



## The Case for CFO Involvement in IT Governance and Investment Decisions

### Executive Summary

In most large organisations, information technology (IT) is still viewed as a support function. In fact, many business executives still find it difficult to accept the potentially transformative role of IT. They are unable to embrace and accept IT as a change catalyst, given the supportive role IT has historically played across industries.

Business and IT priorities are considered by senior leaders to be vastly different from one another. Executive managers in most large organisations are expected to manage business priorities; it is rare for executives outside of the COO or CFO organisations to focus on the strategic management of IT. However, if these executives are not closely connected with the business, it becomes difficult, if not impossible, to measure any return on IT investment. Creating a tight and lasting connection between the corporation's business needs and IT returns can be established by the active involvement of the CFO in the IT governance process.

CFOs should view IT as a strategic differentiator for their organisations. The return on IT investment should be calculated in the same type of structured manner that is necessary for all large initiatives. The CFO's involvement is key to driving this behavioral change, as this brings more accountability to and correlation with the organisation's business objectives.

### Five Common Problems of IT Governance

Large organisations face largely common IT governance challenges, even though IT's impact on the business may vary significantly. The process by which these benefits accrue lends itself to common management and governance issues. These challenges are tackled in different organisations at different levels, although it is most common for executive management, especially the CFO, to be detached on a day-to-day basis. Thorny issues typically ensue, including the following:

- **Customer-facing applications are allocated a disparate share of the technology budget.** Every year during the budgeting process, the business tends to provide a wish list of needs, with impacts as important as maintaining market relevance or creating competitive advantage. However, many of these items are related to how customers perceive their experience of interacting with the company. Consequently, a large portion of the annual budget tends to be spent on IT systems and infrastructure that is customer-facing. As a result, core processing or business operations remain reliant on old, legacy infrastructure that is badly in need of a fundamental overhaul but making do with piecemeal changes.
- **The business has limited involvement in the process of IT delivery.** Having provided

The CFO can and should help the organisation achieve greater business-IT alignment and bring the IT function to the mainstream by personally assisting with the definition of the IT vision.

CFOs can play an active role in extending the organisational financial planning and analysis capabilities to the IT function, ensuring better planning and forecasting, with long-term investment requirements in mind.

a wish list and won agreement on the IT programs for the year, the business does not tend to get actively involved with the process of IT delivery. While no business team would be expected to manage technology projects, this behavior creates a chasm between the business's understanding of technology risks and priorities and the real implementation situation. Business users' involvement tends to become very episodic in specific phases of the software development lifecycle (e.g., requirements definition and user validation), but they don't understand the impact that an IT lifecycle can have on core operations.

- **Little effort is spent on prioritising IT initiatives.** The prioritisation of IT initiatives and the real definition of the value they bring to the business lack sufficient attention. In effect, a great sum of money and effort is spent on running the organisation rather than exploring transformational options. Transformative IT is almost never funded over the long term with proper visibility. Business cycles, therefore, tend to cut into budget availability and prioritisation of these programs. IT that enables long-term business objectives frequently gets side-stepped in favor of immediate business requirements and priorities.
- **IT is not considered a strategic differentiator, but as a means for delivering operational benefits.** Business teams may not always consider IT as a strategic differentiator to the business. They look at IT as a support function, more or less essential to keeping the lights on. Very few business executives spend time coaching and mentoring their staffs to derive undefined and blue-sky value from their technology initiatives.
- **Executive involvement is limited to reviews and progress tracking rather than active guidance and executive sponsorship.** Executive management is not closely

involved with transformational IT initiatives in most large organisations. IT programs typically require heavy organisational change management and buy-in from power centers across the organisation. Lacking an executive writ, they tend to fail more often than not. The real investment made into these large programs is not fully realised by the business, as various stakeholders establish individual primacy and guide program direction to suit their business unit requirements.

### CFO Involvement in the Management of IT: Setting the Right Precedents

In most large organisations, the technology function reports directly to the CFO via the chief information officer (CIO). Within the executive management team, the CFO is best situated to change many of the aforementioned governance challenges, in a permanent manner. The CFO can and should help the organisation achieve greater business-IT alignment and bring the IT function to the mainstream by personally assisting with the definition of the IT vision. This includes the following:

- **Link corporate objectives to IT objectives.** Each year, the business undergoes an elaborate process of business planning and defining specific objectives to attain on an annual or multiple-year basis. This planning forms the basis for IT investments (or budget cuts). The IT organisation should mirror this planning process in terms of creating its own planning cycle. The planning process should specifically look at creating greater business alignment and defining IT objectives and goals as a function of individual business objectives and goals. CFOs are well placed to provide this direction, with a solid view of the business thought process, as well as eventual accountability for IT.
- **Institutionalise the IT budget allocations process, including required CFO sign-off.** In a decentralised decision-making environment, IT budgets are typically agreed to by divisional CIOs and divisional business heads. If the CFO is made part of the IT budget allocation approval process, it will create additional oversight for ensuring that the budget allocation balances short-term business goals with the pursuit and fast-tracking of long-term organisational strategy.
- **Link IT budgets to business impact at a program level.** CFO involvement in the

budget approval process will also formalise the practice of measuring the business impact delivered for each program rather than abstracting the benefit proposition at the line-of-business level. Depending on the size of the organisation, appropriate thresholds can be determined, beyond which CFOs should explicitly approve program-level budgets.

