



Corporate Governance

Financial Management of Assets - Why is this important?

The global credit crunch is affecting worldwide markets. Industry is struggling to keep on top of changes that are occurring. In my job I speak to senior executives on a daily basis and they are talking about their current challenges which are:

- Reduce risk
- Do more with less - cost reduction but without reducing quality of service
- Regulatory compliance
- Improved information – measurement and reporting

Understanding the value of assets enables business to manage costs in a far more effective way. In business terms these costs tend to be divided into two distinct elements:

- Operational costs – everyday cost of running services
- Project costs – specific cost relating to new projects

Whilst these specific titles are unlikely to appear in a corporate governance model, they underpin a variety of business services that in turn support the business.

Operational Costs - the cost of running the business
IT Asset & Financial Management provides the opportunity to reduce and control the cost of IT equipment that is supporting the business. ITAM's comprehensive life cycle management of IT hardware and software assets integrates with Financial, Contract, Procurement and Software License Management providing enterprises with the ability to:

- Improve the utilisation of equipment – particularly in the project arena
- Reduce operational costs – acquisition, delivery, maintenance, contracts, warranties, disposal
- Manage software costs better – reduce risk of penalty charges
- Regulatory compliance
- Day to day activities

Project Costs

Project costs are often regarded as optional cost. Costs that

are not associated necessarily with activities that you 'must' do but rather those which can be regarded as optional.

Project costs are usually associated with new or developmental work – arguably avoidable although a gateway to growth and / or improvement and therefore typically high profile.

Project costs in an IT environment are regularly seen as uncontrolled – as projects fail to meet timescales or testing proves unsatisfactory.

IT Financial Management Challenges

Combining IT operational and project costs in a single solution provides the complete financial position and greatly aids an organization moving forward.

Business Communication

- Financial terminology is not used in IT
- Compliance areas – regulation such as Sarbanes Oxley and Basell II

IT Business Measurement

- Financial information relating to assets is probably the most important element when reporting and yet is rarely taken seriously from an IT perspective
- Inability to consolidate budget
- Inability to manage budget against forecast and actual costs

Choosing Innovation or Cost Reductions

- What assets provide the best ROI (and the worst)
- Optimization of cost structure
- Best buys?

