

## How to Communicate Value in the Languages of IT, Finance and Business Outcomes

Published 15 June 2021 - ID G00730230 - 10 min read

By Analyst(s): James Anderson, Cesar Lozada

Initiatives: [IT Cost Optimization](#), [Finance](#), [Risk and Value](#)

CIOs are challenged with communicating IT's value to stakeholders who don't always understand the language of "IT." CIOs should use this research to broaden the perception of the business value of IT both within their IT teams, as well as with finance and business outcome stakeholders.

### Overview

#### Key Findings

- CIOs are often challenged by the perception that their strengths are in "IT operational efficiency" rather than as transformation enablers.
- Digital transformation is everywhere, but IT is often regarded as a delivery mechanism rather than as an active contributor to business value.
- CIOs often struggle to convey non-IT concepts to help their IT teams because the team may not be versed in the languages of finance and business outcomes.

#### Recommendations

CIOs seeking to evolve IT cost optimization, finance, risk and value should:

- Elevate the conversation with enterprise stakeholders from the language of IT, to include the languages of finance and business outcomes, to better communicate and guide investment in IT toward improved business outcomes and to enable recognition for those contributions.
- Explain the cost of IT by shifting language from IT to finance and/or business outcomes to better communicate with finance and business leaders.

- Translate IT activities into results, business outcomes and financial impacts when discussing budgets to avoid the perception that IT spending is only about the IT department.

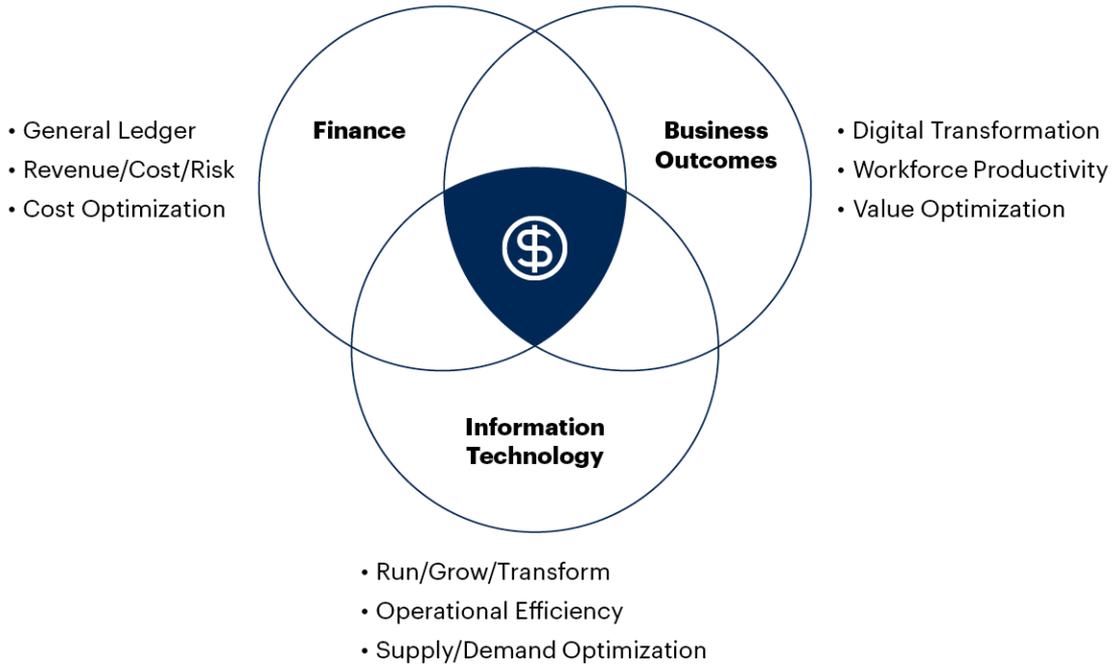
## Introduction

CIOs often find themselves challenged to communicate the business value of IT, typically, because they are not accustomed to nontechnical conversations. CIOs should discuss technology as a means to an outcome rather than reporting about the performance of the technology itself. However, this can be a difficult discussion unless a CIO is at least conversational, if not fluent, in the languages of finance and business outcomes, in addition to their primary language of IT (see Figure 1).

The CIO must lead a multilingual discussion, adapting the conversation toward the audience around IT business optimization, enablement and digital transformation. Discuss activities that are indicative of performance that translate into positive impacts on a firm's key performance indicators (KPIs) and consequent outcomes. Consider the language your audience or stakeholders speak when discussing outcomes.

