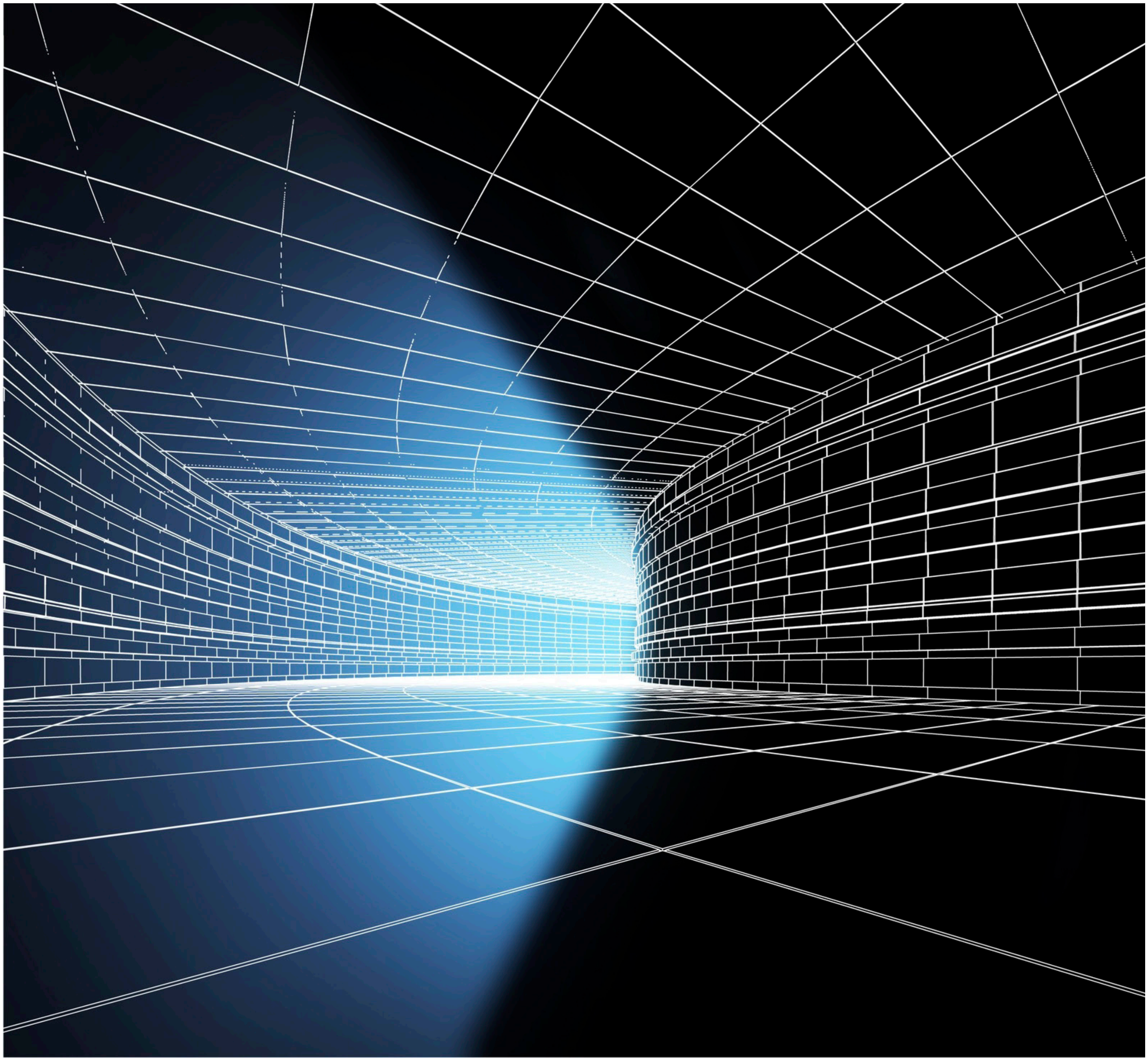
A report prepared by CFO Research Services and SearchCIO in collaboration with Cisco Systems

