CIO PULSE REPORT

IT Financial Management Revisited

Time for a smarter and more joined-up approach

FREEFORM DYNAMICS

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Management summary

Funding, budgeting and financial management have always been an integral part of IT service delivery, but traditional ways of handling these have become increasingly challenged. The rise of cloud computing and the emergence of platforms that take dynamic infrastructure sharing to the next level, for example, have undermined asset and cost-centre centric accounting mechanisms. Meanwhile, DevOps based delivery, together with a lowering of procurement barriers and a shortening of delivery timescales, have disrupted many planning and governance processes. And overarching all this is an ongoing urgency to create ever-more business advantage.

Against this background, the research presented in this report, during which feedback was gathered from 50 CIOs, considers the current state of IT Financial Management (ITFM) and how ideas and solutions in this space are evolving.
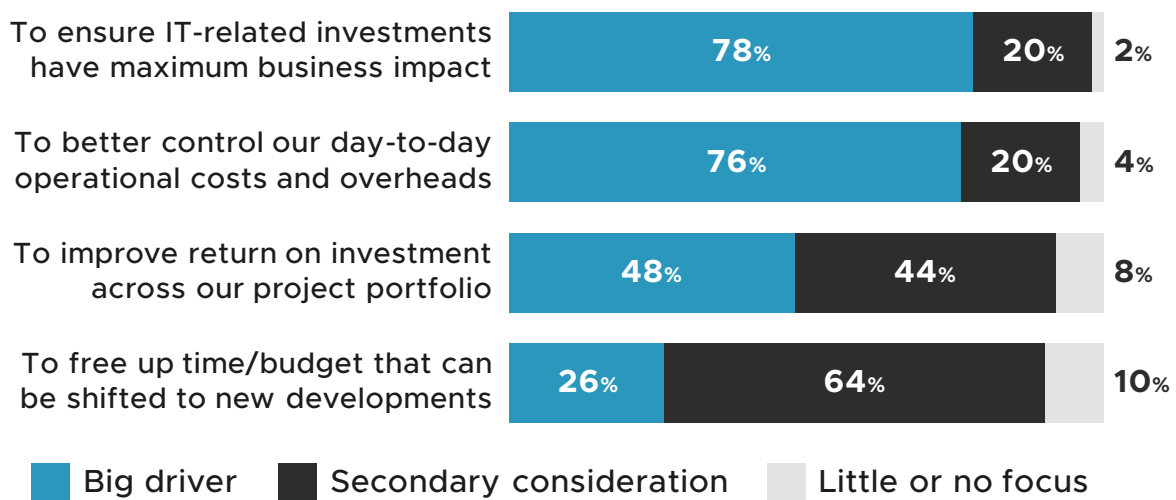
Key research findings

- Every CIO participating in our study said ITFM was a current priority for them.

- Motivations are balanced, with an equal emphasis on better management of costs and maximising the contribution of value to the business.

- ITFM is also seen as key to enhancing IT's credibility with stakeholders and, where necessary, re-positioning the IT organisation from cost centre to revenue enabler.

- But a range of challenges exist from business alignment and engagement, through visibility, planning and optimisation, to practical issues with tracking costs and assessing value for both existing systems and new solutions.

- Priority areas cited for improvement include budgeting and planning, ROI/TCO modelling and supplier management, with an overarching need for stronger data collection, collation and analysis capabilities.

- Most see a shift from generic office tools and the use of secondary features of generic systems to cross-platform solutions and specialist ITFM platforms. With a smart approach, investments in this area could be self-funding.

- Beyond technology, a strong partnership between the CIO and CFO is seen as critical given the need for policy and process related transformation.

