

STRATEGIC IT FINANCIAL MANAGEMENT
ACHIEVE HIGHER ORGANIZATIONAL PERFORMANCE

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BACKGROUND

Enterprise value is maximized through market leadership, and market leadership is achieved through successful, strategically-aligned innovation. However, IT Finance departments spend so much time on transaction and control processes that they have little time to think about contributing to innovation in their organization.

This paper examines a strategic approach to financial management, why it is needed, and how such an approach leads to higher organizational performance by maximizing innovation.

CONTENTS

The Case for a Strategic Approach to Financial Management2

What is a Strategic Approach to Financial Management?2


Convergence of Organizational Financial Management with Strategic Financial Management3

Implementing a Strategic Approach to Financial Management5

Case Example – Early Warning Services7

Summary9

Enabling a Strategic Approach to Financial Management with Planview Enterprise – Enterprise Portfolio Management9



Marcus Klein has worked in software development and product management at Planview for over five years and is currently responsible for defining direction in building and enhancing Planview Enterprise Portfolio Management (EPM). Planview Enterprise EPM integrates financial planning and portfolio management, aligning strategies with resource capacities and funding across the organization. Previously, Marcus worked at Accenture (formerly Andersen Consulting) implementing enterprise-wide solutions for project management, partner relationship management, and contract management. Mr. Klein is a graduate of the University of Texas.

THE CASE FOR A STRATEGIC APPROACH TO FINANCIAL MANAGEMENT

Boston Consulting Group (BCG) conducts an annual innovation survey that is featured in *Business Week* magazine. BCG reports that two-thirds of the nearly 2,500 senior executives who responded to their 2007 global survey identified innovation as one of their company’s top three strategic priorities. For nearly one out of four, it was their company’s top priority. They urge IT departments to “gain a seat at the innovation table” and become corporate partners in creating innovation and thinking strategically.¹

However, most IT organizations are focused on simply keeping the business running. Within IT Finance, this means supporting traditional organizational budgeting, accounting, and forecasting processes. Financial Management adheres to an organizational approach, following the enterprise’s functional hierarchy of entities such as subsidiaries, divisions, departments, and groups within departments. Organizations budget, control spending, and maintain accountability within this framework due to the need to support financial accounting and external reporting requirements.

This approach reports business performance and ensures organizational accountability, but it falls short in driving innovation. The organizational approach does not communicate the *value* of how resources (money and people) are expended. To gain such a perspective, IT must adapt its financial principles from a purely organizational approach to one that integrates Strategic Planning and Management.

WHAT IS A STRATEGIC APPROACH TO FINANCIAL MANAGEMENT?

For IT to focus on value and innovation, it must integrate Strategic Planning into its approach to Financial Management. Strategic Financial Management combines the disciplines of Strategic Planning, Financial Management, and Portfolio Management to financially plan and manage resources based on the enterprise’s strategic plan. It entails both creating a top-down strategic financial plan that allocates resources strategically and managing the plan to monitor, control, correct and improve it.

A strategic financial management approach, as shown in Figure 1, plans and manages along a cascading hierarchy of strategic goals, supporting strategies, and enabling tactical efforts—the place where the work is actually done. The key for this hierarchy is that it aligns above and below. It cascades from the top to bottom and supports from bottom to the top.

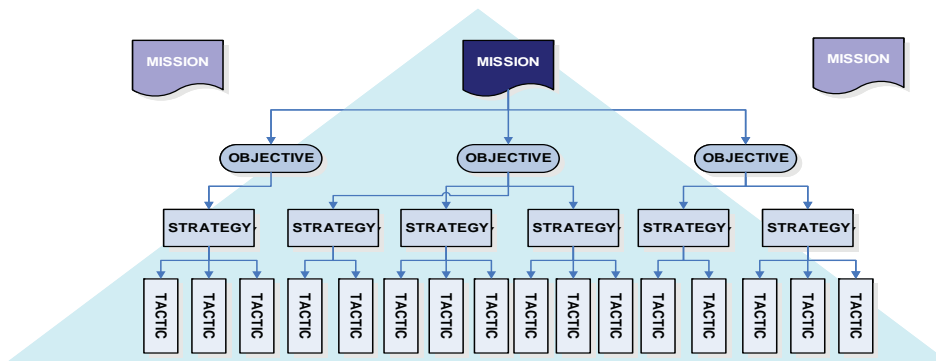


Figure 1. Strategic Approach – MOST

¹ Stuart Scantlebury and Craig Lawton, "Gaining a Seat at the Innovation Table," The Boston Consulting Group, September 2007.

