



Breaking into the Boardroom

Technology as a Strategic Lever



Andrea Laurenza - Board Academy
January 13, 2013

Agenda

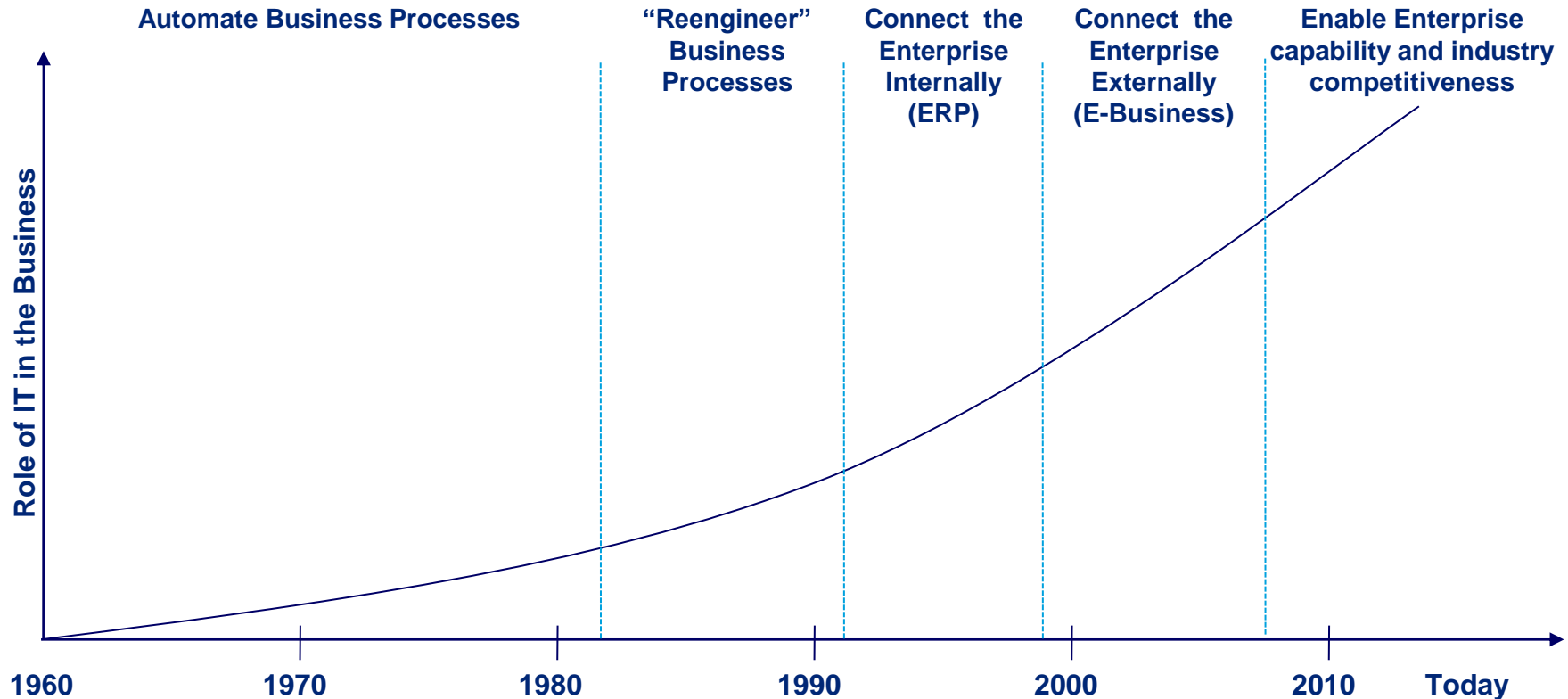
- 1 Prologue
- 2 Board and IT Survey
- 3 Improving IT Maturity
- 4 Delivering IT Business Value
- 5 Enabling Competitiveness
- 6 Establishing “Line-of-sight”
- 7 IT as Value Center
- 8 Developing Business-driven IT Strategies

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Over the past 50 years, IT has progressed from service provider to critical “business enabler”

“Moving forward, IT and the business must be tightly engaged to change processes, manage cost, increase customers and effectively use information. IT must enhance enterprise capability and drive competitiveness”.¹



So, why aren't CIOs consistently in Boardroom-level dialogue with the Business?

