

## CUSTOMER NEEDS AND STRATEGIES

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### Double Impact: The CIO, the CFO, and IT Value

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#### IDC OPINION

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Two high-profile players in the IT-business relationship have special prominence in ensuring IT's contribution to the organization: the CIO and the CFO. IDC believes that the business expectations pushing CIOs to think and act in a more business-oriented way and CFOs in a more technology-focused way will increase in the future, as all organizations become more dependent on IT resources. We also believe that CIOs and CFOs should work together to improve the way IT performance supports business performance. To that end, IDC recommends that they combine their efforts to accomplish the following:

- Close the IT-business gap by promoting a common view of IT's relationship with business through their expertise and specific actions
  - Boost IT-related business results by driving business participation in achieving those results through their expertise and specific actions
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## IN THIS STUDY

This IDC study examines how CIOs and CFOs can work together to promote a common view of the IT-business relationship and influence others to take complementary actions that drive better business results. It focuses on the business implications of IT operational performance and IT-related business performance. For each area of focus, the study identifies three topics for attention and outlines specific actions for CIOs and CFOs. The study concludes with recommendations for promoting a closer working relationship between the CIO and CFO.

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## Executive Summary

Two high-profile players in the IT-business relationship have special prominence in ensuring IT's contribution to the organization: the CIO and the CFO. These days, the CIO and CFO need to work in tandem as joint overseers of next-generation business architecture and collaborate to address organizational needs, thus driving efficiencies and delivering results more effectively.

CIOs and CFOs face three primary, common challenges related to optimizing IT value in the enterprise:

- Effectively managing IT costs
- Ensuring high-quality IT operational performance
- Generating high-quality IT-related business performance

The particular responsibilities of these executive officers come into contact with all these organizational challenges in different ways. In addition to managing costs, organization leaders have to care about how IT serves business and how business makes use of IT to advance organizational objectives. IDC has identified three pertinent questions that organizational leaders must be able to answer to gauge the cost effectiveness and business effectiveness of IT operations and new investments:

- How does IT performance help or hinder enterprise business performance?
- Does IT make it easier or not for people to do their jobs?
- Does the way they use IT affect how well IT contributes value?

Leaders want answers to the question: How and to what extent do IT capabilities make business results possible and outcomes better? IT professionals are increasingly required to demonstrate the answer.

Leaders must also pursue answers to this question: How and to what extent do business processes and practices help or hinder IT's contribution to delivering business results? How IT is used by business constituents, and in what process environment, can greatly affect the benefits that organizations can derive from IT.

These related high-level questions frame the context in which CIOs and CFOs can support each other's perspective and work, from their areas of expertise and authority, to help IT and business capabilities better serve the interests of the organization as a whole. Business organizations increasingly expect the CIO and CFO to better understand the other's domain. IDC believes that the business expectations pushing CIOs to think and act in a more business-oriented way and CFOs in a more technology-focused way will increase in the future, as all organizations become more dependent on IT resources.

As IT's importance to business, complexity, and costs continues to increase, its impacts on business operations and outcomes will become even more business-critical. IT costs will generate more profound effects on business financials. Similarly, IT operations will have ever-increasing bearing on both the tangible and intangible success factors for the business. In those circumstances, the functions of IT and finance will increasingly converge on a common critical target: IT-related business performance.

IDC believes that CIOs and CFOs can best contribute to enlarging IT value in the organization by working together to improve the way IT performance supports business performance. Expanding or directing their own activities to facilitate the other's activities — as they pertain to IT value — enables CIOs and CFOs to make IT more relevant and to deliver more value for the organization. They can do so with specific actions directed particularly to IT operational performance and IT-related business performance.

CIOs and CFOs can best contribute to enlarging IT value in the organization by working together to improve the way IT performance supports business performance.

Organizations that want to capitalize on the evolving connections between IT and business should support and promote a closer working relationship between the CIO and CFO — their value stars. Finance and IT leaders should strive to close the IT-business gap by promoting a common view of IT operational performance. They can do so through the following actions:

- ☒ Drive alignment between business and IT
- ☒ Monitor IT-based business effects
- ☒ Report IT performance with a business perspective

Furthermore, CIOs and CFOs should boost IT-related business performance by encouraging the contributions of lines of business to this goal. They can do so through the following actions:

- ☒ Give business an edge with special IT-related insights and information
- ☒ Drive business participation in optimizing IT value
- ☒ Track business results of IT-dependent processes

## SITUATION OVERVIEW

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### **Introduction**

Everyone in an organization has a stake in how well IT serves the company's needs, but two high-profile players in the IT-business relationship have special prominence in ensuring that IT's contribution to the organization balances out on the positive side of the competitive and financial ledger. The CIO has been required to focus the organization's technology resources on contributing to business success. The CFO has become the lead player in corporate governance, accountability, and financial due diligence across all aspects of the organization's business. The two executives' relationship has often been tenuous, but it holds the promise of better, complementary IT- and business-generated outcomes.

