring those into an organization with its habits deeply engrained becomes very difficult without finding ways to smooth that process,"* said the state investment board CIO. He has had to introduce new elements of IT governance more slowly—much more slowly—than he anticipated, and rework the approach to implementation. *"We had to scale it down and do something that was close enough to what we used to do, which made the organization still feel kind of comfortable but introduced some rigor. And then we are going to come back and try to make it a little bit more rigorous later on."* Another CIO in local government struggles with trying to convince his eighteen different organizational factions that the enterprise vision will better serve them than making their own IT decisions independently.

Change for the Worse?

In some cases, new enterprise IT governance processes can result in backlash from the business, especially when the change takes away something they value, such as personal relationships and interaction. While one CIO saw increased user satisfaction overall with the help desk after introducing a formal IT governance structure, the users were initially upset when they discovered they couldn't get instant and personalized service from their usual go-to friend in IT. *"Where we have the biggest problem is in those soft areas requiring interaction and collaboration, the business analysts and the application development areas,"* he said. *"The IT team still has their very close knit relationships with certain business units and it gets to be hard to put good portfolio management in place."*

It's About Business Outcomes

The ongoing challenge of linking IT to business outcomes also rears its head in the implementation of new IT governance initiatives. As one CIO emphasized, it's a real challenge to convince business leaders that governance is more than just *"more IT bureaucratic overhead"*. Those business leaders who are not clear on the role of technology in driving business outcomes have a hard time understanding why these 'rules and regulations' matter to the business.

"I think all organizations, especially at the senior level, see IT as an enabler of business, but many times, they don't understand the IT function by itself," said a financial services CIO. *"They see the value in the products and services that can be enabled by technology, but they never see the value in whatever you need to do in IT itself to make that happen."* IT governance appears to add complexity to something already disconnected from the business's need to deliver their products and services and connect with the marketplace. The key to addressing this, said another bank CIO, is to answer the "what's in it for me" question. What the business leaders want, more than anything, is to deliver more to their customers, to the bottom line, he pointed out, so any way you can tie new IT governance processes to increased business output, that helps make the case for the role of governance is supporting better business outcomes.

Measuring Outcomes: Moving from Ad-Hoc to Formal Measurement and Delivery

“You start with your vision, then your strategy, then your execution, and then your metrics. Metrics require the most sophistication and maturity.”

—University CIO

The final key to evolving to a new IT governance structure is determining the extent to which the governance approach delivers on its promises. For a local government CIO who has been introducing new enterprise IT governance, there are two things he looks at to determine how well it’s going: IT’s relationship with its eighteen county stakeholders and IT customer satisfaction. It is mostly qualitative and ad-hoc, but he finds that it is a good measure of how things are going.

Moving to Formal Measures

The biggest IT organizations with the most mature IT governance structures, however, have moved from ad-hoc analysis of IT governance results to more formal metrics, such as cost effectiveness; internal customer satisfaction scores related to IT decision-making and implementation; and project ROI post-mortems. Every CIO wants to get there, but it can take several years to get to the point of integrating systematic measurements into the enterprise.

And it’s much easier to settle on metrics for the more clear-cut outcomes of improvements to day-to-day operations such as applications uptime or help desk resolution times. Measuring IT governance success in fostering innovation or increasing agility, for example, is a little trickier. But the Holy Grail, say CIOs, would be to link IT governance efforts to business outcomes, such as market share expansion, entry to new markets, or profit margin

improvements. At the top of the IT food chain, many CIOs are already seeing their compensation beginning to be tied to such business results, like the financial services CIO we interviewed whose variable salary was linked to metrics like business cost efficiency and external customer satisfaction.

Consumerization: IT Governance Runaround or IT Governance Opportunity

Who needs an enterprise IT governance process to slow things down when you can just run out to the Apple store and provision your own new iPad? The consumerization of IT, and the increased instances of users going rogue with their IT purchases, could set enterprise IT governance efforts back. However, one local government CIO sees now as the perfect time for IT to reassert its valuable role in IT decision-making and purchasing, by proactively linking the provision of new devices to expectations for how the users need to respond. *“It’s an opportune time for IT to step up to the plate and take back their seat at the table by saying, ‘Ok, you want to use iPads in the workplace? You want to use smart phones? You want to allow personal devices on the corporate network?’ Great. Here is a list of what we need in terms of governance, security, to be able to accomplish that mission in terms of the tools, resources, people, etc. Here is what we need to make this work within our company, our organization, our network.”* By being specific, and making it clear and understandable within the existing framework, CIOs can give the users what they want while bringing in the important controls that are relevant for protecting the business.

More Intangible Measures of Success

But numbers shouldn't be the only measure of good governance, says one CIO. The measure of the worth of IT governance lies in whether or not it leads to IT being looked at as a business partner. That's what's happening, slowly but surely, for the state investment board CIO. *"We're actually involved in the business today,"* he said. *"We're not just some service provider that they come to when they've got a problem. Where we'd like to be is that we're sitting at the table as they are coming up with ideas as much as possible. Proving IT's value to the organization—that's really the prime objective."*

Take Action to Lead IT Governance

The CIOs interviewed offered several pieces of advice for their CIO peers with respect to advancing their IT governance structures to meet new business needs and expectations:

- **Involve key stakeholders on an ongoing basis.** Broaden IT governance involvement to include more technology stakeholders, from business unit leaders to vendors.
- **Align to enterprise governance.** Review existing IT governance processes and policies to ensure they are aligned with overall enterprise governance structures. Involving key stakeholders will make this easier and more effective.
- **Focus on decision making.** Beware the proliferation of governance processes; make sure IT steering committees are charged with strategic level decision-making, not standalone tactical action.
- **Apply rigor and transparency to IT governance.** Make sure there are clear, well-defined and repeatable processes for how IT decisions are made, who makes them, how they are measured, and who is responsible for their delivery.
- **Govern innovation differently.** Consider creating separate but complementary governance structures for day-to-day operations and innovation to allow for flexibility as well as control.
- **Share the risk with the business to support innovation.** Consider easing IT governance expectations in high-growth or fast-moving areas of the business, but make sure business leaders take responsibility for the added risk of easing governance controls.
- **Bring in the users.** Harness users' interest in consumer technology products and devices to reassert IT's valuable role in IT decision-making.
- **Integrate change management into the implementation of IT governance.** Invest in well-orchestrated change management when introducing any new aspect of IT governance in order to manage business expectations and prevent backlash.
- **Measure the impact of IT governance.** Put in place formal metrics to track IT governance efforts, evolving from technology-centric measures to business outcomes.

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