

# IT Governance within Managed Services

CGI's approach and experience in using IT governance to drive business value within managed services engagements

## ABOUT THIS DOCUMENT

This is a complementary transcript to the IT governance podcast with Senior Vice President Warren White, who leads CGI's Global Business Engineering Group.

In this role, Warren oversees the solution engineering, contracting and transition management of CGI's major outsourcing engagements. He brings great insight to this role, having held senior IT leadership positions with a number of large, global organizations, including Alcan, Dominion Textile, Johnson & Johnson and Lafarge.

For more information on the topic, visit [www.cgi.com/ITgovernance](http://www.cgi.com/ITgovernance).

**CGI's experience demonstrates that proper IT governance is critical to the success of any managed services engagement. Why do we place so much emphasis on its early establishment and ongoing management?**

Let's start with a high level definition of governance. Generally speaking it is a framework that includes structure, reporting relationships, process and reporting, which attempts to ensure that the right things get done, the right way and that anticipated value creation is achieved. It incorporates the strategic management process and rigorous management oversight. At a corporate level there is ample evidence to suggest that governance is a critical component of good management. Certainly in recent years corporate value destruction has often been linked to the absence of good governance.

Now in information technology the relationship between good governance and effective value creation of IT functions has long been recognized as well. In fact the absence of good governance in IT is the reason most frequently sighted when IT fails to deliver anticipated value.

A book I particularly like on this topic is one by Peter Weill [and Jeanne W. Ross, *IT Governance: How Top Performers Manage IT Decision Rights for Superior Results*] of MIT where he claims, and I quote, "Top-performing enterprises succeed where others fail by implementing effective IT governance." This is based upon a study of some 250 large global IT organizations. Certainly IT seldom fails as a function due to bad technology. More frequently it is the absence of management involvement and oversight or governance that leads to excessive or unfocused IT spend and a gap between business needs and IT initiatives and service delivery.

I can attest from my own experience as a CIO that where I had the essential components of good governance in place things seemed to always go better and the value of IT was recognized. The opposite was also true.

Now moving to CGI, as a managed service provider, we are an integral component of the IT service delivery model of our clients. Any failure on their part to create value through IT invariably reflects upon us and directly or indirectly impacts the long term relationship. It is really in our interest to make sure that our clients put in place all the elements of good IT governance. Helping them achieve excellence in the management of IT provides us the framework to demonstrate excellence in value creation as a supplier.

So we spend a lot of time discussing the value of IT governance with our clients and how critical governance is in maximizing the value in a managed services environment. It defines our relationship and interactions. By putting in place the key components of good governance, such as IT planning; structured steering committees; clear division of responsibilities; and rigorous process management and reporting, we provide a framework for us to work together in achieving excellence in the management of IT. Moreover, we demonstrate that good IT governance increases management control in a managed services environment.

This is important as clients often fear loss of control when sourcing critical IT services externally. In fact, we demonstrate that control is improved if the elements of good governance are in place.

To CGI, this is so fundamental to success that we build requirements for IT governance into our contracts. For us, sharing our views on how to manage IT in a manner that maximizes value differentiates us. We have clear evidence that our most satisfied clients are the ones that adhere to the principles. Our delivery model helps them benefit from lower cost. Our governance model allows them to maximize the value through lower or more focused spend.

**That's an interesting differentiation you make between "cost" and "spend management." Can you talk more about that and how a strong IT governance model maximizes the value of outsourcing engagements?**

A lot of time clients pursue the managed services option with a cost focus. They want to drive down their cost of supporting components of IT, such as a server or an application. All of their emphasis is on component cost. This turns outsourcing into an exercise of labor arbitrage and procurement. There is some value there, of course, but as our CEO Mike Roach says, "There has been more value destroyed through poor management of IT than can ever be saved through labor arbitrage."

The real value opportunity is in spend management. How are the projects selected? Against what business value filters? How are application enhancements released? What are the appropriate service levels?

