INFORMATION TECHNOLOGY UNCOVERED: WHAT EVERY FINANCIAL OFFICER SHOULD KNOW

CFOs and other financial professionals often have the final say on a company's technology strategy. Hence, it is crucial that financial executives have a real understanding of their IT department. This article outlines the key aspects of communication between finance and IT.

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As chief financial officer, you are responsible for the final word on purchasing decisions. You have a grasp of business operations and feel confident that you are making the right moves. However, you are a little hesitant when it comes to technology decisions. Being the forward-thinking professional you are, you've instituted an information technology steering committee (ITSC) that meets on a monthly basis to address IT performance and budgeting.

The committee is composed of various business unit leaders and the IT director, with you serving as chair. You count on your director of IT to help you make the right decisions and update the committee on the month's activities. You learn that plenty is under way, much is planned for the future, and the budget is being utilized. While things appear to be rosy on the surface, interaction with department heads reveals varying degrees of satisfaction, or the lack thereof.

After the meeting, the business unit leaders corner you after the IT director has departed. They are confused about what exactly just transpired, and they are looking to you to translate. They are asking poignant, tough questions that, much to your dismay, are aimed directly at you. They want to know several things: Are we spending too much? Too little? Is our IT investment paying off? Is our technology competitive? Are the projects really on schedule as the IT director claims? You are no IT expert, and it seems you've relied too heavily on the IT director to answer these questions honestly and completely. You're in over your head and sorely need help.

Unfortunately, this is a familiar scenario. When it comes to managing a company, very few departments have as significant an impact on the organization's productivity, and contentment, as the IT department.

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A FINANCE PERSON DOES NOT NEED TO BECOME A TECHNOLOGY WIZARD, BUT INSTEAD ESTABLISH OPEN LINES OF COMMUNICATION AND JOINT UNDERSTANDING WITH TECHNOLOGY-DEPARTMENT LEADERSHIP.

When the computer systems work, it's business as usual. When they don't, chaos breaks loose. This results in angry employees, lost productivity, and a search for answers.

Because IT spending is typically one of the highest overhead costs in a company, oversight of an IT department can be a major challenge for financial officers. CFOs in particular are confronted with a host of responsibilities both in and beyond their skillset. They are often given direct responsibility for the IT department. At the very least, they are an important influence over IT budgets. Since they aren't technology experts, it can be very difficult for them to evaluate how their company's IT department is performing or even understand what those "techies" are so busy developing.

Mainstream advertising has not ignored the significance of this dichotomy; a popular ad has used this incongruent relationship as a prop. The ad displays a white-collar-clad executive holding hands with a very casually dressed IT professional. This stark contrast demonstrates the difficulty the two roles and divergent personalities can have when working together to achieve common goals.

There aren't too many places in the corporate environment where more different or complex personalities are expected to interact and succeed. Yet substantial company assets, productivity, and competitive advantage rely on this relationship's flourishing.

Answering the tough questions

The follow-up questions from the other business unit leaders are important and need to be answered, but many times the CFO is at a loss as to what is really going on with IT and how to navigate through the jargon to get answers.

To combat this, a finance person does not need to become a technology wizard, but instead establish open lines of communication and joint understanding with technology-department leadership. This is important because the CFO must rely on the IT director and staff to provide the information needed to make rational spending decisions and ensure that the budget is executed and managed properly.

With the aforementioned relationship gap, it can be difficult for a CFO to understand how well an IT director is managing the IT department and whether or not the company's business objectives are being supported appropriately by technology. Even without a detailed understanding of technology and various projects, there are some important pointers a busy CFO can use to understand a company's IT performance better, as well as help ensure spending is aligned with corporate interests. These topics will also be of interest to an IT director and will provide a basis for understanding the CFO's thought processes and decision-making criteria.

Benchmarking against the industry. The type of industry a company is in can affect IT budget and focus. For instance, a company that relies heavily on real-time transaction systems may far outspend a company in the distribution business. It is crucial to understand how IT spending for a business compares with others in the same industry in order to develop a basis for making decisions.

If a company is spending 1% of revenue on IT, but the industry norm is 5%, or vice versa, there could be a real problem. But conclusions should not be reached too quickly!

Either situation can be a positive or a negative, depending on the set of circumstances. Most CFOs would think that spending 1% as opposed to the competition's spending 5% is a great advantage, but it may mean that the IT director is deferring important costs such as system maintenance or planned upgrades, which may cause unplanned and expensive outages when they are least expected.

Spending trends may also vary from year to year, such as an enterprise system implementation project. But at least being aware of how expenditures compare with industry peers will provide a good start on understanding where spending should be at the macro level.

Survey for satisfaction. The IT department is one of the largest internal service providers for most companies, yet so much of IT performance tends to be anecdotal. Understanding internal "customer" satisfaction is essential in identifying areas in need of improvement.

