

## CIO Balancing Act: Keeping IT on the Forefront of Creating Value

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Long gone are the days when firms expected their chief information officer to function as 'chief technology mechanic.' As companies look for ways to maintain a competitive edge in new markets, CIOs are playing a more central leadership role, taking on increasing responsibility for corporate strategy and other duties outside of core technology.

Even so, CIOs are still expected to ensure the quality and performance of the IT organization. How can CIOs balance these priorities --delivering technology that improves business performance while helping to drive competitive growth? To answer that question, Knowledge@Wharton spoke with Mark McDonald, group vice president and head of research for Gartner Executive Programs, who is a faculty member in the Wharton Executive Education program CIO as Full Business Partner, produced in cooperation with Gartner. Joining McDonald were Michael Shannon, chief information officer of international law firm Dechert LLP, and Tony Habash, chief information officer of the American Psychological Association. An edited transcription follows.

**Knowledge@Wharton:** Mark, given your research [on this subject], what would you say are the top three challenges facing CIOs today, and what's driving those challenges?

**Mark McDonald:** That's a great question. The top three challenges that we hear from CIOs are really a combination of three things.

One is to support the enterprise's growth efforts and development efforts. So, how do I provide the information capabilities and technologies that help drive growth and customer satisfaction?

One of the other top challenges is associated with business processes, which is really about how the CIO uses technology and process to change the way the enterprise works -- not only to raise its current performance, but also to help it grow and be successful in competition.

The third major challenge that we see CIOs continuing to face is the need to control and transform both the enterprise operating cost structure as well as their own IT cost. So there is constant demand for a mix of both growth and current performance that they are facing today.

I think what's really driving these challenges are, again, three factors. The first factor is the corporate strategy, which calls for growth both at the top line and the bottom line. And in a survey of more than 1,400 organizations [Gartner] conducted in 2007, growth was actually the number-one priority for 63% of them.

I think the other factor that's driving these challenges is, in fact, the global environment we now live in and the level of competition that it creates. And I think that's really driving the notions of changing your enterprise and operating cost structures and keeping IT costs in check.

The final factor that seems to be driving the business process imperative is the recognition that just doing more of the same will not help me achieve my strategy -- that I actually have to do some things differently, change the way I work and come up with more innovative and more effective ways of working to not only attract new customers, but also to retain the existing customers I have, in an economical way.

**Knowledge@Wharton:** Michael and Tony, are you seeing these challenges in your particular roles?

**Michael Shannon:** Yes. Very much so.

**Tony Habash:** Yes. I think this is right on target. And in our case, I will probably put the whole area of membership [in our organization] and customer relations on top of the key issues here.

**Knowledge@Wharton:** Michael and Tony, How would you describe your relationship with your peer C-level executives at your firm or organization? And is that relationship changing or evolving?

**Shannon:** In our firm [Dechert LLP], I think my relationship with my peers is very good. I certainly established credibility and trust over the years, and I have the luxury of being at the firm for almost eight years now. I am probably the longest reigning C-level executive. But quite a few of them had been here for at least half of that time. So we have years of experience together and have gone through quite a bit of evolutionary relationship processes.

The difficulty comes when often we have to say "no." For instance, just in alignment with the various business units, we have more than 180 active projects in our project portfolio. We really are staffed to handle about 20 to 30 per month. When the projects come in, we have to make some pretty hard decisions and say "no" often. That puts some pressure on relationships.

There is only one C-level executive at our firm that's relatively new. He is the CFO, but from the moment he started, he tried very hard to establish good relationships, and we hit it off very well and very quickly.

**Habash:** In my case, I have been [at the American Psychological Association] for eight months, and the organization is just experiencing what this CIO role is really about. There has been so much thirst, if you will, over the last couple of years to get the role in place. And it's a new thing for my peers to see the CIO worrying about all aspects of the business, and coming to the table as a true consultant, if you will, to shape expectations, to help create strategies and directions and to help drive the collective energy of the association forward.

