Information Technology Governance
The Role of the Board of Directors
Overview

Information technology is a critical driver of strategic transformations as well as organizational performance. Information technology provides the connection to the customer. The information about the customer, the behaviors, the experience and the product uses are strategic assets and input to strategic decisions that have long reaching implications. Leadership must assure discipline is applied in governing information technology just as in governing corporate strategy, financials and enterprise risk.

Information technology is second only to leadership in the potential for impact on the enterprise. For this reason alone, the conversations regarding information technology in the boardroom need to be forward looking and strategic with the regimen and rigor boards have come to expect. Unfortunately, too often the discussions are haphazard, not conducted in the language of the board and result from a regulatory requirement or worse, a crisis.

Just a couple of years ago a McKinsey study of corporate boards indicated that over half had only one information technology discussion per year or none at all. The most recent NACD study on the same topic indicates that corporate boards are hungry for information technology discussion and information. But what is the right information to assure the board that the information technology assets are furthering the strategy of the corporation?

Information Technology (IT) Governance Provides the Answers

The IT Governance Institute defines IT governance as a subset discipline of corporate governance focused on information technology systems and their performance and risk management. While the traditional definition indicates IT governance is a subset of corporate governance it would seem a logical conclusion that discussions about IT would be in a mature state in the boardroom. This appears not to be the case.

Boards have been keenly focused on risk management, CEO and executive issues, including succession planning and compensation, as well as the financials, mergers and acquisitions and the strategic direction of the corporation. Agendas are packed and more is expected of directors each year with IT being another complex item for them to understand and oversee. Yet the strategic, financial and risk impact IT can have in the corporation makes it an imperative for boards to do just that.

Historically organizations looked to IT departments for management of the infrastructure, maintaining applications for the business and financial management. Information technology became essential in the successful integrations of merger partners and today it is commonplace to
refer to all companies as information technology companies. All that being said board level executives still defer key IT decisions to the company’s IT professionals. This cannot ensure the best interests of all stakeholders and will not until deliberate action involves all stakeholders, including the board. IT governance systematically involves everyone; board, executives, staff and customers.

Good information technology governance is the oversight of the enterprises’ information technology to ensure the leadership, structure and processes enable the strategy of the organization within an acceptable risk profile.

Exploration of six assurance areas is necessary by the board for prudent IT governance. There must be assurances regarding the **Strategic Alignment** of information technology, the **Value Generation** by the information technology assets for the benefit of stakeholders, the **Protection of Information** as a strategic asset, that **Risk Management** of information technology is addressed and in a way that does not hinder innovation, the **Human Capital Management** of IT resources and the performance of the critical **IT processes** that run the organization.

1. Strategic Alignment and Contribution
2. Value Generation
3. Information Security
4. Risk Management
5. IT Human Capital Management
6. IT Processes and Performance

For each assurance area clear responsibilities, decision rights, reporting mechanisms, content, venue and the frequency of reporting and discussions should be defined. When these processes are germane to the running of the business, governance is straightforwad and the governance process not burdensome. Auditors, regulators and compliance officials also appreciate when these processes are documented and demonstrated in routine business operations.

One might think that if much of the IT operation is outsourced that IT governance is the responsibility of the outsourcer. The details under each of the assurance areas may be different with outsourced IT, but recall, this is about the stakeholders; customers, staff and shareholders all of which the organization and the board are accountable to, not the outsourcer. Vendor management is greatly heightened in the outsourced environment but the governance responsibilities remain.
The important questions to be asked include:

- Are the decisions related to the assurance areas being made at the appropriate management level?
- Are they being exposed to the appropriate board or committee?
- And most important, have all stakeholders been considered?

The strategic goals of the corporation depend on it.

Taking Action

An organization must first make an assessment of the current IT governance practices and the effectiveness and maturity level. Then the assurance areas should be integrated into the board agenda or assignments made to a board committee. In financial services there is a very disciplined and rigorous process around credit and special board committees exist to govern this area. It may be desirable to consider a board level IT committee depending on the capacity of existing committees with report up to the full board. Consideration should also be given of adding IT governance to the annual board education program.

