The Business-Savvy CIO

Leveraging IT Business Management to drive value-based conversations with the business

WHITE PAPER
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### Introduction

One of the single greatest factors that drives a disconnect between IT departments and the businesses they support is a failure to comprehend the two sometimes conflicting forces that impact the CIO role. The CIO has to act as mediator between the IT industry, which has its own interests and agenda, and the industry of the company where the CIO works. The friction between these two forces is often misinterpreted or completely ignored. The CIO and IT department’s reaction to and management of this friction plays a key role in how the business views IT’s overall ability to deliver IT value.

The IT industry is moving in its own cycle. New technologies appear, and old technologies reach the end of life. A CIO’s role is to help the business interpret these IT industry cycles so that new technology is leveraged to the benefit of the enterprise, and old technologies are retired before they become too costly to maintain.

The business that IT supports is part of its own industry’s cycle of growth, stagnation, decline, and redefining. The CIO has to understand where the business is in that cycle and ensure IT investment decisions drive the best ROI. The discipline of IT Business Management (ITBM) acts as a conduit for these insights and discussions. It provides a forum for the CIO to discuss IT trends and technology changes, including how the business can best leverage those trends.

### Running IT Like A Business

As more businesses begin to recognize the integral role IT plays in their organization’s overall success, business leaders’ general expectations—both of IT’s performance and IT’s ability to articulate its value—continue to evolve. As a result of this evolution, both business leaders and IT leaders are increasingly focusing on the vital availability of key financial and operational metrics for their organizations. Many CIOs have started to realize that their traditional role as technology provider has begun to change. The CIO of the future is not only technically savvy, but business-savvy as well. A business-savvy CIO has a set of disciplines that need to be cultivated in order to be successful. These disciplines require new ways of thinking, new practices, and new tools.
At the forefront of this evolution of the CIO role is the idea of “running IT like a business.” Regardless of your particular approach to running IT like a business, there is a basic model that is fairly consistent across all approaches. Nearly all definitions of running IT like a business contain a base model that includes three key elements:

- IT delivery
- IT costing
- IT operations

**IT Delivery**
IT delivery has long been the purview of the Information Technology Infrastructure Library (ITIL), Capability Maturity Model (CMM), Control Objectives for Information and Related Technology (CoBIT), and various other disciplines. These disciplines primarily focus on how to deliver IT effectively within the enterprise. Over the past decade, IT departments everywhere have realized that these IT delivery models do not sufficiently outline the entire process of running an IT department. In recent releases, even ITIL has started to recognize the elements of IT operations and IT costing.

**IT Operations**
IT operations is the discipline focused on the non-financial business components of an IT operation. Broadly, it includes Human Resources functions unique to IT, such as staffing models, role definition, and talent management. It also includes business functions of service level management, project management (think Project Management Office), benchmarking, demand management, and IT strategy. Many IT organizations have been able to leverage existing enterprise tools to assist with their IT operations; however, unique IT functions, such as benchmarking, demand management, and service level management, continue to struggle to find tools adequate and specific enough to mature these crucial capabilities.

**IT Costing**
Long neglected, IT costing has reached a critical point in many organizations. Traditional enterprise financial tools are not able to properly cost IT and tell the IT value story. In spite of a total lack of proper or adequate tools, business leaders still expect IT to develop the IT costing disciplines necessary to ensure effective financial stewardship. Expectations include service-based pricing models, the ability to align costs to the businesses driving them, the ability to manage demand-to-cost ratios, and the ability to forecast future IT costs with reasonable accuracy.
Why IT Costing Is Critical

The economic challenges of the past few years, coupled with a pent-up demand for enterprise IT to stay in line with consumer IT, has created a new sense of urgency around IT’s ability to articulate its value, its operational efficiency, and its future cost structure.

One of the major challenges for IT over the past decade-plus has been that IT delivery models have continued to increase in their complexity, and IT costs as a percentage of revenue have continued to increase; yet, the antiquated definitions of good IT financial stewardship, good IT operational stewardship, and good IT analytics have failed to keep pace. As a result, companies struggle to leverage these old definitions, processes, and disciplines within their new, complex, fast-paced environment. It simply isn’t possible. Further, many organizations have found that their tools lack the analytical horsepower to enable CIOs to effectively manage the expectations around IT costing and IT operations.

When looking ahead even just a few years, most CIOs see the complexity within their IT shops escalating, the possibility of a continually growing need to spend more on IT, an increased resistance from their businesses to continued blind investment into IT, and an overall expectation that if they can’t get their arms around it, they won’t be able to contain it.

