



# The linchpin between Corporate Governance and IT Governance

Stuart Macgregor

*The Open Group's EA Forum  
Johannesburg and Cape Town  
November 2013*

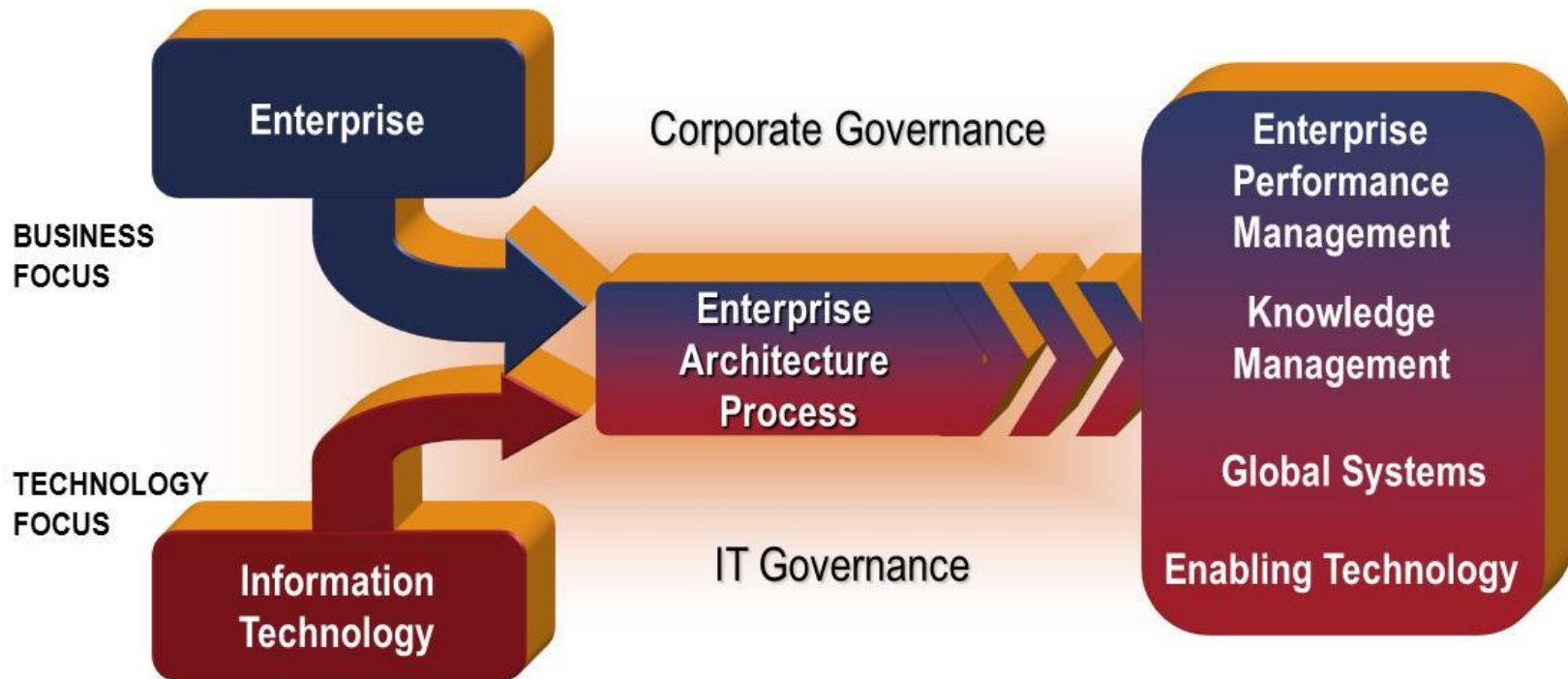


# Contents

- Introduction
- Corporate Governance – King III
- IT Governance – COBIT® 5
- Enterprise Architecture – TOGAF® 9
- Conclusion

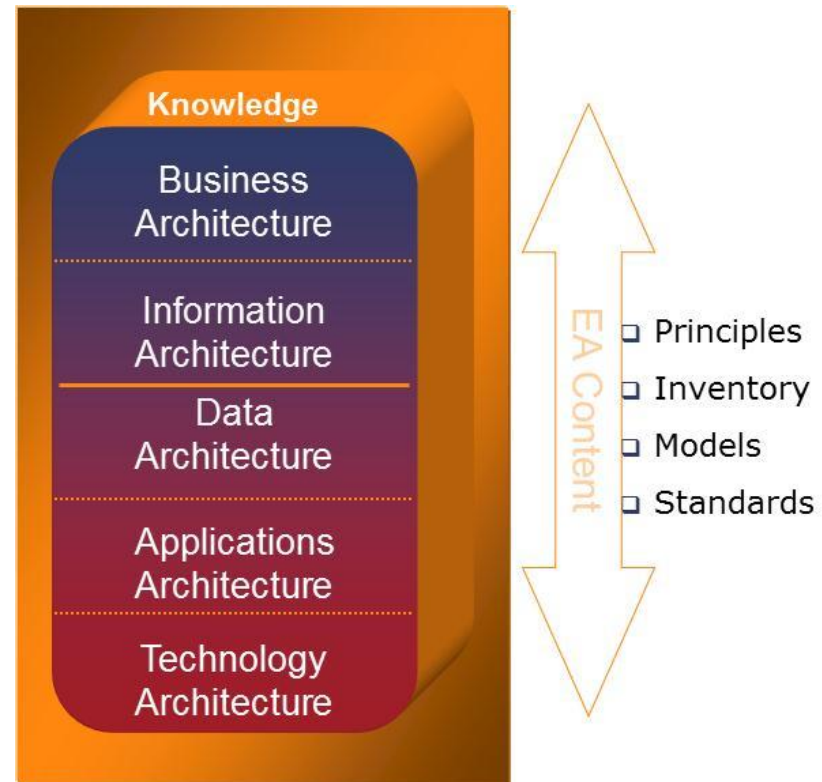
# Enterprise Architecture is a Strategic Imperative

Enterprise Architecture is required to transform a legacy of fragmented applications, organisational structures and processes (both manual and automated) into an integrated environment with optimised processes that are responsive to change and the delivery of the business strategy.



# Enterprise Architecture Domains

- Consists of current and future state models
- Is implemented through the Enterprise:
  - Business Architecture,
  - Information Architecture,
  - Data Architecture,
  - Applications portfolio, and
  - Enterprise-wide technical architecture
- Provides organizations with the ability to conduct impact assessments, analyze alternative scenarios and implement appropriate strategies
- (Re-)Defines the business design for sustainable competitive advantage

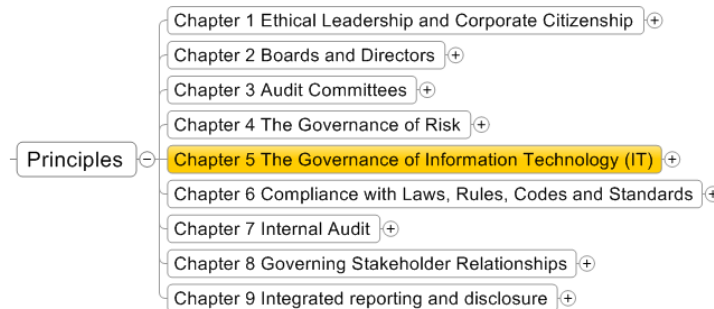


# Corporate Governance – King III

- The third report on corporate governance in South Africa became necessary because of:
  - The new Companies Act no. 71 of 2008 ('the Act') and
  - Changes in international governance trends.
- Positioned at the forefront of governance internationally.
- Achieved because of the focus on the importance of conducting business reporting annually in an integrated manner i.e. putting the financial results in perspective by also reporting on:
  - How a company has, both positively and negatively, impacted on the economic life of the community in which it operated during the year under review; and
  - How the company intends to enhance those positive aspects and eradicate or ameliorate the negative aspects in the year ahead.

