

## Closing the Governance Gap: Bringing Boards into the IT Equation

### *Executive Summary*

As information technology has become a critical driver of business success, boards of directors of healthcare organizations have not kept pace. IT demands thorough and thoughtful board governance, yet such oversight has often been lacking because IT has been seen as an operations matter best left to management—and board members typically lacked interest or expertise in technology issues.

While boards have always scrutinized business strategy and strategic risks, IT has tended to be left in the shadows, despite the fact that it involves large investments and, increasingly, huge risks. Reasons include:

- IT requires technical insight to understand how it can enable the enterprise—and create risks and opportunities;
- IT has often been traditionally treated as separate from a hospital's core clinical mission;
- IT is complex, even more so in the integrated delivery system operating in a highly regulated industry.

Closing the IT governance gap has become imperative as it becomes more difficult to separate an organization's overall strategic mission from the underlying IT strategy that enables that mission to be fulfilled. This issue of *Information Edge* looks at how senior management and boards can improve their governance and management of IT to better assure that information systems and strategy support overall business goals. We highlight immediate steps a board can take to broaden its understanding of technology issues and look at management tools that provide a structure for IT governance.

IT governance is ultimately important because expectations and reality often do not match. Boards expect management to juggle myriad responsibilities: deliver quality IT solutions on time and on budget, harness and exploit IT to return strategic and operational value and leverage IT to increase efficiency and productivity while managing IT risks. However, boards frequently see business losses, damaged reputations or weakened competitive positions, unmet deadlines, higher-than-expected costs, lower-than-expected quality and failures of IT initiatives to deliver promised benefits.



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## Welcome New Member

### Saint Vincent Catholic Medical Centers!

Scottsdale Institute is proud to welcome its newest member, Saint Vincent Catholic Medical Centers, one of the New York metropolitan area's most comprehensive healthcare systems, serving more than 500,000 people annually. Established in 2000 through the merger of Catholic Medical Centers of Brooklyn and Queens, Saint Vincent's Hospital and Medical Center of New York and Sisters of Charity Healthcare in Staten Island, SVCMC serves as the academic medical center of New York Medical College.

Welcome to President and CEO David Campbell, Senior VP and Chief Medical Officer Steven C. Garner, MD, CIO John Schofield, Senior VP and CFO Gary Zuar and the entire SVCMC team.

## IT governance defined

"IT governance is the term used to describe how those persons entrusted with governance of an entity will consider IT in their supervision, monitoring, control and direction of the entity," says Robert S. Roussey, a CPA and professor at the University of Southern California, in the IT Governance Institute's *Board Briefing on IT Governance*. "How IT is applied within the entity will have an immense impact on whether the entity will attain its vision, mission or strategic goals." The Information Systems Audit and Control Association (ISACA) and its affiliated foundation founded the institute in 1998 to assist enterprise leadership in ensuring long-term, sustainable enterprise success and increased stakeholder value by expanding awareness of the need for effective IT governance.

Governance of new technology, including IT, extends the board's mission of defining strategic direction and ensuring that objectives are met, risks are managed and resources are used responsibly. Pervasive use of technology has created a critical dependency on IT that calls for a specific focus on IT governance. Such governance should ensure that an organization's IT sustains and extends its strategies and objectives.

### Effective IT governance

- is the responsibility of the board of directors
- protects shareholder value
- makes clear that IT risks are quantified and understood
- directs and controls IT investment, opportunity, benefits and risks
- aligns IT with the business while accepting IT is a critical input to and component of the strategic plan, influencing and potentially generating strategic opportunities
- sustains current operations and prepares for the future
- is an integral part of a global governance structure

## Gluing fragments together

IT governance is not an isolated discipline, but an integral part of overall enterprise governance, just as IT is an integral part of the enterprise. "IT serves, but is not a thing in and of itself," says Barry Bader, a governance consultant in Potomac, Md. "IT is the glue that holds together otherwise fragmented healthcare delivery systems."