- **Improve the planning and forecasting process for technology requirements, providing business a future rolling view of investment needs.** The effectiveness of financial forecasts in any organisation is critical to the stability of the business model, as well as the ability of executive management to shift focus from worrying about quarterly guidance to longer term strategic opportunities. While most large organisations have effective institutionalised practices in place when it comes to demand forecasts, the same rigor is not replicated on the supply side. CFOs can play an active role in extending the organisational financial planning and analysis capabilities to the IT function, ensuring better planning and forecasting, with long-term investment requirements in mind. IT should be able to regularly and accurately articulate a rolling view of investments required to meet operational as well as strategic business needs.
- **Ensure the organisational risk management framework accounts for IT governance risks.** Another potential area of synergy that the CFO can create within his organisation is IT risk management. In most organisations, the chief risk officer (CRO) reports to the CFO. This role focuses on external risk management, adopting the best market practices and responding to regulatory stimuli as applicable. However, the expertise and experience of managing business risk is not fundamentally applied to an otherwise internal IT function. At the program level, IT executives do look at risk management as a critical function, so the business expertise available in-house can be very effectively leveraged by the IT function. CFOs are in the best position to create this CIO/CRO synergy, leading to more effective IT governance.
- **Invest in IT innovation to drive differential value.** As mentioned earlier, the business may take a short-term view of its IT requirements

and priorities, and in the process, it may not always be able to leverage IT for driving differential value beyond the set objectives. A better understanding of the IT return on investment and the future business impact of current investments may help change that behavior. CFOs are, again, placed very well to make the difference. If current investments are guaranteed for transformational IT notwithstanding the business cycles, the business can aim for a multiplier effect on this initial IT innovation outlay. Over time, these investments can become self-financed and potentially even operate as a profit center. However, active communication of financial considerations and benefits will be fundamental to creating any such "IT innovation reserve." Again, the CFO is best placed to take that long-term view.

- **Ensure IT architecture is a function of business architecture.** The IT architecture involves the details of how business processes, organisational units and operational activities are modeled in an IT environment. Various organisations spend different amounts of time and effort in creating this architectural alignment. Quite often, several IT programs just skip this initial planning and alignment phase. However, effective calculation of return on IT investments will necessitate excellent understanding of IT costs and benefits, which in turn can be understood only if the IT architecture is business-aligned. While this subject is not an area of active CFO involvement, linking the financial evaluation of programs or IT outlays to defining this alignment as a pre-requisite will automatically improve the financial governance of IT. This will help increase accountability in the way large IT programs are managed and delivered.
- **Ensure the business is making the right investments in high return areas like business intelligence and data analytics.** All organisations benefit from a greater understanding of their customers' behavioral patterns. Many organisations, however, miss making the right investments to create the infrastructure to consistently understand this behavior. If CFOs have a solid handle on IT budgets and related business priorities, they will be well placed to suggest compensatory measures, bringing to the fore these impactful but under-invested areas.