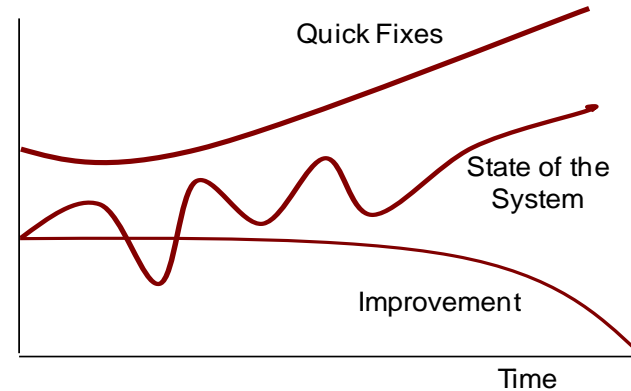
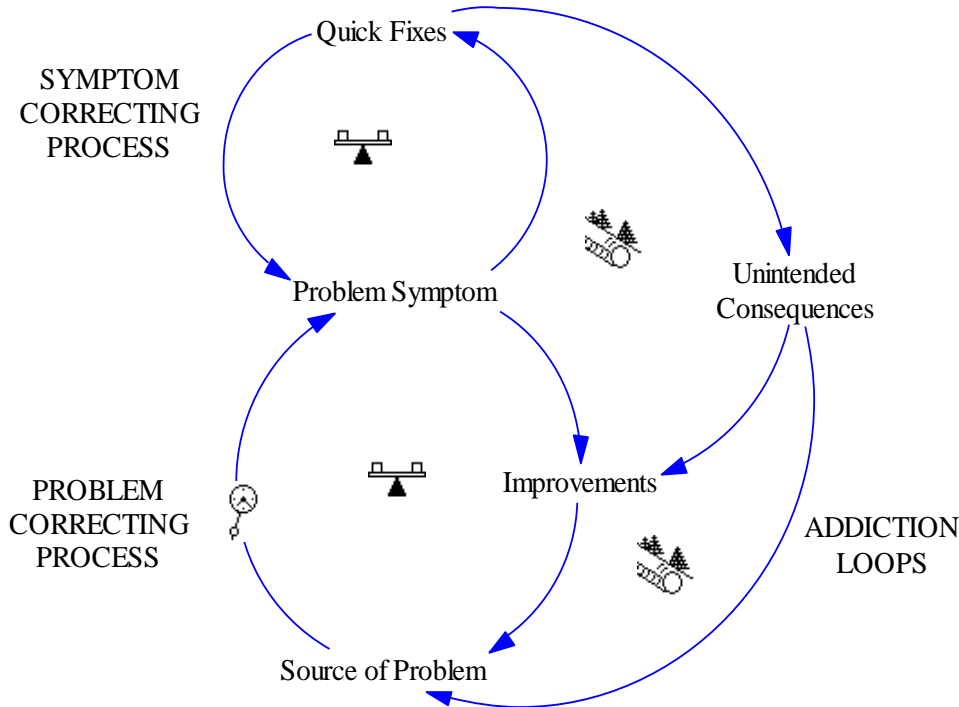
# The Governance Regime

- The King III Report is based on an **“apply or explain”** basis. This enables companies to operate for the purposes for which they were intended, without being bound to follow standards which are, by nature, inflexible.



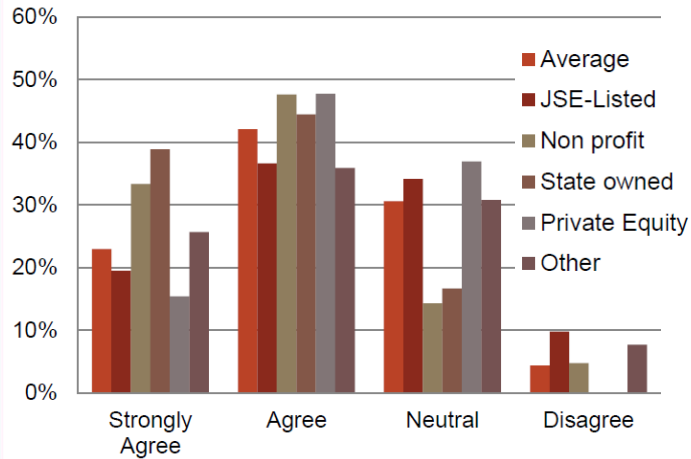
- In the USA, the Sarbanes-Oxley Act was on a **“comply or else”** basis. This forced all companies to comply and made no provision for extraordinary circumstances.
  - It is estimated that the implementation of the provisions of the Sarbanes-Oxley Act has cost the USA, US\$264 billion since 2002.

# The Sarbanes-Oxley Act or King III...addressing the symptom or problem?

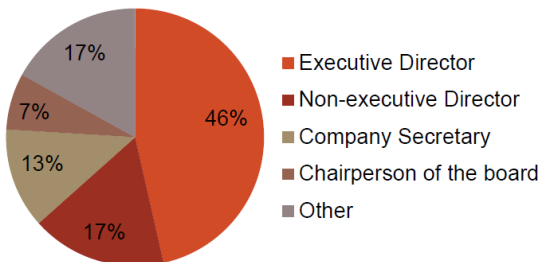


1. Every action produces a reaction.
2. Structure shapes behavior.
3. Complex interrelationships make a system's behavior difficult to understand.
4. Time clouds the picture.
5. "Hard" and "soft" factors interact.
6. Feedback reinforces and counteracts.

