GOVERNANCE OF ENTERPRISE IT – A MODEL

Executive Summary

This is the second white paper in a series springing from the Pink Think Tank (PTT) conducted during Pink Elephant's 19th Annual International IT Service Management Conference & Exhibition. The PTT brought together a team of panelists to explore the subject of Governance of Enterprise IT and to suggest practical advice for improvements in this space. The focus for this white paper will be to attempt to answer the question "What is Governance of Enterprise IT", and to provide a practical Governance model.

During the conference, attendees were polled regarding the state of Governance of Enterprise IT. (Details of the survey can be found in Part 1 of this white paper series). In summary, the survey results reflected that Governance of Enterprise IT is not widely understood or embraced.

The real challenge facing the IT industry is defining what is actually meant by the concept of "Governance."

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1) GOVERNANCE OF ENTERPRISE IT – A MODEL

"A rose by any other name would smell as sweet…"

The discussion of Governance begins with an understanding of what the term means. It was the collective experience of the PTT panelists that if 10 IT managers were asked to define Governance, 10, 12 or more definitions would be proffered. The confusion seems to spring from the fact that there isn't one agreed industry recognized definition for Governance.

In the lexicon of the word, Governance can vary widely in meaning, as demonstrated by the varied definitions gathered from a diverse set of resources:

"The regulation of corporate proceedings" (Concise Oxford Dictionary).

"Ensuring that stakeholder needs, conditions and options are evaluated to determine balanced, agreed-on enterprise objectives to be achieved; setting direction through prioritization and decision making; and monitoring performance and compliance against agreed-on direction and objectives" (COBIT 5).

"The system by which organizations are directed and controlled" (ISO 38500).

"[Governance] ensures that stakeholder needs, conditions and options are evaluated to determine balanced, agreed-on enterprise objectives to be achieved; setting direction through prioritization and decision making; and monitoring performance and compliance against agreed-on direction and objectives (IT Governance – Peter Weill and Jeanne Ross).

For purposes of the workshop we felt that Governance could best be described as "*The organizational structures, processes, policies, measurements and communications that assures the organization will continually meet stakeholder needs (achieve goals) and will provide direction regarding key decisions for management to implement.*"

If Governance is a vehicle for how key or critical decisions are made and implemented *across* an organization, we then need to explore how and why multiple levels within the organization make those decisions and how the decisions themselves can cascade down through the organizational structure.

Virtually every decision made by an organization is in some way a subject for Governance. Each organization must define for itself what decisions, and what actions that emanate from those decisions, are part of the overall Governance model. For Governance of Enterprise IT, those pertinent decisions could be about strategies, investments in IT applications or infrastructures, guiding policies, process compliance and so forth.

> *Each organization must define for itself what decisions, and what actions that emanate from those decisions, are part of the overall Governance model.*

In addition to identifying the scope of decision types, the variety of Governance decisions is directed to management for implementation. This recognizes that individuals or groups who will be accountable for the decision are the parties making the decisions; they have the *authority* for making the decision as well as the *responsibility* to assure that the decision itself is instituted operationally.