Following are just a few examples of items, which may be included in each area.

**Assurance of Strategic Alignment and Contribution**

The governance process must assure IT is integral to the strategic planning process and not disconnected or independent. How do IT assets advance and enable the overall strategic goals of the company?

Make a determination if innovations generated from IT resources are easily surfaced, assessed, approved and implemented. IT leaders should keep the board informed of new and potentially disruptive technologies that are being researched. Assessments should be made of the effectiveness of business and IT partnerships.

Robust resource planning must be cross functional to assure prioritized initiatives are allocated resources for successful completion, all initiatives require customer impacts to be defined and measureable. Of course all initiatives must include cost and risk assessments. This would be an appropriate area for an assessment to be made of the effectiveness of the Project Management Office (PMO).
Assurance of Value Generation
For each stakeholder the board should know how IT creates value. Some will assert that daily operations of the IT platform are ‘table stakes’ and thus not a value generator. If not at the poker table how can a game be won! This is the most challenging assurance to support with metrics but creativity, based on the business strategy, is required.

Assurance of Information Security
Foremost in the information security area, data must first be classified then appropriate protection can be applied based on the classification of data. The crowned jewels of the organization in terms of data do not require the same protection as general information about the company. The important part is that all staff understands data classification and knows their responsibility in the protection of that data. Systems can be designed to protect the information but the best security system will not be effective if the staff is not educated and does not abide by the information security policy.

There is no shortage of news about data security breaches and loss of classified information to hackers. An entire industry is addressing this issue. The essential actions are that the board understands the structure around the organization’s efforts to protect the data, that reporting is provided to the board regularly, that exceptions are surfaced to the Audit or Risk committee and that board members are made aware via the organizations communications disciplines of serious incidents. The last thing a board wants to see is their organization in the news about losing classified information.

The information security assurance is also where the cyber security discussions will occur. Other key areas to be discussed are the business continuity plan, social media policies and results of external testing just to mention a few.

Assurance of Risk Management
As is the case in the protection of information, an entire industry has also emerged for enterprise risk management. IT risk is typically categorized as an operational risk to the corporation. Operational risk is defined as the risk of non-performance of people, processes and technology. Operational risk is also the most misunderstood of the major risk categories.

Many believe operational risk surfaces the risk of operational divisions of the company. In reality this is a very small part of operational risk. Here the board and management must assure that IT is included in the enterprise risk management framework and that the significance a failure in the information technology infrastructure will have on the stakeholders is understood and mitigated appropriately.
It is also important to consider the impact risk management practices have on innovation or more clearly stated does the risk management of the organization hamper innovation.

**Assurance of IT Human Capital Management**

Good human capital practices should cover the IT executives, management and staff members similarly to the remainder of the divisions in the company. Succession planning covering executives and key managers should also be considered for any unique technical skill set needed to maintain the IT operation. The always on, 24x7, nature of the technology environment and the unique skill sets may require some unique human resource procedures.

For example: Key security staff members may have ‘keys to the kingdom’ with regard to encryption keys and security protocols. Awareness of this must be transparent and proper review and risk mitigation applied. An exit from the organization of this type of individual would need to be addressed carefully and cautiously.

**Assurance of IT Process Management and Performance**

As mentioned earlier in the document, this is the assurance that will differ the most from a large outsourced operation versus that of an in-house processing environment. In practice most organizations have a hybrid environment. Vendor management practices are elevated in the outsourced environment while internal controls are heightened in the in-house environment.

Industry frameworks exist, and can be leveraged, in the management of an IT environment. The use of these frameworks depends upon the complexity and size of the corporation. The development and monitoring of key metrics within a performance dashboard are critical elements of IT process management.

Each of the assurance areas comprises large, comprehensive and complex functions of a corporation. Culling the topics, information and performance metrics necessary and sufficient for the board to exercise effective governance is the goal.
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