

# The Value in Governance of Information Technology

A Standards Australia thought leadership paper



## Introduction

The recent high profile failure of public sector projects again raises the issue of governance of Information Technology. According to Victoria's Ombudsman, every major IT project in the State over the last few years has failed to meet expectations, has been late and has – on average – been more than 100% over budget<sup>1</sup>.

This is not unique to Australia: the US Department of Defence is driving emergency reforms after 11 major projects went US\$6 billion over budget and 31 years behind schedule<sup>2</sup>. Nor is this a purely public sector problem: the UK's RBS Group recently made international headlines when a systems failure left millions of customers unable to access their money<sup>3</sup>.

IT is an essential and inescapable component of today's organisation. Not a function happens without an IT system being involved. Trends like cloud computing and the consumerisation of IT are placing more and more computing power with users rather than the IT department. Yet, as IT has moved into the hands of the business, too often its governance has not.

Any senior leader can read financial statements and understands the principles of law. They have a sound grasp of marketing, resourcing and strategy but too many are content to leave IT to the geeks.

IT can no longer be just for IT managers. Last year, the US finance firm AXA Rosenberg Group was fined US\$25 million for hiding a software error<sup>4</sup>. In Queensland, continuing problems with a new payroll system have impacted tens of thousands of employees and led to the resignation of senior leaders from across the organisation<sup>5</sup>.

IT is as critical as finance, yet imagine running an organisation with no audit function, procurement policy or financial controls.

The OECD Principles of Corporate Governance<sup>6</sup> clearly place responsibility on an organisation's board to act on a fully informed basis, to set strategic aims, provide leadership, supervise management and report to shareholders on their stewardship. This can only be achieved in today's organisation if there is strong governance of the vital asset and infrastructure that IT represents.

IT is too critical to an organisation's survival for directors *not* to exercise an appropriate level of governance.

## VALUE TO THE ORGANISATION

***“The Consumerisation of IT brings an increasing and welcome ability for individuals to use IT but it increases the potential for those uses to slip out of governance.”***

*John Sheridan, First Assistant Secretary, Agency Services at Australian Government Information Management Office*

Each successive generation of IT – from mainframe to client-server to internet to cloud computing and the consumerisation of IT – has been more dispersed, more democratised and more disaggregated. The benefits that come with placing information systems in the hands of the business, rather than in the ivory towers of the IT department are immense. Organisations are more agile, more responsive and more competitive as a result. The trade-off is that the control of sensitive data and the stewardship of critical computing assets has become equally dispersed and, sometimes, somewhat nebulous.

As cloud computing becomes an ever larger part of IT estates (with all of the cost benefits and flexibility this brings) these challenges will be exacerbated. Business functions and risk will increasingly move outside the organisation to IT providers. And, as data passes through a wider range of “consumer” – or user-selected – devices, potential susceptibility to cyber-attack will grow.

<sup>1</sup> Source: [http://www.ombudsman.vic.gov.au/resources/documents/Investigation\\_into ICT\\_enabled\\_projects\\_Nov\\_2011.pdf](http://www.ombudsman.vic.gov.au/resources/documents/Investigation_into ICT_enabled_projects_Nov_2011.pdf)

<sup>2</sup> Source: <http://www.computerweekly.com/blogs/public-sector/2012/06/soldiers-nail-data-for-agile-o.html>

<sup>3</sup> Source: <http://www.ozitech.com.au/latest/112515-rbs-bank-joins-the-it-failures-hall-of-shame.html>

<sup>4</sup> Source: <http://www.networkworld.com/news/2011/020411-axa-rosenberg-group-glitch.html>

<sup>5</sup> Source: <http://www.scottmerson.com.au/news/health-payroll-mr-fixit-quits-while-lucas-and-schwarten-refuse-to-resign.html>

<sup>6</sup> Available as a PDF file at: <http://www.oecd.org/dataoecd/32/18/31557724.pdf>

## VALUE TO THE ORGANISATION *Continued*

With the increasing complexity of IT solutions and methodologies the concept of governance over IT projects must evolve from a long-neglected “nice to have” into a critical process. Effective governance of IT brings five distinct advantages to the organisation:

- **Risk Management and Stewardship** – Governance frameworks provide boards with the tools to assess and question the risks and costs associated with IT investments. An established process ensures the board has early and ongoing insight into a project and, as organisations roll out major infrastructure projects, governance helps establish standards and requirements for procurement: are there national security standards that suppliers should meet; does the system meet the organisation’s requirements on sustainability? Good governance anticipates problems.
- **Business Value and Alignment to Strategy** – Good governance places business value at the heart of IT decisions. The standard ISO/IEC 38500<sup>7</sup> recommends that decision making responsibility be given to “business managers who are also responsible for the organisation’s business objectives and performance, assisted by IT specialists who understand business values and processes.”
- **Emerging Threats** – The rapid evolution of IT increases potential, inadvertent exposure to unanticipated risks. A strong governance framework supports boards in anticipating threats. For instance, as employees increasingly use personal iPads and smart-phones to manage email and other business information, governance establishes – in advance – whether adequate consideration has been given to security and what safeguards are required<sup>8</sup>.
- **Transparency** – Good governance establishes the distinction between management and governance, articulating better decision making and procurement processes to aid transparency.
- **Competitive Advantage** – An established and understood governance process means that better decisions are made faster resulting in greater organisational agility, fewer failures and return on investment.