An internal IT satisfaction survey can be a very valuable and inexpensive way of evaluating technology systems, determining where they stand among the core constituency, and revealing tangible metrics that either support or refute anecdotal commentary.

This is probably one of the easiest and most overlooked methods of understanding how the investment a company is making in IT is being utilized. Keen insight can also be gained into specific problem areas that don't surface in typical ITSC meetings.

Consensus on goals. One of the things a CFO and other company leaders often express (once the IT director is out of the room, of course) is, What did he just say? Often, how IT is actually doing can get lost in the jargon, diagrams, and project plans. IT and business must be aligned to work in concert, and IT goals should support business goals with simple correlation. In order to appropriate technology budget and resources properly, forward-thinking companies should utilize ITSCs to develop and achieve technology goals that make sense for IT as well as non-IT departments.

The IT director should be able to translate what he or she is doing to meet these goals, without an overly complex explanation packed with technical lingo. More than likely, the technical minutiae are not very relevant to the overall goal.

Maintenance budgeting. Often, IT budgets are established for large projects, such as data mining for business intelligence, while regular system maintenance such as email, desktops, and printers are overlooked. Because these systems seem routine, they can easily be ignored, which leads to more costly repairs and maintenance in the future. IT spending should be balanced to ensure these systems operate as efficiently as possible.

Most IT directors like nothing more than to report to the CFO or ITSC that they are on or under budget. One of the easiest ways to achieve such financial targets is to defer costs such as maintenance, replacements or upgrades that, left undone, may put the business at risk presently or in the future. Sometimes companies will defer these costs until the system or software is no longer supported by the vendor and the incremental cost of updating is excessively expensive or even impossible without total replacement.

Don't neglect core systems. This is another area where IT directors can manipulate their spending figures. As with maintenance consideration, it takes a careful review to understand the long-term ramifications of neglecting core systems in order to preserve budget.

Expenditures such as software upgrades and network router replacements are almost always debated on an annual basis and may be considered an expensive "option." In contrast, the cost of neglecting these areas can also be very high. It is important to consider the expense incurred if a network system, such as email, crashes, and a company is forced to replace it in an untimely and expensive manner. A careful cost-benefit analysis helps determine the best course of action.

Beware of recurring or hidden technology costs. Often, the focus of the CFO and business leaders participating in an ITSC is ensuring that the right technology projects are being funded and delivered on time and within budget. A great deal of effort and analysis may go into how much capital expenditure a project may require initially. However, one of the most important factors in making a technology capital investment, especially software, is the ongoing year-after-year cost of a system.

It may seem simple, but this can be a confusing aspect of the decision-making process and may require extensive research on the part of the IT director in order to gather information necessary to make an intelligent decision. Vendors don't typically want it to be too easy to cut through the clutter. Maintenance and support cost planning is especially critical with software purchases in which annual maintenance fees could approach 20% to 25% of the purchase price and may even vary within the same software product.

Beware of some software vendors that base the "maintenance fee" on the current list price, which can be arbitrary and purely vendor defined. Without even being aware, a company may be "rebuying" the technology every three to five years without explicitly planning to do so, especially at prices set by the vendor. Some technology may also rely on third-party technology to work, which may or may not be included. This presents a whole

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new set of costs and vendor issues that must be thoroughly evaluated.

This is definitely an area where focused due diligence is extremely important, and the IT director will need to demonstrate financial acumen along with attention to detail to be successful. One missed item can be devastating in the long run.

Evaluate vendors regularly. Lack of stringent vendor oversight can be a costly, long-term mistake. It's important for all companies, even when making small decisions, to adhere to a vendor-selection-and evaluation process. This doesn't necessarily mean that a solicitation of request for proposals is necessary, but at the minimum, it is important to compare pricing and products from a variety of vendors to establish context. There should also be a periodic vendor evaluation to make sure that expectations are being met, as vendor personnel and management may change over time.

The CFO can provide some much-needed guidance to the IT director concerning this. Many IT directors become fascinated and excited with new technology and trust the information provided by the vendor. Discipline and fiscal responsibility are necessary to make sure these expenditures are truly in line with company aspirations, and not simply the latest novelty.

Forging ahead

Because they often have the ultimate say in technology decisions and accountability for IT performance, CFOs have an obligation to establish strong lines of communication with the head of IT and understand how the department functions. This can take time to develop and requires finesse from both parties, because the relationship between IT and finance is often strained at best and adversarial at the worst.

Understanding the finer points of technology management highlighted in this article can be an invaluable asset for any decision maker. Most importantly, by developing a rapport and establishing a genuine dialogue, CFOs, IT directors, and financial officers can align business goals with technology operations to improve their company and increase its overall value for the short and long term. ■