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You have just inherited IT, now what? Ten considerations to help shape your priorities

In the not-so-distant past, finance leaders typically played a limited role in IT, periodically huddling with CIOs to scrutinize the figures in proposed initiatives or budgets. The discussion has now expanded into an ongoing conversation about how best to leverage tech spending to support the company's strategic goals. That changing dynamic mirrors the critical role technology now plays in the enterprise, driving value and sharpening competitive advantage.

Increasingly, in fact, some CFOs are accountable for IT. Deloitte's North American *CFO Signals*™ survey for the first quarter of 2022 explored the technology's value and effect in large enterprises and the importance of CFO/CIO partnership. Among the 97 respondents, most representing companies with more than $1 billion in revenue, 28% said IT reported directly to them, with another 7% noting indirect IT oversight.[1] Increased investment in technology requires oversight and partnership with the CIO to ensure accountability and transparency, even when IT is not directly reporting to the CFO. While the cost of the finance function in top-performing companies is typically less than one percent of revenue,[2] the cost of IT is often significantly greater. The recent *CFO Signals* survey found IT expenditures averaged 3.1% of revenue, with 5% of respondents noting expenditures of 8% or more of revenue.

Many CFOs recognize IT's increased significance. In the *CFO Signals* survey for the second quarter of 2021, 40% of finance chiefs identified upgrading technology/systems as the most important enterprise transformation project their organizations were already—or would be— undertaking.[3] As reflected in the CFO Agenda,[4] driving value through technology-based innovation ranks among CFOs' top areas of focus.

In this edition of *CFO Insights*, we'll explore how CFOs can approach the challenge of effectively managing IT to increase returns. We have worked with different CFOs and CIOs to devise ways to collaborate better and to realize the value of technology investments. From our work, we have extracted 10 core capabilities and effective measures to ensure value from investing in these capabilities. In the first article of a two-part series, we'll discuss five of the 10 areas that can shape your organization's IT brand and your personal brand as the IT-partnering CFO.

Take five: Core Technology Capabilities

1. **Measure end-use computing operating excellence:** The first issue to consider is how well your IT department works the basics: end-user hardware and computing provisions, networks, phone service, email and word processing software, and core databases and systems. Do the end users find these services reliable and secure, easy to use, and satisfactory?

   Organizations often use metrics to track their operating excellence: uptime, reliability, help desk incidents, and even user satisfaction and net promoter scores. Using qualitative and quantitative measures helps ensure you are getting a holistic picture to identify the symptom and locate the root cause. In the first month of taking over the role, one CIO identified the recurring help desk tickets and focused on addressing the root cause rather than measuring the team on how quickly they could close those tickets.

   Focusing on repairing end-user computing issues early can be helpful, as it improves the positive perception among end users of how IT handles the basics. When the fundamentals are off, it is that much harder to create a favorable brand for IT.

2. **Standardize core modernization and cloud migration systems:** The organization's core systems are a major driver of IT expenses. These systems enable a company to scale its key operations: production, accounting, HR processes and payroll, and customer relationship management. Due to acquisitions or by choice, multiple custom core systems may reside within one company.

   Today, core systems are migrating to the cloud, rather than serving as standalone systems within the company. Measuring the percentage of applications in the cloud; technical debt; and the time, effort, and investment required to integrate or scale such applications can help inform the cloud migration strategy. Questions to ask include:

   - How many instances of core systems software does the company have?
   - Have we standardized to specific vendors? If not, why not?
   - How much of the IT budget and organization is dedicated to maintaining the core systems?
   - How much has been migrated to the cloud?

   Core systems developed by internal development teams on tight deadlines often force developers to take short cuts that later require "fixing"— leading to significant technical debt. Having a complex mishmash of core systems also makes the IT environment expensive to manage, hard to scale, and impossible to integrate in case of a merger or acquisition. These factors may require "fixing" later, which could result in substantial technical debt.

3. **Review the operating and talent model:** In the *CFO Signals* survey for the first quarter of 2022, CFOs reported that their single biggest challenge regarding managing IT was the availability of good talent.[5] (For their other ranked challenges, see sidebar, "CFOs cite challenges in boosting value from IT.") As companies undertake numerous digital transformation efforts, the competition for top talent is increasingly fierce and not always in great supply. A useful starting point is to assess your IT organization in terms of capabilities and capacity.