The potential range of decisions that could be part of an organization's Governance means we must consider their occurrence at, and by, different levels within an organization. Additionally, decisions made at one level could, by their influence, cascade to other levels. Illustrating the point, this ITIL® graphic captures a typical enterprise's IT Governance decision cascade or model.
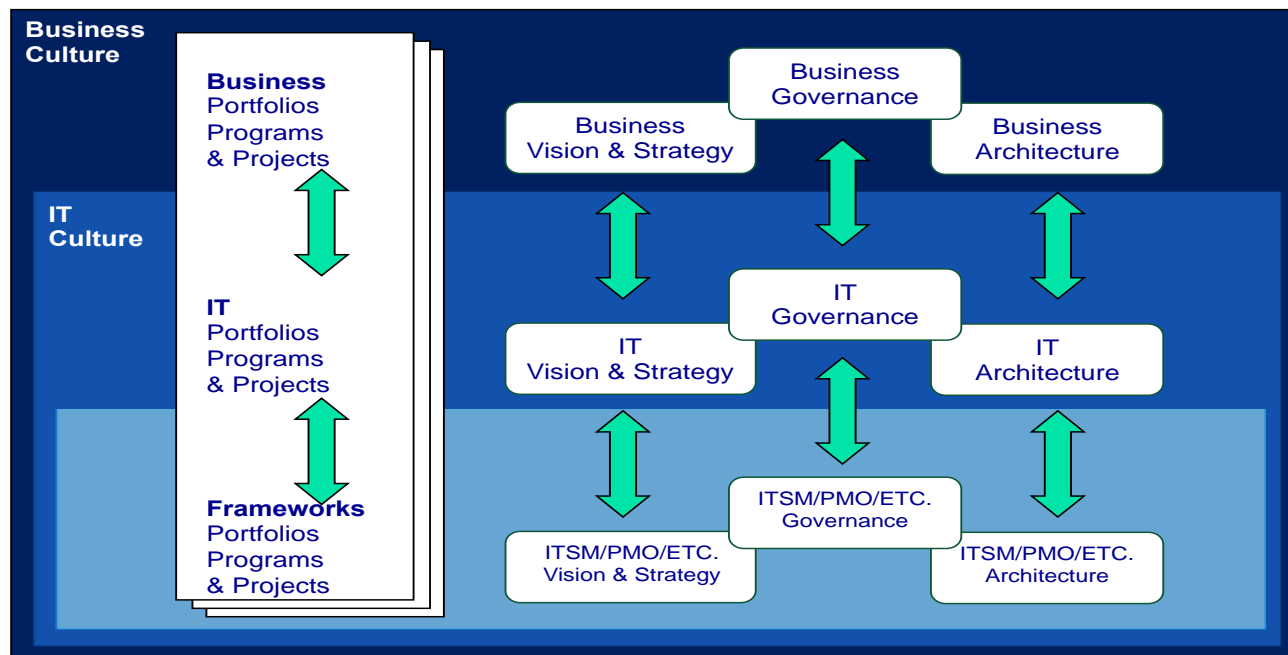
© Crown copyright 2010 Reproduced under license from the OGC. Based on Figure 1.10 ITIL® V3 Planning To Implement IT Service Management 1.8.1

In this graphic we see that an organization's IT Governance model cascades both decisions and oversight for those decisions, from the corporate mission and strategy through functional strategies and tactics, down to more operational management disciplines that are executing tasks, where the influence could still be considered "Governance".

The practical effects of an organization's Governance model are subject to two primary influences themselves.

The first influence is how an IT organization is composed. Ultimately the effect of Governance is to guide the behavior of individuals, teams and functional groups to achieve Governance objectives. The question then becomes how these objectives can be met when spanning organizational boundaries that must react to them.

2) ORGANIZATIONAL MODELS FOR MANAGING IT RANGE IN SCOPE

The three most typical organizational models are the traditional centralized hierarchical models; organizations fully decentralized across strategic business units; and federated models with central direction but local implementation to the infamous "shadow" (virtual or de facto) IT organization. The pressing Governance consideration based on organizational structure is *who* will make the key decisions effecting the continued ability to align and support the business and manage IT-generated risks to the *business* organization.

Accompanying the "*who*", the second influence is *how* the decisions are made that will consistently assure achievement of organizational goals and objectives.

Decisions under this influence will focus on managing the variety of business and IT risks; alignment of multiple and potentially competing goals; and finally, the priority for usage or allocation of an organization's critical resources. This class of decisions sets up both related Governance actions (creating and maintaining directives and guidance) and the required management actions (task execution) to put in motion the Governance decisions.