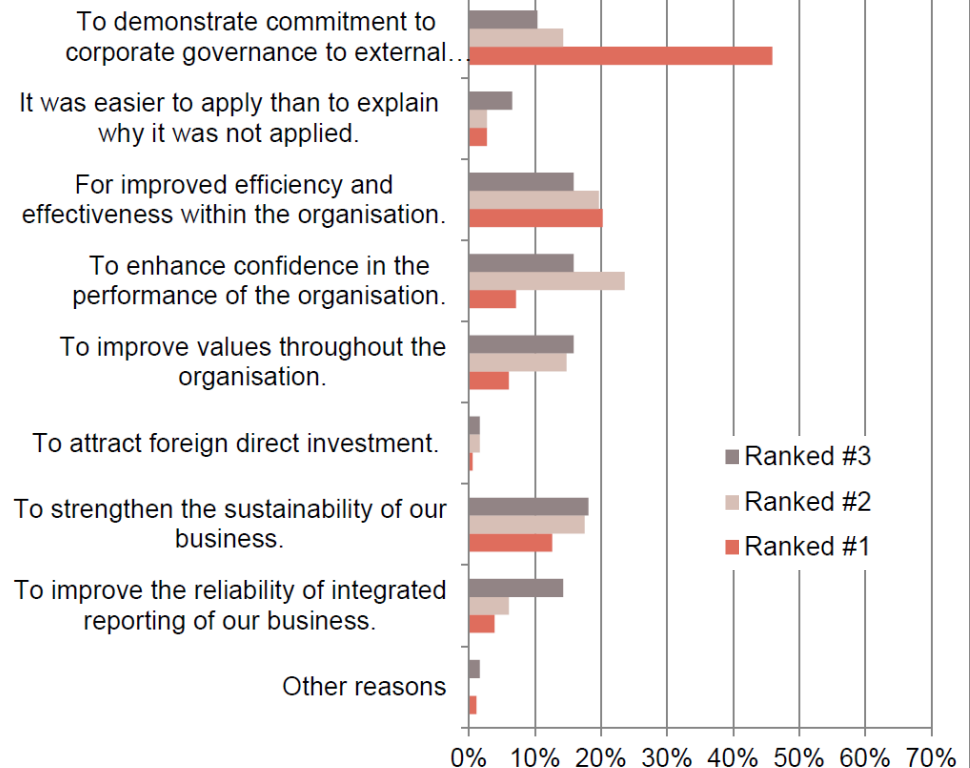
# King III added value to the organisation that outweighs the costs and effort of application



## Position in Company



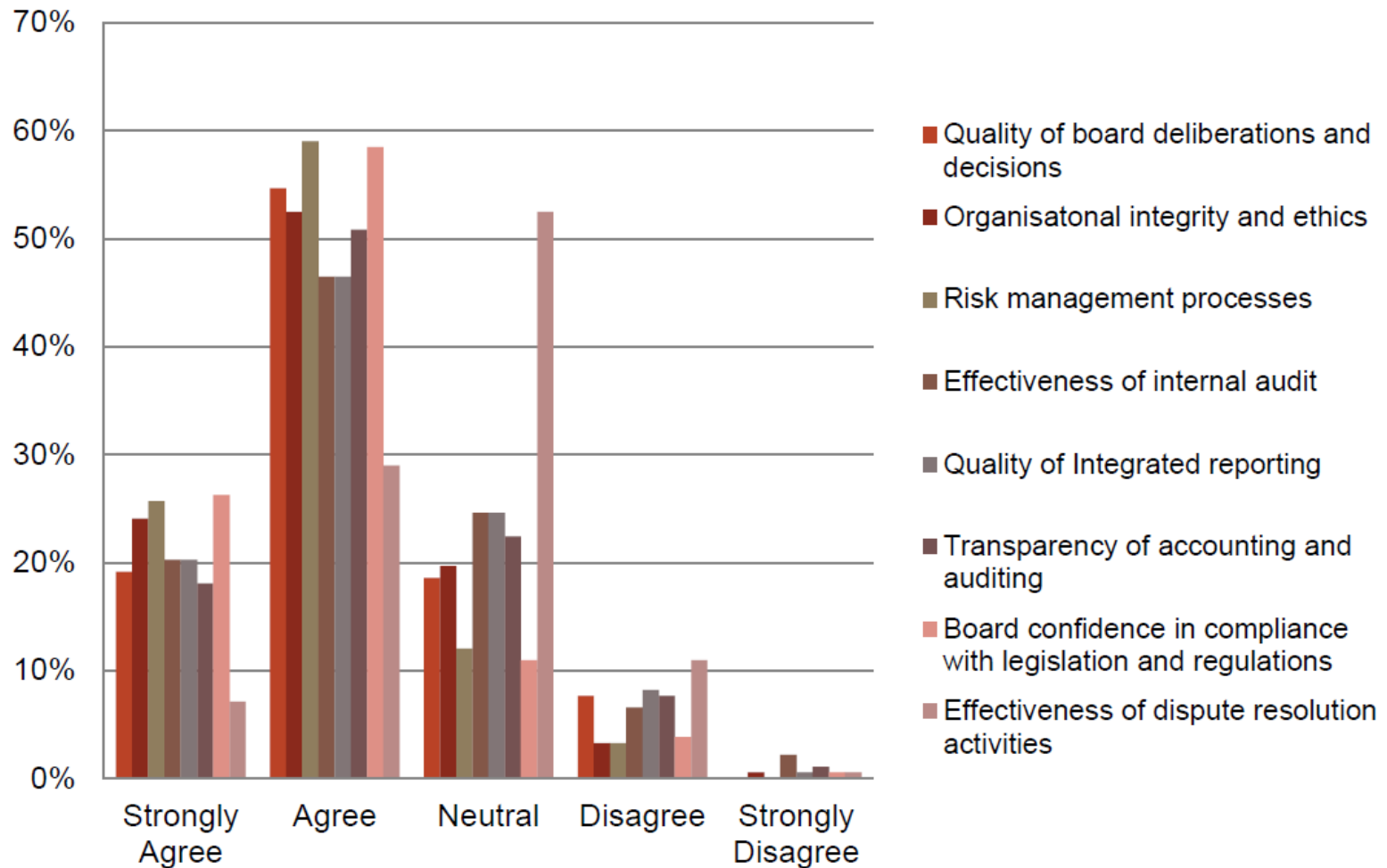
## Reasons for applying King III (Average)



Source: Perceptions and practice of King III in South African Companies (2013)



