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IT Governance: Linking IT And The Board World Gas Conference 2006

7 June 2006

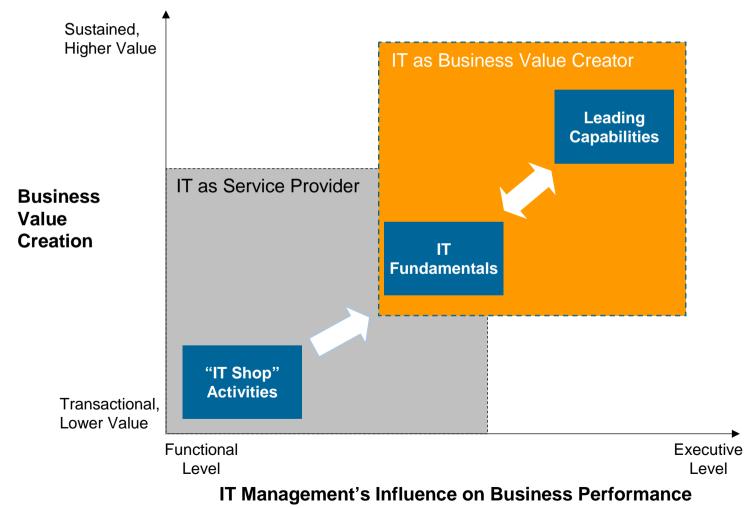
Gary A Curtis Global Managing Director Strategic IT Effectiveness Practice

Agenda

- Today's IT governance environment
- What others are saying about IT governance
- Qualitative impact of good governance
- Quantitative impact of good governance
- What good IT governance looks like
- Role of the Board
- Quick case example
- Common mistakes
- Simple diagnostic

IT Governance: What's Different Today

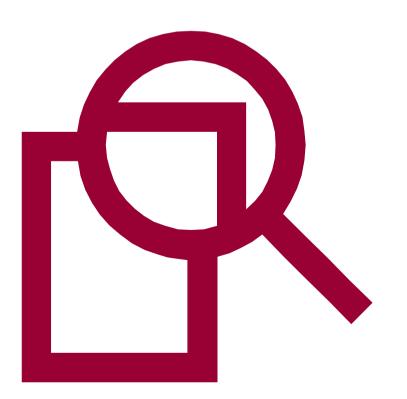
IT's Role Continues To Migrate To Higher Business Impact



IT Governance: What Others Are Saying

Accenture's Global "IT and High Performance" Survey

- USA, Canada, UK, Ireland, Nordic, France, Germany, Switzerland, Austria, Netherlands, Japan (in progress)
- 2Q 2005 2Q 2006
- 900 top IT Executives, 900 top general business executives
- Large companies: turnover > \$1 billion (large countries), > € 0.5 billion (smaller countries)



Effective IT Governance: Key Measures

Rank, highest to lowest

Alignment on business priorities

Alignment on IT spending priorities

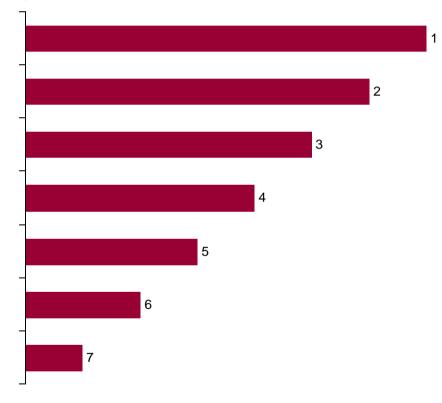
Alignment on key decision making

Top management/Board engaged

Alignment on "controls"

Shared, business outcomebased rewards

Mutual responsibility for major project outcomes



Effective IT Governance = *Alignment*

Source: Accenture Global IT and High Performance Survey (2005-2006)

Value Of Alignment: Qualitative

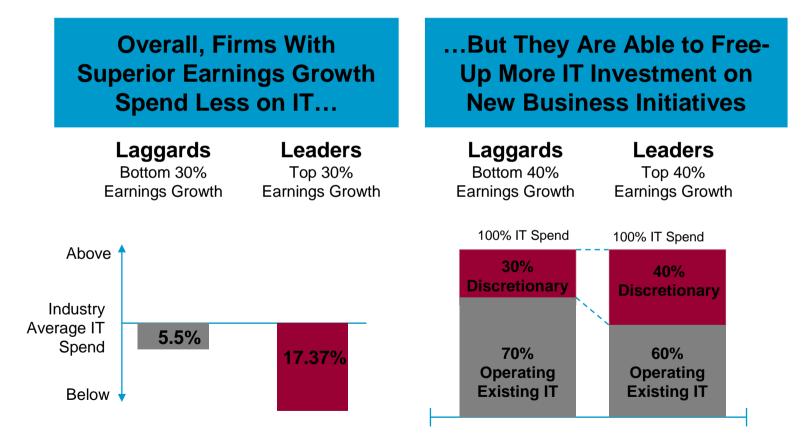
"Strongly aligned" versus "poorly aligned" companies' executives say:

 IT-based business efficiency has improved 	65% vs 30%
 IT spending has increased 	50% vs 29%
 Value of what IT delivers is understood 	45% vs 18%
 IT spending is "about right" 	60% vs 20%

Source: Accenture Global IT and High Performance Survey (2005-2006)

Value Of Alignment: Quantitative

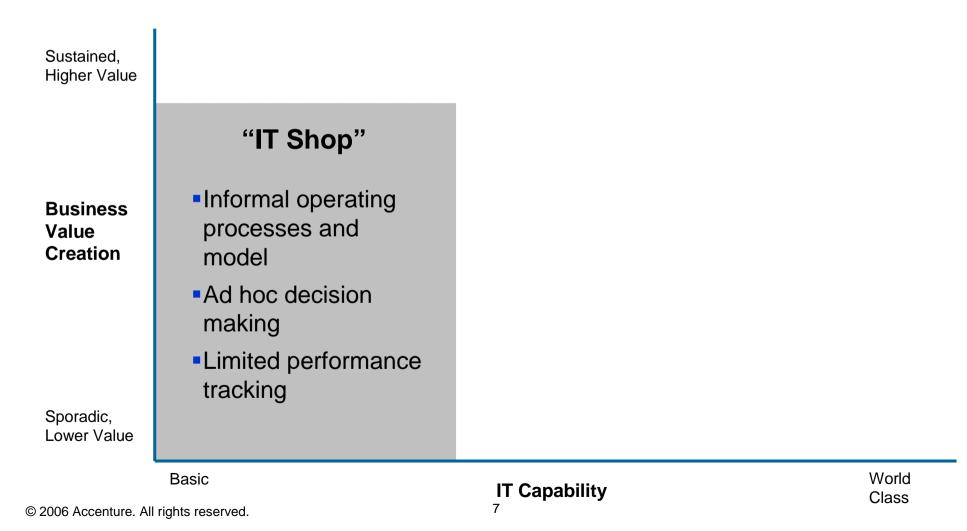
Alignment on business priorities and IT spending improves earnings



Source: Accenture survey of 112 European manufacturing and distribution companies