Value and contribution as well as cost and efficiency

When considering the topic of financial management, the tendency is sometimes to focus mostly on cost control. While this is clearly part of the discussion, and running a 'tight ship' is one of the hallmarks of an effective CIO, of equal importance is ensuring that funds and resources are well spent to deliver the maximum business impact.
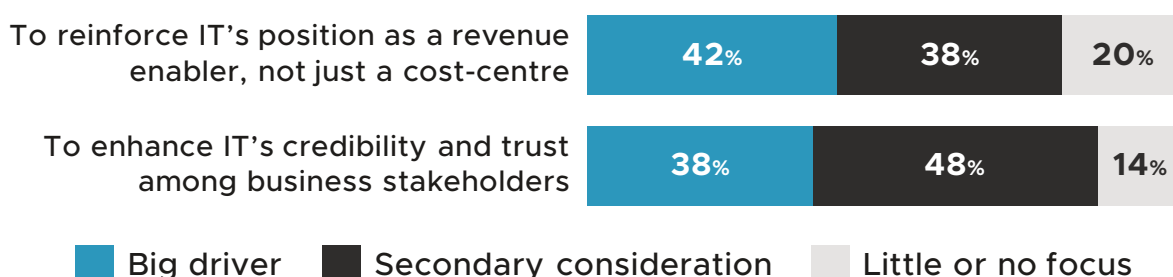
Why (if at all) is it important for your organisation to focus on IT finance management at the moment?

	Big driver	Secondary consideration	Little or no focus
To ensure IT-related investments have maximum business impact	78%	20%	2%
To better control our day-to-day operational costs and overheads	76%	20%	4%
To improve return on investment across our project portfolio	48%	44%	8%
To free up time/budget that can be shifted to new developments	26%	64%	10%

Legend: ■ Big driver ■ Secondary consideration ☐ Little or no focus

The picture we see here is consistent with pretty much every other research study we have conducted recently. Against the backdrop of major public health and geopolitical disruptions, business and IT leaders know they can't save their way to future success. Digital and business transformation are critical, which in turn shines a spotlight on technology and underscores the role of IT as a strategic business enabler.

Going hand in hand with this is a recognition that smarter ITFM can help to raise IT's credibility with business stakeholders and reinforce its positioning as a revenue enabler. The overriding aim is to shake any residual views of IT as simply a cost centre, and get it working as a trusted and integral part of the overall business.
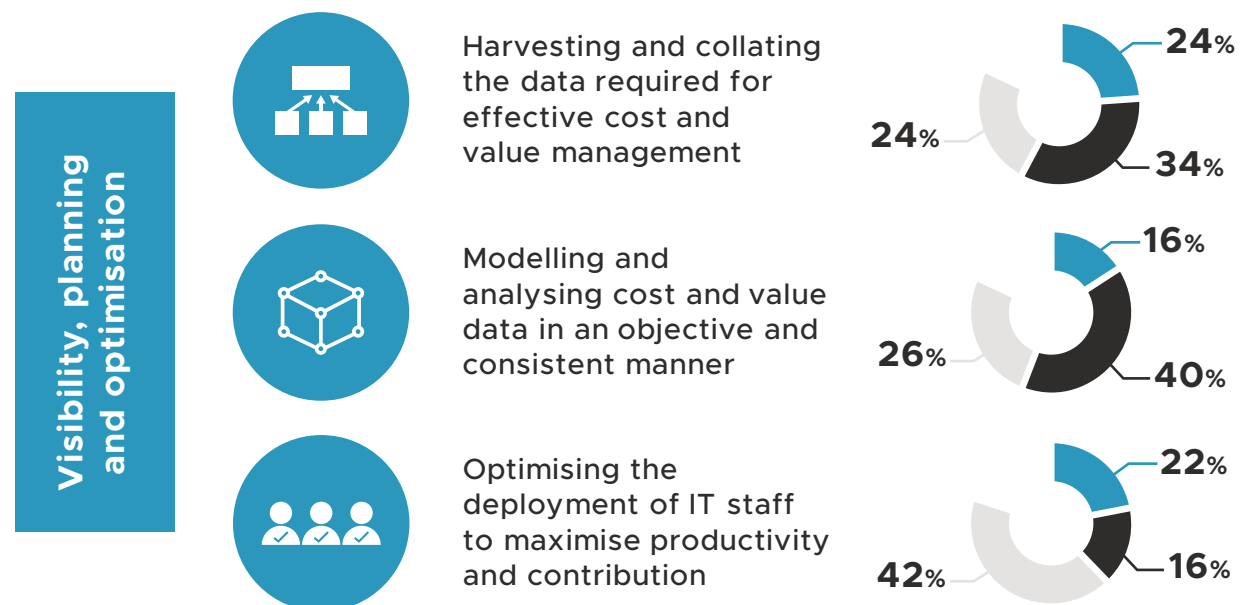
Other ITFM drivers