Uncrossing the Wires

STARTING—AND SUSTAINING—THE CONVERSATION ON TECHNOLOGY VALUE



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About this report

In a global electronic survey conducted in December 2011 and January 2012, CFO Research Services and SearchCIO collected qualified responses from 382 senior finance executives and 300 senior IT executives working in a wide variety of companies. All of the respondents to the survey are employed at companies with annual revenue of $100 million or more; respondents work for companies in nearly every industry. Respondent segments are characterized as follows:

RESPONDENT TITLES:

Chief financial officer	17%
Director of finance	13%
Controller	12%
SVP of finance or equivalent	11%
Treasurer	3%
Finance total:	**56%**
Chief information officer or equivalent	20%
Chief technology officer or equivalent	10%
Other information technology title	14%
IT total:	**44%**

ANNUAL REVENUE (US$):

$100M-$500M	32%
$500M-$1B	21%
$1B-$5B	25%
$5B+	23%

REGION:

United States/Canada	47%
Asia/Australia	29%
Europe	14%
Latin America	3%
Other	7%

Note: Percentages may not total 100%, due to rounding.

Business technology: A new model

“The CFO should always allow the IT organization to innovate, to experiment, and [should] understand that there is financial risk associated with innovation. Not every IT investment will have an ROI, but allowing IT to be thought leaders is imperative in today’s evolving technology landscape.”

—Senior vice president of IT at a large, U.S.-based global services firm

This situation is puzzling when we consider how the roles of the CFO and CIO are more alike than they are different. Certainly, each must possess highly specialized knowledge to perform their jobs. Yet their roles as technocrats and financial stewards are also evolving swiftly, and they are converging more and more on the need to take a broader, more strategic view of their respective responsibilities.

HOW CLOSELY ALIGNED ARE CFOs AND CIOs ON the ways in which technology can support and generate value for a company’s business strategy? This is the core question that CFO Research Services and SearchCIO, working with Cisco Systems, pursued in our survey of more than 600 senior finance and IT executives at companies around the world. *Uncrossing the Wires* looks to uncover the key areas where CIOs and CFOs agree and, more important, where they diverge on issues ranging from who’s calling the shots to how often they talk.

Using technology strategically is difficult in today’s evolving landscape. Old models based on enterprise silos are giving way to a new hybrid—business technology—as IT organizations, finance functions, and business operations alike acknowledge you can’t have one without the other. The ability to better meet customer needs, operate efficiently, and even “leapfrog the organization growth,” as one CFO writes in our survey, all rely on the increasing integration of technology with the business.

As one CIO from the survey states, “If technology supports the business, everything goes well.” The problem with achieving that idyllic state, according to another CIO in the survey, is that “technology changes so fast, it is a challenge to keep each other informed.”

The bottom line is that the success of one executive is becoming inextricably linked to the success of the other, requiring close collaboration on technology investments. But long-standing silos may be difficult to tear down.

A director of finance in the telecommunications industry offers this blunt assessment of his company’s CIO and CFO: “They really do not work well together.” The CFO of a large U.S. health-care provider zeroes in on the root problem implicit in many of the comments we received in our survey: “Each lives in their own specialized world, be it finance or IT, and does not always understand the exact needs and limitations of the other.”

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>
> —CFO of a large U.S. health-care provider

Technology, and the IT function itself, is now so central to industry processes and performance, that successful CIOs must be business strategists and even revenue generators. For the CFOs’ part, as companies strive to adapt to rapid changes in the business climate, they are being asked both to take a more strategic approach and to develop a deeper understanding of the applications and benefits of technology.

For example, the CFO from one of the smaller U.S.-based technology firms in the survey is eager to point out that “technology investments are an important part of our strategy for improving the customer experience.” Similarly, a director of finance at a global energy firm touts technology “as not only an efficiency driver but a growth and innovation driver.”