I feel today, after eight months on the job, that my entire executive team will probably charge that Tony is coming as a business partner to the table here. I spend a good 50% to 60% of my typical week with my peers on those kinds of issues. And we are actually collapsing the IT organization structure to be much more business facing than it is today. And that's already started to pay some dividends in that regard.

And to Michael's point about governance, when I first came here we didn't have any governance process. So we started to implement one, and we are up to 230 projects on the list. We are going next month, for the first time ever, to prioritize an enterprise list for a corporate perspective at large. There has been some excitement within the executive team about going through that process and seeing the kinds of initiatives across the enterprise, and having to debate the value of investment in A versus B, and which one to go with, and making those tough choices. But I think the atmosphere is so ready for that.

**Knowledge@Wharton:** And how are you both working to align your IT organizations with your firm's or organization's business strategies then? What are the steps you have been taking?

**Shannon:** I think it is important to understand that our firm is a services business, just to start. We constantly seek opportunities to add value to the firm in all of the business units, going well beyond the basic functions to enhance our competitive advantage. A big initiative right now is this concept of knowledge management. And outside of professional services, I think knowledge management is just as important, but I think it's not really talked about much.

How do you take younger professionals, whether they are accountants or lawyers or whatnot, and have them be world-class accountants and lawyers, etc.? Or financial planners, or whatever else. It's through knowledge, it's through an understanding of your knowledge base and professional growth. ... So that's not an IT initiative at all. This is a legal initiative, and it brings to light other areas like ECM (enterprise content management).

ECM in professional services businesses is huge, and I think it is something that CIOs don't pay enough attention to. Getting down to the very granular level of how you code content and how you retrieve content, and what types of people need to retrieve what content, is quite difficult.

You really have to get involved in the business at a very detailed level. You can't take just the strategic level. You have to really get into the tactical areas, and make the right hiring decisions on who you choose to handle some of those functions. That's something that's close to me right now, and I'm actually spear-heading that effort.

And there are centralization projects. Over the years, in those times when we didn't have big resource-intensive projects, I've been positioning my organization to be able to take advantage of new projects like complicated knowledge management initiatives. ECM could easily be a failure if you don't have a centralized infrastructure. Knowledge management really can't happen unless you have a solid ECM strategy. So some of those areas I've been really aligning myself with.

**Habash:** We are a professional membership organization for psychology. We're also a publisher. We produce all kinds of electronic products and databases and books and journals and so on. And we cater to quite diverse audiences at the national level and the international level, which vary from students to scientists to practitioners and so on, and to institutions, actually. And one of the main alignment [issues] we have is, how can we cater to these two independent pillars, if you will, but at the end of the day serve the mission of the organization?

And we do that a few ways right now. At the heart of that is the governance process that I mentioned.

The second [way] has to do with cultivating the thinking behind truly institutionalizing an innovation process for the new products in our domain. In our business, content is clearly the asset that we have. And we will continue to look for creative ways to leverage that content for the audiences we serve.

One of the things we are doing right now is positioning key IT staff leaders with much more attention to specific business areas. And then we use the IT leadership team internally as a way to synchronize with each other on the pulse of the enterprise, if you will, day in, day out. And that has been very effective for us. We've been of that model only for the last four or five months, but it's making a difference for us.

**Knowledge@Wharton:** Given the elements that you've already outlined, in what ways would you say that your IT organizations add the most value to your firms?

**Habash:** I think that, for me, we have to go back to the basics all the time. And the basics are [that] we have to make sure that the operational excellence is guaranteed. It's a given that the infrastructure will work, it's there, it's secure, it's available, it's stable, all that good stuff. So we're paying a lot of attention to that basic function, if you will.