Until recently, IT was seen as important, but only as an area of operations, and therefore the responsibility of management, not of the board, Bader says. "Now, the premise has changed. If it's true that IT is critical to achieving an organized delivery system, to linking patients to providers, to reducing the costs of care, then IT is an extremely important element of an organization's strategic direction."

"IT governance means setting measurable objectives, monitoring performance regularly and redirecting activities as needed to stay in alignment with the objectives," says Erik Guldentops, a Brussels-based management consultant and advisor to the board of the IT Governance Institute. "IT is utterly essential, since without information, the enterprise will stop functioning. Yet IT has a proven track record of not performing well."

IT's implications are so critical that every board should have an IT committee, says Stan Nelson, co-founder and chairman of the Scottsdale Institute, and former president and CEO of Henry Ford Health System. "Having an IT committee is at least as important as having a finance committee, and a case can be made that unless somebody's embezzling from the organization, it's more important. Finance is a matter of keeping score, which is obviously important, but it's not playing the game. IT is driving the business."

<i>A Shared Responsibility: How Boards and Management Oversee IT</i>		
IT Governance Activities	Board and/or Management Responsibility	Activity Type
Become informed of role and impact of IT on the enterprise	B/M	Plan
Set direction and expected return	B	Direct
Determine required capabilities and investments	M	Plan
Assign responsibilities	B/M	Direct
Sustain current operations	M	Organize
Make transformation happen	B/M	Direct
Define constraints within which to operate	B	Direct
Acquire and mobilize resources	M	Organize
Measure performance	B	Control
Manage risk	B/M	Control
Obtain assurance	B	Control
Source: IT Governance Institute		

### IT Cost Benchmarking Database Available:

Scottsdale Institute members can now enter data into the database. Compare your organization with others. Please contact Cynthia Pratt at 763-422-6761 or at [cpratt@fcg.com](mailto:cpratt@fcg.com) to obtain your username and instructions for accessing the database.

### An uncommon committee

Having an IT committee or subcommittee as part of the board structure is a good idea but is uncommon, for not very good reasons, says Donald C. Wegmiller, FACHE, president and CEO of The Healthcare Group, a division of Clark/Bardes Consulting, a national executive compensation and benefits consulting firm. "Not many board members would want to sit on such a committee," Wegmiller says. "They don't know technology issues like they know finance or other aspects of operations, and they aren't particularly attracted to them." Another barrier to more effective governance of the IT function is that CEOs are not fond of having lots of board involvement in general, particularly more board involvement in capital spending decisions, Wegmiller says. "Nor are CEOs interested in having more committees of the board."

Even with such obstacles, Wegmiller believes boards still need to become more familiar with IT issues, and offers these strategies as ways to start:

- **Appoint a non-board member as technical advisor.** While this person doesn't vote or make decisions, they provide key technical expertise when an IT issue arises. Having such a resource can also help recruit board members and increase the organization's visibility in the community.
- **Establish an advisory IT committee.** Setting up a working group that does not hold voting authority or decision-making power can lessen a CEO's concerns about diluting authority. At the same time, such an advisory body can offer technical advice while helping to educate the board.

## REMINDER:

Scottsdale Institute member CIOs will have another opportunity to network, discuss leading practices and share their experiences during the Scottsdale Institute CIO Fall Meeting in Chicago, October 24-25. If you haven't registered yet, please contact Cynthia Pratt at 763-422-6761 or at [cpratt@fcg.com](mailto:cpratt@fcg.com). Watch for details in your email.

- **Have board members share their IT experiences.** Even boards that don't have an IT committee can benefit from hearing how companies in other industries represented by board members have tackled technological challenges.
- **Bring board members to IT leadership conferences.** Wegmiller notes that Heartland Health in St. Joseph, Mo., routinely brings board members to the Scottsdale Institute's annual meeting, to help expose them to current thinking on IT topics.
- **Conduct educational sessions.** This objective can be met in the context of strategic retreats already on the schedules of most good boards. Bring in a speaker to talk about how the board fits into the IT strategy and how that strategy supports the overall business plan. "These presentations often are poorly done because they're too technical," Wegmiller says. "You may need someone other than an IT person to lead this discussion." That person might be a strategic consultant. At these strategic retreats, create opportunities for informal conversations between IT leaders, strategic planners and board members.