# Improvements through application of King III

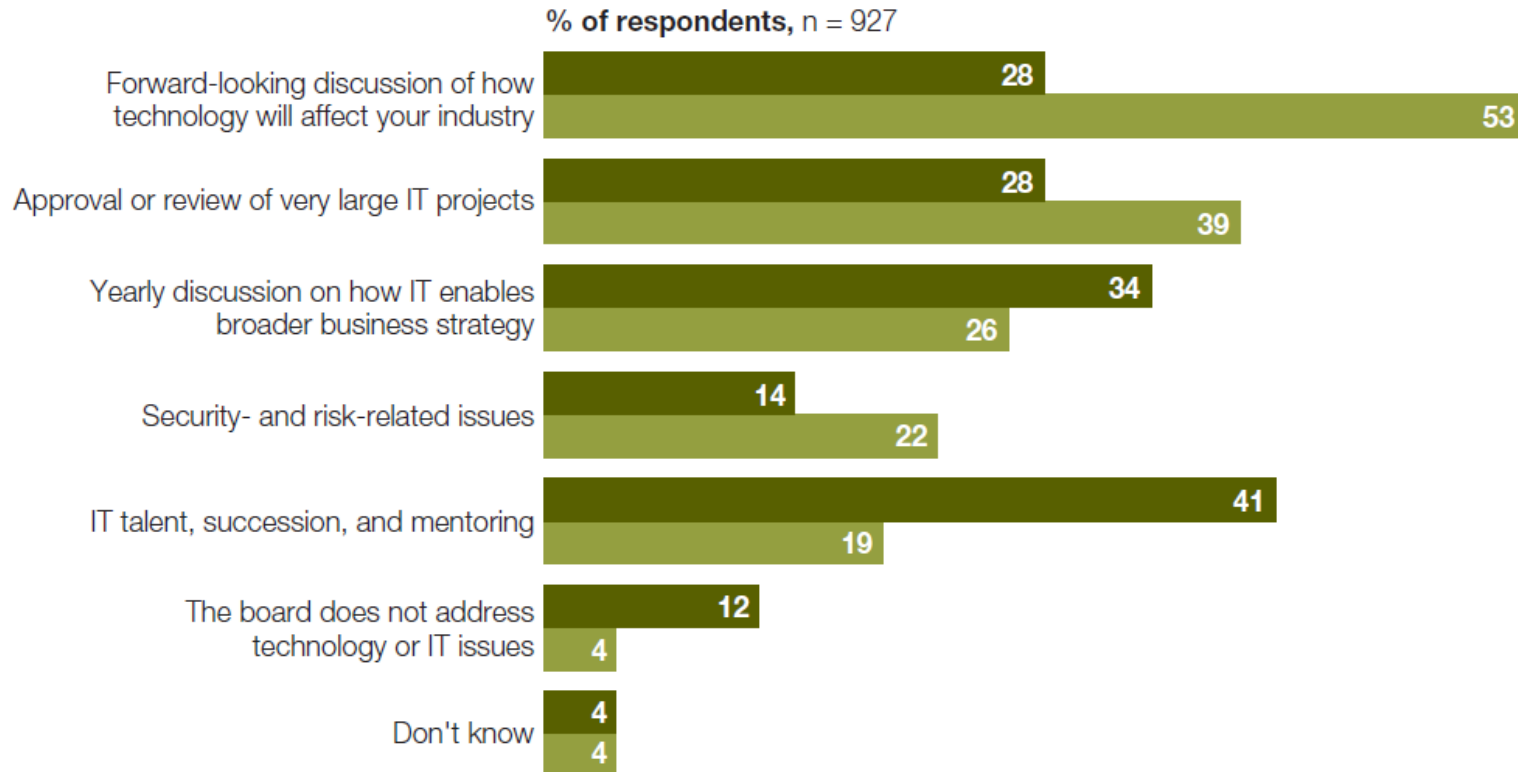


Source: Perceptions and practice of King III in South African Companies (2013)

# McKinsey: Board priorities appear to be misaligned

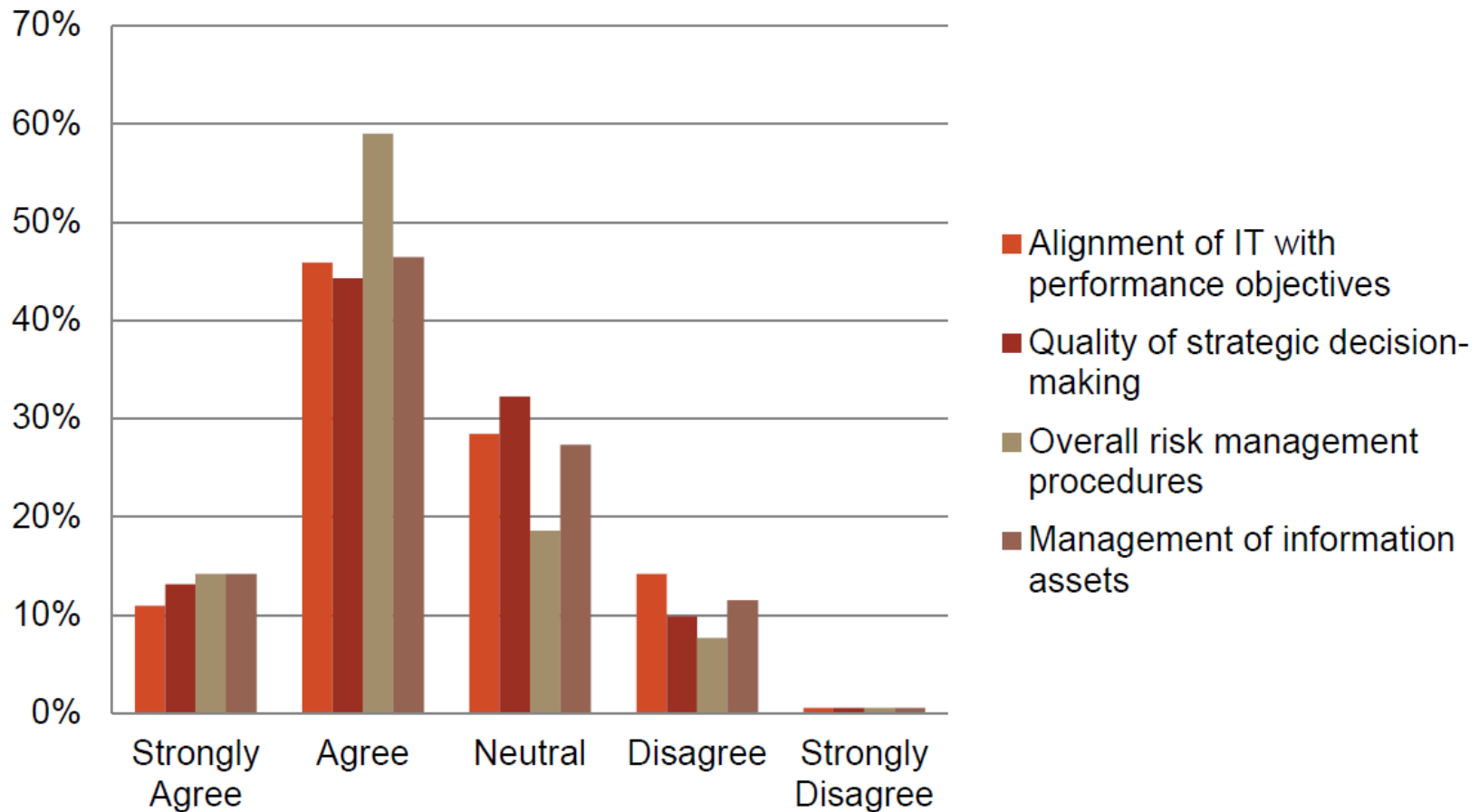
What technology- or IT-related issues, if any, are the most important ones addressed by your organization's board of directors?

■ Current ■ Ideal



Source: Dec 2011 McKinsey survey of executives

# King III Survey: Improvement through IT governance



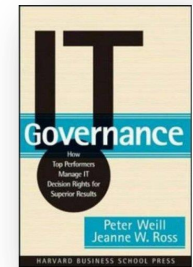
Source: Perceptions and practice of King III in South African Companies (2013)

# Business Value

Effective IT governance is the single most important predictor of the value an organization generates from IT...

Top-performing enterprises generate returns on their IT investments up to ~~40%~~ greater than their competitors.

- They clarify business strategies and the role of IT in achieving them.
- They measure and manage the amount spent on and the value received from IT.
- They assign accountability for the organizational changes required to benefit from new IT capabilities
- They learn from each implementation, becoming more adept at sharing and reusing IT assets.



...but there is no single model of good corporate governance

Peter Weill and Jeanne W. Ross, *IT Governance: How Top Performers Manage IT Decision Rights for Superior Results*, Harvard Business School Press, 2004

# King III Report on Governance for South Africa 2009

## **Principle 5.4: The board should monitor and evaluate significant IT investments and expenditure**

The company should ensure that it acquires and uses the appropriate technology, processes and people to support its business and governance requirements in a timely manner and accurately.