The second thing in which I think we add value is participation. There is a very active participation with creating the new product road map for the organization. And when we bring the power of IT and how we think about projects and the power of the business, and combine those, I think we're surfacing lots of opportunities to do two things. First, for integrating the enterprise, and driving efficiency in the cost model that we have .... The second is in re-identifying the potential product line, the new product line that's really based on what we think our members and our customers would like us to serve them.

So, we're combining a lot of the research we have with a lot of the potential possibilities from a technology perspective. And we think that we'll be able to drive some new products down the line that will fundamentally change the landscape for how content will be consumed in our profession.

**Shannon:** Tony, I'm glad you mentioned going back to basics. It's funny, you know, I said earlier I'd been with the firm for eight years. And I think this year is probably the first time that a big part of my closing-of-the-year initiative is actually going back to basics.

Things like, you know, law firms are fairly paper-intensive. And maybe we'll talk about some operational cost-cutting methods that we're going through in reducing that paper, but for now we have to deal with it. And things like the time to repair a paper jam may seem nominal. But if people are trying to use office equipment -- and keep in mind a law-firm has a huge fleet of printers and copiers and MFP devices -- but when they jam, or they need paper, or they need toner, you really don't want someone billing between \$200 and \$1,000 per hour dealing with that stuff.

You want to take office services personnel and push email alerts to them. So all your devices today should be intelligent enough that they can generate some level of automation and notify people that can take quick action and help, so that the people (we call them time-keepers) who are billing and generating revenue, never have to deal with that.

Also, we talked about knowledge management and ECM. We're going back to basics with ECM. We're trying to align our ECM initiative -- it's not so much an initiative, it's actually something we do very well. But the new initiative in the alignment of ECM is taking that granular level of meta-data for various people... [For example,] a deal could be a leveraged finance deal versus a corporate finance deal or some type of real estate deal, and the content involved in all of those deals are very, very different from each other. And how do you find that [content] when you may have 10 million pieces of content? They could be documents or parts of documents. So the alignment of that is pretty critical.

There are also big initiatives in customer service. We are a services business and we have clients that we have to service. So my internal customers are the ones that are actually servicing our external clients. And it's very important that we maintain that heightened level of customer service. We're going through a lot of operational cost reductions. Or paying attention to costs I want to say, not so much reductions. We're reducing where we can, but certainly not cutting back on services.

But just to give you an example of the paper that we store. You know, just to store a box of paper that might be an 18-inch long box or a two-foot long box, the real estate to keep that box costs \$35 per square foot per month. So obviously there are some huge cost savings, not to mention boosting your enterprise content which is boosting your knowledge management initiative by scanning all that in.

**Knowledge@Wharton:** Mark, maybe this is a question I should direct to you. Is this a very typical situation where cost containment really does come into such play in the CIO's role that it can in some ways distract from strategy?

**McDonald:** Well, it's an interesting question, and I think both Michael and Tony have provided really good examples of how IT organizations are adding value.

I think the whole focus on cost containment and cost reduction is one that is probably the easiest to quantify, and the one that is most tangible for people. But where we're really seeing CIOs and leading organizations take that view of improving the financial performance or the operating performance of the company to the next level is to start there, and then also [ask] how do I transform how my company uses capital, and what's required... what's the amount of effort required to complete certain tasks?

For example, we have one of our members, a manufacturing company, [where] the IT organization has now been tasked with pulling \$100 million out of their inventory levels, and they're going to be doing that through things like integration and adopting best practices, and using information more intelligently to just reduce the amount of inventory required to run the business overall.

I think where we're seeing people build off of a focus on cost and operational performance into some more transformative and innovative solutions is really to recognize that there is this opportunity to really change the way they work. Oftentimes, that involves really working to something that I know Michael and Tony are both aware of: The fact that the CIO and the IT department or group is one of the few organizations that see how things work end to end and how they work horizontally.