Notes: (1) The 2009 Gartner Scenario: An Annual Report on the Current State and Future Directions of the IT Industry – Gartner, September 10, 2009

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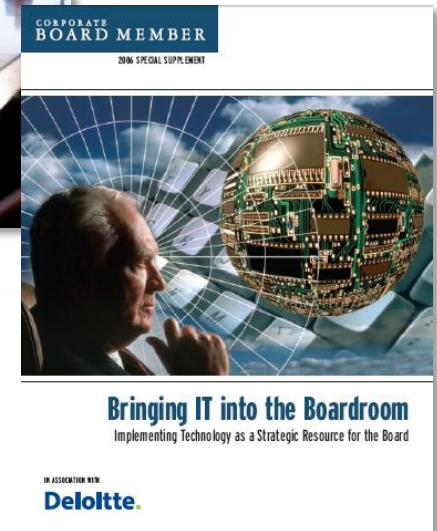
Deloitte recently studied the relationship between IT and corporate boards

Research Goals

- Investigate how the role of information technology in a company affects their board's approach to IT
- Document practices adopted by management and boards for governing IT
- Develop recommendations for how the board and management can better govern IT

Research Overview

- Deloitte conducted a 2 phase study
 - Phase 1: 35+ interviews with CEOs, directors and CXOs across all industries
 - Phase 2: Partnered with Corporate Board Member to survey 500+ board members across the globe (35 countries, companies with revenue over \$1 billion)

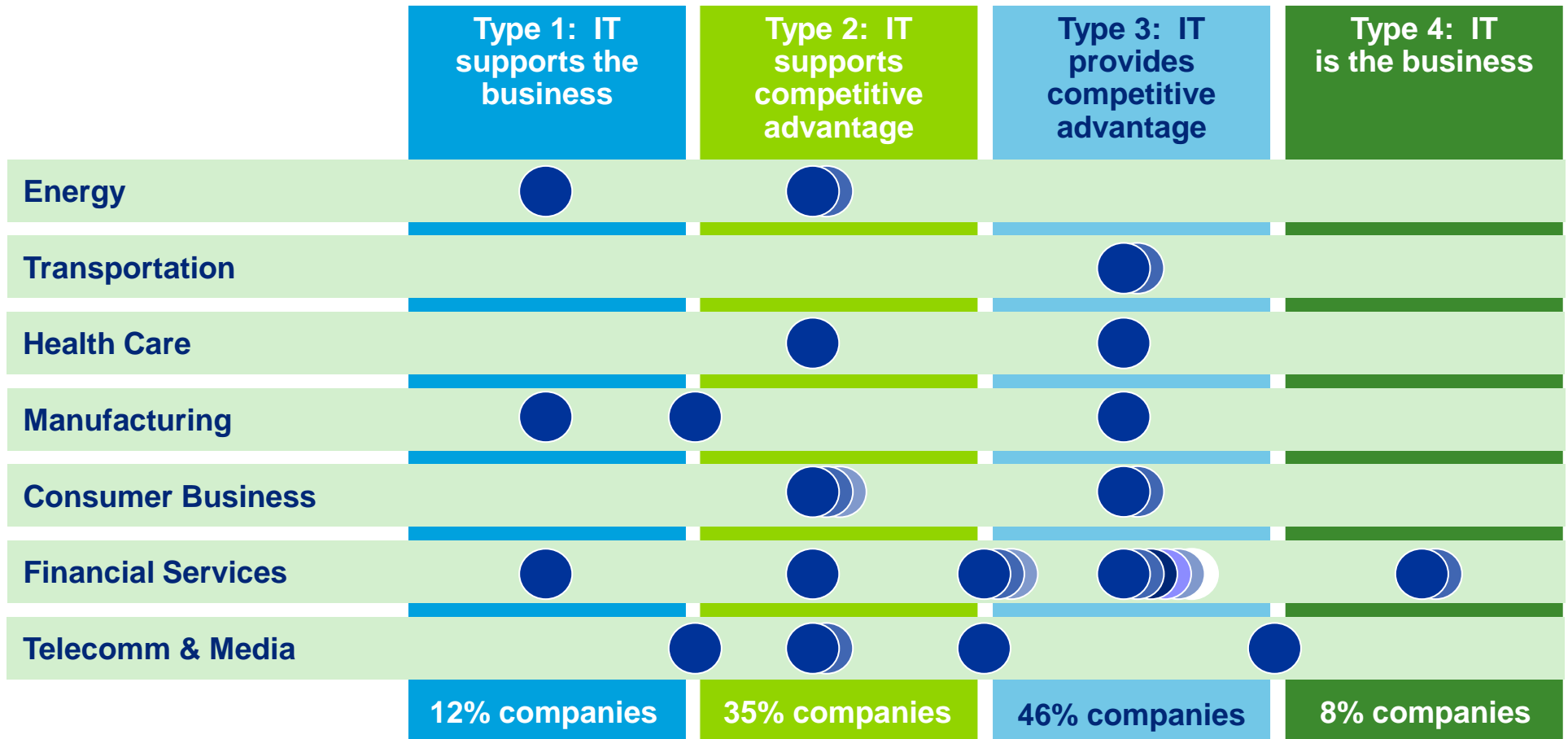


Respondents were categorized by where IT is positioned on the corporate “value spectrum” ...

