IT Financial Management: What vs. How

Michael Stiglianese and Lawrence S. Maisel *Jul 8, 2014*

Applying discipline to the IT financial management process can help plug the gap between desired goals and operational execution.

"If you don't know where you are going, then any road will get you there."

—Lewis Carroll, *Alice in Wonderland*

Most enterprises understand the benefits that can be derived from increasing IT cost transparency, managing IT like a business, and improving the interaction between IT and business units. Yet, despite the inherent understanding behind these admirable goals, many IT financial management initiatives and implementation projects fail to live up to expectations. They either miss their expected goals, or worse, completely fail.

Industry analysts have substantiated this claim for years, indicating that on an IT management maturity scale of 1 to 5 (with 5 being highest maturity), the average U.S. large or mid-market enterprise hovers around a dismal 2 on this scale. Clearly, there is a gap between desired goals and operational execution; expectations are not met.

Applying discipline to the IT financial management {ITFM) process is a big part of the solution to this pervasive problem. In fact, a robust financial management process is the cornerstone of improving and sustaining IT management maturity. The successful implementation of any IT financial management solution requires an understanding of the difference between *what* you are implementing and *how* you and your team are going to implement it. Just as important—for everyone on your team—is to grasp which one comes first. In other words, an enterprise needs to fully understand the imperative (the “what”) versus the means (the “how”) to effectively increase maturity in IT financial management processes in order to attain a desired stage of IT maturity.

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So let’s start by discussing the difference between the “what” and the “how.” Many times enterprises believe that what they are implementing is an IT financial management software application tool. This perception is incorrect and seriously flawed. What they are implementing is a set of IT financial management processes. The software application or tool is how this process will be delivered. Simply stated, the “what” is the process or set of processes that are being implementing, and the “how” is merely the tool that will be used to facilitate and support the processes.

Next, let’s discuss the order in which the “what” and the “how” need to be addressed. In most aspects of life, a person decides on what they want to do before they determine how they will do it. Stated another way, we define what our goals are, and then we plan how to achieve those goals. Normally, we decide where we want to travel before we decide if we want to take a car, a plane, a train, or simply walk. It is a simple, logical flow. Implementing an ITFM process is simply an aspect of an enterprise’s life. It should follow the same logic—“what” before “how.” The single most important factor in having a successful ITFM implementation is having a thorough understanding of what needs to be implemented before deciding on how to implement it.

Figure 1 depicts the range of stages of an ITFM maturity model. It is important to understand that a company must “fit” its goals to the appropriate level of maturity. In other words, a stage 3 level “Manage Cost” may be desired over a Stage 4 level “Competitive Advantage” since the incremental efforts and cost to achieve stage 4 may not, for a specific organization, justify the benefits achieved in order to achieve this stage.

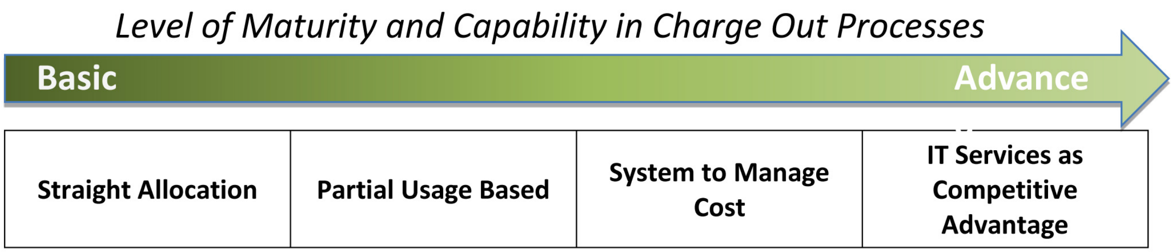

Figure 1. ITFM Maturity Model

Let’s briefly mention some of the considerations that need to go into determining the “what”:

• Senior leadership must lead an ITFM project. There must be a good understanding of who is sponsoring the project—IT, the business units, finance. ITFM maturity is a ‘top-down’ initiative.

• What are the current ITFM-related processes? Mapping existing processes will help determine gaps and areas for improvement.

• How readily available are current cost and usage drivers?

• How are business and IT performance currently being measured?

• Who will be the winners and the losers with a change of ITFM processes? Can the losers also be turned into winners?

The answer to these questions will differ by enterprise. That means the “what” will be different for each enterprise.

We started this discussion by asking why so many IT financial management projects fail to meet expectations. One primary reason is the lack of a full understanding of the difference between what process or processes are being implemented versus how a change in process will be implemented.

We have begun the presentation of a course of action and related framework and if followed, the chance of meeting expectations and realizing the business benefits of ITFM will be greatly enhanced.

In Part 2 of this series of articles, we will describe how you determine the "what," which is a rather extensive subject in itself. In Part 3 we will describe the "how."Similar to uncovering the "what," deciding the "how" is a detailed process.

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