But in many cases, CFOs may have a hard time convincing their IT counterparts of their good intentions. The CTO of a midsize North American automotive company notes that “IT is not yet seen to be accelerating the business,” but instead “is still viewed as a cost center” by the CFO. Unfortunately, our survey reveals that, while CFOs and CIOs often agree on the importance of having the conversation, they may not always be speaking the same language when it comes to technology. ■

Great minds do think alike...sometimes

This perception gulf between the CIO and the CFO is not based on the types of technology they consider important. To a remarkable degree, there is almost no daylight between the CFO and the CIO on which technologies will be most important for business success in the next three years.

BUSINESS INTELLIGENCE, MOBILITY, AND cloud computing dominate the horizon. For example:

- 94% of finance executives and 95% of IT executives say business intelligence will be "very important" or "somewhat important" going forward
- 88% of finance executives and 91% of IT executives say mobility will be "very important" or "somewhat important"
- 77% of finance executives and 70% of IT executives say cloud computing will be "very important" or "somewhat important"

On the question of which criteria figure prominently in justifying a technology investment, IT and finance executives again are very much in line. Asked to evaluate a range of factors as "rarely, sometimes, or regularly considered" in technology decisions, majorities of IT and finance executives agree on the elements that are important when considering both business impact and ease of implementation. (See Table 1.)

The two groups also agree on which considerations loom largest for their companies in selecting a technology vendor. Asked to name the three most important criteria (from a list of nine) for choosing a vendor, the "vendor's ongoing costs (e.g., licensing fees, implementation costs, maintenance)" drew the most votes from both finance executives (48%) and IT executives (55%). Even on the big question of whether "IT systems give management the information it needs to make well-informed business decisions," both sides agree this is so by wide margins, with 71% of finance executives and IT executives alike answering affirmatively.

But the differences start to show when we dig deeper into what kinds of answers finance and IT executives expect to see—and from whom. ■

TABLE 1. IT and finance executives agree on the business factors that are important to consider for technology investments....

Business Impact	Consider "regularly"	
	IT executives	Finance executives
Clearly defined improvements in business results	67%	61%
Payback or return on investment (ROI)	67%	60%
Impact on customer experience	65%	57%
Impact on business growth	64%	58%

...and also on the implementation requirements.

Ease of Implementation	Consider "regularly"	
	IT executives	Finance executives
Implementation schedule (i.e., time needed to get the system "up and running")	67%	58%
Ease of integration with existing systems	66%	64%
Implementation resources required	61%	54%
Ease of use by end users	61%	54%
Customizable to company requirements	60%	56%

Who's calling the shots?

A key to understanding how diverse the perspectives are from the different offices can be found by looking at the processes companies have in place for evaluating technology investments.

WHEN ASKED TO WEIGH THE INPUT OF BUSINESS, finance, and IT in technology decisions, 7 in 10 finance executives (69%) and more than half of all IT executives (57%) do not believe these decisions "reflect a balanced viewpoint of different constituencies."

Making matters worse, the two sides do not agree on the relative power each group wields in these important decisions. The finance group, for example, gives greater weight to IT's influence over technology buying decisions than IT executives do themselves. Nearly one-quarter of finance executives say that the "IT viewpoint outweighs others" when making a technology investment, compared with just 10% of IT executives. (See Figure 1.)

On the question of funding for technology investments, there is little doubt that the CFO is decider-in-chief. A majority of respondents overall (65%) identify the CFO as the person in charge of approving technology expenditures. (See Figure 2 on page 6.)

The approval question is less clear when respondents are asked how much say CIOs have in technology expenditures. Although, overall, 42% of respondents say the CIO approves funding for technology investments, the splits reveal a different story: more than half of IT executives (57%) claim their CIO has responsibility for approving expenditures, while only 30% of finance executives would agree.