One example is the Hoshin-based MOST model for developing business strategy: Missions, Objectives, Strategies, and Tactics. Similar to the parent-child structure of project phases, underlying activities and tasks, the MOST hierarchy forms a relational framework for strategic planning and alignment. By establishing the flow of enterprise philosophies and business goals into an expanding logical structure, they are ultimately translated into work.

An enterprise may have multiple broad missions, such as excellent customer service, shareholder value, or environmental stewardship. Each mission is supported through enabling objectives that render the mission actionable with specific goals over the planning horizon; for example, “Improve Customer Satisfaction Survey Results to 87% by Q1 2010.” Such an objective could have multiple strategies such as “Increase web-based business transaction capability” that detail how the objective will be met. Strategies are further decomposed into one or more tactical levels such as initiatives, programs, services, or projects, depending on the depth of planning employed.

A strategic approach to financial management transcends organizational boundaries, as is seen in Figure 2. Organizational departments such as Marketing, Operations, Training, and Information Technology allocate costs to the achievement of specific strategies. Through this allocation, the true cost of achieving each strategy can be planned and managed.

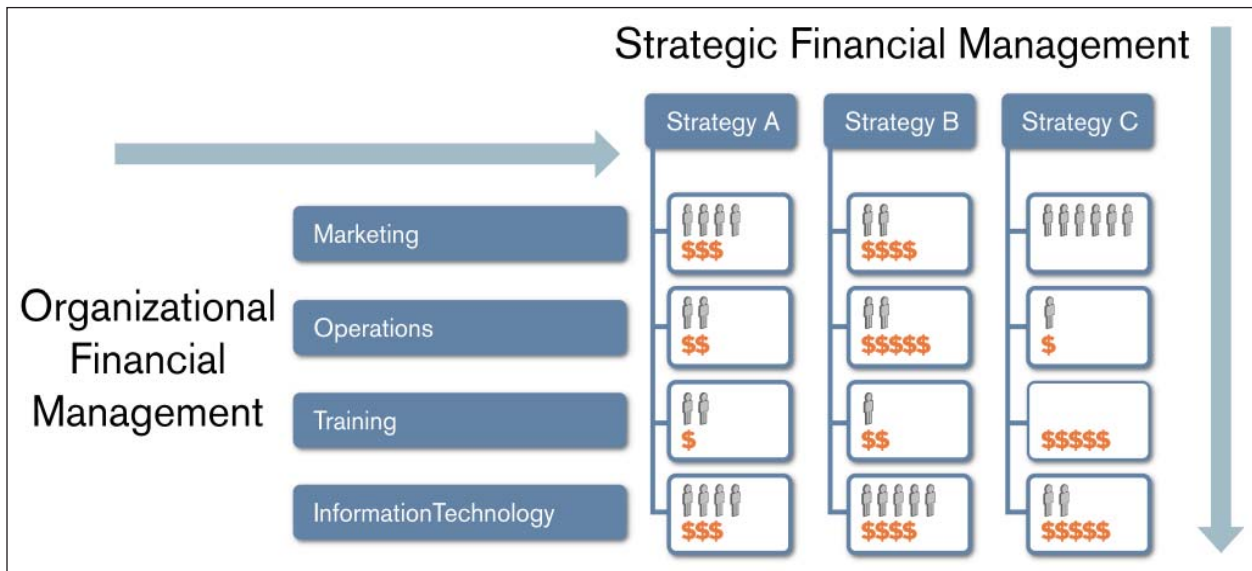


Figure 2. Strategies Transcend Organizational Boundaries

CONVERGENCE OF ORGANIZATIONAL FINANCIAL MANAGEMENT WITH STRATEGIC FINANCIAL MANAGEMENT

Strategic Financial Management complements Organizational Financial Management, overcoming its limitations by improving strategic alignment and financial transparency to achieve the strategic plan. Strategic Financial Management provides support to Organizational Financial Management with procedures and controls, and can be implemented in stages as an enterprise develops its strategic planning ability and maturity.