Few doubt that IT is now the backbone of modern business. It supports operations; it is a strategic factor; it plays a key role in customer sales and service. IT's value, therefore, manifests in the way IT capabilities and services enable the organization to conduct its business efficiently, effectively, competitively, and successfully.

### ***Everyone's Job: Getting the Most from IT***

These days, the CIO and CFO need to work in tandem as joint overseers of next-generation business architecture and collaborate to address organizational needs, thus driving efficiencies and delivering results more effectively.

These days, the CIO and CFO need to work in tandem more than ever before.

As the custodian of the company's business (commercial) interests, the CFO is responsible for identifying, balancing, and mitigating risks as a key part of his or her role. This role requires the CFO not only to balance costs and benefits with the promised strategic advantages generated by IT, but also to articulate this investment in terms of capital and operational expenditures and investments as they align with business strategy. Accordingly, the CFO and the rest of the executive team can demand, from the CIO, that the organization is getting the most from IT as a strategic enabler and as a services provider.

These two executive officers, of course, have an obligation to carry out IT-related *enterprise goals* from their respective specialties. To do so, both need to be concerned about IT's costs, but both also need to see IT in terms of the business value it generates.

### ***Key Challenges***

IT resources are now tightly bound to the way organizations operate and the business results they can achieve. CIOs and CFOs face three primary, common challenges related to optimizing IT value in the enterprise:

- Effectively managing IT costs
- Ensuring high-quality IT operational performance
- Generating high-quality IT-related business performance

The particular responsibilities of these executive officers come into contact with all these organizational challenges in different ways. Some questions they could be asking in the context of each challenge are presented in Table 1.

<b>TABLE 1</b>		
CIO and CFO Challenges in Optimizing IT Value		
Focus Area	CIO	CFO
IT costs	<ul style="list-style-type: none"> <li>• How should operational and one-time IT costs be tracked?</li> <li>• How can we keep IT unit costs down?</li> <li>• What opportunities are there to tighten efficiencies?</li> </ul>	<ul style="list-style-type: none"> <li>• How should IT costs be apportioned?</li> <li>• How should IT cost accounting reflect these?</li> <li>• What IT cost control/monitoring measures are in place? Should be in place?</li> </ul>
IT operational performance	<ul style="list-style-type: none"> <li>• What are the best measures for IT operational performance?</li> <li>• What aspects of IT unit management are critical for IT efficiencies and effectiveness?</li> <li>• How do I link IT operational performance to the business?</li> </ul>	<ul style="list-style-type: none"> <li>• How do I determine business-critical IT capabilities, including those for finance?</li> <li>• What are the effects of IT capabilities on business functions, especially on business risk?</li> <li>• Should I quantify IT's contribution to corporate results? If so, how do I do it?</li> </ul>
IT-enabled business performance	<ul style="list-style-type: none"> <li>• What decisions about IT should I be responsible for in this company?</li> <li>• Why is IT beaten up when business outcomes dependent on IT operations or new IT projects don't measure up to expectations?</li> <li>• How can IT know the business impact of IT capabilities while focusing on IT operations and performance?</li> </ul>	<ul style="list-style-type: none"> <li>• How do I know if appropriate stakeholders are reflected in IT priorities?</li> <li>• Why is it difficult to determine the accountabilities for business performance outcomes?</li> <li>• How do I reconcile my business value/growth mandate with IT capabilities and business performance results?</li> </ul>

Source: IDC, 2004

Shortcomings in any of these challenges can negate results in the other two. For example, great IT operational performance yields few benefits if IT costs are burning up the balance sheet. Similarly, great cost performance is futile in the face of a mediocre operational model and lousy customer service.