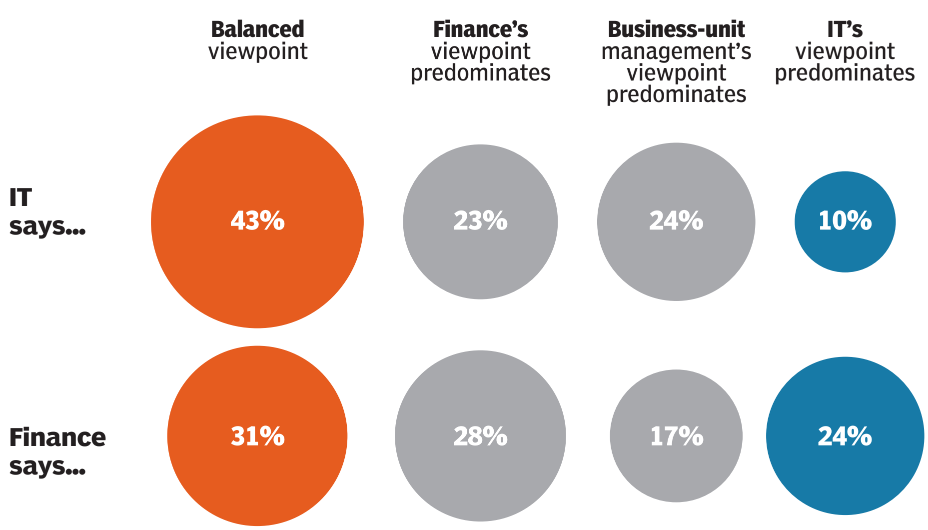
This apparent disconnect may be due to the different interpretations the two groups have on what it means to "approve funding"—signing off on the allocation of resources for an investment is certainly different from signing the purchase order. Given the strong signals from both groups that IT has primary responsibility for overseeing vendor selection and the implementation effort, IT executives may well have a different view of their role in the steps leading to that responsibility.

Another area of difference is the respective views on how much business input goes into IT's proposals for technology. The close working relationship IT sees itself having with the lines of business is evident throughout the survey. But far more IT executives (70%) than finance executives (59%) credit business users with "providing input to the business case."

Similarly, 61% of IT executives acknowledge the involvement of business-unit management, compared with 53% of finance executives. It seems clear that CIOs are not adequately communicating to their CFOs how IT actually makes its technology buying decisions.

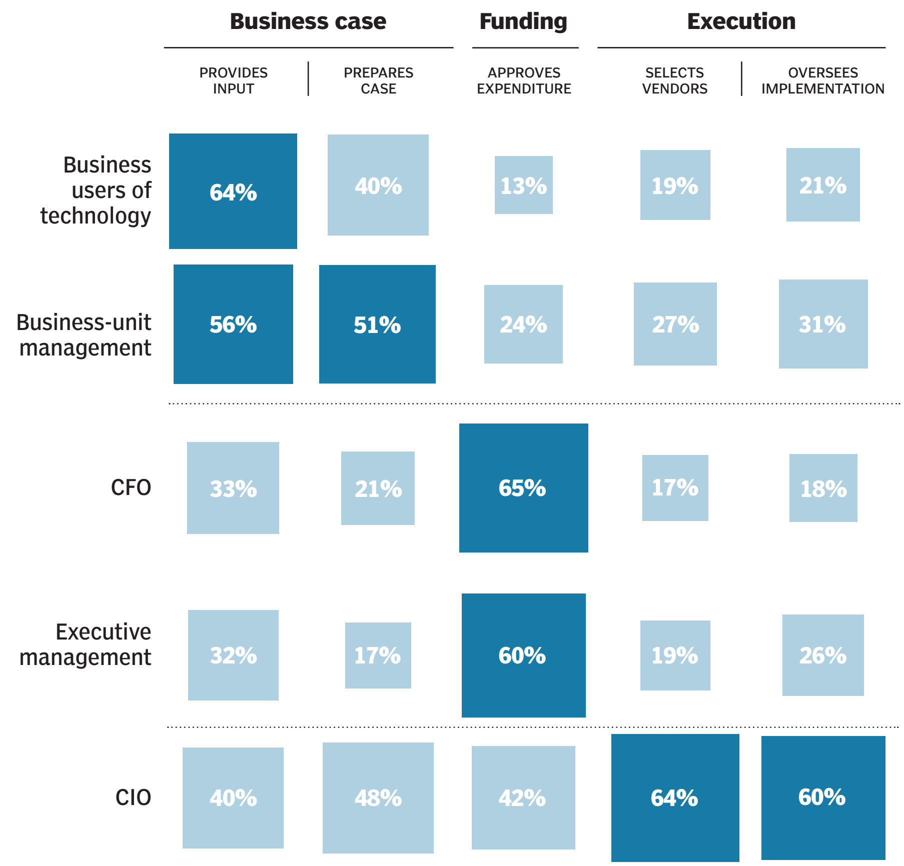
Some respondents offer helpful advice on how to get the most leverage from the "complementary skills in reviewing and approving investment decisions" cited by the CIO at one of the larger European education and training firms in our survey. A senior director of I&O from the U.S. consumer-products industry