The two approaches converge and organizational financial plans should equate in total to strategic financial plans.

A Strategic Financial Management approach helps organizations achieve higher performance with their financial management systems by defining processes that prompt higher accountability and better decisions. Strategic Financial Management complements Organizational Financial Management, as is depicted in Figure 3.

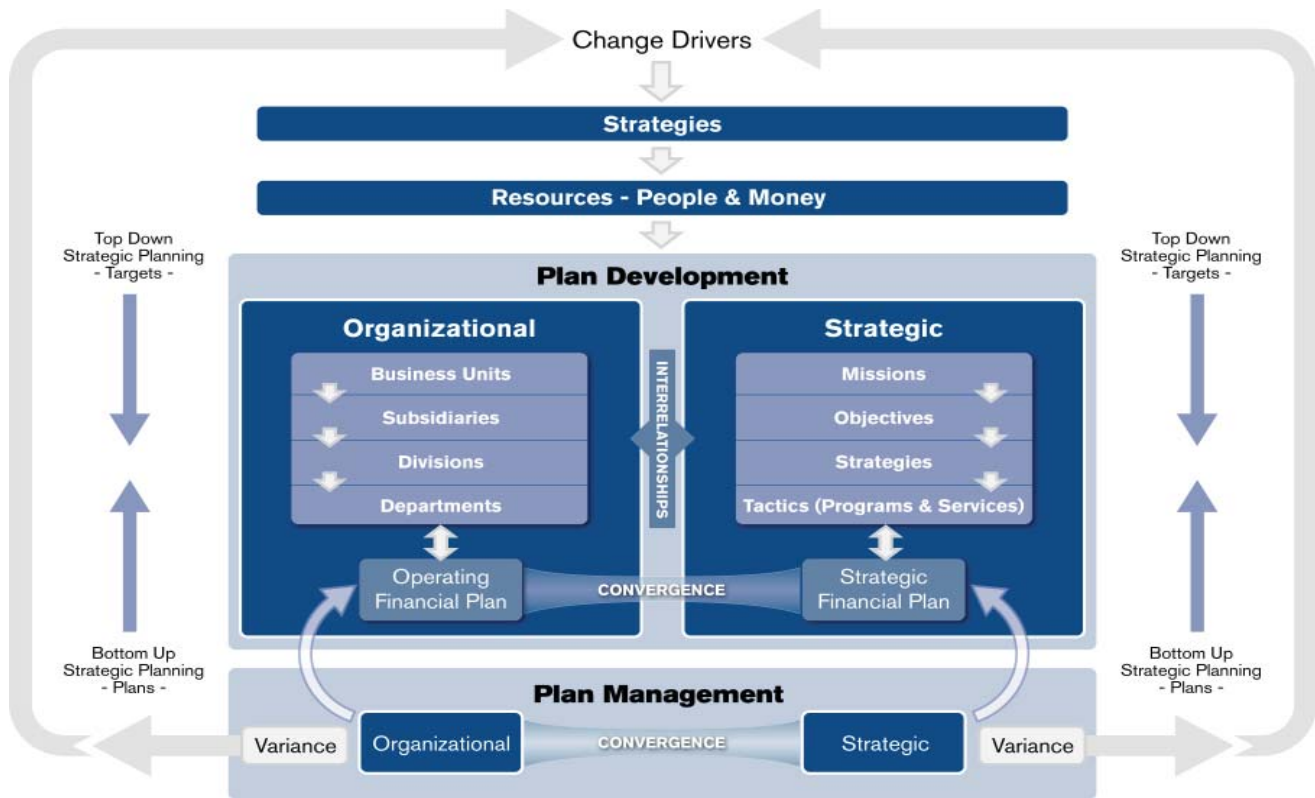


Figure 3. Financial Management Coexistence

Top to bottom, change drivers impact the strategy, which in turn determines the use of resources that can be planned and tracked both up and down organizational and strategic hierarchies. Convergence occurs at multiple stages of planning, as well as when actuals are collected. The monitoring of execution-level variances should always be validated against both organizational and strategic plans to ensure alignment, and when necessary, make adjustments.