**Figure 1: Languages of IT, Finance and Business Outcomes**

## Languages of IT, Finance and Business Outcomes



Source: Gartner  
730230\_C

**Gartner**

## Analysis

### Elevate the Conversation to Include the Languages of Finance and Business Outcomes

#### The Language of IT

IT has developed its own language full of jargon, acronyms, software, hardware specifications and bit measurements that are sometimes peppered with references from science fiction shows or books. To those outside of IT, the language of IT is a foreign one that most don't feel the need to understand to accomplish their objectives.

It is common for communication to be better between people who speak the same language, but it is also enhanced when participants speak multiple foreign languages. Most people don't spend much time trying to understand a discussion in a language that they don't speak/understand. Think of what language you are speaking to your stakeholders and what language they understand. Then craft the message tailored to your audience so that they listen longer and really are able to understand your message.

Many CIOs have ascended to their executive position as a result of working long hours, being technically savvy and building solid relationships to manage effective IT service delivery and operational efficiency by speaking in IT (their primary language). CIOs need to convert the success of operational efficiency into business, rather than IT efficiency, outcomes.

For instance, say you need to communicate that an IT-enabled investment was proving to be a lot more successful than was expected. Table 1 demonstrates how that might look in each of the three languages.

**Table 1: Translating IT Into Finance and Business Outcomes**

IT	Finance	Business Outcomes
Operational metrics (patches, uptime, etc.)	Cost and ratios of maintaining current environment vs. new investment	Trend line of number of sales transactions processed over time period by enabling applications as a result of IT operations
Application migration to the cloud	Example of end-to-end cost and impact of shift from capital to annual operating expense	Increase in application availability and stability, resulting in improved capabilities
Digital project investment	Example of how investment in digitalization can improve revenue or decrease COGS*	Example of how digital project has improved customer experience and/or workforce productivity
* COGS = cost of goods sold		

Source: Gartner (June 2021)