***IT Costs and Business Questions***

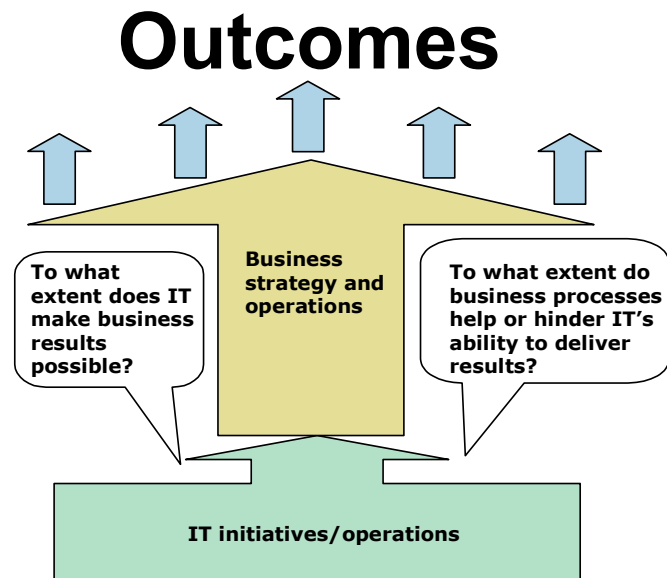
Containing and managing IT costs is a critical job for all organizations. To ensure proper allocation of funds they have to:

- ☒ Corral IT costs without losing important IT functionality that supports the business
- ☒ Justify new and ongoing costs
- ☒ Track IT costs through IT and business performance measurement

However, managing costs well is only part of a larger perspective on IT's value. Organization leaders have to care about how IT serves business and how business makes use of IT to advance organizational objectives. Figure 1 illustrates how IDC sees the complementary influences of IT on business outcomes.

**FIGURE 1**

Complementary Influences of IT on Business Outcomes



Source: IDC, 2004

IDC has identified three pertinent questions that organizational leaders must be able to answer to gauge the cost effectiveness and business effectiveness of IT operations and new investments:

- ☒ How does IT performance help or hinder enterprise business performance?
- ☒ Does IT make it easier or not for people to do their jobs?
- ☒ Does the way they use IT affect how well IT contributes value?

Leaders want answers to the question: How and to what extent do IT capabilities make business results possible and outcomes better? It is a question that has challenged IT professionals for many iterations of their industry's development, but for enterprise executives, it is the only question about IT that matters. IT professionals

Leaders want answers to the question: How and to what extent do IT capabilities make business results possible, and outcomes better?

are increasingly required to demonstrate how IT affects business outcomes. With a proper partnership relationship between the CFO and CIO, there is ample opportunity to develop practical ways to achieve this objective in terms of IT applications, meeting service expectations, and measuring return on investment (ROI).

Leaders must also pursue answers to this question: How and to what extent do business processes and practices help or hinder IT's contribution to delivering business results? As numerous studies have shown, the vast number of enterprise IT installations failed not solely because of the technology, but also because of business failures to integrate the new capabilities into business processes or cultures. How IT is used by business constituents, and in what process environment, can have a great bearing on the benefit an organization can derive from it.

Leaders must also pursue answers to this question: How and to what extent do business processes and practices help or hinder IT's contribution to delivering business results?

These related high-level questions frame the context in which CIOs and CFOs can support each other's perspective and work, from their areas of expertise and authority, to help IT and business capabilities better serve the interests of the organization as a whole.

## FUTURE OUTLOOK

Business organizations are increasingly expecting both the CIO and the CFO to better understand the other's domain. IDC believes that the business expectations pushing CIOs to think and act in a more business-oriented way and CFOs in a more technology-focused way will increase in the future, as all organizations become more dependent on IT resources.

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In other words, CIOs need to understand how IT *makes a difference* to their colleagues in order to make IT services optimally business effective, and CFOs need to take an active interest in the management of and accountability for IT resources as part of enterprise *value management*. To do so, they require visibility into the other's domain, and a solid understanding of the business implications of IT services — in other words, what IT can help to achieve *for the business*.

As IT's complexity, costs, and importance to business continue to increase, its effects on business operations and outcomes will become even more business critical. IT costs will generate more profound effects on business financials. Similarly, IT operations will have ever-increasing bearing on both the tangible and intangible success factors for the business. In those circumstances, the functions of IT and finance will increasingly converge on a common critical target: IT-related business performance.

IDC believes that CIOs and CFOs can best contribute to enlarging IT value in the organization by working together to improve the way IT performance supports business performance. Expanding or directing their own activities to facilitate the other's activities — as they pertain to IT value — enables CIOs and CFOs to make IT more relevant and to deliver more value for the organization.