The level of convergence and alignment between Strategic Financial Management and Organizational Financial Management depends on the organization. Most departments in an organization determine their requirements by how many resources they need to achieve certain strategies. This makes it possible to create organizational financial plans that allocate costs from those departments to strategic initiatives. Organizations with transfer pricing or chargebacks are already performing some element of Strategic Financial Management—they put accountability for resource use in the hands of sponsors or benefactors.

IMPLEMENTING A STRATEGIC APPROACH TO FINANCIAL MANAGEMENT

What are the steps to take when considering adopting strategic financial management?

1. **Get the buy-in of CXOs—CEO, CFO, COO, and CIO—and operating presidents and other influential senior executives.** They will likely have the obvious objections of the perceived immediate complications and costs associated with adapting this approach versus the harder to see near-term value and ROI to the enterprise. After getting the support of CXOs, involve the accounting or finance department as soon as possible, as they will be instrumental in implementing this approach.
2. **Validate the Organizational Financial Management approach**
3. **Determine the Strategic Financial Management framework**
4. **Identify financial management approach interrelationships**
5. **Develop a plan to evolve Strategic Financial Management; i.e., to take incremental steps over time**

VALIDATE ORGANIZATIONAL FINANCIAL MANAGEMENT APPROACH

After getting the buy-in and support of management for establishing a Strategic Financial Management approach, validate the enterprise's Organizational Financial Management approach. To evolve and integrate a Strategic Financial Management approach, it is important to first fully understand how and why the current organizational approach is structured the way it is. The validation should include an evaluation of the current Governance Model, Planning Cycle, Organizational Hierarchy, Roles and Responsibilities, and any existing Transfer Pricing approach.

As part of this process, map the existing flow of organizational planning and management data and information and process steps for financial planning and management. Most importantly, involve the accounting/finance organization in the validation process. The validation and adoption of a Strategic Financial Management approach is not going to get done without their involvement and support.

DETERMINE STRATEGIC FINANCIAL MANAGEMENT FRAMEWORK

Begin determining the desired Strategic Financial Management framework by noting the organization's external and internal influences. The Strategic Financial Management processes of a software company will probably be very different from those of an oil company.

Next, establish the scope to achieve:

- **Objectives**—Clearly state the objectives to be achieved and how success will be measured
- **Adoption by entire enterprise or segments**—Establish which parts of the enterprise should participate in Strategic Financial Management

- **Programs and Services**—Decide whether to include just Programs and innovation efforts or also include Services and running the business
- **Planning timeframes**—Choose the appropriate planning horizons and cycles to achieve the implementation of Strategic Financial Management

Finally, define the Strategic Financial Management framework, which includes determining the Strategic Hierarchy, Governance Model, Portfolio Definitions (e.g., discretionary, mandatory, and keep the lights on), and Enabling Tools/Platform.

IDENTIFY METHODOLOGY INTERRELATIONSHIPS

After determining the Strategic Financial Management framework, identify the interrelationships between the Organizational and Strategic Financial Management methodologies. First, recognize opportunities to align and integrate approaches:

- **Include current Organizational Financial Management processes**—Optimize by incorporating Strategic Financial Management processes with existing Organizational Financial Management processes
- **Be cognizant of financial accounting compliance requirements**—Be mindful that certain Organizational Financial Management processes will take precedence due to regulatory and external reporting requirements
- **Ascertain helpful Strategic Financial Management processes**—Include strategic planning and management processes, which may already be in place, that can support Organizational Financial Management with the establishment of adequate procedures and controls

Next, establish financial resource planning processes to clearly align resource planning, reporting, and resource recovery. Build supporting financial reporting capabilities that provide support for these resource planning processes and provide a method for the reconciliation of Strategic and Organizational Financial Management approaches.