	Big driver	Secondary consideration	Little or no focus
To reinforce IT's position as a revenue enabler, not just a cost-centre	42%	38%	20%
To enhance IT's credibility and trust among business stakeholders	38%	48%	14%

Legend: ■ Big driver ■ Secondary consideration ☐ Little or no focus

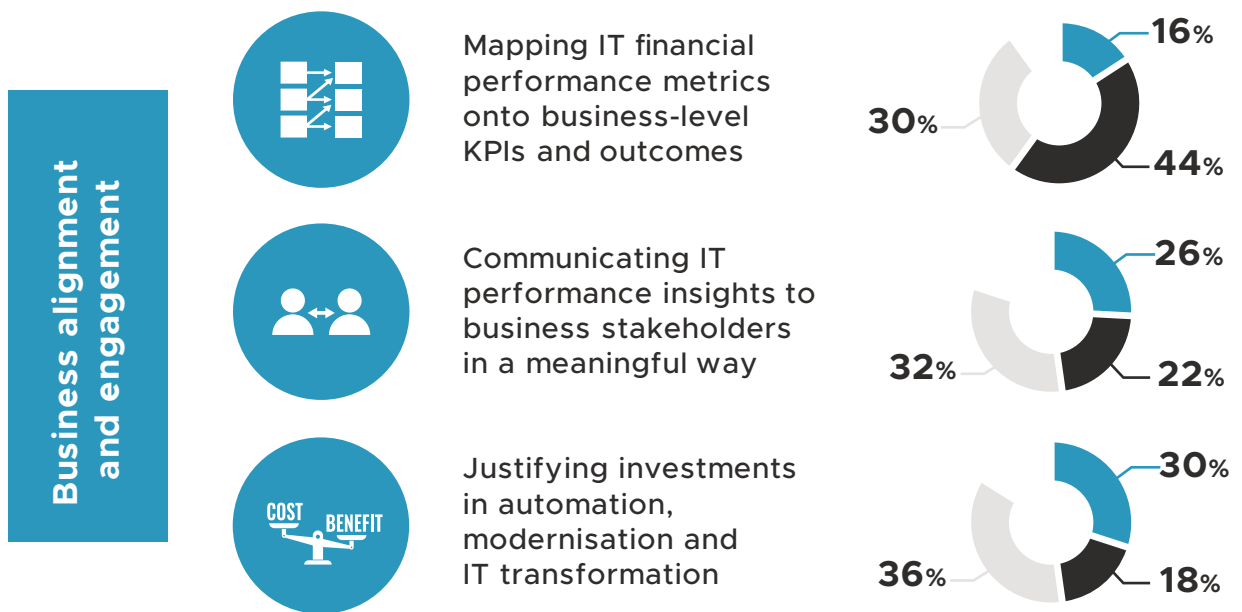## Effective ITFM is now more important and harder to achieve

It's hardly news that the pace of change has been accelerating relentlessly on both the business demand and IT service delivery sides of the equation. At the same time, activity has become more diverse and fragmented as business units and even individual users have sought IT solutions finely tuned to their needs. The resulting increase in speed and complexity has not surprisingly led to a range of ITFM related challenges.

Do you have particular challenges or constraints in any of these areas?

Business alignment and engagement

Mapping IT financial performance metrics onto business-level KPIs and outcomes
- 16%
- 44%
- 30%

Communicating IT performance insights to business stakeholders in a meaningful way
- 26%
- 22%
- 32%

Justifying investments in automation, modernisation and IT transformation
- 30%
- 18%
- 36%

Visibility, planning and optimisation

Harvesting and collating the data required for effective cost and value management
- 24%
- 34%
- 24%

Modelling and analysing cost and value data in an objective and consistent manner
- 16%
- 40%
- 26%

Optimising the deployment of IT staff to maximise productivity and contribution
- 22%
- 16%
- 42%

■ Have issues that are being addressed ■ Have issues that we are living with for now ■ Issues emerging or anticipated