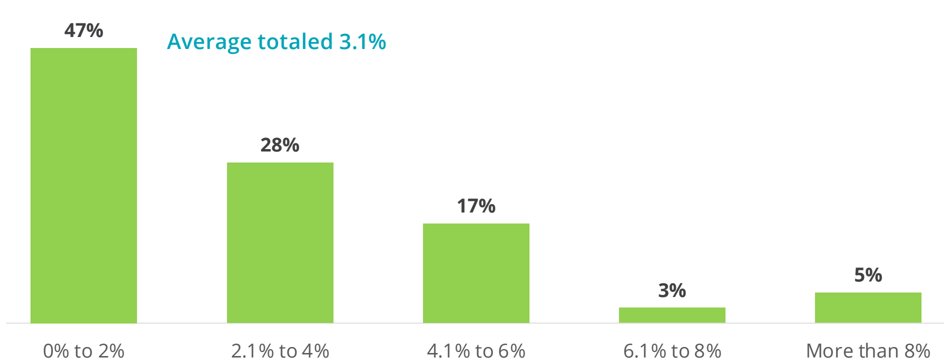
   Significant parts of the development and maintenance of IT can be effectively outsourced. The key is to decide which parts will be outsourced, and which you may choose to insource in the future. If you already outsource, it is important to review vendor performance and risk. It is also critical to consider switching risks in outsourcing arrangements to avoid lock-in.

   Many CIOs are insourcing software engineering skills for their customer-facing applications to ensure agility, customer intimacy, and protection of intellectual property.

   Another aspect to assess is whether the operating model permits the fast and agile delivery that external IT customers demand. What part of your projects are agile, versus more standard development projects? Our *CFO Signals* survey for the first quarter of 2022 found that many responding CFOs were supportive of agile projects, reporting that, on average, 23.7% of their IT spend was devoted to agile initiatives.[6] (For more on IT spend, see Figure 1.)

Figure 1. Buy-in: Tech-spending as a proportion of revenue

What is your estimate of overall information technology spend as a percentage of annual revenue? (N=76)*



*76 (78.4%) of respondents answered.

Source: Q1 2022 North American *CFO Signals*, CFO Program, Deloitte LLP

4. **Evaluate the business partnership**: The fourth issue to consider is how well IT partners with the businesses. Questions to ask include:

    - Do the businesses value the IT function?
    - Do they find IT responsive?
    - Do they think IT enables business value creation?
    - Using a Net Promoter Score, would the business leaders recommend IT as an effective business partner to other business leaders?
    - Is there a lot of shadow IT in the businesses? If there is, and the existing organization is not viewed as an effective business partner, then it is important to determine the cause. Is it the IT leadership, the IT organization's capacity, or other factors driving the perception of IT as a less than ideal business partner?

    While we did not ask respondents about IT partnership, the first quarter 2022 *CFO Signals* survey found that a quarter of CFOs were dissatisfied with their organizations' IT. Improving the partnership between IT and the business likely will boost satisfaction. To improve IT and business partnership, CFOs can sponsor governance around the following five key areas:

    - **Investment governance**: To ensure funding is appropriately allocated across critical projects.
    - **Technology governance**: To focus on setting standards for technology systems and architecture to ensure easy interoperability and economies of scale.
    - **Project governance**: To ensure the right stakeholder commitments and outcomes from specific IT projects.
    - **Data governance**: To focus on strategic data, data quality, efficient collection, storage, and processing of critical firm data.
    - **Process governance**: To ensure processes are well-structured and variances are managed to simplify and scale processes and systems efficiently.

    Effective business partnership and positive outcomes are difficult to reach without some or all of the governance types in place. When asked what could improve IT effectiveness, respondents to our Q1 2022 *CFO Signals* survey cited governance, accountability, and transparency as some of the most important ways.

5. **Shape the IT value story:** CFOs often shape and present the equity story of the company to investors. Similarly, it is important to shape and present the IT value story when working with CIOs. One way to shape a value story is to use an enterprise value map and consider how major IT initiatives contribute to shareholder value. At the top level, the cost of financing; investment growth (returns on hard and intangible assets and organic and inorganic business growth); improvements in operations and operating margins; and growth expectations help to shape shareholder value. Most of the effects of IT investments are realized through improvements in operations and operating margins.

    IT investments can also help create positive growth expectations. For example, if a company's IT investments make it easy to acquire other companies in the industry and efficiently integrate them into the company, then IT is a strategic asset to support growth. We have observed the increasing value of information and intangible assets in the economy, fueling creative options for monetization and for improving the customer experience.

Impact statement: The organizational benefits of IT

The days of CFOs swooping in to review IT budgets on an as-necessary basis are over. Working with CIOs, finance leaders need to consistently evaluate IT systems in the broader context of fast-changing organizational needs. Anything that may slow the company down—from weighty technical debt to outmoded employee skills—may threaten growth and increase risks at a time when competition is likely only growing fiercer.

