IT Chargeback—Resource Limitations Gate Process Effectiveness

INSIGHT #ITMS5057
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IN THIS EXECUTIVE SUMMARY
This IT Management Service document summarizes additional qualitative insights* gleaned from our research project recently conducted to assess the impact of virtualization, an emerging IT technology practice, on IT management processes including IT chargeback, IT operations, and IT portfolio management. The principal findings derived from this October 2006 study of 19 United States—based companies (average of 30,000+ employees) are presented in IT Chargeback: A Fragile Business Process Poised for Change (IT Management Service #ITMS5056, December 2006).

*This executive summary is an excerpt of the full report, and does not include the key findings or essential guidance recommendations. To inquire about purchasing the full report, or subscribing to the IT Management Service, please call Shellie James at 508.988.7566.

IT MANAGEMENT SERVICE OPINION
In this document, we present additional qualitative insights gleaned from our research project recently conducted to assess IT management processes including IT chargeback, IT operations, and IT portfolio management. We found that companies in our survey often cited "IT demand management" as a principal reason for creating and implementing an IT chargeback process. Yet, as we explored the qualitative comments from the survey participants, it appears many companies have made compromises when implementing IT chargeback— to the point these compromises seem to undermine achieving the objective of creating an IT demand management process. In practice, most IT chargeback methodologies have created reasonable IT demand management processes for new system development, but not for IT infrastructure resource consumption. As organizations move to evolve their IT management processes, whether by implementing frameworks such as ITIL/CMM, architectures such as SOA, or technologies such as server/storage virtualization, additional investments in IT chargeback business processes will likely be required to support these initiatives. We recommend planning for an additional level of IT chargeback expense and investment as this business process will need to be upgraded concurrent with other IT management changes. Specifically:

- Most companies in our survey focused on allocating the expenses related to IT but had limited processes to track and allocate "capital" associated with acquiring equipment.
- Every company surveyed reported they struggled with providing what the IT organization deemed an adequate level of detail to the business users.
- Most companies allocate IT infrastructure cost (70–80% of the IT budget) while charging back new development costs based on actual cost principally due to systems/resource constraints.
SITUATION OVERVIEW
As part of their standard suite of IT leadership practices, most Global 2000 companies have implemented business processes to "charge back" both IT infrastructure operating expense and new program development to individual business units or cost centers. Many companies implement IT chargeback as part of a broader organizational goal to decentralize business unit decision making and establish accountability for financial results.

Many companies, in an attempt to both improve IT accountability/alignment and enhance IT demand management, have implemented business processes to charge back IT operating and/or development expenses to individual business units. The theory is that individual business unit managers will exercise a degree of IT oversight not possible from an overall company/departmental perspective. As a result, for many companies, IT funding and chargeback processes provide a key aspect of a typical IT organization’s leadership framework and are the basis on which IT/business alignment, business strategy, and IT governance/service quality disciplines are based.

FUTURE OUTLOOK
IT chargeback will remain one of the critical IT financial management disciplines for the foreseeable future because cost management, despite its limitations, remains a generally understood business process control model. In many ways, the issues with IT chargeback stem from the fact that IT chargeback is implemented uniquely in most companies (i.e., in the financial reporting domain, there are generally accepted accounting principles [GAAPs], well-understood models for creating expense account architectures within the income statement, and accepted business processes for managing expenses).

Within the IT chargeback domain, the results are generally not transferable or comparable between companies, and although some best practices have emerged, many of the new IT technologies and management practices will require the IT chargeback paradigm to continue to evolve.

The issue confronting modern organizations is that business process outsourcing, whether it is one of the processes within IT or human resources or a treasury management function continues to gain acceptance. Yet, as a business community, we have not yet evolved an accepted framework to broadly measure business process effectiveness. For now, most organizations work to create a set of specific service-level metrics and then design reporting and measurement systems. IT chargeback systems generally parallel this model.

As we look to the future, it is clear IT is becoming ever closely intertwined with virtually every business process and an indispensable capability. Many companies will continue to experiment with a range of insourced and outsourced business process delivery models. As they do, the industry will continue to modify and evolve measurement and chargeback systems.