CASE EXAMPLE – EARLY WARNING SERVICES

About Early Warning Services

Early Warning Services, LLC was formed with one purpose in mind—to help eliminate fraud in financial systems. Its 20 year history in fraud prevention, combined with bank ownership, has allowed Early Warning to develop a Trusted Custodian role for harnessing the best practices and experiences of financial services organizations to fight evolving fraud challenges. The organization delivers value by providing a common platform for the secure sharing of information and being a resource for strategic fraud management. Early Warning is focused on helping organizations obtain a single view of fraud activity across the enterprise and expanding efforts to help manage fraud on a cross-institution basis.

Business Issues

Early Warning Services believes in generating business value from IT. They made the decision to incorporate IT into their annual planning process so that it contributes to increased revenue, lower costs, a competitive advantage, security, increased shared services, and information for employees and customers. They decided to use a portfolio management solution to help them track, measure, and report on IT projects.

Challenges and Contributing Factors

Sue Burgess, Vice President, Project Management, Early Warning Services, recognized that for IT to demonstrate value, they needed to use business—not IT—terminology and to create projects that align with the company's strategies.

The factors that went into their decision to employ IT portfolio management are:

- Recognition of the impact of IT investment on company profits, which included integration of the planning of IT investment with the annual business planning process
- Desire to demonstrate the value of and to manage IT investments
- Benefits of higher ROI, better IT investment decision making, forward planning of IT investment, and synchronization with the company's strategic direction

Solution

Early Warning Services made the decision to use a portfolio management solution because the framework and methodology it provides helps them ensure that their IT investment complements and enhances the company strategies.

Each program, project, and activity is reviewed based on strategic objectives, level of IT infrastructure, and the goal of the project and then categorized in one or more of these portfolio asset classes: transactional, informational, strategic, and infrastructure.

CASE EXAMPLE – EARLY WARNING SERVICES (continued)

Each year Early Warning Services reviews company strategies and makes sure they have initiatives—including IT initiatives—in place to support the strategies.

Results

The portfolio management solution is helpful in these areas:

- **Metrics** such as project status, percent complete, resource utilization percentage, financial metrics, and resource roles
- **Reporting** such as time tracking, resource utilization, project status, categorization of asset classes, strategic alignment and more, and financial analysis and status
- **Communications** with project teams and content management

When management sets strategies for the company, IT and other departments align suggested new projects with those strategies.

They use the financial module of the portfolio management solution to do the strategic analysis of potential investments, to track and break down costs of specific projects, and to review, analyze, and discuss the IT portfolio's success against each asset classes and strategy.

The IT department uses the portfolio management application to demonstrate their value to the business through project views and allocated incremental costs (everything but internal labor).

A strategic approach to financial management using portfolio management helps Early Warning Services make the right investment decisions, stay on track with projects, and generate business value from IT.

SUMMARY

A strategic approach to financial management improves strategic alignment and financial transparency by planning and managing resources along a hierarchy of the enterprise's strategic plan.

Why consider implementing a Strategic Financial Management methodology?

- Build a competitive advantage through innovation
- Maximize strategic alignment through joint business and IT planning and management
- Focus on strategic execution to ensure realization of the corporate vision
- Allocate resources to produce the greatest business use
- Overcome the limitations of a purely organizational approach driven by the general ledger application

A 2007 *Business Week* feature story on innovation concludes by saying: "There are no shortcuts when it comes to innovation, and little magic involved. Putting the right structures, processes, and people in place to achieve innovation should occur as a matter of course—not as an exception."²

A Strategic Financial Management framework is integral to putting in place those right structures, processes, and people to keep the organization focused on executing the enterprise's strategy, which maximizes strategically-aligned innovation.

ENABLING A STRATEGIC APPROACH TO FINANCIAL MANAGEMENT WITH PLANVIEW ENTERPRISE – ENTERPRISE PORTFOLIO MANAGEMENT

Planview Enterprise® provides a common platform for managing strategies, work, and financials. A comprehensive decision-making platform, Planview Enterprise drives performance by delivering unprecedented transparency into the trade-offs involved in key business decisions across the enterprise. Planview Enterprise provides the discipline of portfolio management to successfully balance goals and risks with money and resources.