## Heart of the matter

Heartland Chief Technology Development Officer Larry Koch is part of a management team that has put many of Wegmiller's suggestions into practice. "We believe that all change, whether within our organization or in the wider society, is driven by three forces: technology, acceptance of the needs of customers and the need to generate positive cash flow," says Koch. "That's why we educate board members about technology issues every chance we get." Heartland's 11-member board doesn't choose vendors but it does set the strategic direction that shapes vendor selection. In addition to the Scottsdale Institute conference, Heartland board members attend Premier Inc. hospital alliance events.

Every fall, Heartland brings in a technology futurist as part of a half-day retreat for its board and senior management, followed by an evening session for medical staff. This year, Jeff Goldsmith is the speaker. "Two years ago, we looked at prospects in basic technologies such as fiber optics that could have implications in healthcare," Koch says. "Last year, we had a speaker who looked at the Human Genome Project and other advances in pharmacogenomics."

In Koch's experience, outside board members less often share examples of how their non-healthcare organizations use specific new technology than they do about how they complied with standards such as ISO 9001, a set of international standards that define requirements for an effective quality system.

## Inquiring minds

Boards exercising proper IT governance often address problems in advance simply by asking the right questions. The IT Governance Institute suggests that these questions should include:

- How critical is IT to sustaining the enterprise? How critical is IT to growing the enterprise?
- How far should the enterprise go in risk mitigation and is the cost justified by the benefit?
- Is IT a regular item on the agenda of the board and is it addressed in a structured manner?

- Is the board regularly briefed on IT risks to which the enterprise is exposed?
- Does the board articulate and communicate the business objectives for IT alignment?
- Does the board have a clear view on the major IT investments from a risk and return perspective? Does the board obtain regular progress reports on major IT projects?
- Is the board getting independent assurance on the achievement of IT objectives and the containment of IT risks?
- Is the reporting level of the most senior IT manager commensurate with the importance of IT?

The two issues IT governance is concerned about are that IT delivers value to the business and that IT risks are mitigated, says Guldentops. The first is driven by strategic alignment of IT with the business. Embedding accountability into the enterprise drives the second. Both need measurement, using the Balanced Business Scorecard concept developed by Robert S. Kaplan and David P. Norton of the Harvard Business School. “Boards have tended to focus on financial measures. While these are important, a balanced business scorecard also considers three other dimensions: customer focus, process efficiency and the ability to learn and grow,” he says.

*Financial measures* look at the number of IT customers, cost per IT customer, increasing cost-efficiency of IT processes and delivery of IT value per employee. *Process efficiency* includes the availability of systems and services, adherence to schedules and budgets, throughput and response times and amount of errors and rework. The *ability to learn* includes staff productivity and morale, number of staff trained in new technologies and services, increasing value delivery per employee and increased availability of knowledge systems. *Customer focus* includes increasing level of service delivery, satisfying existing customers, reaching new customers and new service-delivery channels.

## Ladies and gentlemen, COBIT

IT auditors serve as the board’s eyes and ears, using audit reports to identify and quantify significant business risks associated with an organization’s use of IT to achieve its business ends. The Information Systems Audit and Control Foundation and the IT Governance Institute developed an IT assessment tool called COBIT (Control Objectives for Information and related Technology) to measure IT performance and gather information needed to keep boards informed.

COBIT is an open-standard IT control framework that starts from the premise that IT needs to deliver the information that the enterprise needs to achieve its objectives. COBIT divides IT into 34 processes belonging to four domains (planning, acquisition and implementation, delivery and support, and monitoring), and looks at fiduciary, quality and security needs of enterprises. COBIT’s framework explains how IT processes deliver the information that the business needs to achieve its objectives. This delivery is controlled through 34 high-level control objectives, one for each IT process, contained in the four domains. The framework identifies which of seven information criteria—effectiveness, efficiency, confidentiality, integrity, availability, compliance and reliability—as well as which IT resources—people, applications, technology, facilities and data—are important for the IT processes to fully support the business objective.