Guidance for institutionalizing Governance and Governance decision-making can be derived from **a decision framework**. A commonly accepted framework is ISO 38500:2015 "Governance of IT for the Organization". Elements of ISO 38500 are incorporated into the overall Governance Model suggested in this paper. The book, *IT Governance – How Top Performers Manage IT Decision Rights For Superior Results* (2004) by Peter Weill and Jeanne Ross, is another important source for building a coherent and consistent decision framework.

While frameworks are generally applicable, the collective opinion of the PTT members was that implementation of Governance of Enterprise IT and a working model for Governance is best left up to each organization. Localized organizational decisions on specifically what and how to implement Governance could include what is in or out of scope for active Governance and the definition of appropriate Governance entities (bodies), including the required reporting relationships and positioning of the Governance bodies within the business organizational structure.

However the PTT felt there was merit in positioning an organizationally agnostic Governance Model that frames the generic elements of Governance.

The **Governance Model** developed by the PTT consists of six elements:

1. **Scope** – identifies the assets to be governed.
2. **Who** – the cascaded set of relationships for ownership, Governance and management accountabilities and responsibilities.
3. **Why** – Governance objectives that will provide direction and focus.
4. **How** – Governance activities.
5. **What** – Governance means.
6. **When** – the urgency or necessity for the timing of Governance interactions.

SCOPE

For purposes of the Governance Model, the scope concerns one or more assets, declaring what is **subject** to Governance and what is not, and managing the risk to those assets.

By definition an asset is something that has value to an owner, forms part of a lifecycle and is configured by a simple, complicated or complex system of resources.
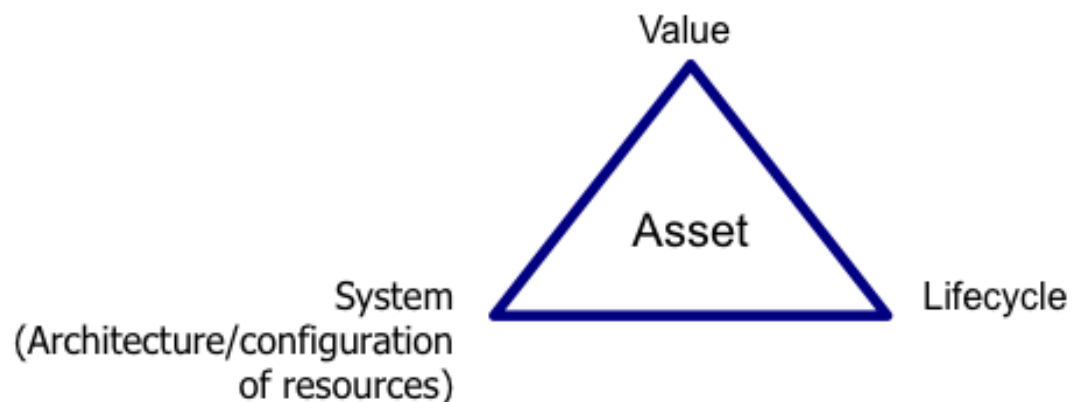
For Governance of Enterprise IT the assets in scope can be thought of as the Enterprise Information Technology (IT).

However a narrower view is possible. Assets that are in-scope, subject to Governance, can be limited to specific products or services, internal business processes or practices, projects and programs, physical or intangible assets such as corporate information, applications and technologies or more broadly, the IT services that underpin or support business processes that directly or indirectly deliver the enterprise products or services.

For the purpose of clarity, when referring to this narrower class of assets we would respectively refer to product Governance, service Governance, process Governance, project Governance, etc., thus it is possible that the scope of Governance activities can be framed across the strategic, tactical or operational activities or functions of IT as described above in the cascaded decision model.