## Explain the Cost of IT by Shifting Language to Finance and/or Business Outcomes

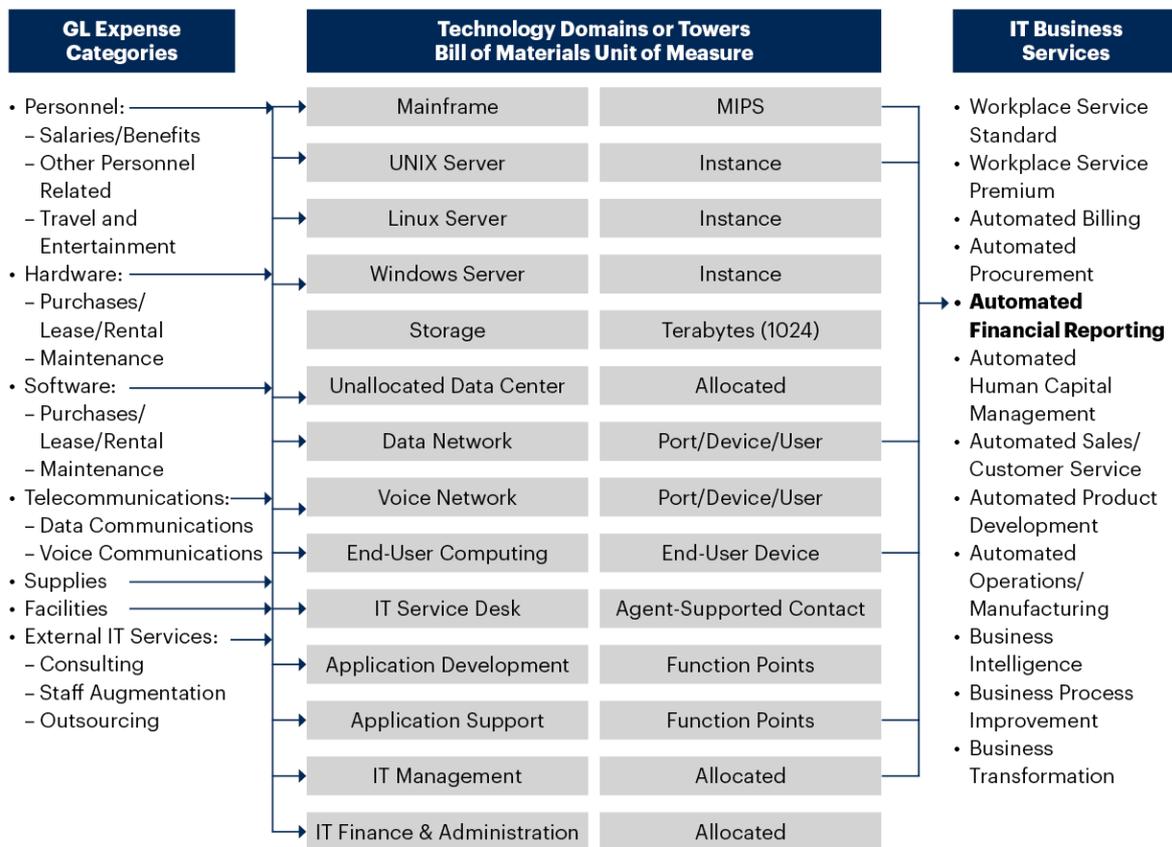
### The Language of Finance

The language of finance is focused on directionally positive or negative impacts on a firm's credits and debits. Almost any company in any industry can be described and analyzed via an income statement and balance sheet. Essentially, this measures how much value is coming in and how much is going out.

The CFO is interested in accounting (backward-looking), finance (forward-looking) and economics (external impacts). Figure 2 illustrates the progression of general ledger (GL) expense categories and shows how these ultimately translate into technologies and business services that produce business outcomes. This research is no substitute for a formal education in finance. However, below we review some key concepts of finance with which every CIO should be familiar.

**Figure 2: Map Assets to Business Services**

### Map Assets to Business Services



Source: Gartner  
730230\_C

### Time Value of Money

As finance is forward-looking, the time value of money is key to effective financial decision making. Often represented in terms such as net present value (NPV), ROI or internal rate of return (IRR), the measurements are usually elements of an IT business case meant to provide a finance-based view of a potential investment impact.

CIOs at largely capital-intensive industry businesses tend to require an increased understanding of time value because of characteristically long and expensive development time. A retail store CIO doesn't have the same need because of easier development and rapid cash turnover. For the purpose of understanding the time value of money, the value is in understanding how their company might benefit more with one dollar today versus five dollars in 10 years.

## **EBITDA**

Earnings before interest, taxes, depreciation and amortization, or EBITDA, can be used as an indicator of a company's financial performance. As such, it is represented on annual reports and is frequently referenced as a lagging indicator. It eliminates the cost of capital debt and its tax/interest impact by adding it back to earnings to represent net income. Net income enables a company's value to be considered without concern relative to the time value of money.

A CIO might use a discussion about EBITDA as it relates to the financial impact of moving from on-premises to cloud- or SaaS-based services. This shift might have an impact on taxes, the cost of borrowing or an impact on earnings statements as a result of the shift of capital to operating expenses.

## **Capital and Operating Expense**

Capital expenditure, or capex, is the money a company spends to buy, maintain or improve its fixed assets, such as buildings, equipment, systems or land. Operating expenditure, or opex, is an ongoing cost for running a product, business or system.

Capex is desirable from a financial perspective because rather than opex, it is deductible from free cash flow (FCF) on the balance sheet over a depreciation period (smaller deduction is better). The downside is that the organization may need to raise more capital and repay it. Opex is deducted in full during the accounting period in which it occurs. Positive/negative FCF is often used as an indicator of whether a company is gaining/losing money.

The shift from capex to opex is prominent in CIO discussions about the impact of moving to cloud and SaaS from traditional on-premises data centers where hardware and other capital assets are carried by the business, not the service provider (see [Proactively Manage the Impact of SaaS on Opex and Capex Budgets](#)). Capital tends to be budgeted companywide as a separate pool of funding from opex because of the long-term investment implications of recognizing depreciation. Therefore, it can be valuable to have a discussion with finance when a CIO can relate an understanding of capital implications in the context of the entire IT budget.

## **Selling, General and Administrative Expenses and Cost of Goods Sold**

Selling, general and administrative (SG&A) expenses are incurred when products are sold. Some organizations separate sales and marketing activity from general and administrative expenses for greater clarity. Spending and headcount in G&A are often the easiest target for cost reduction to improve profitability in the short term while trying to boost sales and reduce production costs.

The cost of goods sold consists of the fixed and variable product costs, but it excludes all of the SG&A expenses. Sales minus the COGS equals gross profit. Gross profit margin is a key measure of profitability by which investors compare similar companies. The metric is an indication of the financial success and viability of a particular product or service.

