Attempts to cut or optimize IT cost, or demonstrate value, will likely fail without strong cost transparency and governance. IT financial capabilities should therefore be considered the starting point for all successful IT cost management initiatives.

Analysis

As CIOs grapple with issues as diverse as digital acceleration, demonstrating the business value of IT or managing the shift to the cloud, the common thread running through each is the IT budget and spend, and how they are managed. IT financial management (ITFM) is a discipline across the foundational elements of IT finance: visibility, cost allocation, funding and governance.

This document is part of a research collection covering four CIO focus areas comprising 20 accountabilities (see Note 1).

Figure 1 shows Gartner's six pillars of IT financial transparency, which are the building blocks to successful financial management of the IT function.
Pillars 1, 2 and 3 represent the foundational aspects of managing your IT budget. This research focuses on three key ITFM best practice areas for CIOs, to set them up for success as they seek to drive IT cost and communicate value.

**Create IT Cost Transparency**

The first step within ITFM is to create transparency in your IT cost base. The ability to scrutinize financial data enables CIOs to quickly and definitively answer specific questions about their budgets, facilitating faster and improved decision making. To establish this competence, CIOs should start with their total cost base, as detailed in their financial accounts, then build and maintain multiple distinct views of the IT finance budget across the following areas:

- Technology
- Business services/applications
- Investments
Each view should be structured for specific stakeholders, addressing questions based on differing needs, areas of responsibility and consumption of IT services. These views can then be leveraged to effectively manage costs, calculate benefits and demonstrate value.

Review and Adapt to Your Investment Funding Model

Successful CIOs are adept at negotiating how IT is funded. As funding methodologies change, CIOs must be able to adapt and respond accordingly.

The majority of organizations continue to fund IT change activity using waterfall methodologies. However, we see a growing trend toward block funding of activities as products, or even self-funding IT change through revenue generation. Changes to funding methodologies are often aligned with increasing levels of digitalization and cloud usage. This, in turn, changes the financial reporting of IT cost, either through increasing operating expense over capital, or recording IT cost outside of SG&A, within R&D or cost of goods sold.

Regardless of how investment funding is allocated to IT, there are fundamental ITFM best practice principles that CIOs should deploy when seeking investment funds:

- **Align to value:** Ensure that IT change investment aligns to overarching business goals and objectives. There must be a clear line of sight to furthering business objectives such as increasing revenue, reducing cost or mitigating risk.

- **Communicate the financial impact:** Ensure any changes to the opex/capex mix as a result of investments are planned and well-communicated to the wider organization. Encourage a total cost of ownership (TCO) view.

- **Measure and track benefits:** Ensure processes are in place to establish a baseline of existing costs and revenue, enabling meaningful future benefits tracking.

Allocate IT Cost to Cost Drivers

IT cost is commonly allocated to the business through chargeback or showback programs. IT chargeback or showback represents an important interface between IT and the business, providing visibility into what IT does and what it costs.

Decisions CIOs make on how to allocate cost, and to what degree of complexity, are critical to meeting business expectations and changing behaviors. CIOs should seize this opportunity and:

- **Identify the main objectives of chargeback.** From an IT perspective, this is typically to recover cost, change consumption behavior or demonstrate IT’s value. The business will typically care most about fairness and controllability of the IT costs it incurs.

- **Charge the business in terms staff can understand.** Aggregate costs into technical and business services. This will enable the recipient to more easily understand and digest them and recognize
Choose allocation methods that are closest to the real driver of the cost. For example, help desk costs are driven by the number of tickets answered. Allocating cost on relative revenue share will likely mean IT costs are considered less fair and controllable from the business paying the invoice.

Next Steps for CIOs

As CIOs, you should:

- Create additional views of your IT budget to aid decision making and further cost management objectives (see CIOs Must Master Four Views of Spend to Manage IT Finances).
- Proactively manage changes to your organization's cost structure, and effectively communicate them to the wider organization (see Establish the Impact of Cloud on Your Organization’s Opex and Capex Budgets).
- Ensure the effectiveness of any chargeback or showback program by aligning cost allocation methods to the real drives of IT cost (see Build a Focused ITFM Cost Model and Use a Simple Allocation Approach to Deliver Rapid Value and Expert Insight Video: 5 Best-Practice Rules for Chargeback).
- Assess your overall maturity across IT finance and address particular points of weakness (see Strategic Cost Optimization Score for IT).

Note 1: Gartner Essential Frameworks

Gartner Essential Frameworks Executive Programs report outlines four CIO focus areas comprising 20 accountabilities. This Executive Essentials report focuses on the I&T execution and operating model accountability.

Recommended by the Author

6 Pillars of IT Financial Transparency Drive Business Value

Toolkit: Foundational Service Costing

IT Budgeting Fundamentals: A CIO’s Guide to Securing Funding and Delivering Value

Key Concepts in IT Financial Management: Budgeting, Transparency, Allocation and Funding

Survey Analysis: Change Funding and Improve Value Tracking to Enhance IT Product Model Success

Proactively Manage the Impact of SaaS on Opex and Capex Budgets