The level of investment in IT is significant and continues to increase and few companies would survive without appropriate IT. While there are many examples of companies generating value from investing in IT, many executives are questioning whether the business value is in proportion to the level of investment.

The board should oversee the proper value delivery of IT and should ensure that the expected return on investment from significant IT investments and projects is delivered and that the information and intellectual property contained in the information systems are protected. This can be achieved by:

*Clarifying business strategies and objectives and the role of IT in achieving them;*

*Measuring and managing the amount spent on the value received from IT;*

*Assigning accountability for organisational changes required to benefit IT capabilities; and*

*Learning from each implementation and becoming more adept at sharing and re-using IT assets.*

Good governance principles should apply to all parties in the supply chain or channel for the acquisition and disposal of IT goods or services. This applies equally to a division within a company, subsidiary or a third party.

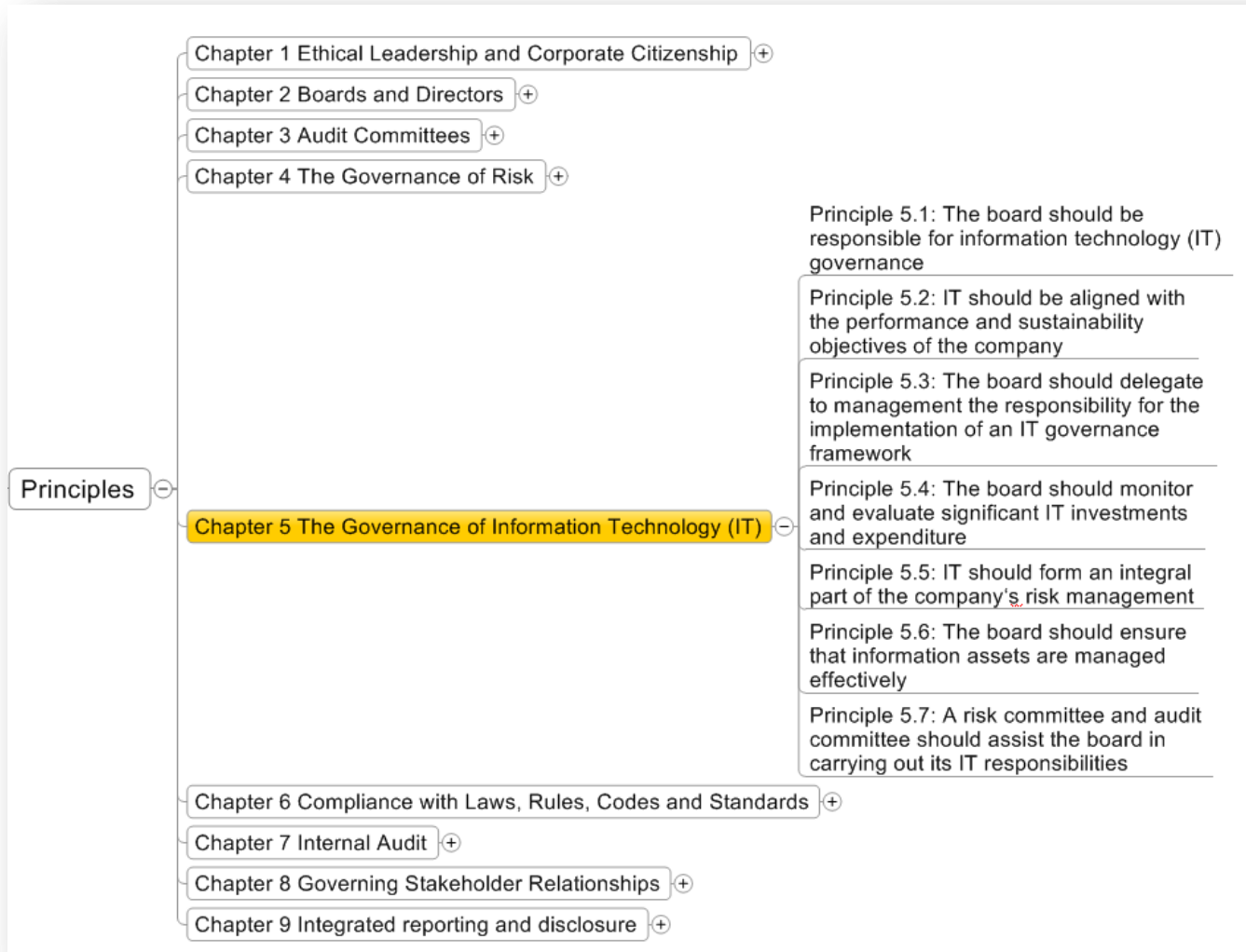
Where the responsibility for the provision of IT goods or services has been delegated to another party (or division), all parties (including the board) remain accountable for enforcing and monitoring effective IT governance

The company should obtain independent assurance on the IT governance and controls supporting outsourced IT services. This assurance should be aligned to the company's normal assurance activities under the auspices of the audit committee.

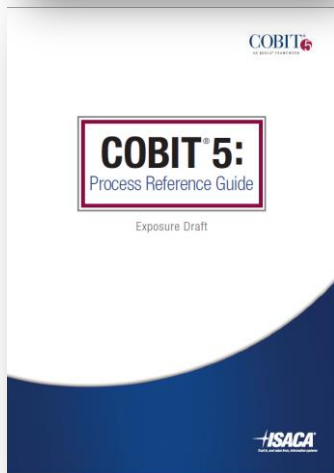
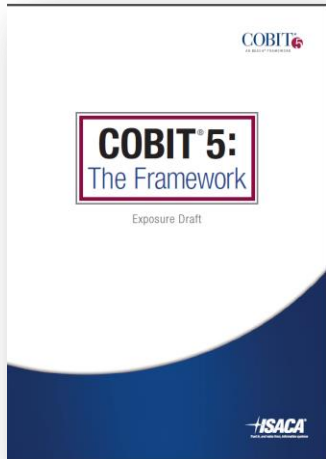
IT management should ensure that all the basic elements of appropriate project management principles are applied to all IT projects. Effective review processes by independent experts are recommended.