## COBIT’s high-level control objectives

### Planning and Organization

- 1 define a strategic IT plan
- 2 define the information architecture
- 3 determine the technological direction
- 4 define the IT organization and relationships
- 5 manage the IT investment
- 6 communicate management aims and direction
- 7 manage human resources
- 8 ensure compliance with external requirements
- 9 assess risks
- 10 manage projects
- 11 manage quality

### Acquisition and Implementation

- 1 identify automated solutions
- 2 acquire and maintain application software
- 3 acquire and maintain technology infrastructure
- 4 develop and maintain procedures
- 5 install and accredit systems
- 6 manage changes

### Delivery and Support

- 1 define and manage service levels
- 2 manage third-party services
- 3 manage performance and capacity
- 4 ensure continuous service
- 5 ensure systems security
- 6 identify and allocate costs
- 7 educate and train users
- 8 assist and advise customers
- 9 manage the configuration
- 10 manage problems and incidents
- 11 manage data
- 12 manage facilities
- 13 manage operations

### Monitoring

- 1 monitor processes
- 2 assess internal control adequacy
- 3 obtain independent assurance
- 4 provide for independent audit

Source: IT Governance Institute

For more information on the IT Governance Institute, go to [www.itgovernance.org/inforequest.htm](http://www.itgovernance.org/inforequest.htm).

## The 11 Habits of Effective IT Organizations

The SI/FCG Performance Improvement Program uses 11 metrics in three categories to rank IT performance, allowing you to compare your organization with leading practices in healthcare.

### Strategic Alignment

- *Strategic Planning and Continuity*
- *Governance and Policy*
- *Future Focus and Regulatory Compliance*

### Value Realization

- *Project Execution and Delivery*
- *Application Management—Fiscal Responsibility and Management*
- *ROI*

### IS Dept. Operational Excellence

- *Service Levels*
- *Organization, Leadership and Staff Development*
- *Ops and Data Center Management—Infrastructure*

Source: Scottsdale Institute and First Consulting Group

For more information on the SI/FCG Performance Improvement Program, contact Shelli Williamson at 888-294-8804.

Business orientation is the main theme of COBIT. It is designed to be employed not only by users and auditors, but more importantly as comprehensive guidance for management and business process owners. Increasingly, business practice involves the full empowerment of business process owners so they have total responsibility for all aspects of the business process.

## Learning from the best

To provide information needed to improve IT governance in healthcare, the Scottsdale Institute and First Consulting Group developed a Performance Improvement Program for Achieving IT Value. This tool, together with a complementary IT Cost Benchmarking Program, helps an organization more fully understand IT costs, compare itself with other organizations and network with them to gain insights about leading practices and lessons learned. Together, this is the only healthcare-specific toolset for measuring and comparing IT cost and value.

About 40 organizations have used the SI/FCG tool to assess their IT performance. IT performance is measured using 11 metrics divided into three categories (see sidebar). Of the three, "strategic alignment and value realization are the two that a board would be most interested in," says FCG VP Marty Belscher. "The board wants to know if their organization's investment in IT is returning value, even if that value isn't in hard dollars at first. It could be in costs avoided, for example by reducing medical errors." Equally important, he says, is aligning IT projects, staff allocation and use of capital with the organization's business and care plan.

## Conclusion

No matter how well aligned those elements are, it's clear that the buck stops with senior executives. "Not enough emphasis is placed on management's responsibility to get these issues in front of the board," says Kevin Wardell of M.D. Anderson Cancer Center in Houston. "In my view, if the board ignores IT then management hasn't done their job 'getting them interested' and understanding IT's centrality to vision. It's the CEO's responsibility to engage the board."

IT executives also play an important role. It is crucial that boards are comfortable that their IT leadership understand the organization's strategy and be able to relate technology trends in a way that makes sense to board members.



**Mark Your Calendars!**

## Scottsdale Institute Annual Conference

**April 18\*-20, 2002**

**Marriott Camelback Inn • Scottsdale, AZ**

\*Special pre-conference sessions for Executive, Clinical and IT Leaders

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