While even this backward-looking view of the CIO’s role clearly indicates a deficiency and a growing need to improve both the discipline and the capability of IT in the areas of IT operations and IT finance, it doesn’t even begin to take into account some of the looming challenges on the horizon. One of the most commonly cited challenges that CIOs see looming in their future is the cloud issue. The technical challenges of cloud are complex enough. When you add onto that the business’s expectation that the CIO will lead the charge in terms of understanding the cost implications of a cloud-provisioning service, you begin to see a potential crisis point within the role of the CIO. No matter where on the spectrum your organization ends up in terms of the evolution of the CIO role, from its old technical back-office function to its forward-thinking strategic service-broker future, the opportunity to improve IT operations and IT financial management remains at the forefront of many CIOs’ to-do lists.

The Evolving Solutions Marketplace

Both the toolsets and the practice of IT financial management and IT operations have continued to mature over the past 10 years. What started in many IT organizations with homegrown systems and spare time from various IT leaders has evolved significantly into an entire market category of its own. In the middle of this century’s first decade, the first third-party software companies offering IT financial management and service level management began to emerge. In the early stages, these companies relied heavily on practices and disciplines driven by ITIL and CoBit, and were themselves only slightly mature within the IT space. All of these early startups were small venture companies, and as is common in a nascent space, only one company survived that first round.

The year of 2009 saw round two of third-party software companies emerging to address the ever-increasing pain of IT operations and IT financial management within the enterprise. While the market is by no means crowded, today there are four third-party software companies that offer viable solutions. Two of these companies offer viable solutions in both IT operations and IT financial management, and they continue to dominate the industry and set the standards and practices for these disciplines.
The benefit of engaging a third-party software organization in these areas is that it allows IT organizations from disparate backgrounds to begin collaborating to develop informed key practices that are universal to all IT shops. The result is faster development and maturing of the discipline and practices required to be effective in running IT like a business.

**Picking the Best Tool**

While tool selection itself can be a complicated and daunting task, there are some simple, key things a CIO should keep in mind when reviewing the various tools on the market today. In order for the tool to enable the level of analytics the CIO will need, the cost engine within the tool needs to be simple enough for the average user with common financial skills (think Excel and Access) to work within the tool itself. The tool also has to be powerful enough to deal with the inevitable complexities of the IT delivery model. The CIO should also push for a platform that is flexible enough to change quickly as the business environment or the IT environment changes.

As the IT operation and IT costing disciplines continue to evolve, the third-party software tools are helping to enable key functions within those practices in ways never before possible. Tools that integrate the service level management component with costing modules enable companies to see a dimension of their IT cost that previously was at best described in a few cells on an Excel spreadsheet, and at worst was left completely unmanaged.

Another key integration point for the top-tier tools is the ability to enable benchmarking within the tool itself. By leveraging the key concepts of benchmarking, the tool is able to provide on-demand insight as to how competitive an IT organization’s costing model is, and how efficient its delivery model is relative to other IT shops, regardless of industry.
Return on Investment

The ROI gained from leveraging an ITBM tool varies by organization. The factors that drive ROI are not unique to having an ITBM tool. The tool, however, acts as a lens, making it easier to find common IT cost opportunities as well as making it possible to track them.

Most organizations have already invested both time and money in identifying opportunities to improve their IT cost structure. Typically these efforts have focused on infrastructure optimization and application development and maintenance models, such as onshore/offshore. The ITBM tool can collect, align, and help clarify the real savings these efforts deliver. The result is not only a tracking of the actual savings, but insight into how well these efforts are paying off.

For most medium-to-large organizations, the opportunity to find cost reductions within IT have been fairly consistently demonstrated in the 3–5 percent range. When cost avoidance opportunities are included, the potential is even higher. A well-designed and implemented tool will act as an interpreter of the possible outcomes, and, via what-if scenarios, provide a realistic forecast for the potential an opportunity presents.

Conclusion

The role of the CIO continues to evolve as the definition of enterprise technology continues to change. New technologies offer unprecedented opportunities for companies to leverage scale, just-in-time provisions of computer power, faster development cycles, and more cost-effective delivery models. At the same time these new opportunities develop, the pressure on the CIO and IT to ensure proper stewardship of the IT budget has never been greater.

The dependency of business on IT has long since passed the point of no return. No new business will launch without dependency on IT, and no business in existence today will rely less on technology for its success in the future. Even as this dependency grows, and even as IT plays an ever-increasing role in enterprise success, there is still resistance from non-IT leaders against digging in to understand how their business uses IT. As long as the business is reluctant to get IT-savvy, the successful CIO will have to be business-savvy.

A business-savvy CIO not only understands the premise of running IT like a business, but intentionally and thoughtfully puts the tools in place that ensure IT’s ability to communicate, monitor, manage, forecast, and budget IT costs and IT service levels in a way non-IT-savvy business leaders can understand and digest. Ultimately, the business-savvy CIO wants the business leaders of organization to actively and intelligently participate in the IT investment discussion.