## Ensuring IT Advances Business Objectives

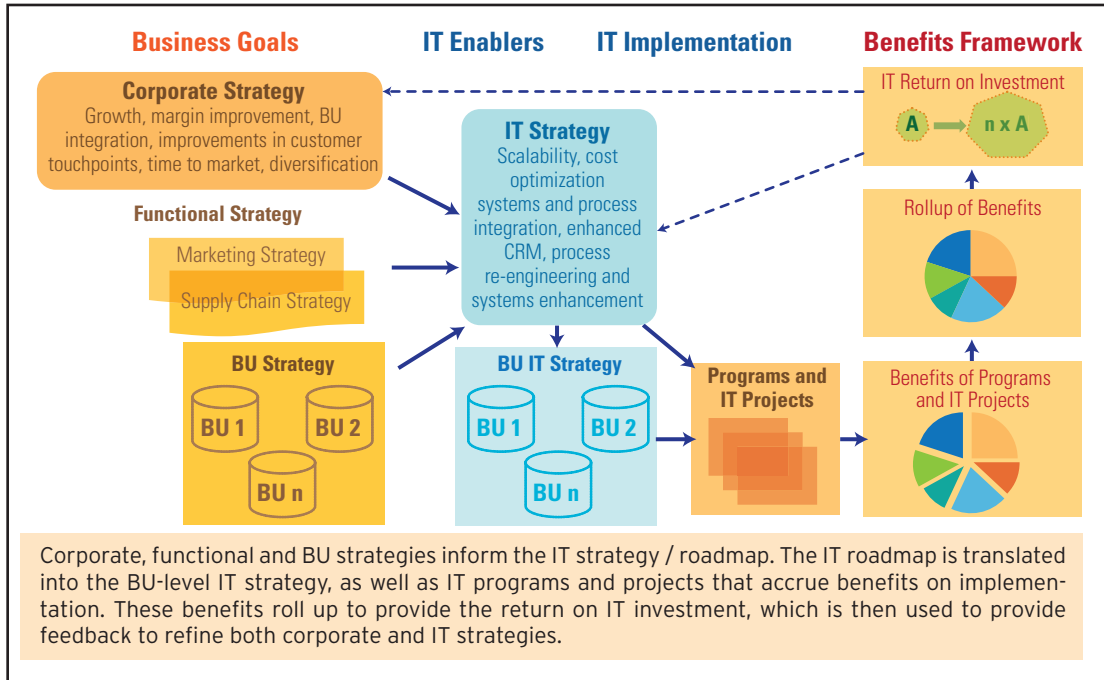


Figure 1

### IT Strategy as a Business Enabler and CFO Oversight

We propose the following framework to ensure IT strategy is seen as a business enabler and is tied tightly to long-term business objectives and vision.

This framework for IT strategy closely aligns the business goals with IT implementation plans. Doing this creates a strong, well-defined feedback loop for IT's financial returns, which can create an informed future IT strategy. In this way, long-term goals and short-term objectives are equally made part of the IT governance process. This requires a focus on:

- **IT enablers:** The key inputs to IT strategy from an outside-in perspective are all business-related – business strategy, business unit strategy and functional strategy. This includes long-term and short-term planning items, which creates a comprehensive input view. The IT strategy is then deconstructed at the business unit level to ensure proper focus, while at the same time keeping the overarching vision intact.
- **IT implementation:** The business unit level strategy is broken down in various IT programs and projects, which form the annual roadmap for the IT division.

- **Benefits framework:** Each IT program is subjected to a comprehensive benefits measurement framework, where the underlying evaluation items and considerations are pre-defined and known well in advance. This helps create greater financial accountability and helps the business obtain an instructive view of the value delivered by IT. The actual ROI also completes the feedback loop for the IT strategy alongside the corporate strategy, thus providing periodic course correction and directional guidance on the effectiveness of the money spent.

The CFO organisation is ideally placed to create, implement and refine the benefits framework, which forms a key aspect of the feedback loop for IT strategy.

### Moving Toward Strategic IT

Executive management, led by the CFO organisation, can help guide IT as a strategic differentiator for the organisation. By making the right investments in IT, with measurable outcomes, organisations can stand out in a crowded and competitive marketplace. Taking a long-term view of IT priorities and balancing it with strong near-term financial management and governance can create unbeatable business-IT alignment over time.

## About the Authors

*Aashish Chandorkar is Senior Manager, Consulting, with Cognizant Business Consulting and leads business IT transformation and business IT alignment engagements in the capital markets space. Aashish is based in Pune, India, and can be reached at [Aashish.Chandorkar@cognizant.com](mailto:Aashish.Chandorkar@cognizant.com).*

*Gaurav Chattur is a Consultant with Cognizant Business Consulting, specializing in large organisational transformation programs and change management initiatives. Gaurav is based in Pune, India, and can be reached at [Gaurav.Chattur@cognizant.com](mailto:Gaurav.Chattur@cognizant.com).*

---

## About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process outsourcing services, dedicated to helping the world's leading companies build stronger businesses. Headquartered in Teaneck, New Jersey (U.S.), Cognizant combines a passion for client satisfaction, technology innovation, deep industry and business process expertise, and a global, collaborative workforce that embodies the future of work. With over 50 delivery centers worldwide and approximately 111,000 employees as of March 31, 2011, Cognizant is a member of the NASDAQ-100, the S&P 500, the Forbes Global 2000, and the Fortune 500 and is ranked among the top performing and fastest growing companies in the world. Visit us online at [www.cognizant.com](http://www.cognizant.com) or follow us on Twitter: Cognizant.



### World Headquarters

500 Frank W. Burr Blvd.  
Teaneck, NJ 07666 USA  
Phone: +1 201 801 0233  
Fax: +1 201 801 0243  
Toll Free: +1 888 937 3277  
Email: [inquiry@cognizant.com](mailto:inquiry@cognizant.com)

### Singapore Headquarters

80 Anson Road  
#27-02/03 Fuji Xerox Towers  
Singapore-079907  
Phone: +65 6324 6672  
Fax: +65 6324 4383  
Email: [inquirysingapore@cognizant.com](mailto:inquirysingapore@cognizant.com)

### India Operations Headquarters

#5/535, Old Mahabalipuram Road  
Okkiyam Pettai, Thoraipakkam  
Chennai, 600 096 India  
Phone: +91 (0) 44 4209 6000  
Fax: +91 (0) 44 4209 6060  
Email: [inquiryindia@cognizant.com](mailto:inquiryindia@cognizant.com)