CIOs and CFOs can best contribute to enlarging IT value in the organization by working together to improve the way IT performance supports business performance.

They can do so with specific actions directed particularly to IT operational performance and IT-related business performance. It is in these areas, we believe,

that CIOs and CFOs can best support each other's work and influence other parts of the organization to drive IT/business alignment for better business outcomes.

These are activities over which they have control and authority and toward which they can direct others to act. In the next section, we discuss some specific actions CIOs and CFOs can take to boost business value from IT.

## IT Operational Performance

IT operational performance now has greater impact than ever on a wide range of important business components that make the enterprise successful, including:

- ☒ The effectiveness of the company's operational model
- ☒ Its customer interactions and consequent store of customer loyalty
- ☒ Its reputation and ultimately market valuation

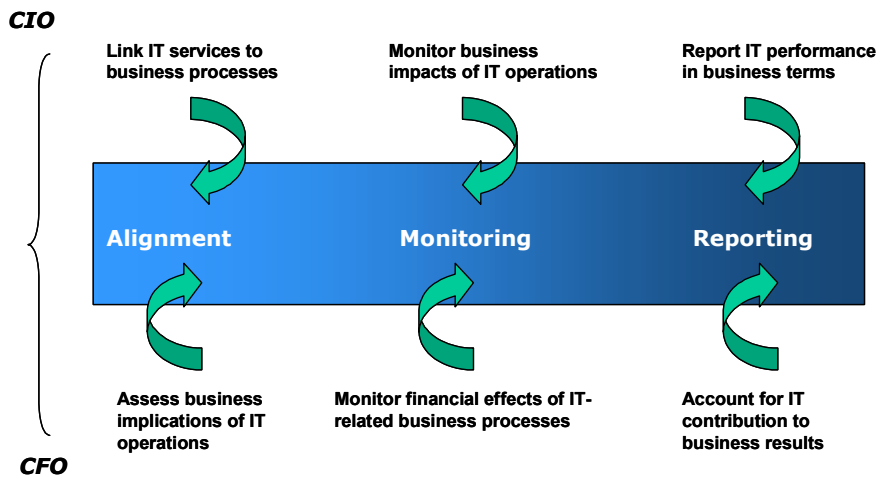
IT operational performance now has greater impact than ever on a wide range of important business components that make the enterprise successful.

We believe CIOs and CFOs can make significant contributions to closing the business/IT gap through actions in three key categories, as shown in Figure 2:

- ☒ Driving business IT alignment
- ☒ Monitoring the "business" side of IT operations
- ☒ Reporting results in business terms

**FIGURE 2**

### CIO-CFO Complementary Actions to Optimize IT Operations Value



Source: IDC, 2004

**Driving Alignment**

The first step in closing the IT-business gap is to make practical connections between IT services and the business processes they serve and then the business objectives to which both are directed. This is the point of IT: serving business operations.

Why is it still such a pressing issue? There are two answers: It is difficult to do, and it is made more difficult by IT's growing complexity/heterogeneity. Those circumstances, however, do not let CIOs and CFOs off the hook. It can be argued that in the context of IT-dependent business realities, closing that gap is their primary responsibility. Table 2 summarizes some actions they can take.

The first step in closing the IT-business gap is to make practical connections between IT services and the business processes they serve.

**TABLE 2**

**Actions Toward Driving Alignment Between IT Services and Business Processes by Executive Officer**

CIO	CFO
Link IT services to business processes	Assess business implications of IT operations
Map IT services (systems, network elements, and applications) to business processes they support	Identify key business effects of IT operational performance
Work with lines of business to reach agreement on acceptable "business" measures for IT service performance	Consult with IT and business to assess changes to IT operations that could drive better business outcomes
Drive efficiencies in IT operations that free up resources for functionality to better support processes	Take active part in evaluating new IT investments (and asking hard questions about expected results)

Source: IDC, 2004

**Monitoring IT-Based Business Effects**

As noted, IT operational performance now affects a wide range of business-critical results (e.g., secure access, supply chain performance, customer experience, and company reputation). For this reason, monitoring IT performance for business implications ensures that the alignment between IT and business is "holding." IT can also identify any interventions that must be made to correct shortcomings. Table 3 summarizes suggested monitoring activities of CIOs and CFOs.