# King III - Principles

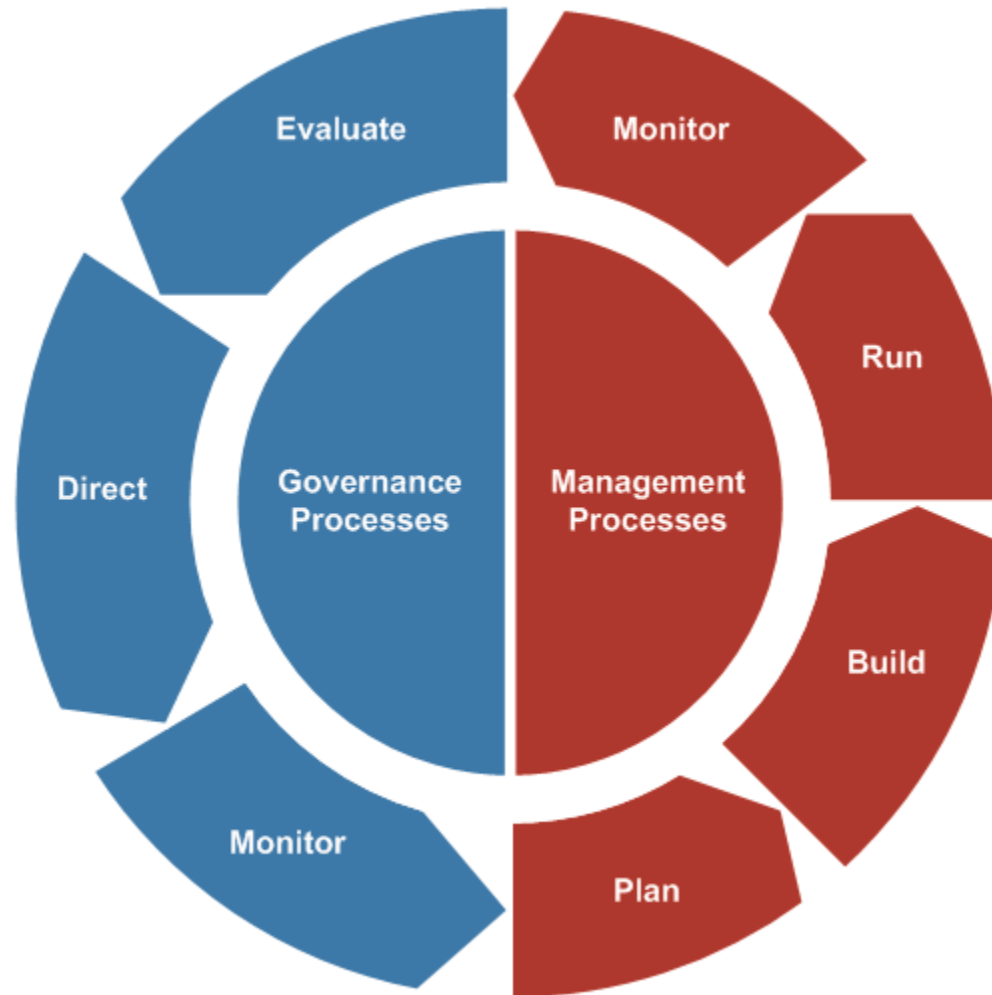


# COBIT® 5 is...



- A governance and management framework for information and related technology that starts from stakeholder needs with regard to information and technology.
- Intended for all enterprises, including non-profit and public sector.
- Designed to allow enterprises to achieve their governance and management objectives, i.e., to create optimal value from information and technology by maintaining a balance amongst realising benefits, managing risk and balancing resources.

# Governance and Management Processes





EDM1 – Set and Maintain the Governance Framework

EDM2 – Ensure Value Optimisation

EDM3 – Ensure Risk Optimisation

EDM4 – Ensure Resource Optimisation

EDM5 – Ensure Stakeholder Transparency

Align, Plan & Organise...

APO1 – Define the Management Framework for IT

APO2 - Define Strategy

APO3 – Manage Enterprise Architecture

APO4 – Manage Innovation

APO5 - Manage Portfolio

APO6 Manage Budget & Costs

APO7 – Manage Human Resources

APO8 – Manage Relationships

APO9 – Manage Service Agreements

APO10 - Manage Supplier

APO11 - Manage Quality

APO12 – Manage Risk

Direct

Build, Acquire & Implement...

BAI1 – Manage Programmes And Projects

BAI2 – Define Requirements

BAI3 – Identify & Build Solutions

BAI4 – Manage Availability & Capacity

BAI5 – Enable organisational Change

BAI6 – Manage Changes

BAI7 - Accept & Transition Changes

BAI8 – Knowledge Management

Direct

Deliver, Service & Support...

DSS1 – Manage Operations

DSS2 – Manage Assets

DSS3 – Manage Configuration

DSS4 – Manage Service Requests & Incidents

DSS5 – Manage Problems

DSS6 – Manage Continuity

DSS7 – Manage Security

DSS8 – Manage Business Process Controls

Direct

Monitor, Evaluate & Assess...

MEA1 – Monitor & Evaluate Performance and Conformance

MEA2 – Monitor System of Internal Control

MEA3 – Monitor and Assess Compliance with External Requirements

Monitor

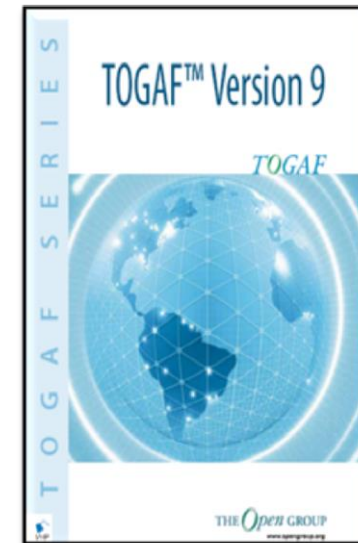
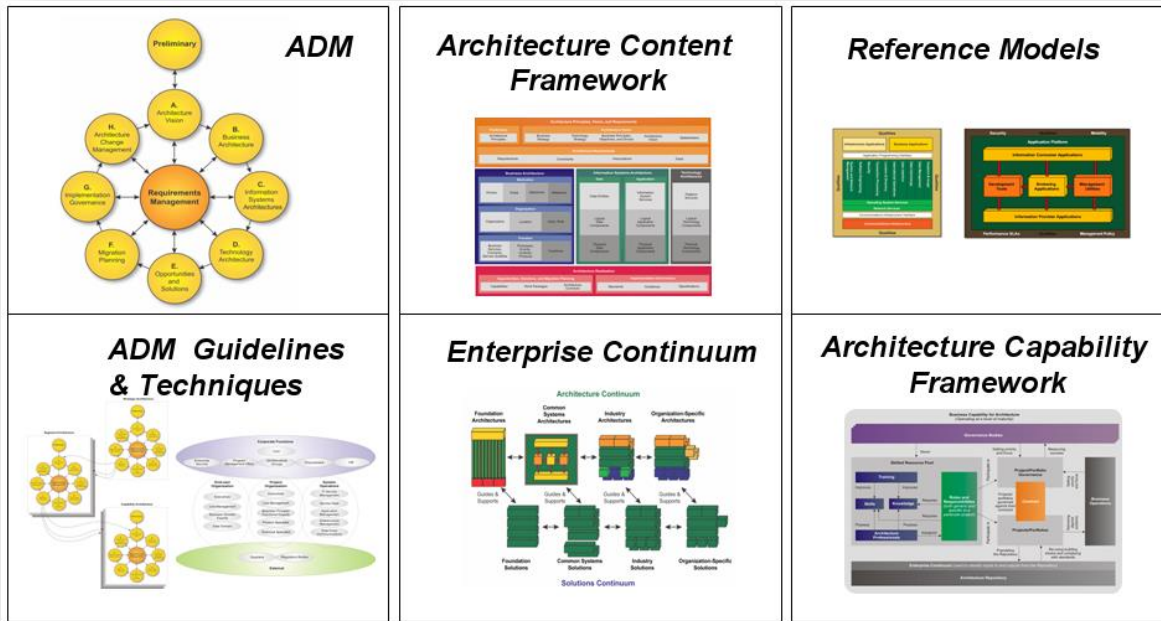
Processes for Management of Enterprise IT