FIGURE 1. At your company, what relative weights do the viewpoints of different constituencies carry in deciding whether to make an investment in technology?



admits, "We could probably improve this process by engaging the CFO earlier"—one way to make sure CFOs understand the basis for the technology business case, even if they aren't developing it themselves. And a senior vice president of IT at a global services firm provides a concrete suggestion: "The CFO can do a great job helping lines of business focus on the 'need' vs. the 'want' and to articulate that in a way that rationalizes a business case." ■

FIGURE 2. What responsibilities do different functions within your organization have for evaluating and selecting technology investments?



Show me the metrics

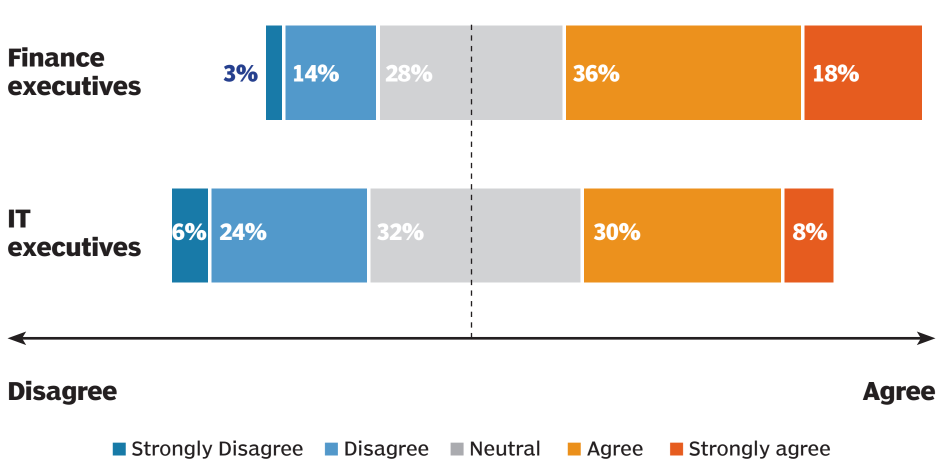
"Learn to measure the benefits of technology better."

—CFO of a billion-dollar U.S. health-care firm

OF COURSE, TO EFFECTIVELY HELP business lines focus on "need" vs. "want," the criteria for purchase decisions must be crystal clear. While 54% of finance executives "agree" or "strongly agree" with the statement, "The metrics we use to assess technology investments are commonly understood across the company," only about 38% of IT executives say this is so. (See Figure 3.)

A look at the verbatim responses to the survey's open-ended questions on the nature of the CFO/CIO alliance reveals the differing views of the CIO and the CFO on metrics, at least as IT executives perceive it. They take particular issue with the rigid definition of ROI that CFOs apply to technology investments.

FIGURE 3. "The metrics we use to assess technology investments are commonly understood across the company."



