

# *A Progress Report On The CFO-CIO Partnership*

*An independent research study sponsored by*

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## The Finance and IT relationship

The question “What are your top 3 priorities?” showed IT executives focused inwards on operational issues, while IT Finance executive’s focused outward on business issues. IT executives reported their most important priorities included IT systems/infrastructure, standards and aligning IT with the business. IT Finance executive priorities, on the other hand, are more business-focused. They include expanding the company’s product line, the delivery of those products on-line, and increasing revenue while decreasing expenses.

It was only in limited cases that both IT and IT Finance executives shared common goals, such as increasing revenues and reducing costs. Below is a ranked list of interviewee responses to the question, “What are your top priorities?” A disconnect appears in the initiatives sited by IT executives and their Finance peers.

### The great disconnect: IT and Finance What are your top priorities?

IT	FINANCE
<ul style="list-style-type: none"><li>• Specific applications development</li><li>• Infrastructure enhancements / standardization</li><li>• Cost / expense / efficiency management</li><li>• Business and IT alignment</li><li>• IT evangelism</li><li>• Outsourcing</li><li>• Product innovation</li><li>• Regulatory compliance (Sarbanes Oxley)</li><li>• Revenue generation / enhancement</li><li>• Security / disaster recovery</li></ul>	<ul style="list-style-type: none"><li>• Expansion of product line/online delivery</li><li>• Specific applications development</li><li>• Increase revenue / reduce expenses</li><li>• 24X7 processing / availability</li><li>• Regulatory compliance (Sarbanes Oxley)</li><li>• Employee productivity</li><li>• Customer and partner experience</li><li>• Security</li></ul>

Source: Gartner

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**IT Executive priorities are around systems / infrastructure, standards and aligning IT and business. IT Finance Executive priorities are more business-focused, such as expanding the company's product line and the delivery of those products online.**

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The same splits occurred when IT executives were asked to describe the top three services the IT department provides. The most common responses from IT executives were internal functions such as managing the infrastructure and data center, providing highly available systems, and providing efficient network services such as email and IT systems management. While many IT Finance executives agreed with that list, a surprising number added business-focused functions such as “IT seen as change driver” and IT serving as an advisor to business. Some also mentioned customer-facing functions, such as “trust account recording,” “patient safety,” and “improving clinical care.”

In fact, some responses indicated that IT Finance executives feel they have a stronger partnership with IT executives than the IT executives feel they have with their finance counterparts. All the IT executives reported having a direct relationship with finance, but said that “finance involvement is primarily from a ‘stick to the budget’ and ‘ROI’ perspective.” IT Finance executives also described their relationship with IT executives as focusing on tracking and control, including performing functions such as invoice processing and contract management. However, many also used words such as “strong,” “partner,” “parallel” and “a good one” to describe their relationship with their IT counterparts. All the IT executives, in fact, reportedly have dedicated finance professionals within the IT function.

While the two sides lack common goals, it was clear from the respondents that both IT and IT Finance executives work together in evaluating and prioritizing projects with input from business managers. Decision makers are typically a senior management committee, comprised of a CEO, IT Finance executive, IT executive, and, in some cases, sales, marketing and/or human resources. In several companies an IT steering committee evaluates projects with input from the business units; in other cases, general managers or division managers evaluate projects to align them more closely with corporate strategy. In almost all cases, IT projects were driven by a mix of IT and business managers. This suggests a collective decision-making process that works best when both sides have a common base of knowledge and a similar “mental map” of the current state of an organization’s IT systems. Unfortunately, the study showed IT executives and IT Finance executives currently lack this common information in almost every case.

## The Need for IT Consumption & Cost Data

One IT Finance executive wanted to relate utilization metrics to cost: “Put this information together and say ‘Here is how utilization impacts costs,’” he said.

IT Finance executives reported using a variety of measures to give them at least some sense of the IT resources used by a business unit or an application, with nearly all using “score cards” reported at least once a month. Allocating costs is relatively easy when all the assets devoted to an application can be charged back to the same line of business. However, one IT Finance executive reported, “For shared resources, it’s more difficult. We need more tools to help measure things such as data warehouse usage.” One IT Finance executive wanted precise measurements of the per-transaction costs of various systems, such as trading or on-line banking systems.

To the degree such measurements are captured, IT executives reported the information is usually used only to track spending against a pre-determined budget. IT Finance executives agreed such information was used mostly for budgeting purposes, and “shared with IT and finance on an as-needed basis, and only at a high (summary) level.”

When asked what other information they would like, IT executives named detailed project information and the ability to compare their costs to industry benchmark data. IT Finance executives also wanted internal and external benchmarking data, as well as usage information about their corporate network. They also said they want better ways to track the usage of midrange systems (such as Unix and AS/400 systems) that are not well geared toward detailed resource measurement. One asked for the ability to clearly link changing levels of IT resource utilization with costs.

Even for IT Finance executives, the study reported, baseline costs are most often estimated. None of these methods, of course, come close to tracking actual consumption of IT resources or capturing their cost.