## VALUE TO THE VENDOR

**“Governance improves the ability to accurately arrive at a best-fit solution for the customer, navigating the potentially conflicting requirements of the business, procurement and IT functions.”**

*Greg Stone, CTO Microsoft Australia*

Should IT vendors care whether their customers have a governance process in place?

Strong governance of IT within customers delivers substantial benefits to vendors:

- **Better Decisions and Outcomes for Customers** – Corporate governance establishes the early support (or otherwise) of senior stakeholders. In a well-governed environment, vendors can be assured that issues important to the customer – such as data sovereignty, security, accessibility and privacy – have been adequately addressed and that there is a clear understanding of the project’s business value. Consequently, a project is less likely to encounter major, unanticipated problems that lead to additional cost, risk and potentially damaging publicity.
- **Transparency and a Level Playing Field** – Corporate governance renders the decision making and procurement process transparent, ensuring a level playing field for all vendors.
- **Reducing Complexity** – Good governance lowers the transactional frictions, risks and costs associated with having unknown stakeholders with differing requirements involved in a decision. Known decision making processes enable better scoping of solutions and more effective tendering.
- **Raising Standards** – General acceptance of the need for governance raises the standard for how IT solutions are framed, procured, implemented and managed. Good governance filters out providers that lack the required depth of expertise for a given solution to the benefit of customers and vendors of all sizes: small, boutique providers will more easily demonstrate their thought leadership and value proposition; large multi-nationals may be forced to address individual situations with greater specificity.

<sup>7</sup> AS/NSZ ISO/IEC 38500:2010 Corporate Governance of Information Technology is the Australian implementation of international standard ISO/IEC 38500:2008

<sup>8</sup> For example, see recent coverage of vulnerabilities in Apple and Android devices: [http://www.theregister.co.uk/2012/05/02/kaspersky\\_apple\\_flashback\\_microsoft/](http://www.theregister.co.uk/2012/05/02/kaspersky_apple_flashback_microsoft/) and [http://www.pcworld.com/businesscenter/article/254905/for\\_the\\_first\\_time\\_hacked\\_websites\\_deliver\\_android\\_malware.html](http://www.pcworld.com/businesscenter/article/254905/for_the_first_time_hacked_websites_deliver_android_malware.html)

## VALUE OF A GOVERNANCE STANDARD

If the governance of information technology is a worthwhile goal in itself, is there value in adopting a standardised approach to such governance?

Many organisations that have already implemented a governance process for IT projects have found AS/NZS ISO/IEC 38500:2010, Corporate Governance of Information Technology to be a useful and informative guide to developing and enhancing governance of IT. The standard describes itself as:

*“a high level, principle based advisory standard. In addition to providing board guidance on the role of a governing body, it encourages organisations to use appropriate standards to underpin the governance of IT.”*

Adopting a standard approach to the governance of IT enables:

- **Recognised Best Practice** – Adoption of a recognised standard approach assures boards that their governance process adheres to best practice and is “fit for purpose”. For external stakeholders, a recognised standard gives enhanced confidence that can lead to such benefits as higher share price and fewer ad hoc regulatory inspections. Internationally adopted standards such as those developed by ISO and IEC help companies tackle some of the most demanding challenges of modern business
- **Improved Effectiveness** – A standard approach equips boards and stakeholders with the ability to ask the right questions of IT projects by providing a common lexicon. Boards, their business and IT departments can communicate effectively between themselves and with their suppliers. Questions are addressed and information provided at the optimum point in the project, frictions are reduced and productivity increases as customer and supplier engage in a familiar process. People with recognised expertise can be hired more easily and become effective more quickly.
- **Addressing Emergent Issues** – A standardised approach provides a common framework for addressing new technology developments and emerging threats (for example, how is citizen or customer privacy protected when an open data approach is encouraged). In addition, as consensus on an issue is reached

across organisations, a standard approach enables a best practice solution to be implemented quickly and effectively.

- **Economic Opportunity** – At a government level, adopting an internationally recognised standard reduces barriers to trade, opening opportunities for domestic firms to grow on the international stage. A widely adopted standard also creates opportunities for businesses to foster innovation and enhance productivity.

**“Australian and international standards are fundamental to the effectiveness of the governance of IT. This paper elevates governance of IT as a critical component and enabler of best practice management.”**

*Colin Blair, CEO, Standards Australia*

## Conclusion

Information technology is essential. It organises, communicates and creates the life-blood of a modern organisation: business critical data. Increasingly pervasive, IT eliminates barriers and boundaries – enabling innovation but risking security, even the organisation’s survival, if mishandled.

Board level governance of Information Technology is no longer a bureaucratic nicety, it is as critical to the strategy and stewardship of an organisation as financial audit. Implemented well, governance not only delivers an essential safeguard but offers an effective, sustainable competitive advantage.



### Standards Australia Limited

Level 10, 20 Bridge Street, Sydney NSW 2000  
 GPO Box 476 Sydney NSW 2001  
 Phone: +61 2 9237 6000  
 Fax: +61 2 9237 6010  
 Email: [mail@standards.org.au](mailto:mail@standards.org.au)  
 Internet: [www.standards.org.au](http://www.standards.org.au)