Information and Technology's Strategic Value					
LOW		HIGH		→	
Type 1: IT supports the business		Type 2: IT supports competitive advantage		Type 3: IT provides competitive advantage	Type 4: IT is the business
Role of IT	<ul style="list-style-type: none"> IT is administrative in nature The company functions if IT systems fail Heavy investment in IT not required 	<ul style="list-style-type: none"> Strategy blends technology with other capital Operations stop if IT stops Potentially heavy IT investment 	<ul style="list-style-type: none"> IT offerings are a competitive differentiator Operations depend on IT Heavy IT investment 	<ul style="list-style-type: none"> Business and IT strategies are tightly integrated IT is the product and defines the customer relationship 	
IT investment approach	<ul style="list-style-type: none"> Maintain acceptable IT service levels at lowest reasonable cost 	<ul style="list-style-type: none"> Investment vary from year to year with corporate strategy and competitive conditions 	<ul style="list-style-type: none"> Invest heavily in technology, using portfolio management Market intelligence driven 	<ul style="list-style-type: none"> Venture capital approach 	
Examples	<ul style="list-style-type: none"> Manufacturer with “open-loop” supply chain 	<ul style="list-style-type: none"> Manufacturer with integrated supply chain 	<ul style="list-style-type: none"> Global express delivery service or on-line retailer 	<ul style="list-style-type: none"> Provider of fund transfer engines or financial data products 	
IT as commodity			IT as strategic differentiator		

... and spanned all IT value levels across multiple industries

Effectiveness in using Information Technology (IT) can have a material impact on corporate performance. Prior to this survey, there was a lack of hard data about what is actually going on in the board room with respect to IT



Survey results indicated that while IT is valued by boards, it is typically “not on the agenda” ...

- 1 Board members trumpet the importance of IT to their company in the areas of:
 - Compliance
 - Customer retention
 - Managing risk
 - Competitive positioning
- 2 Board members surveyed recognized that IT is either very important or important to success in various areas of the business:
 - 69% in implementing the right strategy is important in compliance
 - 66% in **learning about and retaining customers**
 - 57% in managing risk
 - 50% in **competitive positioning**
- 3 Despite significant recognition, few organizations are bringing IT to board agendas
 - Only 11% discuss IT at each board meeting
 - Only 16% of CIOs/CTOs interact with the board at each board meeting

... and board engagement on IT matters is rare

Overall

- Systematic board engagement on IT matters is rare
- 66% of companies believe IT is a board issue, but only 11% discuss IT
- Companies with boards involved with IT matters perform better financially

Alignment

- Boards consider alignment – but approach the topic in widely varied ways
- **44% believe shortcomings stem from non-alignment between business and IT**
- **More than 50% of companies do not have IT-savvy directors in boards**

Value

- Boards engage only in large IT projects
- **Majority of companies are unsure on how to measure value of IT**
- **High performing companies monitor IT investments and keep the board informed**

Risk

- Boards' reactions tend to be reactive rather than proactive
- 30% of companies believe IT fails to support risk assessment and management
- Boards are aware of protecting their business continuity and information security

The survey generated a set of key insights into the relationship between Boards and IT

The Good News:

- IT is a hot topic – and more and more directors are beginning to recognize its intrinsic value
- Boards today understand IT as a value lever and anticipate spending more time on IT strategy in the future
- Attention to IT strategy at the board level, and to measuring and monitoring the value of IT, correlates to better business performance
- When director involvement in IT increases, understanding of IT's role in strategy deepens, and IT becomes more effective in supporting the business

The Bad News:

- Boards recognize the importance of having an IT strategy, yet they still aren't talking about IT in the boardroom
- Directors lack adequate information on IT strategy
- Directors don't have a clear understanding of how to measure and monitor the value of IT
- CIOs and CTOs who are conduits to the board generally talk in the language of “technology” rather than “business”

