

## IT departments: visibility through the budget

In a global context of financial optimisation

*Many companies have undertaken extensive efforts to optimise, control, and reduce costs.*

*The economic climate in recent months has intensified this trend. IT departments have clearly contributed to this productivity effort: in 2009, 82% of private sector companies were involved in an IS cost reduction plan (CIGREF/Capgemini).*

Among the ten corporate priorities for 2010, cost reduction (Gartner EXP - January 2010) is in second place. This choice impacts the IT department, particularly in companies where it is still considered a support function. Paradoxically, IT contributes a little more each day to the overall performance of the company.

Supporting the common financial effort begins with a complete, thorough control of costs, expenditures, and investments related to IT in order to then improve the dialogue with the business professionals. It is possible, even desirable, to contribute to the cost optimisation effort by giving IT more visibility.

### > Out of the shadows

Business professionals often identify the IT department as one of the top cost centres. Consequently, they ask it to contribute significantly to the productivity effort, without taking into account its possible involvement in shaping the choices of reducing IT costs.

This view of IT by business professionals is due in part to the lack of understanding of the expenditures generated by IT and the consequent benefits for business processes. Yet, experience shows that the company comes out ahead when it sees its IT department as more than a "support black box".

However, without going into technical considerations, it is possible for business professionals to be able to make an informed choice regarding an investment or, conversely, an IT budget reduction. How can this business/IT relationship succeed? By presenting the IT department in a business-oriented manner.

This means providing IT budget and financing information in a form that can be understood by business professionals, such as in the form of costs per service expressed in business terms.

The IT department then shifts from a global cost centre to a service centre.

## > An in-depth change

Achieving this goal is not a target of business professionals; at best, they will be the sponsor of this change. **This challenge is intended for the IT department, in collaboration with senior management and the finance department, in order to integrate IT within the company's overall governance.**

This first involves a project to change the budgetary processes and tools of the IT department. This transformation will mean profound changes in the IT department, since it will potentially impact all of its players, like those of the support functions (HR, management control, etc.). It may, for example, result in the establishment of employee activity monitoring or even lead to changes in project governance, their planning and tracking, etc.

Upon completion of this project to control and present IT costs to business professionals, **several views of the budget may be produced: by resource, by activity, or by service.** The consistency between these views is ensured by centralised cost management and industrialised, interconnected monitoring tools.

This global change is facilitated by the alliance of key players in the financial process around the approach to improve financial management. Each of these players will find his or her interest in launching such a project in order to become a determinative player in it.

## > Finally: an IT department that funds its investments

Following the implementation of such a project, IT departments have the opportunity to demonstrate their **added value** to business professionals by making their costs more **transparent** and **unders-tandable**. With this increased visibility, the IT department can point out IT previously misunderstood investment opportunities; it facilitates its relations with the business professionals by creating a client/supplier relationship.

The educational presentation of costs by the IT department permits the involvement of its clients in the primary objective of expenditure recovery;

moreover, it helps to integrate the cost of technological research and development.

Through this increased understanding between Business and IT, the IT department is more visible. It is recognised as a stakeholder in the company's governance and can integrate the company's strategy into its R&D as soon as possible.

To achieve this target, methods exist that may prove to be complex if they are not controlled or implemented well. Such transformation projects consist of large-scale projects, which need to be particularly well steered.

### Beijaflore IT financial maturity scale



## > Making progress on the financial maturity scale

In order to properly address these issues, Beijaflore has defined a maturity scale made up of five levels: from chaos to profit centre. This scale allows the IT department's evolution in its financial maturity to be tracked throughout the project.

The first step of our approach involves positioning the maturity of the client's IT financial management process. An assessment of the situation is carried out based on criteria identified by level. This assessment is conducted on a factual basis by integrating:

- **Existing processes:** models, billing system, reference standards, etc.
- **Benchmarks used:** service catalogue, asset management, service management, etc.
- **Stakeholders:** Management control, IT department heads, CFO, purchasing, budget managers, etc.

### ABC

ABC (Activity-Based Costing) is a method of business process-oriented budgetary calculation. It permits the presentation of the budget in three different views: resources view (what is spent), activities view (the operational everyday actions of the teams), and services view (what is produced/provided to the business). The calculation of the cost of providing services is based on activities, which consume resources. It involves finding the right scales of allocation in order to obtain consistent views for each of the players. Applied to IT, this method allows business players to better understand the costs of IT services. It makes the recovery of costs and better steering of them easier.

After this positioning step, our scale makes it possible to work with the client to define the maturity level to be reached. The ways of moving to the next level are then defined jointly between Beijaflore and the client.

Our approach integrates the importance of **uniting the players in the financial process around the approach to improve financial management**. This will be possible with the identification and establishment of quick wins defined between each gain in maturity.

Gaining maturity may involve the use of best practices or methods known as ABC, ZBB, ITIL, 6-Sigma, etc.

### ZBB

Zero-Based Budgeting (ZBB) is a method to define the budget of a company or an entity without taking historical information into account. The renewal of a budget from one year to another is therefore excluded; all expenditures must be justified. Each activity distinguishes its primary and secondary tasks and develops several budgetary alternatives for each one. The proposals are then pitted against each other and ranked. This method permits the reallocation of resources to the company's developing activities.

The Beijaflore scale provides the IT department with the possibility of concretely measuring, as the transformation project goes along, the actual gain in maturity of its financial management processes. ■