**TABLE 3**

Actions Toward Monitoring Business Effects of IT by Executive Officer

CIO	CFO
Monitor business effects of IT operational performance	Monitor financial effects of IT-related business processes
On the basis of agreed-upon business metrics, track IT performance for these parameters	Conduct IT operations reviews regarding costs, business consumption, and business results
Consult with lines of business on monitoring findings to pinpoint problems and make improvements	Actively track IT project parameters in terms of financial implications for the business
Undertake interventions and service corrections where warranted by monitoring data	Identify IT capabilities that could drive important financial objectives

Source: IDC, 2004

***Reporting IT Performance with a Business Perspective***

Monitoring IT operational performance as it serves business processes has meaning when its findings are reported to those with a stake in how well the processes work. The reporting must be meaningful to stakeholders and actionable. For CIOs and CFOs, this requires a different kind of reporting perspective, as shown in Table 4.

**TABLE 4**

Actions Toward Reporting IT Performance by Executive Officer

CIO	CFO
Report IT performance in business terms	Account for IT contribution to business results
Report IT performance in terms that matter to business users (e.g., "three service disruptions cost 12 sr. IT FTE hours, 17 sr. account rep FTE hours + lost opportunity")	Research and track the extent to which IT capabilities contribute to business outcomes
Consult with lines of business about ways IT performance can better serve business interests	Use this data to discuss successes and shortcomings with IT professionals and business units
Highlight and publicize IT service successes, as well as plans to rectify performance shortcomings	Contribute more productively on this basis to evaluations of IT investments

Source: IDC, 2004

## IT-Related Business Performance

IT in the organization must be seen and managed in terms of its *business usefulness*. It is here that business and IT meet: in outcomes. CIOs and CFOs can make the implications of particular uses of IT and business resources visible to all parts of the organization. That, in turn, can drive better decision making and practices to improve IT-related business performance.

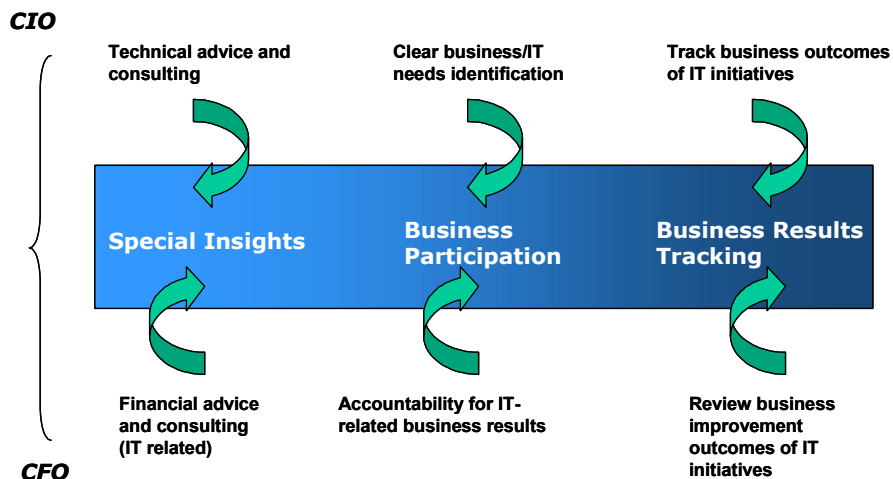
IT in the organization must be seen and managed in terms of its *business usefulness*. It is here that business and IT meet: in outcomes.

For CIOs, such actions can increase IT's credibility, strategic importance, and value to the organization. CFOs can raise the profile of the finance function as actively managing the enterprise's business value (inclusive of IT). We believe CIOs and CFOs can contribute most to this objective in three key categories, as shown in Figure 3:

- ☒ Providing special expertise to lines of business regarding IT services
- ☒ Driving business participation in optimizing IT value
- ☒ Tracking business results of IT services and IT-related initiatives

**FIGURE 3**

### CIO-CFO Complementary Roles in Optimizing IT-Related Business Performance



Source: IDC, 2004

These actions are particularly important because current business expectations are driving organizations closer to adopting a "continuous assessment" approach to value creation. Considerations of IT value will become more closely tied to discussions of business value, and vice versa.

Current business expectations are driving organizations closer to adopting a "continuous assessment" approach to value creation.

This will require a continuous monitoring of corporate value and series of balancing and improvement actions to conserve and grow that value. For this to be done well requires the combined efforts of the technology and finance functions to create a deep, insightful view of what IT can do.