Within the realm of IT Service Management, the *scope* of Governance of Enterprise IT is subject to key influences: the importance of the services to an organization, and the service lifecycle. The underlying service assets include the IT people, processes, technologies or systems; and supplier or partner relationships. Decisions regarding what service assets will be in or out of scope for Governance will be largely dependent on the influence a service asset has. Here, the influence of the asset is recognized in terms of meeting corporate objectives including but not limited to how service value is created and delivered, the tolerance an organization has of the risk to a service or specific service assets, and the constraints on how the service-related risks will be managed.

> *By definition an asset is something that has value to an owner, forms part of a lifecycle and is configured by a simple, complicated or complex system of resources.*

WHO

Critical to the effectiveness of the model is understanding who are the owners and key stakeholders in sound Governance and the participants in the functioning of the Governance Model. Governance owners or stakeholders will delegate **authority** for IT Governance to various "Governance bodies" as necessary to support the applicable Governance scope. In turn, each of the Governance bodies will provide direction and guidance to management for execution of Governance decisions.
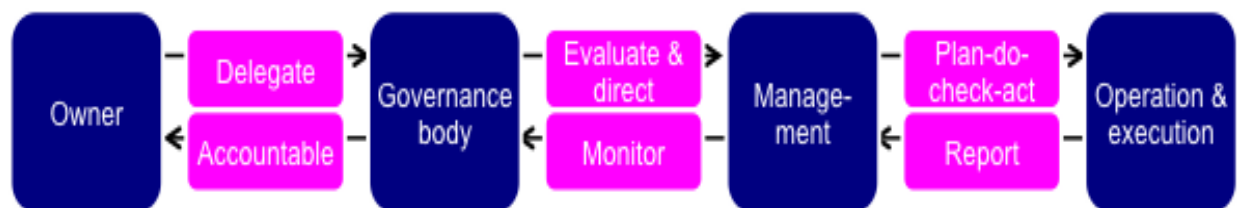

For example, there can be a Portfolio Management group, consisting of business and IT representatives who assess and set priorities for IT initiatives based on organizational needs, strategies and the like. The decisions of that body will be directed to project or program teams for execution. However, at the program level there may be a need for decisions that will require a separate Governance body in the form of a Program Steering committee. The steering committee may, within its scope, make decisions regarding project or program priorities, resource allocations and project risks, which will be directed to project managers for execution. Thus the decisions of the Portfolio Management body will cascade to a program steering committee for execution at the project level that will then be controlled by project managers. Reporting from the project managers will then flow back through the management and Governance bodies to provide visibility that helps efforts to assure that the results directed through the various decisions are being met.

WHY

This element of the model defines the intended **objective** for the Governance Model. *Governance* objectives should be aligned with corporate *business* goals and objectives and provide a footing for compliance with internal policies, mandated practices or external regulations, industry practices, legislation, etc.
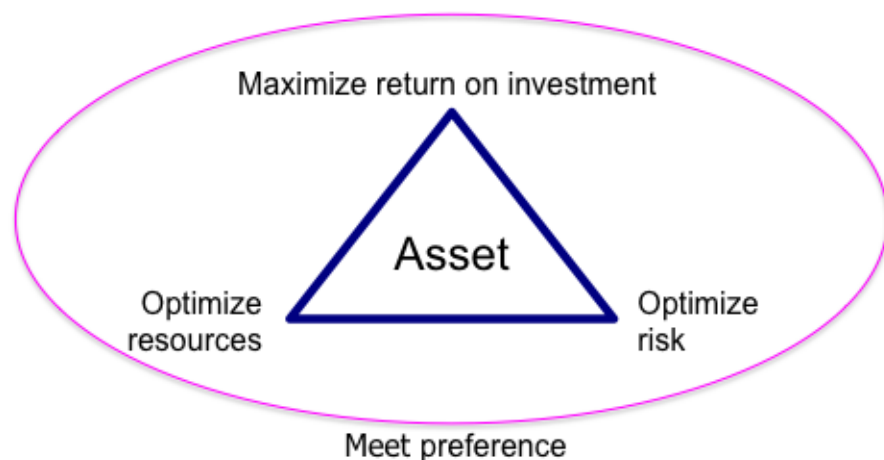
Common Governance objectives include efforts to maximize return on investment of governed assets, optimization of resource use, managing the various elements of internal or external risk, and addressing stakeholder preferences including ethical issues or concerns.