In part 2 of this article, we'll examine five remaining priorities for CFOs, including: leading digital transformation, managing data to drive insights, improving cybersecurity, creating digital experiences, and harnessing innovation.

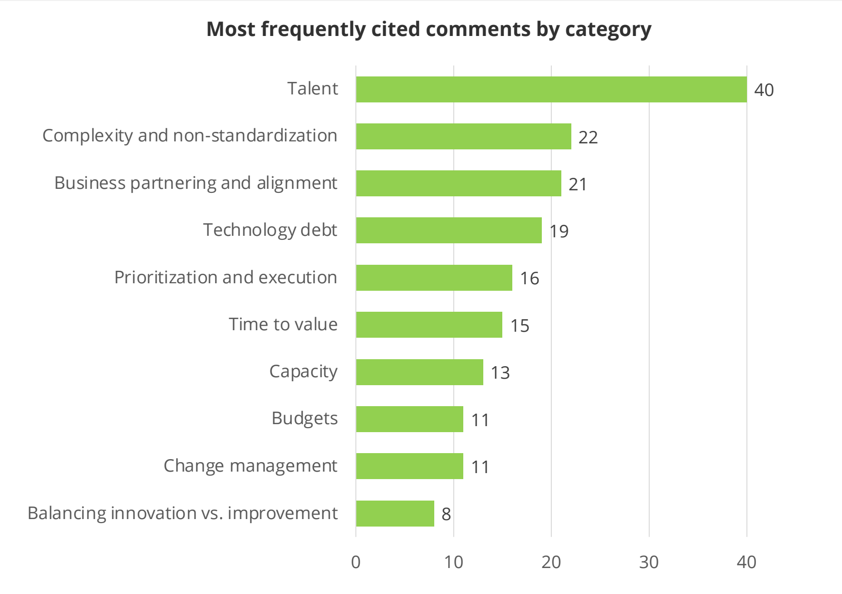
CFOs cite challenges in boosting value from IT

With the pace of innovation accelerating, organizations are trying to realize more value from their IT function. But CFOs say several issues can impede those efforts, according to Deloitte's first-quarter 2022 *CFO Signals*™ survey.

The top three challenges, according to CFOs' comments, included talent, complexity and non-standardization, and business partnering and alignment. The next three common responses: technology debt, prioritization and execution, and time to value. Some CFOs noted challenges related to legacy systems, lack of business acumen among IT professionals and lack of tech savviness within finance, managing transformation costs, and the conflicts that can occur between business drivers and various data privacy needs and cyber risk (see Figure 2).

Figure 2. CFOs see challenging times for realizing value from IT

What are the top three challenges to realizing value from your information technology function? (N=63)*



*63 (65%) of respondents answered.

Source: Q1 2022 *CFO Signals*,™ CFO Program, Deloitte LLP

The survey also asked CFOs about such areas as their reporting relationships with IT leaders, their overall satisfaction with the IT function, and how they apportion spending within IT.

Reporting relationships

More than one-third (35%) of surveyed CFOs oversee their organizations' information technology function—either directly or indirectly—providing them an opportunity to have greater insight into IT initiatives and spend. Overall, CFOs appear to be more satisfied (a total of 68%) than dissatisfied (25%).

On average, CFOs report that slightly more than half (52%) of their organizations' IT spend goes to maintaining day-to-day operations, while the remaining balance is split between enhancing capabilities and operations (26%) and creating new capabilities (22%) for their businesses.

There was little variation from industry to industry in terms of the allocation of IT spend. Energy/Resources and Healthcare/Pharma CFOs indicated higher levels of IT spend allocated to enhancing existing capabilities and operations than their counterparts in other industries.

The findings on IT spend for enhancing capabilities and operations and creating new capabilities dovetail with the results from the *CFO Signals* survey for the second quarter of 2021, which asked CFOs what was the most important enterprise transformation their company was undertaking or planned to undertake. In that survey, 40% of CFOs had indicated technology/systems upgrades, and 35% noted transformations related to strategy, business model, and a shift in offerings.

—by Patricia Brown, managing director and CFO Signals leader; Maureen Cashman, manager, CFO Program; and Craig Schneider, senior writer, Deloitte Insights for CFOs; all Deloitte LLP

End notes

1. CFO Signals: Q1 2022, CFO Program, Deloitte LLP
2. "Total Cost to Perform the Finance Function: Metric of the Month," CFO.com, January 2020
3. CFO Signals: Q1 2022
4. "The CFO Agenda," CFO Program, Deloitte LLP.
5. CFO Signals: Q1 2022
6. Ibid.

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