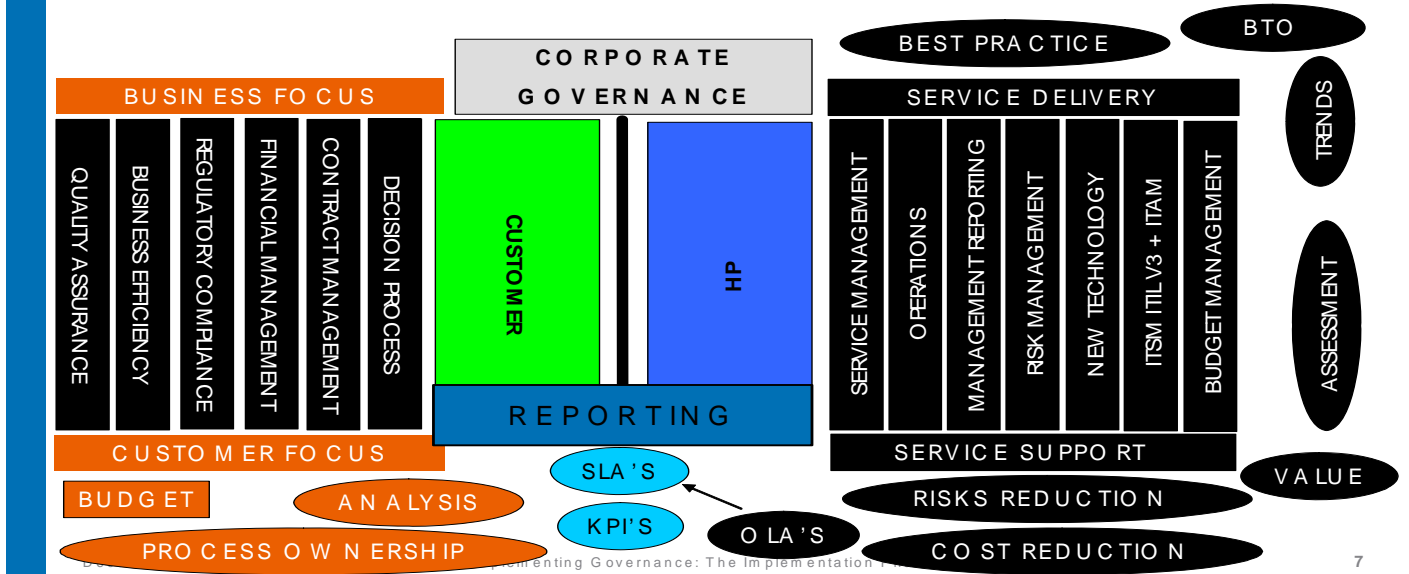
IT Financial Management Opportunities

- Quantifies IT's business
- Allows communication with the business
- Provides a means to reduce cost and increase funding for innovation
- Supports measurement and reporting
- Provides more detailed financial information to the corporate accounting system (ERP financial system or General Ledger)

HP Corporate Governance Model



HP Model for Corporate Governance



Corporate Governance should contain core business requirements and relate these to service delivery activities. Governance depends upon measurement against Operational Level Agreements (OLA's), Key Performance Indicators (KPI's) and Service Level Agreements (SLA's).

Business Technology Optimization (BTO) relates to the importance of People, Technology and Processes – these need to combine successfully if high quality results are to be achieved.

Large organizations often struggle to assess where they are now and how they need to develop to get to where they determine they need to be.

Effective management decisions can be based on accurate data and decisions made in reasonable time as opposed to after the event.

To determine how an organization is performing, questions should be addressed. These could include:

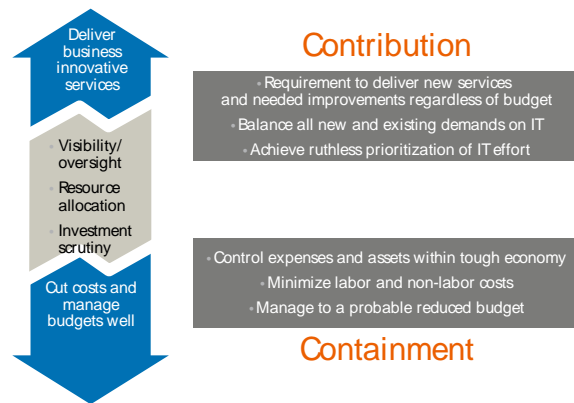
- What are the business drivers? How do you measure them?
- What problem are you trying to solve?
- What happens if you do nothing?
- Are the OLAs, KPI's and SLA's supporting the business requirements?
- Is the information acquired used for reporting purposes?
- How serious of an issue is compliance management to your organization? How do you guarantee compliance now?
- What work has been done to define your requirements?

- Is this a funded initiative? How much was budgeted? What other solutions are you considering?
- How is your IT organization organized? What teams exist? Which of those teams is leading this project? How involved, if at all, are the other teams?

IT Problems

Innovation is necessary although it can be expensive.

IT Problem: Innovation vs. Cost Reductions





IT Financial Management – The Solution

The solution is to bring key information together from operational as well as project costs. Clearly trusted data sources and a quality repository provide the basics but the ability to provide meaningful reports is key to decision-making.

The successful solution combines:

- IT Cost Accumulation and Assignment
- IT Budgeting and Planning
- IT Financial Management
- Reporting that is linked to Corporate Governance and Business requirements

Understand the key business services that underpin your business and then cost them.

ITFM Capabilities:

Base Processes:

- Service Definition: Define, in business terms, the services that IT provides. There’s also the need to define what IT services exist. For example, the IT network infrastructure is a cut at the data that the CIO needs to run his/her business.
- From a business unit perspective, the IT network infrastructure merely supports multiple services that IT provides to them. The leader in IT needs to see both cuts, and business units have their own view.
- Asset and Fixed Asset Tracking– Here a customer is tracking their assets in their fixed asset ledger and knows the status of all assets in the organization.
- Project tracking – tracking the IT projects that will be built. No notion of actual costs of these budgets, resources spent on them, how they match budgets etc.
- Estimation of cost and budget allocations – This process generally occurs as IT takes its costs for the year and allocates them into buckets. This usually operates off of some assumed nature of the cost structure.