Governance objectives should cascade from the topmost Enterprise level with the objectives of each successive lower level supporting the ones above. Governance objectives should succeed at providing mechanisms for evaluating Governance effectiveness while assuring compliance, without the onset of overwhelming bureaucracies.

HOW

The Governance Model requires the functioning of three primary Governance activities that form an iterative decision lifecycle. The three activities directly **influence** the four typical management activities of plan, build, run and monitor. Ultimately the goal is that Governance will influence individual, team or functional behaviors to make and assure performance in line with and conformance to key guidance decisions. (Note: Expanded details regarding the three activities can be found in ISO 38500:2015).

The three Governance activities typical of an organization's Governance model are:

1. Evaluate – Based on the direction set by an organization's leadership, Governance bodies evaluate existing plans, policies, processes, practices, initiatives, organizational performance including conformance to standards etc., to assure that the organizational results remain true to its basic values and stakeholder expectations. The Evaluation activity provides a lens for the decisions that will assure the Enterprise can continue to achieve its mission, strategies and goals

2. Direct – As a result of Evaluation activities, a Governance body may make a decision regarding a critical element of the organization, its process, investments and so forth. Based on that decision, the Governance body will provide direction to those accountable for the management activities of the organization to implement the decision and communicate any expectations regarding implementation

3. <u>Monitor</u> – Periodically management will report to the Governance body about progress made regarding those activities or actions directed by Governance. It is incumbent on the Governance to assess whether its direction and the expectations it has regarding that direction are being met and if following Evaluation or Direction are required. Thus the Monitoring activity can serve as an input to Evaluate as a feedback mechanism in the decision cycle

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Ultimately the goal is that Governance will influence individual, team or functional behaviors to make and assure performance in line with and conformance to key guidance decisions.

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WHAT

Governance typically makes use of six different instruments:

1. Policies – Each organization must decide where policies are required and where they would be considered irrelevant. Policies are formal, organizational declarations as to what is considered acceptable or unacceptable behavior by individuals or groups and form the basis for compliance efforts. Policies create behavior boundaries that support other Governance structures or decisions such as guiding principles, decision models, decision authorities, etc. The key to effective policies is the documentation, communication and reasoned enforcement of compliance to policy tenets. Thus organizations define an acceptable policy formula. For instance a formula might be:

   "*When performing (or not) <activity, procedures, etc.,> we expect <stakeholder scope> to <do or not do> a <behavior> in what time frame <when> in order to <reason, rationale, benefit>.*"

2. Plans – Key to Governance decisions for any organization is the setting of strategies, budgets, project plans, etc., that support the overall enterprise mission. Typically plans will emanate from the Evaluation activity described in How. When plans are set in motion, via direction from a Governance body, it is incumbent on Governance to provide for Monitoring organizational performance to assure that plan objectives are met. As described in How, the outcome of the Monitor activity forms an input to Evaluate. In the event that outcomes are not being achieved, a Governance body through additional direction to management may require further action

3. Goals – Goals form the broad performance and outcome targets for Governance and management of in-scope assets. Goals typically are set at the highest levels of the organization and are cascaded through the organizational functions. The expectation would be that Governance goals will be aligned to an appropriate scope and be within the accountability and authority of the Governance body

4. <u>Controls</u> – Controls are the feedback mechanisms employed by Governance to assure that Governance goals, objectives, policies, contracts or agreements etc., are met. They establish proactive standards for performance and quality necessary to achieve specific process goals, strategies, objectives, policies, etc. In addition, controls support a key management activity to check for deviations from standards that may prompt corrective action so that any deviation from standards is minimized.