Planview Enterprise combines comprehensive demand management with real-time portfolio analytics, best-of-breed resource management, and action-driven processes. Working together, these capabilities provide improved visibility, fewer redundancies, increased efficiency, and the ability to focus limited resources on higher-value work. By integrating analytics with root-cause analysis, Planview Enterprise enables true optimization, yielding even greater efficiency and productivity.

² Aili McConnon, Arlene Weintraub, Stanley Holmes, and Ron Grover, "The World's Most Innovative Companies," *Business Week* Magazine, May 4, 2007.

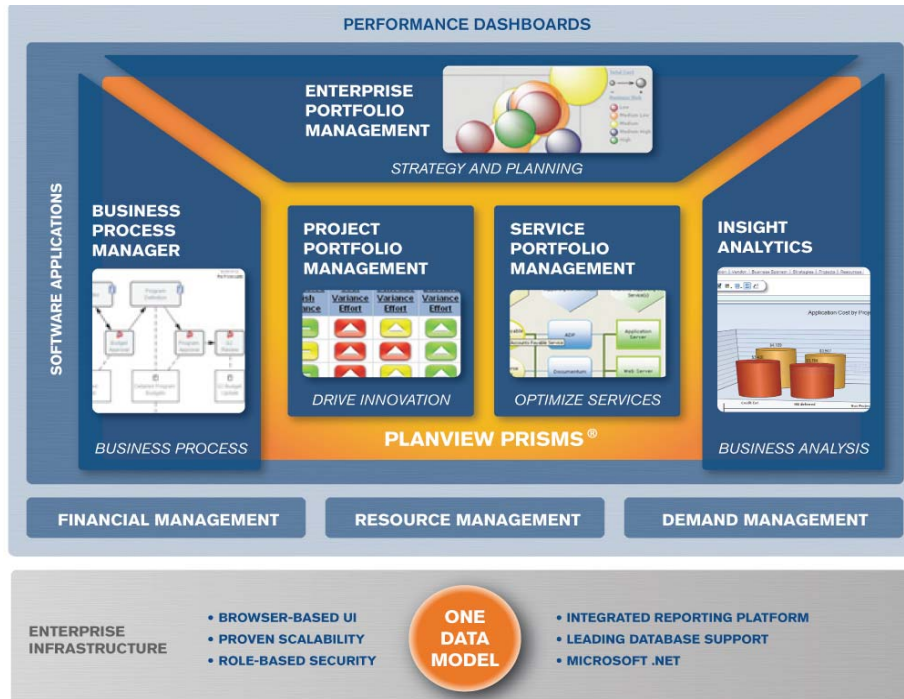


Figure 4. Planview Enterprise Performance Management Framework

Planview Enterprise – Enterprise Portfolio Management (EPM), an integrated component of Planview Enterprise, enables Strategic Financial Management through the use of a strategic planning structure for the proposal, evaluation, selection, and management of the organization’s strategic plan. It enables the analysis and management of business risk, strategic alignment of business and technology planning, prioritization of strategies, and what-if scenario planning to better prepare for change and uncertainty. Planview Enterprise Portfolio Management enables optimally balancing the supply of IT resources with business demands and works with Planview PRISMS® to automate its adaptive best practices and deliver proven methods for cost savings and value creation.

Planview Enterprise Portfolio Management facilitates a complete financial solution by consolidating all IT costs in a central place. It provides a complete view of project, strategy, asset, and service costs. Leveraging a portfolio management discipline, Planview Enterprise Portfolio Management offers a platform for improved financial decision making. The result is a powerful, proven-effective way to:

- Fully align strategies, resource capacities, and funding
- Gain better control of projects and resource assignments
- Capture and manage the total cost of delivering services to the business



Since 1989, Planview® has been a market leader and trusted partner in providing comprehensive portfolio management solutions. Planview Enterprise®, the company's leading performance management platform, combines project and portfolio management software with adaptive best practices, Planview PRISMS®, to enable better decision making and business accountability. Industry leaders such as Citi, BP, EDF, and the American Red Cross, partner with Planview to achieve their strategic business goals. Headquartered in Austin, Texas, with offices across the U.S., Europe, and Asia-Pacific, Planview supports 550 customers in virtually every industry. Planview is privately held and has been profitable for over a decade. For more information, visit www.planview.com.

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