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The ultimate goal of the upwardly-mobile CIO is to become a “strategic partner” to senior management and the board

Goals

Stage 3:

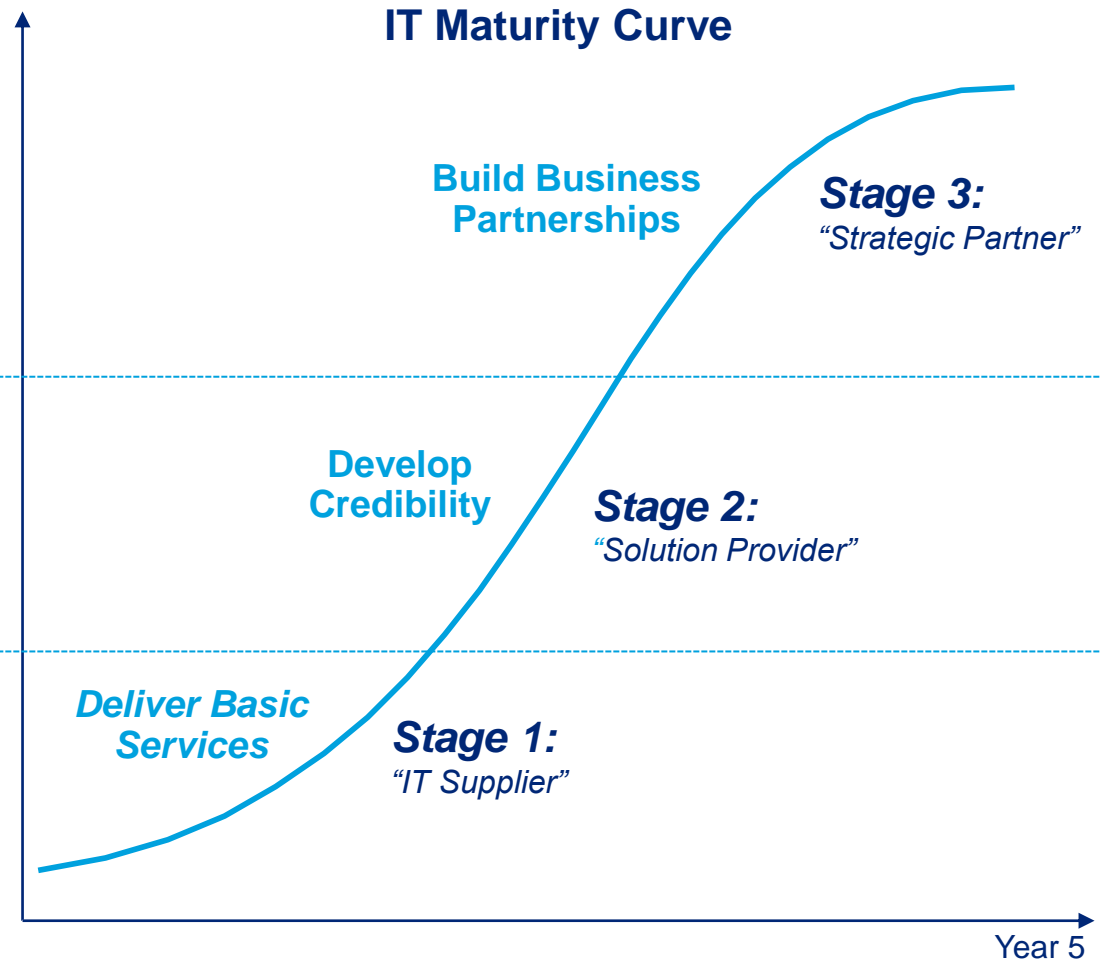
- Align business and IT investment strategies
- Measure performance in business terms
- Rationalize technology and system variation
- Participate in business governance

Stage 2:

- Deliver on-time and on-budget
- Create common processes & infrastructure
- Establish technology & solution standards
- Organize pools of specialized resources

Stage 1:

- Manage the money
- Focus on IT management fundamentals
- Stabilize operations and support
- Deliver reliable solutions



In order to promote IT as a strategic business partner, CIOs must ensure that the “basics” are in place

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The value of IT must be discussed in business terms,...

