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Generating Business Value From Information Technology

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Agenda

- Definition of IT Governance
- Designing Governance
  - Five key decisions
  - Mechanisms for making those decisions
  - USAA example
- Implementing Governance
  - 6 key stakeholders make IT decisions
  - Southwest Airlines example
- IT Investment Decisions
  - Thinking of IT investments as a portfolio
  - Recognizing the different risk-return profiles of 4 asset classes
What Is IT Governance?

Framework for decision rights and accountability to promote desirable behavior in the management and use of IT.

Key elements of governance:
- Desired behavior (target of governance)
  - Operating model and strategic objectives
- Governance mechanisms (how governance is implemented)
  - e.g. IT council, business process teams, architecture process, SLAs, CapEx process, business IT relationship managers
- Accountability (how governance works)
- Clarification of who is responsible and how they will be assessed

## Five Key IT Decisions Need To Be Governed

<table>
<thead>
<tr>
<th>Decision Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principles for Digitization</td>
<td>High level statements about how IT is to be used. Driven by business principles (e.g., operating model)</td>
</tr>
<tr>
<td>Enterprise Architecture</td>
<td>Organizing logic for data, applications, and infrastructure captured in a set of policies, relationships, and technical choices to achieve desired business and technical standardization and integration</td>
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<tr>
<td>IT Infrastructure Strategies</td>
<td>Strategies for shared IT capability (both technical and human) delivered as reliable services (e.g., network, help desk, shared data)</td>
</tr>
<tr>
<td>Business Needs and Project Outcomes</td>
<td>Specifying project ownership from development of the business case, through specification of requirements, to driving the benefits</td>
</tr>
<tr>
<td>IT Investment and Prioritization</td>
<td>Decisions about how much and where to invest in IT including project approvals and justification techniques</td>
</tr>
</tbody>
</table>

Source: IT Governance: How Top Performers Manage IT Decision Rights for Superior Results, P. Weill & J. Ross, Harvard Business School Press, 2004. For key issues in each decision area, see Figure 2-6, pp. 54–55.
IT Governance at USAA

- The company: diversified financial services company serving the U.S. military; 5 major businesses (life insurance, property and casualty insurance, personal bank, investment management company, and personal services)
- The desired behavior: present a single face to customer but retain business expertise
- The major initiative: a customer relationship management system and single call center to support improved customer service
- The mechanisms: created ITCO—a single IT company supporting all the businesses; created Enterprise Business Operations—a business function with 240 people responsible for enterprise applications and operations
### IT Governance at USAA

<table>
<thead>
<tr>
<th>Principles for Digitization</th>
<th>Executive Committee of CEO, CIO, Executive Vice President of Enterprise Business Operations, 5 operating company presidents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Architecture</td>
<td>Architecture Committee of 15 Senior technologists headed by CTO</td>
</tr>
<tr>
<td>IT Infrastructure Strategies</td>
<td>ITCO Senior Management Team</td>
</tr>
<tr>
<td>Business Needs and Project Outcomes</td>
<td>Enterprise Business Operations unit for enterprise systems; Business unit leaders for local systems</td>
</tr>
<tr>
<td>IT Investment and Prioritization</td>
<td>Integration Steering Committee of 9 senior managers, including IT, headed by EVP of Enterprise Business Operations</td>
</tr>
</tbody>
</table>

Other governance mechanisms include: Green Book specifying project methodology; architects on project teams; monthly project reviews, and a bonus program encouraging enterprise synergies.

Source: IT Governance: How Top Performers Manage IT Decision Rights for Superior Results, P. Weill & J. Ross, Harvard Business School Press, 2004. For key issues in each decision area, see Figure 2-6, pp. 54–55.
Governance is challenging to implement because IT decisions are made at multiple organizational levels.

- IT: Enterprise IT Architecture, Business Unit IT Architecture, Project’s Proposed IT Solution

Southwest Airlines

- The company: $9 billion U.S. airline flying low fare, no frills flights within the continental U.S. Founded in 1971; has been profitable 34 straight years
- The desirable behavior: operational excellence from standardized and integrated processes
- The major initiative: rebuild systems to enhance "sacred transactions"
- The mechanisms
  - Strategy teams: engage 30 top managers in defining information needs of the business
  - Executive committee: makes critical investment and principles decisions
  - Architecture review boards: protect architecture
  - Project tollgates: monitor project decisions to ensure desired impacts
Firms without these mechanisms had lower governance performance (which is significantly correlated to several multi-year measures of firm performance (e.g., ROE)).

Diagram: Nils Fonstad and Peter Weill.

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1 Firms without these mechanisms had lower governance performance (which is significantly correlated to several multi-year measures of firm performance (e.g., ROE)). Diagram: Nils Fonstad and Peter Weill.
Key Findings on IT Governance

- Above all else effective governance depends on transparency.
- Governance will differ significantly by operating model.
- Firms with effective IT governance have, on average, 20% higher profits than their competitors.
- IT governance should link to the governance of other key assets (capital budgeting processes, executive committees, etc.).
- Effective governance empowers people throughout the firm by clarifying decision making rules.
- IT investment decisions are senior management's greatest IT concern. They want a portfolio that appropriately balances risk and return.
Rethinking IT Investments as IT Portfolio
Based on proven and familiar principles of financial portfolio management

- Distinguishes the multiple management objectives for investing in IT
- Creates an IT portfolio with distinct asset classes
- Each asset class has different risk return profiles
- The role of senior management is to align the IT portfolio to strategy and balance for risk and return
What’s In the IT Portfolio

**IT Portfolio**  Total IT dollars including all technology, services, digitized information, outsourcing and people dedicated to IT—broken into asset classes. Can view as flow (i.e., annual spend) or stock (i.e., accumulated spend).

**IT Programs**  Groupings of projects linked to business goals

**IT Projects**  Set of activities creating outcomes to a budget and timetable.

**Sustaining**  Ongoing spending to keep current systems running

**IT Functions**  Ongoing activities (e.g., operations, maintenance, planning, development, sourcing, security, and test)
Firms Have an IT Portfolio with Four Asset Classes

**Transactional IT:** automates processes, cuts costs or increases the volume of business a firm can conduct per unit cost, e.g., order processing, bank cash withdrawal, billing, accounting and other repetitive transaction processing functions.

**Informational IT:** provides information for managing, accounting, reporting and communicating internally and with customers, suppliers and regulators, e.g., decision support, accounting, planning, control, sales analysis, customer relationship and Sarbanes-Oxley reporting systems.

**Strategic IT:** supports entry into a new market, development of new products or capabilities, and innovative implementations of IT. Example: ATMs.

**Infrastructure IT:** provides the foundation of shared IT services (both technical and human) used by multiple applications, e.g., servers, networks, laptops, shared customer databases, help desk, application development.

A project may be any combination of all four.
Rethinking IT as an Investment Portfolio — Four Different Asset Classes

The Four IT Asset Classes Have Different Risk Return Profiles