Do you know, I was reading an article by the Tower Group that estimated that some 70% of U.S. IT budgets in 2005 were spent on maintenance alone? This is huge. Rather than stress over the cost of a unit of labor spent to maintain applications, more emphasis should be spent on deciding how to decommission low value applications or squeeze out some low value enhancements that probably add complexity and exacerbate the situation.

Well good IT governance addresses some of this. For example, as part of our governance process, CGI builds with the client an annual IT architectural plan for management review and discussion. The process builds upon business requirements as well as fact-based information on the resources consumed for each application. This allows us to uncover opportunities to reduce systems diversity and complexity by recommending the decommissioning of wasteful or low-value applications. Eliminate some of the spend versus lower the cost of support. Well governance provides the monitoring and the framework to support that type of decision making.

On a day-to-day basis, our governance model addresses value-based decisions as well. For enhancement requests, as example, our governance process necessitates client management's participation in deciding if, how and when enhancements are released. We show our clients how to make value-based decisions around enhancement management. You know, once management oversight and reporting are in place, this generally squeezes out a lot of unnecessary work. We sometimes see enhancement work drop by as much as 50% when our governance model is in place. Again the big value is a result of management oversight around managing the spend, not just the cost.

That is what I mean by spend management. It is where the real value is but you can only get at it if you have the right management processes and frameworks in place. Now to be honest, lowering “spend” by reducing diversity and eliminating low-value enhancement work does translate into a reduction of our associated managed services fees. However, this contributes to the long-term relationship health with clients, which is a primary goal. It builds a feeling of alignment and trust. Quite frankly, liberating funds through good governance generally results in these funds being reallocated on some value-based project that we participate in anyway, so it really is good for business.

Excessive service levels is perhaps another example of value destruction that good governance helps avoid. Many IT shops believe that if a high service level is good, a higher one is better. The value perspective is entirely lost. Service levels cost money. There is no sense in chasing five 9's if the business does not need it. It's like paying for an F1 racing car to drive in the suburbs. CGI's governance model makes visible the line of sight between service levels and cost, and provides a framework to engage clients in robust discussion on business value and IT spend and associated services.

**These are great examples of how good governance drives business value. Can you leave us with some final thoughts on how organizations should view IT governance?**

It is all about achieving desired outcomes and behavior. IT is an integral part of most organizations and should be a value contributor. That said, it is an area that is often the least appreciated and, in fact, one that frequently destroys more value than it creates.

I believe that part of this is due to the fact that management often abdicates their responsibilities for the governance of IT, believing it to be a function where technology is the key element. This results in unfocused IT spend at best, if not excessive spend. It's not about technology, it's about management.

I will tell you that the tendency to abdicate management responsibility is even greater in a managed services environment. This is a formula for failure. We insist that management be active in the strategic management of IT and make sure the basic elements are in place:

- Recurring IT strategic plans linked to the business and built with a value view rather than a technology one
- Structured committees of key stakeholders to approve and monitor
- Clarity of decision rights and responsibilities via an accountability model
- Rigorous fact-based reporting, reviewed appropriately to ensure that expected outcomes are achieved and, if not, corrective action is taken

As a managed services provider, IT services are core to our business. We can deliver service excellence at low cost. We master the technology elements, the delivery model and the processes. To achieve maximum value however, over the long term, we need to help our clients achieve excellence in IT management, and governance is a key component of that.

**ABOUT CGI**

At CGI, we're in the business of satisfying clients. For more than 30 years, we've operated upon the principles of sharing in clients' challenges and delivering quality services to address them.

A leading IT and business process services provider, CGI has approximately 26,500 professionals operating in 100+ offices worldwide, giving us close proximity to our clients. Through these offices, we offer local partnerships and a balanced blend of global delivery options to ensure clients receive the combination of value and expertise they require.

CGI defines success by exceeding clients' expectations and helping them achieve superior performance.