This is mentioned in the context of the evolving role of IT and its potential shift from being accounted for as overhead, to potentially being reassigned as SG&A or COGS as part of identified IT supply and demand (see [21st Century IT Budgeting: Distributing Responsibility for IT Spending](#) and view [Expert Insight Video: IT Finance Training – Enterprise Financial Statements](#)).

## **Translate IT Activities Into Results, Business Outcomes and Financial Impacts**

### **The Language of Business Outcomes**

The language of business outcomes discusses activities that are indicative of performance that translate into positive impacts on a firm's KPIs. We can translate the language of IT as a means to demonstrate the financial impacts to the firm related to business activities that generate business outcomes.

Business outcomes are measures of the business value being created or delivered. Outcomes are expressed using internal or external metrics, although external metrics are preferred because they express value in market terms. Good measures of outcomes have a clear time frame for achievement, are measurable in business terms, and are relevant and aligned to the business strategy (see Table 2).

**Table 2: Investment to Benefit Alignment**

Project	Percent	Targeted Business Benefit
Sales Analytics	20%	Improve revenue
3D Printing	10%	Decrease operating margin and COGS
Digital Marketing	10%	Reduce SG&A
AI and RPA*	30%	Improve employee productivity
App Development	15%	Improve customer experience
Inventory and Asset Connectivity/IoT*	15%	Increase asset utilization
* AI = artificial intelligence; IoT = Internet of Things; RPA = robotic process automation		

Source: Gartner (June 2021)

### Align Project Investment to Targeted Business Benefits

In Table 2, we see an example of six activities that those focused on business outcomes use to drive financial results. Ultimately, the most that is done in IT to optimize an existing business model could be tied back to a targeted business benefit in Figure 1. CIOs should allocate IT investment in percentages across each of these performance categories to present an alternative view of how and why the IT budget is spent.

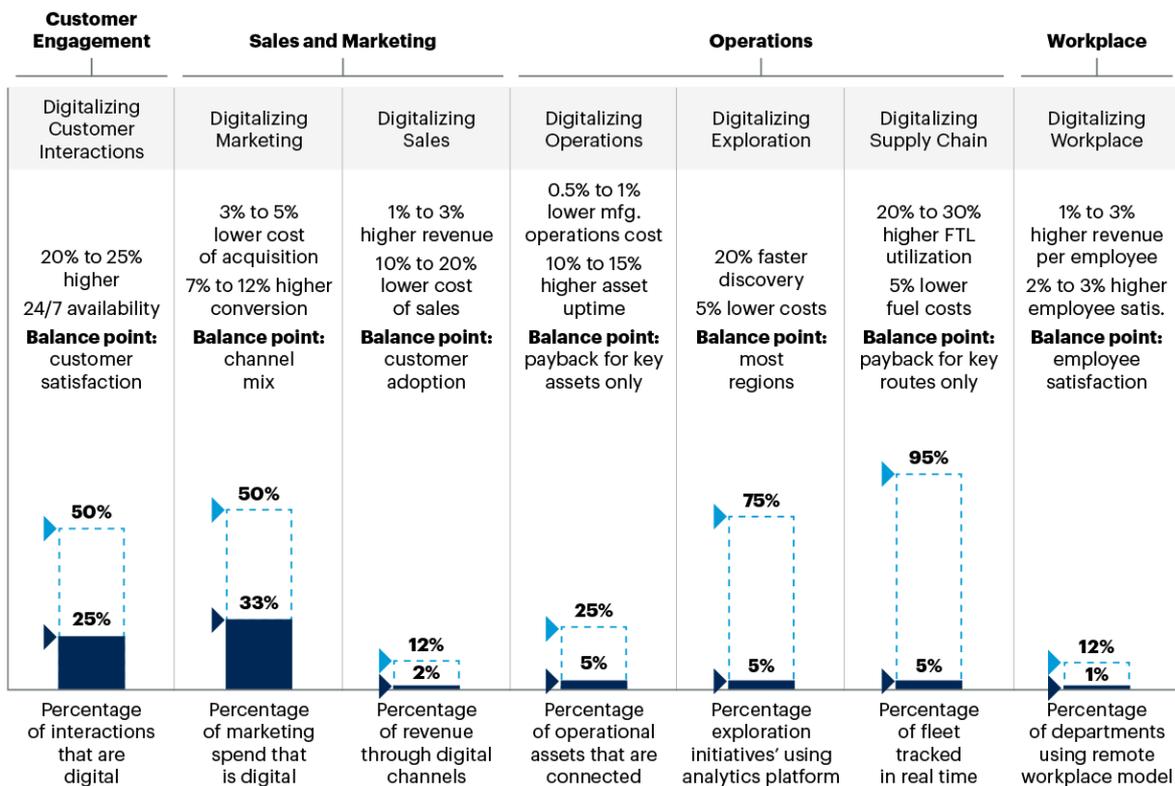
Most IT organizations publish metrics and KPIs based on what IT is doing. It can be beneficial to publish real-time dashboards that indicate application patches applied, security threats mitigated or application uptime, among many examples (see [Kick-Start Your IT Value Story With Metrics That Matter](#)). While this is good for IT performance, the metrics that most IT organizations use are often lost when attempting to demonstrate value to finance or business outcome stakeholders because they generally don't understand the language of IT. Dashboard metrics and KPIs should influence decision making (see Figure 3).