***Giving Business an Edge: Special IT-Related Insights/Information***

CIOs and CFOs can "work" complementary sides of the business street to set the stage for better results from better information. When business units know the technical and financial implications of their use of IT capabilities/services, they can make better decisions and develop better practices for getting the most out of IT resources. Table 5 summarizes these actions.

**TABLE 5**

**Actions Toward Providing IT-Related Insights and Information by Executive Officer**

CIO	CFO
Technical advice/consulting to business units	Financial advice/consulting to business units
Provide technical options to LOBs for achieving business objectives	Advise LOBs on financial implications of IT-related processes for business objectives
Present options for staging provision of IT capability and compromises that may have to be made	Present options for considering process efficiencies or returns on investment related to IT capabilities
Identify effects of IT options on current operations/processes	Identify business unit practices that could improve financial benefits from IT-related processes

Source: IDC, 2004

***Driving Business Participation in Optimizing IT Value***

CIOs and CFOs can take specific actions, based on their expertise and authority, to influence other parts of the organization to optimize IT's business value. They can push for clarity and accountability, respectively, from lines of business.

When business groups assume their share of responsibility for making IT-related processes work, the executives and the organization benefit. CIOs get a better sense of business needs to target IT more effectively; CFOs get support for delivering good financial results; the company maintains financial health. The actions are summarized in Table 6.

**TABLE 6****Actions Toward Driving Business Participation by Executive Officer**

CIO	CFO
Drive LOBs' identification of IT and business needs	Drive LOBs' accountability for IT-based business results
Require and assist LOBs in articulating a clear definition of business needs: What do they want IT to do for them?	Frame need for accountability in terms of organizational (financial) objectives
Verify IT's understanding of business units' expectations for an IT capability: What do they think IT can do?	Procure agreement from key business stakeholders to be accountable for certain actions within their control
Establish business performance markers: What changes would indicate this expectation was achieved?	Identify business responsibilities for ensuring expected outcomes from IT-related processes

Source: IDC, 2004

***Business Results Tracking***

Tracking the business results of IT-dependent processes is a different order of "monitoring" than tracking IT performance parameters. How this is done depends on the performance tracking/measurement practices at various organizations. The CIO looks beyond "project" success criteria, or performance according to expectations, to how much of a difference IT services made to business capabilities and results. The CFO looks beyond traditional financial tallies to the particular business results of IT initiatives. For both, the exercise can provide valuable information to improve future decisions. Table 7 outlines suggested tracking actions.

**TABLE 7****Actions Toward Business Results Tracking by Executive Officer**

CIO	CFO
Review business outcomes of IT initiatives/services	Review financial outcomes of IT initiatives/services
Review business outcomes of IT initiatives/services in terms of agreed-upon business markers	Review financial results attached to agreed-upon accountabilities
Explore LOBs' roles in project implementation/production and how IT could contribute better	Explore results with LOBs to identify ways to address shortcomings or capitalize on successes
Document lessons learned and publicize successes	Use results to improve projections/advice to executive

Source: IDC, 2004

## ESSENTIAL GUIDANCE

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### Actions to Consider

Organizations that want to capitalize on the evolving connections between IT and business should support and promote a closer working relationship between CIOs and CFOs — their value stars. IDC recommends that finance and IT leaders should strive to close the IT-business gap by promoting a common view of IT operational performance. They can do so through the following actions:

- ☒ Drive alignment between business and IT
- ☒ Monitor IT-based business effects
- ☒ Report IT performance with a business perspective

CIOs and CFOs should boost IT-related business performance by encouraging the contributions of lines of business to this goal. They can do so through the following actions:

- ☒ Give business an edge with special IT-related insights and information
- ☒ Drive business participation in optimizing IT value
- ☒ Track business results of IT-dependent processes

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### Related Research

- ☒ *Who's on First? Factors in IT Supplier Selection* (IDC #31824, September 2004)
- ☒ *Super Service: Boosting IT Value in the Public Sector* (IDC #31802, August 2004)
- ☒ *Follow the Money: IT Investment Decisions in Canada* (IDC #31736, August 2004)
- ☒ *Managing IT: Decisions, Spending, and Challenges in Canada and Australia/New Zealand* (IDC #31735, August 2004)
- ☒ *The Enduring Challenge: Calculating IT Value in Business Terms* (IDC #31342, May 2004)
- ☒ *More than a Business Face: IT Supplier-Client Relationships and IT Value* (IDC #31086, April 2004)
- ☒ *Accounting for IT Value: The Double Helix of Cost and Business Performance* (IDC #30960, March 2004)

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