    Controls function much like the cruise control on a car. A Governance body sets the expected behavior limits or standards and the applicable organizational or individual performance is monitored to assure that individual or group behaviors remain within the defined limits or behavior boundaries. In the event that the observed behavior lies outside the expected limits, a control flags the issue for action by a Governance body or by management.

    Controls can be passive or automated. Passive controls will require a decision by a Governance body or manager to take corrective action. Automated controls can be implemented without any manual intervention much like the cruise control on the car.

5. <u>Maturity</u> – The key to the effectiveness of an implemented Governance model is a periodic and objective assessment of the maturity of the Governance model. Details for such an assessment will be outlined in the 3rd white paper in this series. Maturity assessments can reflect the path of the organization to a desired future state or serve to benchmark the organization against other Governance bodies – whether internal to the organization or within an industry

6. <u>Resources</u> – Activating a Governance model will be critically dependent on the deployment and use of organizational resources. The required resources can be financial, technical, people, process, or exercising partner arrangements or contracts. The scope and scale of the resources must be in line with what is needed to operationalize other elements of the model, the desired maturity state of the Governance model, and the plan to close the gap between the end state and the assessed current state

WHEN

This final element in the Governance Model addresses the timeliness of Governance actions. "When" provides or defines the sense of urgency or need for increasing levels or focus for Governance. The need can be for establishing guidance, providing direction or taking action to address concerns. When setting the guidance for urgency, a Governance body should take into account the complexity of the in-scope asset or system, the asset's relative value to the organization and the potential risk to the asset posed by internal or external threats.
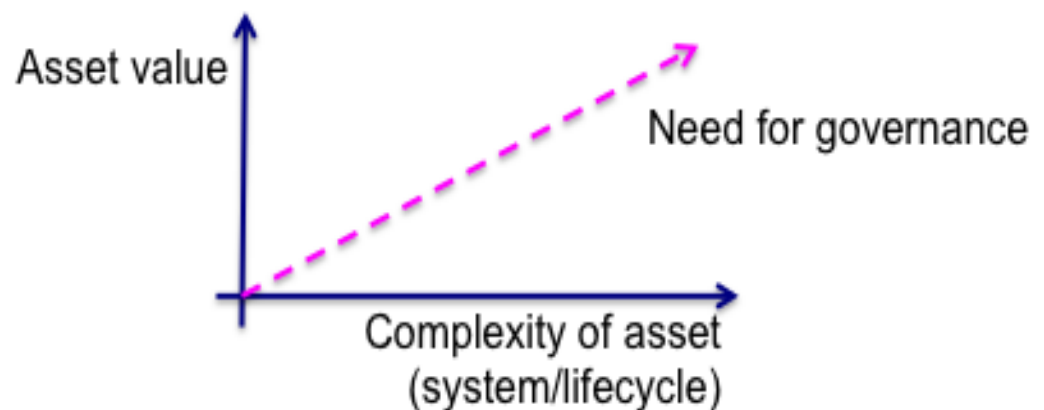
VALIDATION

Following implementation, the efficacy of the Governance Model should be periodically assessed and improvements made as necessary. The six elements of the model should be confirmed for actual presence and status. And the impact of the implemented Governance itself should be evaluated.

3) CONCLUSION

For the purpose of this white paper, we defined Governance as "*The organizational structures, processes, policies, measurements and communications that assures the organization will continually meet stakeholder needs (achieve goals) and will provide direction regarding key decisions for management to implement.*" Governance is a vehicle for how key or critical decisions are made and implemented *across* an organization and it is important to understand how and why multiple levels within the organization make those decisions and how the decisions themselves can cascade down through the organizational structure.

The PTT suggests each organization must utilize a Governance Model that covers six elements, including the Scope, Who, Why, How, What and When.

In the next PTT white paper, an assessment framework will be detailed.

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