# APO03 – Manage Enterprise Architecture - RACI

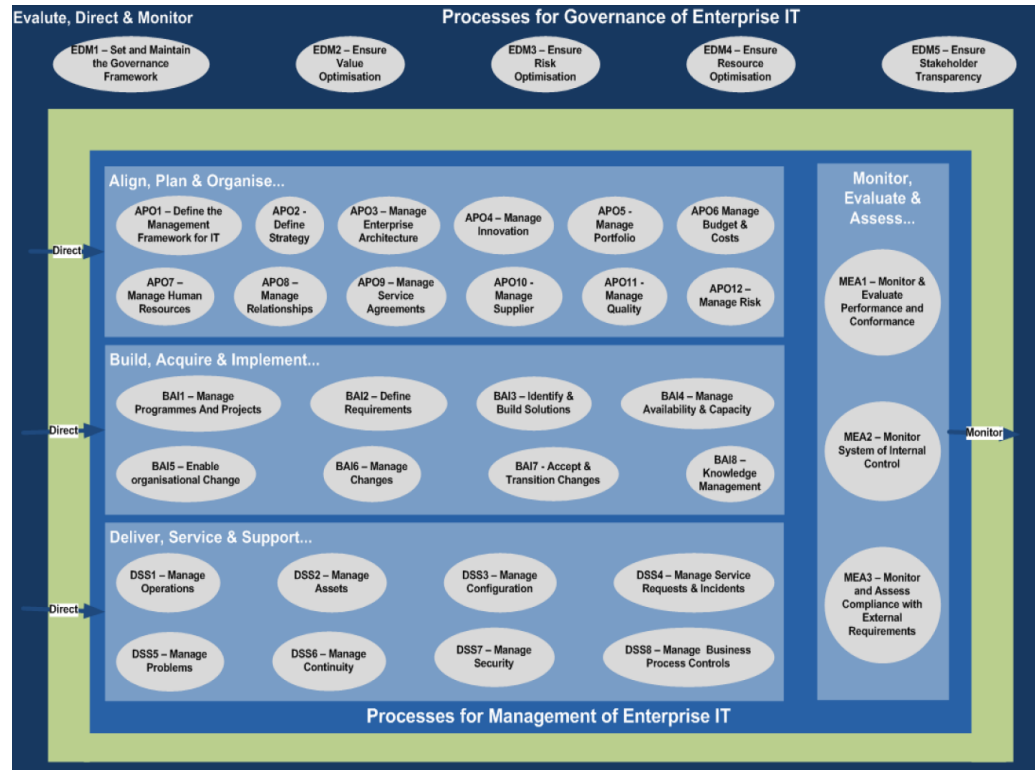
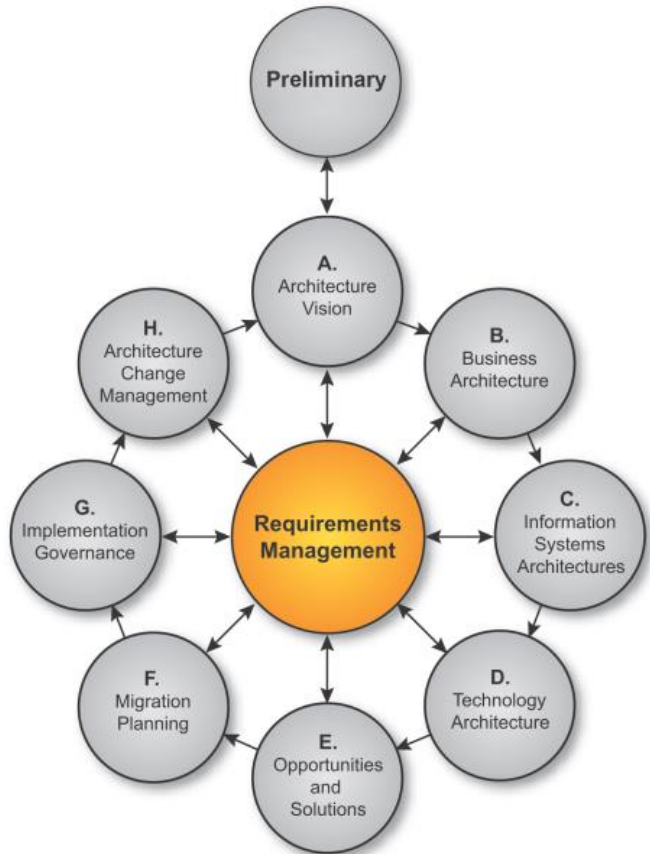
APO03 RACI Chart																										
Key Management Practice	Board	Chief Executive Officer	Chief Financial Officer	Chief Operating Officer	Business Executives	Business Process Owners	Strategy Executive Committee	Steering (Programmes/Projects) Committee	Project Management Office	Value Management Office	Chief Risk Officer	Chief Information Security Officer	Architecture Board	Enterprise Risk Committee	Head Human Resources	Compliance	Audit	Chief Information Officer	Head Architect	Head Development	Head IT Operations	Head IT Administration	Service Manager	Information Security Manager	Business Continuity Manager	Privacy Officer
<b>AP003.01</b> Develop the enterprise architecture vision.		A	C	C	R	C	R					C	R	C	C	C	C	R	R	C	C	C		C		
<b>AP003.02</b> Define reference architecture.		C	C	C	R	C	R					C	A	C	C	C	C	R	R	C	C	C		C		
<b>AP003.03</b> Select opportunities and solutions.		A	C	C	R	C	R					C	R	C	C	C	C	R	R	C	C	C		C		
<b>AP003.04</b> Define architecture implementation.		A	C	R	C	C	R					C	R	C	C	C	C	R	R	C	C	C		C		
<b>AP003.05</b> Provide enterprise architecture services.		A	C	R	C	C	R					C	R	C	C	C	C	R	R	C	C	C		C		

# The Open Group Architecture Framework

TOGAF is an architecture framework developed by The Open Group to provide the methods and tools for assisting in the acceptance, production, use and maintenance of an enterprise architecture.

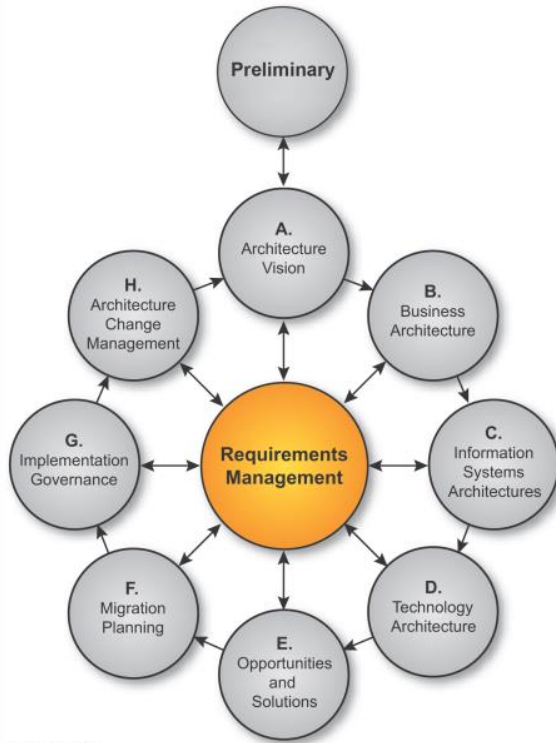


# Mapping COBIT 5 to TOGAF 9



© 2008 The Open Group

# Mapping COBIT 5 to TOGAF 9



© 2008 The Open Group

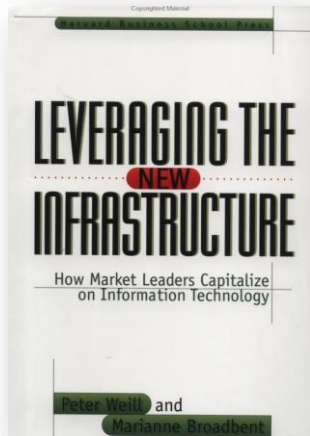
## COBIT 5 Management Practice

- APO03.01 Develop the enterprise architecture vision
- APO03.02 Define reference architecture
- APO03.03 Select opportunities and solutions
- APO03.04 Define architecture implementation
- APO03.05 Provide enterprise architecture services