In a company, most people are concentrated on their functional vertical responsibilities. That whole horizontal dimension is one that I know a number of organizations are starting to come around to realize that how we perform and work together is truly how we drive customer satisfaction, service quality and cost, as opposed to doing point solutions -- so that's why we're seeing a number of CIOs, like Mike was mentioning, pointing out factors that say that it's not just a specific point factor relative to saving real estate rent, but it's actually part of a much larger transformation that can really give the organization a competitive advantage.

**Knowledge@Wharton:** Looking ahead, Michael and Tony, what do you think will be some of the big decisions that you're going to have to tackle in the near future in your roles?

**Shannon:** I think a lot of the knowledge management initiatives are probably the areas that we're going to focus on the strongest.

Back to what I have done, we've done so much over the years that we fully centralized our infrastructure, we've gone through business continuity planning to the hilt. All those things that many CIOs have on their radar as initiatives, I think we've completed those.

At this point, we really are focusing on that alignment with the business, and in a firm our size, we have a lot of different business units that are quite different from each other.

So, for defense litigation for pharmaceutical companies, that business in the business alignment versus more transactional lawyers doing initial public offerings or real estate transactions are vastly different. Everything in litigation in the future is focused on e-discovery. How can I take the same group of lawyers and review millions and millions and millions of documents where they could only review thousands of documents in the past in the same amount of time?

You do that through automation and concepts of e-discovery. That's quite different than the ECM initiative that we do well that I'm trying to take to the next level and be literally a world class support organization from the standpoint of ECM and knowledge management.

It's back to the basics of you can almost say that we're striving for the world-class basics at this point.

**Habash:** I think this is a very interesting question. For us, we're coming forward with a strategy from a technology perspective. As this is happening, actually the organization is embarking on creating their first strategic planning, the first version of which is going to come next year after being in the business since 1892.

I think the biggest decision that we have to make is figuring out the pace of the change that we would like to execute for the organization -- how to make that pace meaningful from the ability of the organization to consume change, to deal with it, to socialize it, to it becoming part of the fabric of the enterprise, if you will.

One of the biggest issues that we have on the table right now is fundamentally rethinking the use of the web channel and how we touch our members and customers. We've [already] started that implementation .... I see ourselves making quite a few key decisions next year that will probably make the organization a little bit uncomfortable in terms of the amount of change that needs to happen.

The key to that is to continue to build consensus across the enterprise [about] the pace of things. I feel that we're close to locking on the direction from a strategy perspective. We need to get the pace right.

**Knowledge@Wharton:** Thank you. And Mark, looking forward, what would you say CIOs in general should do, or keep in mind, when it comes to strengthening their organization's alignment with corporate strategy?

**McDonald:** I think the single most powerful rule of thumb they can have is to be able, and be prepared, to just discuss or connect how each major IT initiative -- whether that's a project or a major piece of the operation -- actually creates a tangible change in the business or does something or guarantees some level of business performance.

And in cases where you cannot make that connection, recognize that those projects or activities are ones that need to be done as good as possible, but that there's no extra credit for being better at them.

And so, where we see CIOs and IT organizations who are really well aligned, they can tell you how well I'm doing. So for example, if I'm doing a network consolidation to provide more ready access to players in the field or other things like that, I'm actually cutting down search time and raising productivity.

And actually talking about those end measures is probably the best way to demonstrate, not only inside the IT organization, but also to your peers in the rest of the enterprise, that you are really aligned and that you understand what you are doing because that business performance is the language that everybody uses.

Just to give you one kind of quick analogy: When you look at the effectiveness of a piece of exercise equipment like a treadmill for example, what you really want to measure is how much weight you lost and how much better you feel. So, measures that talk about what the average speed of the treadmill was and what its uptime was and etcetera are important for the technical operation of the treadmill and are certainly contribute to it, but the main focus is on the outcome you are creating.

I think that if you keep that business performance outcome in front of everybody at all times, alignment will happen naturally and will happen down through the organization, which really is a powerful way to keep IT on the forefront of creating value.

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