Specific systems-related challenges

Modern delivery options have aggravated the ITFM challenge

Increasing adoption of cloud computing, dynamic shared infrastructure and on-demand commercial models has challenged traditional fixed asset and cost centre based accounting approaches. Enabling rapid delivery and easy reallocation of resources as demands change might be good for business, but it can make ITFM more difficult.
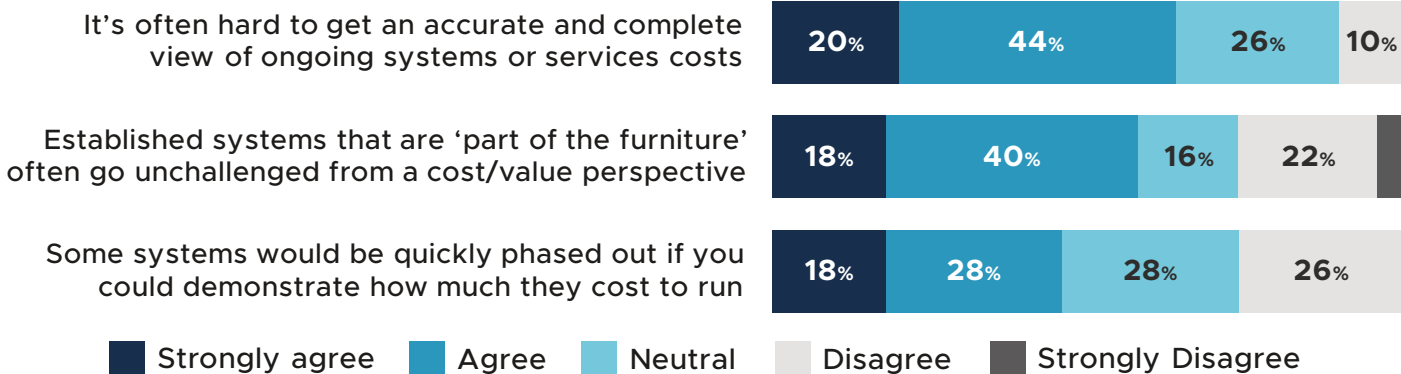
Do you have particular challenges or constraints in any of these areas?

Taming new modern delivery models

Tracking and accounting for the use of shared infrastructure and services
- 22%
- 22%
- 16%

Monitoring and managing the costs associated with public cloud services
- 16%
- 14%
- 26%

Monitoring and managing the costs associated with private cloud services
- 14%
- 12%
- 20%

- ■ Have issues that are being addressed
- ■ Have issues that we are living with for now
- ■ Issues emerging or anticipated
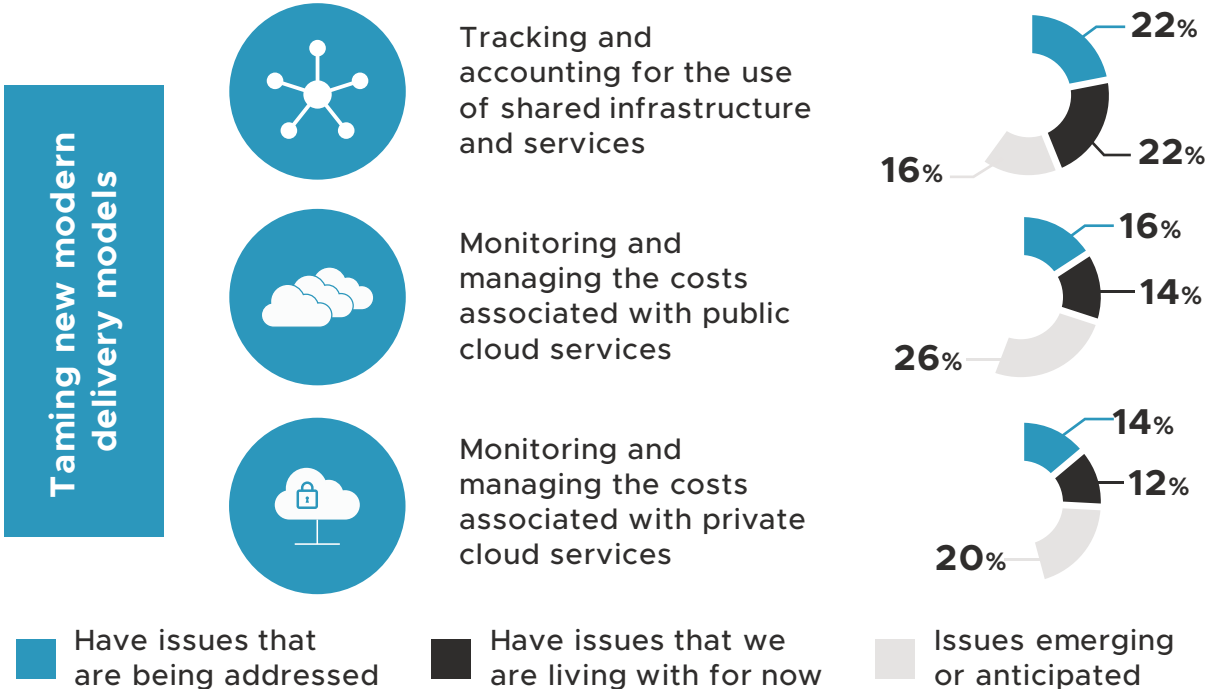
But traditional systems can still be an issue