The CIO of a $10 billion North American entertainment and travel company shorthands the problem as "IT cost vs. business value." There is "more of a disassociation" between IT and finance when the technology benefits are "less quantifiable," he writes: "Sometimes finance just thinks of pure investment dollars, not the softer impact of solutions where longer-term benefits may be more challenging to quantify." A chief technology officer at a midmarket hospitality company based in Asia Pacific explains a common IT viewpoint when he writes, "Not all investments in IT are tangible and can show an immediate ROI."

But many CFOs take issue with these viewpoints. The director of finance at a large North American chemical company expresses his own "frustration with the lack of tangible returns, the slow pace of adoption, and realization of gains" from technology investments. For a number of finance executives taking part in our survey, the cost argument cuts both ways. "IT [should] demonstrate KPI improvements instead of just costs," says the director of finance at one midsize manufacturing company based in Asia Pacific. ■

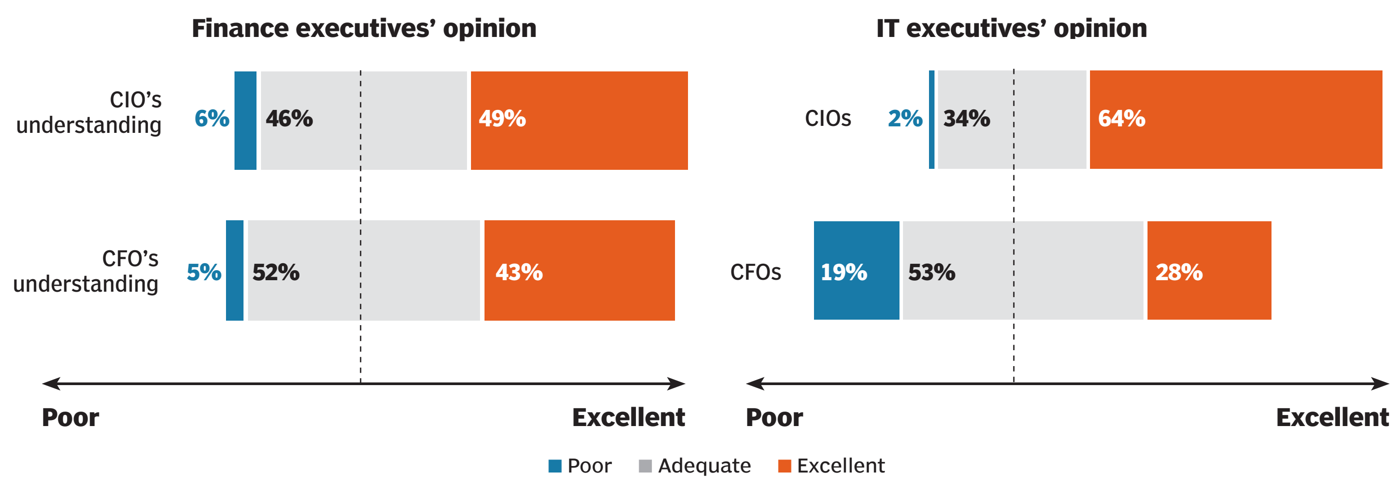
Only a little knowledge is a dangerous thing

It certainly would seem important for CIOs and CFOs to develop a mutual understanding of how technology supports business strategy and generates value. Yet, on this fundamental issue, the view of many IT executives is that CFOs are operating in the dark—and apparently don't know it.

ALTHOUGH 43% OF FINANCE EXECUTIVES say their CFOs possess "excellent" understanding of how technology supports business strategy and generates value, only 28% of IT executives believe this to be true. (See Figure 4.) Moreover, almost one-fifth of IT executives (19%) actually rate their CFO's understanding as "poor" (compared with just 5% of finance executives who feel their grasp of technology is inadequate).

A case in point is the two groups' respective responses to cloud computing and virtualization. Both IT and finance executives acknowledge cloud computing as a force to be reckoned with in the next three years. On the other hand, finance executives are much less certain than IT executives that virtualization is crucial for the company's success going forward. Only 37% of finance executives in the survey rate virtualization as "very important," compared with 61% of IT executives. This is perplexing given that virtualization is an enabling technology for many aspects of cloud computing, is a key technology in making the desktop accessible to mobile users, and can significantly reduce operating costs. ■

FIGURE 4. In your opinion, how well does your ______ understand how technology supports your company's business strategy and generates value?