Cost Measurement:

Cost consolidation – the process of consolidating costs, from wherever they are incurred into one system, such that these costs can be analyzed and verified.

Cost allocation – The process of defining and managing how costs are allocated across the various IT domains. Are they allocated by numbers of assets, employees in IT, employees in business units etc.

Cost allocation must also have a process for reallocating costs or changing the allocation formulas at some point. This reallocation process is similar to what AssetCenter’s chargeback engine performs today, but in a non-deterministic fashion.

Actual vs. Budget – the process of comparing actual spend to existing budget Total Cost of ownership – focused on providing the TCO or a project, asset, or service (IT and/or business service)

Budgeting and Planning:

Budget Management – The first part of this process involves creation of the budget, managing the approvals and managing the various budgets once they have been created.

It’s believed that an ITFM solution will largely support the existing companywide budgeting process, whereby the final budget figures will be managed and tracked in the ITFM solution. The second step involves determination of what the budget should or could be.

This process would answer such questions as what happens to IT when my budget is reduced by 2%, or what if I increased my discretionary budget by 3%, how much operational money must I be able to save. Is my budget accurate for the various business services and products? Included in this process is variance and trend analysis, to determine where costs are headed and how that may impact current and future budgets.

Discretionary Spend planning – The act of determining how best to spend IT’s discretionary budget

Operational spend planning – the act of determining how much of the operational spend is already incurred or promised.

Financial Optimization

Supplier Management– The process of defining which vendors represent the best overall value. Multiple metrics could be utilized including actual price of products, delivery time, performance against SLA, downtime due to product failures, terms of the contracts, etc.



Resource Management – The ability to know and track skill sets within IT as well as to manage them appropriately and for maximum financial benefit is key to successful financial management and cost optimization.

Budget/Spend Optimization – This is process of finding costs that can be reduced and usually inline with the IT infrastructure. Examples could be duplicate invoices, payments for things never received, lease overruns, duplicate warranties/contracts, project timeline overruns, over purchasing of assets, lack of standardized environments etc.

Fixed Asset Reconciliation – the process of ensuring your fixed asset ledger is accurate and ensuring you have received all things from vendors that were requested and with the right components. For example, in SAP a 1000 unit order for new desktops is shown as one item entry with a 3 year fixed depreciation. Fixed Asset Reconciliation would first give those 1000 units separate lives so the value of things added to them could be tracked. Also any losses or warranty issues would automatically trigger the system to stop depreciating it, since it is no longer owned.

Financial Governance

Opportunity Analysis – This process involves a review of all opportunities for investment within IT and stack ranks them against the ROI and value to the business.

Service Valuation – The process is based initially on the Opportunity analysis (ROI) and SLA and allows the business to communicate what the value of each IT/Business service is.

In this process, the terminology used is financial in nature (for example, the internet banking application generates \$30M in revenue, therefore the value is \$30M per year at least. It could even be more because of competitive differentiation it allows and so forth).

Chargeback – the process of charging users for costs of IT Services, business services and/or assets. There could be event-based chargebacks as well. This chargeback directly moves cost from one budget center to another...either for tracking purposes or in form of an IT bill for services. A supporting document here would be the IT Income statement, which is a process for IT to show its transparency by providing an income statement. Revenue could very-likely equal the IT budget and expenses are obviously any IT expenses incurred.

Compliance – Various forms of compliance exist within IT including Software license compliance and SOX/Basel. This is a dashboard/scorecard review of the current compliance status.

Roger Mallett
Senior Architect and
Software Principle
HP Software



We understand the Clockworks.

If IT Asset Management were a clock, some companies could tell the time. Others could even set the time.

We understand the clockworks.

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