It can be tempting to hark back to a time when things were more stable and predictable, but the truth is that even systems implemented in a more traditional manner, e.g. based on fixed, dedicated stacks, can become problematic from an ITFM perspective as they age.

How much would you agree or disagree with the following?

	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
It's often hard to get an accurate and complete view of ongoing systems or services costs	20%	44%	26%	10%	
Established systems that are 'part of the furniture' often go unchallenged from a cost/value perspective	18%	40%	16%	22%	
Some systems would be quickly phased out if you could demonstrate how much they cost to run	18%	28%	28%	26%	

- ■ Strongly agree
- ■ Agree
- ■ Neutral
- ■ Disagree
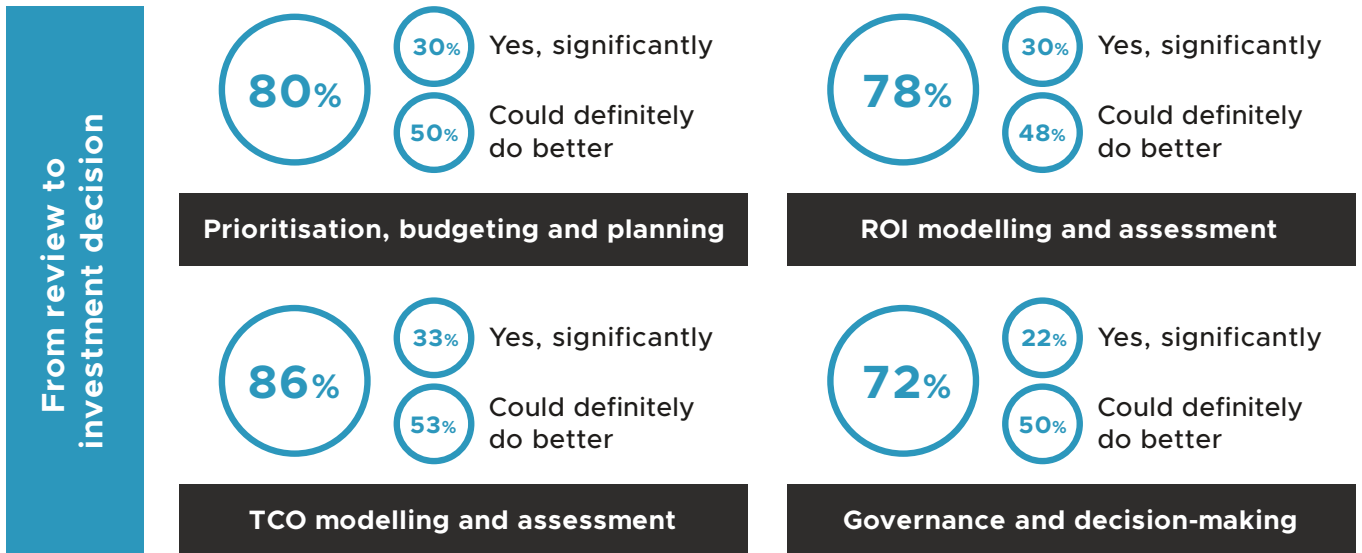- ■ Strongly Disagree

Setting objectives for improvement

Where are the opportunities?

In order to define an ITSM transformation or improvement programme, you need to be clear on the specific functions that need addressing. It wasn't possible to be exhaustive when exploring this in the research, but we did establish that the majority of CIOs see a need to strengthen a number of fundamental capabilities. These range from prioritisation, budgeting and planning, through TCO and ROI modelling, to overall IT governance, all of which are important when making decisions around new investments or existing systems.