Maybe together we can get somewhere

"When the CFO and the CIO get together, they both bring something to the table...so they have to give equal importance to each other. With good understanding, they could make a good team."

—Controller of a billion-dollar global technology company

GIVEN THE DIVERGING VIEWPOINTS SEEN in the survey, the prospects for truly integrated "business technology" will be challenging. But the survey also shows that having a strong CIO/CFO alliance, in which IT and finance priorities are clear and the metrics for making technology investments are well understood, is certainly possible, even if it isn't yet ubiquitous. For all the disagreements between the groups, a fair number of both IT executives and finance executives offer earnest advice for making the CIO/CFO alliance work.

> "Bringing IT perspectives closer to business and financial language" will help bridge the gap.

The key, it seems, is almost deceptively simple: Make the effort to understand each other. So, for example, the CTO of a midsize automotive company acknowledges that there needs to be "a way to calculate ROI for every IT project" in order to meet the CFO's primary concerns. As the CIO of a midsize professional services firm in Latin America preaches, "bringing IT perspectives closer to business and financial language" will help bridge the gap.

But some CFOs in turn acknowledge their need to become better versed in the business value of technology. What's needed is simply, "CIO understanding of Finance priorities, CFO understanding of technology," according to a senior vice president of finance.

This mutual understanding can be achieved, according to a number of respondents, through education and transparency. The CIO of a U.S. manufacturer describes what he sees as a "best practice" at his company: "The CFO understands how to use technology to the benefit of the company. Therefore, the CIO does not need to spend as much time educating the CFO. The CIO has a strong financial background, so he speaks the same language as the CFO."

In the end, "improved communication is really all it would take," believes the CIO at a large U.S. financial institution, regardless of how you go about making that happen. But the ultimate bottom line is perhaps provided by another CIO from the survey: "In all areas, consultation and common understanding of business challenges and needs make the technology investment decision very simple." ■

Sponsor's perspective

The pace of innovation in both technology and business is accelerating. Customers, partners, and employees are becoming more knowledgeable and more demanding, the volume of data is rising, and expectations of having choice for how content is consumed are increasing. To meet these challenges, now more than ever the CIO and the CFO must work together around the common goal of using technology to help grow the business.

When reviewing the results of surveys such as these, it is tempting to focus on the differences between the groups surveyed. Indeed, there are diverging viewpoints on several issues, although none are irresolvable. As noted in this report, these challenges can be easily addressed through improved collaboration and minor course corrections. For example:

- Involve finance earlier in the technology assessment process. Too often, finance is viewed as a "hurdle to be surmounted" later, rather than a partner to be embraced early on. Use finance's strengths. Invite them to the early meetings and let them help build the business justification for technology investments.

- Develop and agree upon a common set of metrics for each project. Finance and IT should also agree that some level of flexibility is required. IT executives have noted that some of the benefits of technology will not always be immediately evident—the infamous "intangibles." One approach may be to review past projects where technology has delivered those intangible results.

- Agree on how and when to measure metrics, and follow through on that process. Many organizations confess to never following up on metrics measurement after the project is deployed.

- Educate finance about the benefits of virtualization. The low opinion finance executives hold of virtualization was one of the big surprises in the survey. This is particularly ironic because virtualization is one of the most direct and obvious ways that IT can help reduce costs for rack space, cabling, energy, cooling, and ongoing operations. There is a clear ROI story in virtualization that has not been adequately conveyed to finance executives.

Beyond the differences, what is most noteworthy in this report are the areas in which there is such strong agreement. Both IT and finance executives see technology as central to:

- Responding to business challenges,

- Harnessing innovation, and

- Positioning their business for growth.

These are sentiments with which Cisco can wholeheartedly concur. As a trusted business partner, it is part of our mission to help companies respond to those challenges and nurture that business growth. ■

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