Without detailed usage and cost information, IT resources are allocated by senior management with very limited data. Likewise, planning for future purchases and projects is done without usage and cost insight. One IT Finance executive reported he “desperately” needs consumption information on distributed storage. Most IT executives reported that planning is done only one year into the future, based on surveys of the lines of businesses to determine their IT services needs. IT Finance executives said they plan for future demand based on changes in head count and end-user demands, as well as new product development and/or regulatory requirements. Nowhere is the prioritization of future IT spending as formal or rigorous a process as that performed for other capital expenditures.

## Impact on Outsourcing Strategy

Nearly all the organizations reported outsourcing at least some IT functions. IT executives said this was done to minimize risk and reduce capital investment. IT Finance executives, on the other hand, considered whether an outsourcer can provide the same services at the same or lower cost as their own IT organization. Both IT and IT Finance executives claimed cost is not the only factor in deciding whether to outsource. However, it is clear that both IT and IT Finance executives are making critical cost comparisons that determine their outsourcing strategies without any way to measure their current consumption of IT services or the associated costs of that usage.

A substantial number of both IT and IT Finance executives said their organizations do not even compare the services billed by their outsourcers to the actual services provided. Many reportedly rely on the outsourcing vendor to provide usage information so costs can be allocated to the proper business unit.

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Even those organizations that said “yes” [Can you measure IT resource consumption?] are using basic, and sometimes manual processes, such as spreadsheets and informal project management tools.

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## Substitutes for Baseline Costs

The first step to evaluating the value of a capital investment is to compare its cost and the price of continuing to operate with the current equipment and processes – the “baseline” cost. However, the study reported IT executives as saying “If baseline costs are obtained, it is through rudimentary mechanisms such as budgetary estimates, and the allocation of infrastructure, maintenance and support costs.”

Several IT executives said they obtained baseline costs by dividing the costs of the entire IT infrastructure based on revenue for each geographic region. This uses one measure (revenue) to estimate another measure (IT costs), when the two may have no connection. Consider, for example, a corporate data center that provides email services for distribution centers in several geographic areas. If sales fall in a region one month due to severe weather or the entry of a new competitor, revenue for that geography will fall. However, the amount of IT services consumed by the distribution center in that district, such as email and data storage, may not drop at all. Using revenue to allocate IT costs also ignores whether the servers, storage or networks serving the geography are utilized more efficiently than in others.

**While IT Finance executives felt they have a good handle on resource consumption, the associated costs are often an established budget allocated to business units. Few organizations are tracking actual usage or consumption.**

When asked “What other tools or processes are in place to evaluate projects?” IT executives reported a variety of methods. These ranged from low-end tools, such as Microsoft office Project to high-end consulting services for benchmarking studies. They also cited “primitive” charge-back mechanisms, such as tracking the number of employee hours charged to the line of business for a specific project.

The study found that some respondents who felt they had a good understanding of IT resource consumption were actually using flawed data. Many used whatever information they have to estimate IT resource consumption. Some based their estimates on the amount of time (or people-hours) spent on a project. Some used resource consumption measures that were not granular enough to yield meaningful IT usage information. For example, one organization examines consumption patterns based on hardware and software usage, but could not break that down by application or business unit. They also lacked a method to apply appropriate costs to that usage.

When it came to IT Finance executives, the same challenges appeared. One organization which reported it had a good understanding of resource consumption said it does not allocate costs back to the business based on actual usage, but rather, on headcount. In many cases, what they reported as ‘IT costs’ were nothing more than the budget that had been allocated to the business unit.

## Conclusions

Given the need to reduce the 80+% of the IT budget consumed by current systems maintenance, metrics on actual usage and associated costs across the enterprise would help enormously. This insight would pinpoint strategic consolidation and rationalization opportunities, freeing resources to drive IT innovation that supports profitable growth. It would also serve as a factual basis for financial management of IT assets and an objective metric for governing outsourced services.

While the CFO - CIO Partnership is maturing, a challenging obstacle seems to be this lack of information regarding IT usage, costs and business drivers. Even very large companies, with significant IT budgets, appear to lack common methods and metrics to manage IT like any other corporate investment. Typically, IT executives are more focused on current operations and IT-specific initiatives, while IT Finance executives are focused on increasing profitability.

One critical factor is that IT Finance executives are seeking accurate metrics on the IT usage and costs for various lines of business. IT executives are struggling to deliver this usage-based data, without comprehensive tools or methodologies in place to benchmark, estimate and forecast such figures. Often companies are using proxies, such as head count or budgets, to estimate actual IT resource consumption and costs. However, the team-oriented nature of IT strategy and project planning shows signs of a strengthening relationship.

## About Evident Software

Evident Software's IT Service Intelligence platform helps drive IT value. Our software makes IT usage, costs and their business drivers evident, so our clients can manage IT as an investment. Evident's global reach and patented technology is helping some of the world's largest organizations, including IBM, Fidelity Investments, and British Telecommunications, measure and communicate the business value of IT. For more information, visit us on the web at [www.evidentsoftware.com](http://www.evidentsoftware.com)