Do you see the potential to improve in any of the following areas?

From review to investment decision

80%
30% Yes, significantly
50% Could definitely do better
Prioritisation, budgeting and planning

78%
30% Yes, significantly
48% Could definitely do better
ROI modelling and assessment

86%
33% Yes, significantly
53% Could definitely do better
TCO modelling and assessment

72%
22% Yes, significantly
50% Could definitely do better
Governance and decision-making

We then have a range of other areas for improvement relating to execution and ongoing operations. Some of these are clearly a response to the previously highlighted challenges.

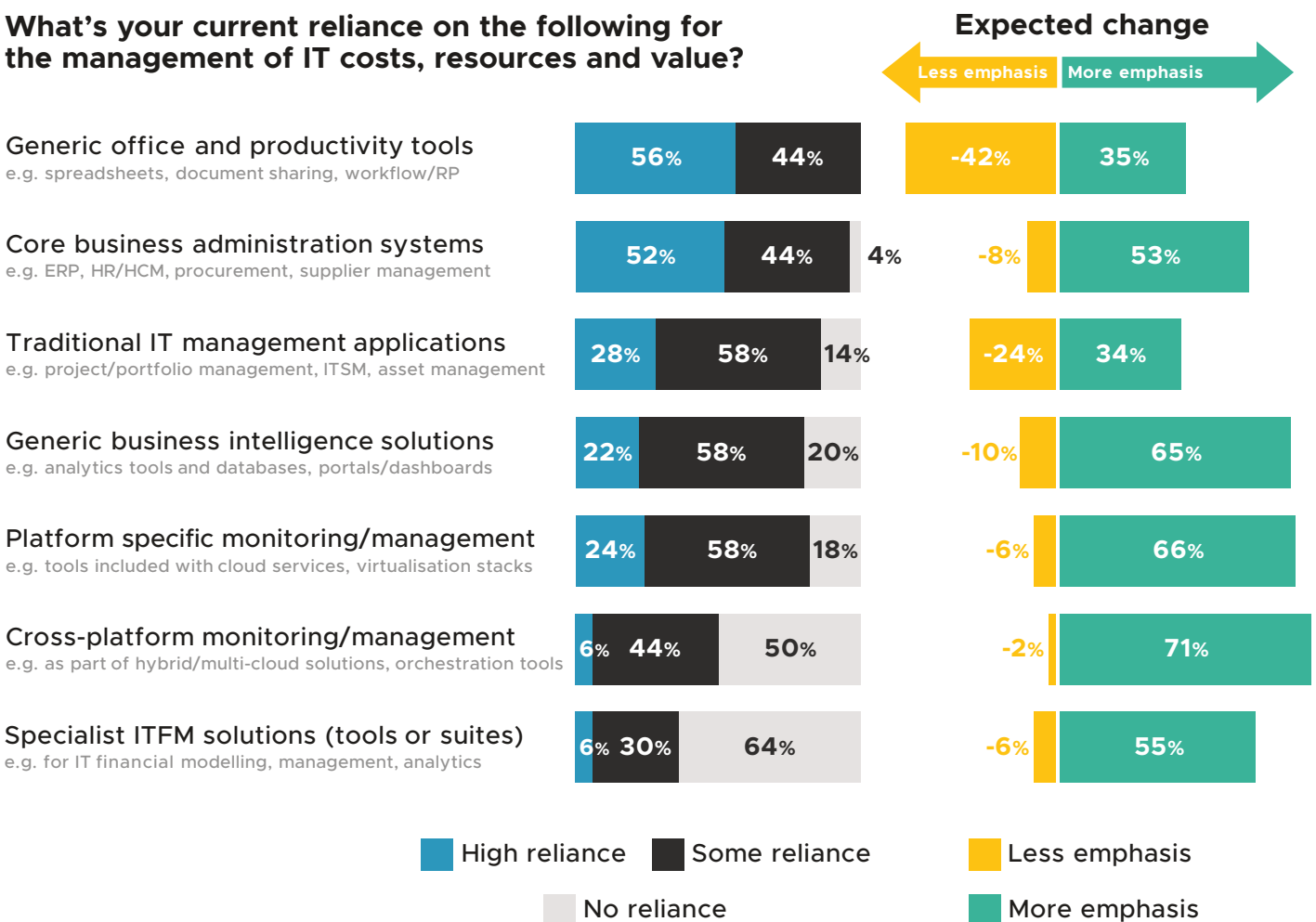### Do you see the potential to improve in any of the following areas?