**Figure 3: Digital KPIs for Optimization**

## Digital KPIs for Optimization

### Example

■ Today □ 2022 Goal ▶ Current Level ▶ Future Level



Source: Gartner  
730230\_C

Evolve and extend metrics to define a current and desired future state that is aligned, prioritized and invested toward a specific business outcome (see [Digital Business KPIs: Defining and Measuring Success](#)). Define five to nine KPIs to represent a dashboard that is cross-divisional, while tying back to specific business outcomes that are desirable for the enterprise as a whole, rather than a single department.

Presenting metrics in this way helps to bridge the language gap discussed in this research through visualization of how investment in IT ultimately translates into enterprise successes.

CIOs should use metrics in this framework to demonstrate:

- What, how and why investments were made in IT with intent to achieve specific business results
- How IT reviews KPIs of progress toward a goal, and that IT investments are reprioritized accordingly
- Partnership in bridging the translation gap across IT, finance and business outcome languages

## Conclusion

Use multilingual fluency to discuss IT impact in terms of financial and business outcomes. This contributes toward justification of IT expenditure on business outcomes and can be a valuable tool during discussion around the impact of IT budget changes.

## Evidence

<sup>1</sup> [Use Business Outcomes to Determine the Scope of the 'Business Process' to Be Improved](#)

---

## Recommended by the Authors

Some documents may not be available as part of your current Gartner subscription.

[Expert Insight Video: IT Finance Training – Enterprise Financial Statements](#)

[Expert Insight Video: CIOs Should Prepare Now for Financial Discussions With CFOs and the C-Suite](#)

[Leverage Every Touchpoint to Convey the Value of IT in a Midsize Organization](#)

[How to Identify Metrics and KPIs to Measure IT's Business Value Contribution](#)

---

© 2021 Gartner, Inc. and/or its affiliates. All rights reserved. Gartner is a registered trademark of Gartner, Inc. and its affiliates. This publication may not be reproduced or distributed in any form without Gartner's prior written permission. It consists of the opinions of Gartner's research organization, which should not be construed as statements of fact. While the information contained in this publication has been obtained from sources believed to be reliable, Gartner disclaims all warranties as to the accuracy, completeness or adequacy of such information. Although Gartner research may address legal and financial issues, Gartner does not provide legal or investment advice and its research should not be construed or used as such. Your access and use of this publication are governed by [Gartner's Usage Policy](#). Gartner prides itself on its reputation for independence and objectivity. Its research is produced independently by its research organization without input or influence from any third party. For further information, see "[Guiding Principles on Independence and Objectivity](#)."

**Table 1: Translating IT Into Finance and Business Outcomes**

IT	Finance	Business Outcomes
Operational metrics (patches, uptime, etc.)	Cost and ratios of maintaining current environment vs. new investment	Trend line of number of sales transactions processed over time period by enabling applications as a result of IT operations
Application migration to the cloud	Example of end-to-end cost and impact of shift from capital to annual operating expense	Increase in application availability and stability, resulting in improved capabilities
Digital project investment	Example of how investment in digitalization can improve revenue or decrease COGS*	Example of how digital project has improved customer experience and/or workforce productivity
* COGS = cost of goods sold		

Source: Gartner (June 2021)

**Table 2: Investment to Benefit Alignment**

Project	Percent	Targeted Business Benefit
Sales Analytics	20%	Improve revenue
3D Printing	10%	Decrease operating margin and COGS
Digital Marketing	10%	Reduce SG&A
AI and RPA*	30%	Improve employee productivity
App Development	15%	Improve customer experience
Inventory and Asset Connectivity/IoT*	15%	Increase asset utilization

\* AI = artificial intelligence; IoT = Internet of Things; RPA = robotic process automation

Source: Gartner (June 2021)