Evaluating IT
A CFO's perspective

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Ask finance chiefs about their frustrations with Information Technology (IT), and you are bound to get an earful. Excessive investments made, multiple deadlines missed, little progress in Return On Investment (ROI)... We could go on.

To complicate matters, many CFOs simply do not know if Chief Information Officers (CIOs) are doing a good job. What exactly does a good IT organisation look like anyway? How should IT be evaluated? And what are the warning signs that indicate an enterprise is not prepared for the future from a technology standpoint?

The answers to these questions take on greater importance given that IT is typically the largest line item in Selling, General and Administrative expenses (SG&A). Moreover, with CIOs often reporting to CFOs, there is a growing need to effectively manage the CFO-CIO relationship.

Evaluating IT is no simple matter. It requires focus on three specific areas—communication, governance and assessment—so that an overall framework for analysing current and future IT capabilities can be established.

In this article we will discuss how steps taken in these areas can help enhance collaboration between CFOs and CIOs, identify gaps in the business support capabilities of IT, increase the focus on IT investments and strengthen the future vision of the value of IT.

Targeting communication—and miscommunication

One of the main challenges affecting finance and IT is communication. CFOs generally focus on business financials; CIOs tend to focus on business capabilities and enabling technology. CFOs often fault their CIOs for not fully aligning IT projects and spending with company strategy and value creation—a dynamic that makes getting a handle on IT priorities and technology spending particularly difficult for CFOs. CIOs can likewise be challenged by cost-cutting CFOs who may not realise how deferring spending today delays time-to-value and may limit future options. Simply put, this lack of a common point of view and communication between CFOs and

CIOs can lead to a fundamental disconnection hindering the capacity to effectively invest in IT and generate value. To address this disconnection, CFOs and CIOs should establish a common language for assessing and communicating how IT can create business value. Specifically, the conversation should focus on how IT improves business processes, such as product development and pricing, rather than just talking about a specific technology or system. And for each critical process, CFOs and CIOs should consider the value of both the 'I' and the 'T' aspects, by:

Targeting relevant information—on the 'I' side, how does information enable better process outcomes or decisions? Is the information generated by specific systems to support the process sufficiently timely, accurate, insightful and relevant to enable value creation?

Agreeing on the appropriate technology—on the 'T' side, how does the technology enable automation and reduce manual tasks to save costs? Will the technology choices enable scalability of process outputs to be dialled up or down to meet businesses demand efficiently? Will interoperability with other technologies be possible at a low cost? Is the technology reliable and low maintenance? How soon will technology obsolescence have to be addressed?

By focusing on how improvements in both 'I' and 'T' create value and mitigate risks in tangible business processes, CFOs and CIOs can establish a shared language for evaluating IT. As many CFOs typically assign performance metrics to specific business processes, those measures can become another component of the language needed to assess IT.

Establishing effective IT governance

CFOs and CIOs can help to improve the evaluation of IT by establishing broad, organisation-wide governance models for major IT spend decisions. With the appropriate stakeholders, models of this kind can lead to joint ownership and better resource allocation, commitment to, and execution of, IT projects.

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Effective governance models are likely to have two levels: one for IT governance of long-term strategic initiatives and the other for individual projects. The first level should address how IT will support the business in the future and enforce discipline around large-scale IT investments that position the company for competitive advantage. Responsibility for this level of IT portfolio governance should be shared between the businesses and the CIO. CFOs can help CIOs to establish effective governance systems that serve their mutual interests for effective and efficient delivery of IT capabilities to the enterprise. To judge the effectiveness of the governance system, CFOs should be guided by the following questions:

- Are you (as CFO) and other members of the C-suite involved in determining IT spending and development priorities?
- Do major IT projects have a clear ROI that is documented and measurable, and do they improve delivery of specific processes?
- Do approved IT projects help with both our long-term business and long-term IT objectives?
- Are our IT initiatives creating (or at least sustaining) competitive advantage?

A second level of governance is needed for individual projects. Such tactical IT governance allows CIOs to get the relevant users on board for specific projects and keep them on track. Moreover, such oversight at the project level allows problems to be identified and fixed in a timely fashion. Finance can partner with IT at this level of governance.

To determine whether the governance model at the project level is effective, consider the following three questions:

1. Do the technical practitioners and business users assigned to the project have the appropriate level of expertise?
2. Are both the development methodology and control environment adequate to protect systems from errors and data issues?
3. Are regular status reports providing project progress/ costs available?

In addition, while the two levels of governance should be complementary, it is essential that the CFO and CIO are clear about which projects are long-term and require portfolio review. In addition, if there are other initiatives that businesses have not sponsored, they need to be reviewed at the project level to make sure they are creating value—and shelved if not. Overall, however, there should be very few IT projects without strong business sponsorship.

Stabilising value creation

Having a common process language and robust governance in place can lay the groundwork for assessing current and future IT architectures from a business process standpoint. To make that assessment for your current environment, start by benchmarking five or ten important processes. From there, develop a heat map to show how well IT supports each of those projects, using questions that focus on both the 'I' and the 'T'.

As mentioned earlier, the first-level questions address the quality of information supporting each business process. For example: is the information timely? Is it relevant? Second-level questions target the ability of the IT to provide what the business needs now and what it will need for the future. For example: is the technology scalable? If the technology breaks down, how will it impact the business process and the organisation overall?

Equipped with a heat map of IT capabilities and vulnerabilities at the process level, CFOs and CIOs can develop a shared view of the critical gaps they need to consider fixing, as well as the way in which IT can drive the impact on the business through improved processes. Before spending money to address the gaps, finance should sit down with the process owners and the CIO to determine the business value and the cost-benefit of improving specific gaps in a business process. CFOs should ask their CIOs and process owners what it will cost to fix specific gaps as well as what it will cost if the gaps are not addressed. Opportunity cost is a critical piece of IT spending governance.

The last key governance area concerns what the future architecture should actually be. In IT, knowing what the end will look like can fend off cost overruns and major disappointments. But that future architecture often looks different to different people. Your vendors, for example, might offer the rallying cry of 'one ERP system'. On the other hand, your CIO may believe that it is too early to tell. After all, the technology required to execute your specific strategy may not be invented yet.

As CFO, you may need to determine if funding the unknown or a big-bang solution is prudent. This is especially critical given that the benefits of evolving your current architecture may be more than enough already. Often, the systems you choose to fix typically offer an added benefit: stability. And by fixing those specific gaps you may even be framing the future architecture.

If you accept the reality that there will probably be cuts and bleeds involved in IT, then an iterative improvement solution is maybe the best a company can hope for. The CIO's choices can shape the optimum scenario—a completely new architecture or one that can drive increasing stability in the organisation. It may not be radical nor world-class, but in some cases, really good may be good enough. The funding challenge for CFOs is to determine when good enough works versus the need for radical overhaul or replacement of existing systems.