Execution and operation

64%
16% Yes, significantly
48% Could definitely do better
Procurement and supplier management

80%
22% Yes, significantly
58% Could definitely do better
Tracking and analysis of overall spend

72%
22% Yes, significantly
50% Could definitely do better
Allocation/chargeback to the business

62%
16% Yes, significantly
46% Could definitely do better
Workforce (IT staff) optimisation

Inefficiency and focus on the retrospective

Something we suspected from anecdotal feedback and experience in the field was that many IT teams rely very heavily on generic office tools and core business administration systems for ITFM, and the research confirms this. If you've read this far, you undoubtedly have enough experience to be familiar with the limitations, risks and inefficiencies of home-grown spreadsheets. You'll also be aware that core business systems such as ERP and HRM often only provide a backward-looking view that lacks the granular detail required to do anything other than retrospective performance assessment at a very high-level - certainly not adequate for day-to-day management and continuous optimisation.

What's your current reliance on the following for the management of IT costs, resources and value?

Expected change

Less emphasis ← → More emphasis

	High reliance	Some reliance	No reliance	Less emphasis	More emphasis
Generic office and productivity tools e.g. spreadsheets, document sharing, workflow/RP	56%	44%		-42%	35%
Core business administration systems e.g. ERP, HR/HCM, procurement, supplier management	52%	44%	4%	-8%	53%
Traditional IT management applications e.g. project/portfolio management, ITSM, asset management	28%	58%	14%	-24%	34%
Generic business intelligence solutions e.g. analytics tools and databases, portals/dashboards	22%	58%	20%	-10%	65%
Platform specific monitoring/management e.g. tools included with cloud services, virtualisation stacks	24%	58%	18%	-6%	66%
Cross-platform monitoring/management e.g. as part of hybrid/multi-cloud solutions, orchestration tools	6%	44%	50%	-2%	71%
Specialist ITFM solutions (tools or suites) e.g. for IT financial modelling, management, analytics	6%	30%	64%	-6%	55%

Legend:
- High reliance
- Some reliance
- No reliance
- Less emphasis
- More emphasis

Increasing focus on joining the dots

Looking ahead, our CIOs anticipate putting greater emphasis on tools that enable visibility, analysis and management on a broader and more inclusive basis. Specialist ITFM solutions that have become more capable in recent years are likely to play a key role here as the latest offerings are generally designed around an open platform paradigm. This allows them to act as a hub for harvesting, collating and modelling relevant data, with the primary aim of optimising cost/benefit in an IT service context.

Driving your improvement programme

A self-funding investment

While continued use of existing tools and processes will be necessary in many situations, taking ITFM to the next level will almost certainly require further investment to establish the right infrastructure. Picking up on the intended shifts we were discussing, two key areas to consider here are cross-platform monitoring and management solutions to generate the appropriate inputs, along with the kind of specialist ITFM platform previously described.

The good news is that based on estimates of how much cost can be taken out of existing systems delivery overheads, this should be one of the more straightforward infrastructure investments to justify based on the potential returns.

What's your best estimate of how much of the IT budget could potentially be freed up through smarter investment, increased efficiency and better allocation of resources?