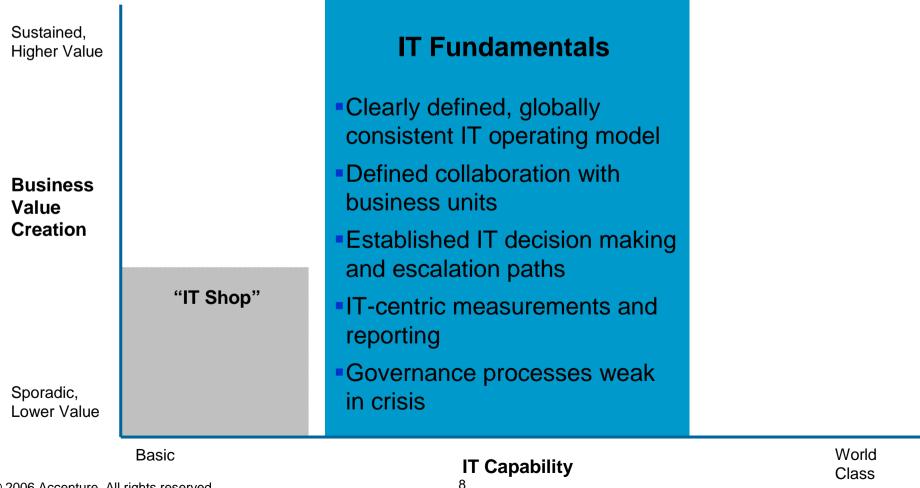
Effective IT Governance: How It Looks

IT Governance Maturity



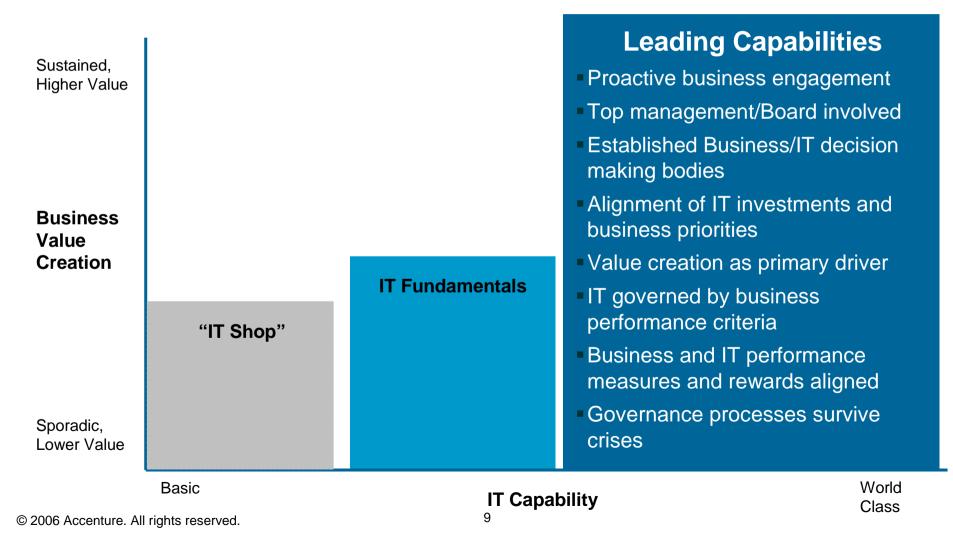
Effective IT Governance: How It Looks

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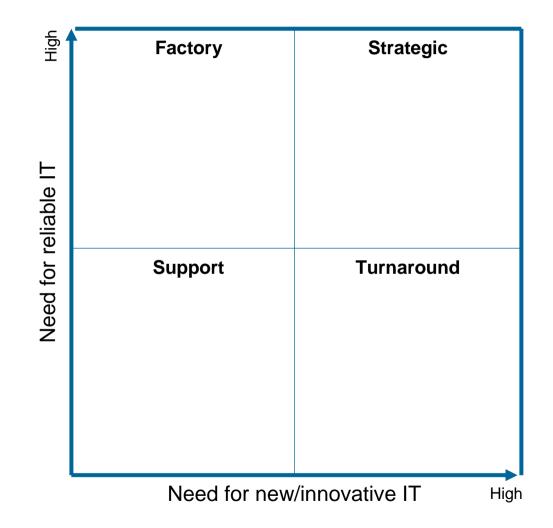
Effective IT Governance: How It Looks

IT Governance Maturity



A lack of board oversight for IT activities is dangerous; it puts the firm at risk in the same way that failing to audit its books would.

Richard Nolan and F. Warren McFarlan, Information Technology And The Board Of Directors, Harvard Business Review, October 1005



Adapted and reprinted from "Information Technology And The Board of Directors," by Richard Nolan and F. Warren McFarlan, *Harvard Business Review*, October 2005. Copyright © 2005; all rights reserved.

High	Factory	Strategic
Need for reliable IT	 Highly mission-critical IT Significant business exposure to failure Stable applications and workload 	 Highly mission-critical IT Significant business exposure to failure Strong IT-based competitive pressure
	Support • Low mission-criticality • Back-office focus • Primarily maintenance	Turnaround High IT investment levels Rapid development of new systems to improve performance High mission criticality
Need for new/innovative IT High		

Adapted and reprinted from "Information Technology And The Board of Directors," by Richard Nolan and F. Warren McFarlan, *Harvard Business Review*, October 2005. Copyright © 2005; all rights reserved.

High	Factory	Strategic
Need for reliable IT	 Monitor IT spend effectiveness Monitor impact of competitive change 	 Monitor and forecast changing business needs for IT Enforce business IT alignment Board IT subcommittee
	Support • Light Board involvement • Audit Committee	Turnaround Strong oversight of IT and business alignment Monitor IT spend levels and major projects Board IT liaison
Need for new/innovative IT High		

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Case Example: Major Regional Utility—The Board Steps In

Before:

- Facing advancing de-regulation
- 30 business units; independent IT "customers"
- IT spend 2x industry average
- Application portfolio 2x industry average
- Poor IT responsiveness

After:

- Cross-BU IT demand rationalized
- Total IT spend monitored and controlled
- Application rationalization underway
- Overlapping projects eliminated

Board Actions:

- Established oversight process
- Mandated non-discretionary spend rationalization
- Mandated cross-BU application rationalization
- Mandated review/approval for major spending
- Reviews total IT spend annually

Board Involvement: Common Mistakes

Regarding the Board's role in IT Governance, top management teams sometimes believe:

- "I've got the problem covered"
- "My CIO has the problem covered"
- "The Board is not interested"
- "No one can really get IT right"

IT Governance: A Simple Diagnostic

- Are major IT-intensive investment decisions organizationally difficult? Murky? Political?
- Is capitalization of IT investment well understood? Consistent? Sensible?
- Are business unit responsibilities for major projects understood? Resourced? Coordinated with IT?
- Does IT management have access to key business and competitive planning and decisions? Influence?
- Is total IT cost known? IT budget consistent with business demand? With mission-criticality?
- Do IT and business managements have a mutually productive relationship?

What do you think