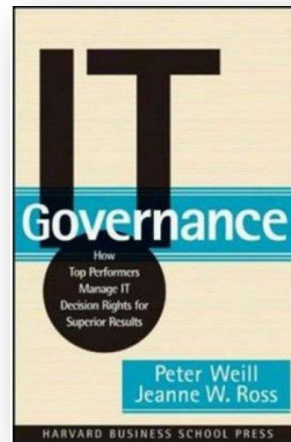
## TOGAF

- H, Prelim. + A
- B, C, D
- E
- F
- G + Requirements

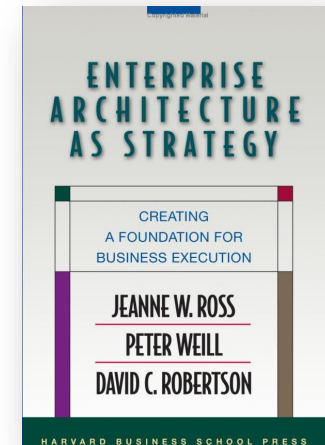
# Roads leading to Enterprise Architecture



June 1998



June 2004



August 2006

“In 1995 we started our study of enterprise architecture – we just did not know it. At the time we thought we were studying information technology infrastructure transformations. In 1998 we thought we were studying enterprise system implementations. In 2000 it was e-business. But sometime in 2000, we recognized that each of these studies examined basically the same thing: **Enterprise Architecture**”

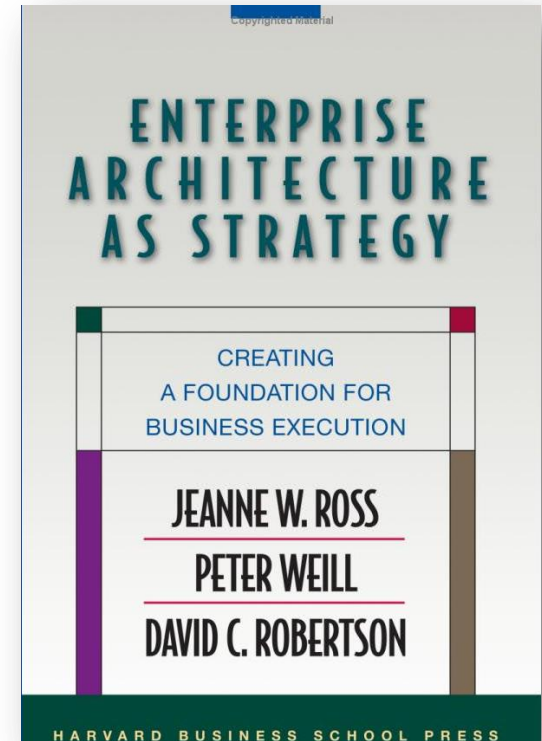
## Conclusion



# Enterprise Architecture as Competitive Advantage

“Top-performing companies define how they will do business (an operating model) and design the processes and infrastructure critical to their current and future operations (***enterprise architecture***), which guide the evolution of their foundation for execution.

Then these smart companies exploit their foundation, embedding new initiatives to make that foundation stronger, and using it as a competitive weapon to seize new business opportunities. And ***what makes this capability a competitive advantage is that only a small percentage of companies do it well*** - we estimate 5 percent of firms or less”



August 2006

# InfoWorld/Forrester Enterprise Architecture Awards

- Cisco: Leveraging business architecture for corporate agility  
*"This EA practice has delivered tangible results that are well embedded into a large business in a highly scalable and repeatable manner."*
- MasterCard: Business-centric enterprise architecture  
*"They are an excellent example of an EA program that helps organizations find common ground for decisions and action through shared models, which become integrated into strategy and implementation."*
- National Bank of Abu Dhabi: Building a global business roadmap  
*'EA established credibility in strategic planning, and was moved into the office of the CEO reporting to the Transformation Management Office.' This is the holy grail of enterprise architecture!"*
- Yum Brands: Using innovation to focus on customers
- National Grid:  
*"The team's enterprise capability model has changed the way business and IT staff communicate, a key foundation for improving resource allocation and process performance."*



# Take-away

- King III added value outweighs the costs and effort of application
- A synergistic approach will further increase value and reduce cost
  - Corporate Governance
  - Enterprise Architecture Capability
  - IT Governance
- Enterprise Architecture is the linchpin between Corporate and IT Governance that could in itself become a source of competitive advantage
- This necessitates moving from “*Enterprise Architecture for IT*” to real Enterprise Architecture
- In essence, the management of intellectual capital / content (principles, models, inventory and standards) in support of Strategy, Governance, Risk and Compliance
- Facilitated by running the EA Practice *like* a business

# References

- Perceptions and practice of King III in South African Companies
  - Compiled by Cloete Jansen van Vuuren & Jess Schulschenk  
March 2013
  - A joint publication of the Institute of Directors in Southern Africa and the Albert Luthuli Centre for Responsible Leadership, University of Pretoria
- IoDSA Institute of Directors in Southern Africa – King III
- ISACA – COBIT® 5
- The Open Group – TOGAF® 9
- Enterprise Architecture Case Studies
  - [2012 InfoWorld/Forrester Enterprise Architecture Awards](#)
  - [2013 InfoWorld/Forrester Enterprise Architecture Awards](#)
  - [Nissan Group Uses Enterprise Architecture to Weather Perfect Storm](#)

# Contact Details

Stuart Macgregor is the CEO of Real IRM and The Open Group - South Africa. Through his personal achievements, he has gained the reputation of an Enterprise Architecture and IT Governance specialist, both in South Africa and internationally. He is openly obsessed with Enterprise Architecture with a definite business bias.

Stuart is a member of John Zachman's advisory committee. He has participated in the development of both COBIT® and TOGAF® over a number of years. As the lead researcher, Stuart assisted the IT Governance Institute map COBIT to TOGAF® which was published by ISACA and The Open Group. In the role of lead consultant, he has assisted numerous organisations establish their Enterprise Architecture practices and has also used COBIT to develop IT Governance frameworks for NYSE Top 100 companies. Stuart participated in the COBIT 5 development workshops held in London and Washington.



Stuart Macgregor

+27 11 805 3734 (office)

+27 11 805 2823 (fax)

[stuart.macgregor@realirm.com](mailto:stuart.macgregor@realirm.com)

Twitter: @RealiRM

Real IRM Solutions (Pty) Ltd

Registration number: 2001/026036/07