No potential	5%	10%	15%	20%	25% or more	Don't know
4%	8%	20%	26%	16%	14%	12%
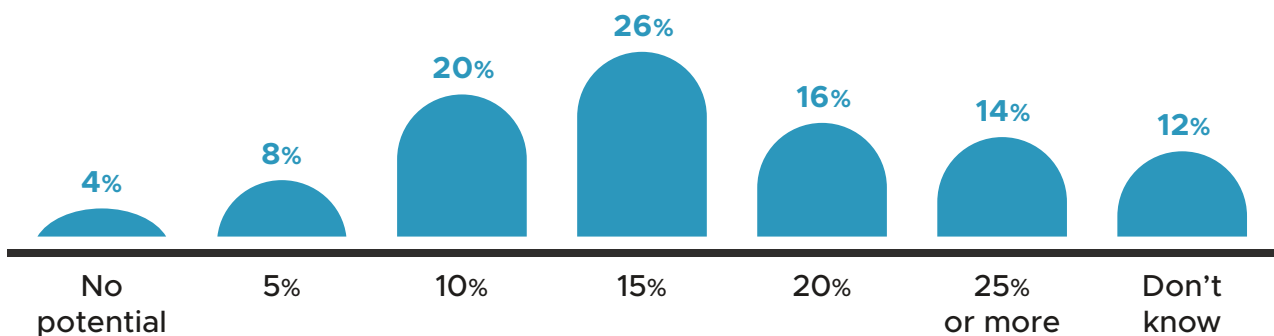
It's also worth bearing in mind that investing in enhanced ITFM capability will, by definition, increase stakeholder visibility of how well IT is both managing costs and delivering value in line with business priorities. This helps enormously when seeking executive buy in.

The importance of the CIO and CFO working together

Looking beyond technology, we've already touched on the need to transform, or at least adjust, existing budgeting, accounting and governance policies and processes to accommodate the dynamic and iterative nature of modern IT service delivery. CIO's need to work closely with CFOs on this. Indeed, establishing a robust partnership between these two roles will foster the kind of mutual understanding and support that will ensure ongoing alignment and harmony. Every CIO and CFO would do well to regard this as a priority.
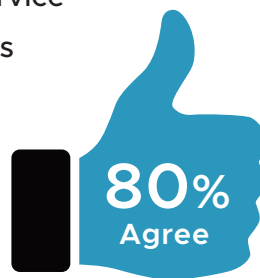
80% Agree
Budgeting and accounting methods need to change to support agile investment and delivery
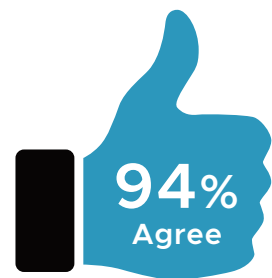
94% Agree
A strong partnership between the CIO and CFO is critical to maximise ongoing business impact

Final thoughts and recommendations

It's time for a change of mindset

Financial management has always been integral to the IT leadership role, with responsibility for selected parts of budgeting and tracking usually also delegated to those running programmes, projects and functional units within the IT organisation. The trouble is that accounting for spend is too-often viewed as a chore or a 'necessary evil'.

The emergence of smart, specialist ITFM tools and platforms, however, represents an opportunity to adopt a different mindset. The ability to make assessments based on accurate and up-to-date data, to model scenarios and outcomes, then to communicate insights effectively and convincingly, means modern ITFM is less about 'keeping score' and more about controlling your own destiny and helping the business move forwards.

Time and again we hear IT professionals say they feel something isn't right or know that an investment or course of action would make a big positive difference, but find it impossible to make the case for change. Another frequent frustration is the perception of spending time and energy on things that don't matter that much, and having no bandwidth to even explore new technologies or approaches that could transform some aspect of IT or open new business opportunities.

With this in mind, it's important to underline one of the first findings we presented from our research that ITFM is as much about maximising impact and value as it is about cost control. The enhanced visibility that a modern, joined-up approach to ITFM brings allows you to make decisions on what it makes sense to do and why. You'll also be able to make judgements more confidently on what it makes sense to stop doing, e.g. switching off old systems or retiring old processes designed for an era that no longer exists.

When you start to think in this way, it soon becomes clear that a modern approach to ITFM, just like modern IT delivery models such as Agile development and DevOps, can actually be regarded as a competitive enabler.

Getting even closer to business

The last thought we'll leave you with is the role of modern ITFM in allowing IT teams to work more comfortably and seamlessly with the broader stakeholder community. If you have aligned priorities, mapped IT performance metrics onto business KPIs, and have the ability to generate meaningful insights quickly, easily and even continuously, then communication, review and joint decision-making is greatly enhanced.

Most CIOs we speak with nowadays aspire to IT becoming a genuinely integral part of the business value chain, and effective ITFM is an important key to opening that door.

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About The CIO WaterCooler

The CIO WaterCooler is a free, open and supportive community that provides resources to help IT leaders develop and identify solutions, gain knowledge from their peers and build networks to support them in becoming leaders in both their industry and business.

For more information, visit www.ciowatercooler.co.uk.

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