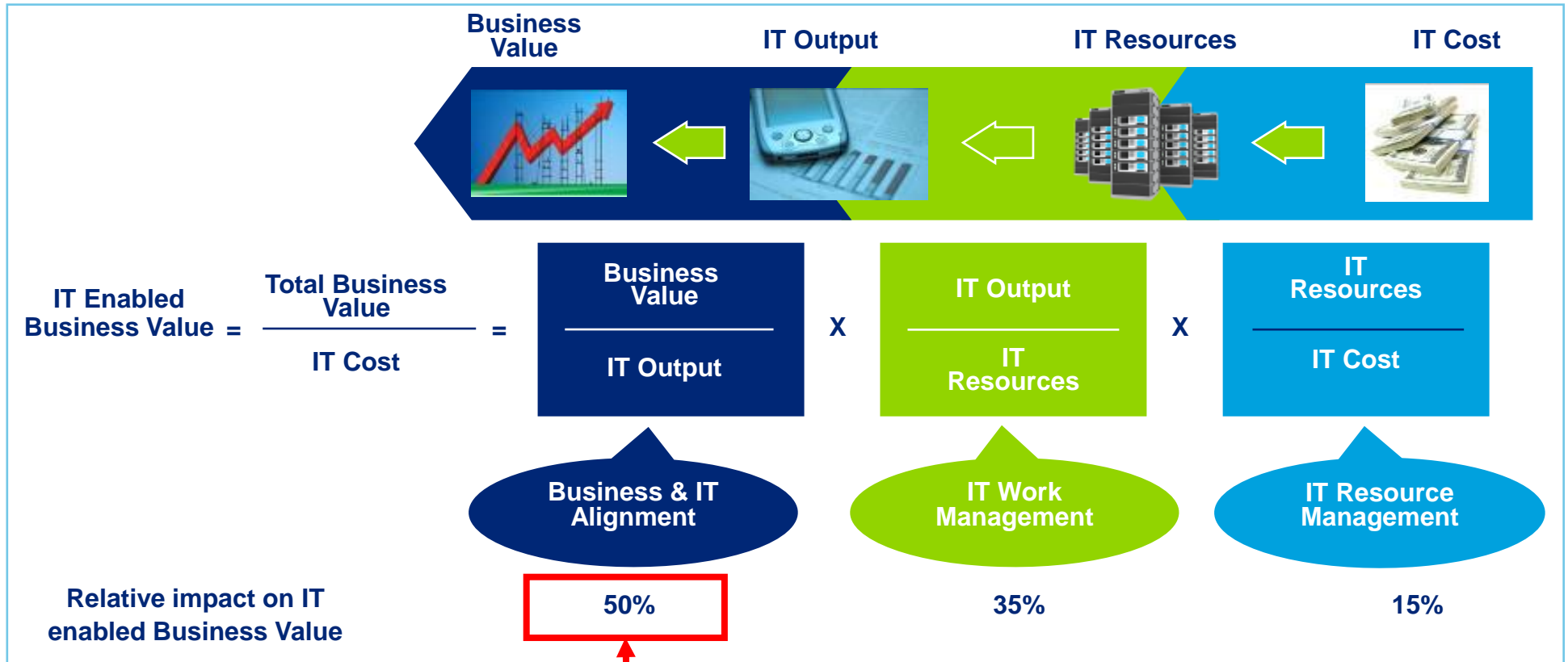
The components of “Business Value” include enhancement in Business capabilities and/or Business revenues, plus reduction in Business costs and/or Business risks.

	Components	Action	Business Value Examples
Business Value	Business Capabilities	Enhance	Real-time information exchange with partners Automatic tracking of inventory
	Business Revenues	Increase Preserve Accelerate	Acquire complementary businesses Improve sales tools
			Initiate customer retention program Test disaster recovery capability
			Introduce new products earlier Improve order to cash cycle
	Business Costs*	Decrease Avoid Delay	Restructure operations Streamline supply chain
			Increase economies of scale Ensure regulatory compliance
			Apply cash management practices Use options to postpone purchases
	Business Risk	Reduce	Strengthen security Identify delinquent accounts early

* Costs include operating costs as well as the cost of capital

Business & IT Alignment is a critical driver of sustainable IT-enabled business value

There are three “levers” that can be “pulled” to generate IT value: Business & IT alignment, effective project/program management and cost-effective resource allocation



Business & IT Alignment is clearly the most significant driver of IT-enabled Business Value

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Today's market demands are driving the need for technology-based enhancements in business capability

Market Driver

Merger and Acquisition Activity ramping up again

Expansion of Digital Capabilities

Increased Globalization

Optimization of Supply Chain Activities

Increased Focus on Customer Relationship Management

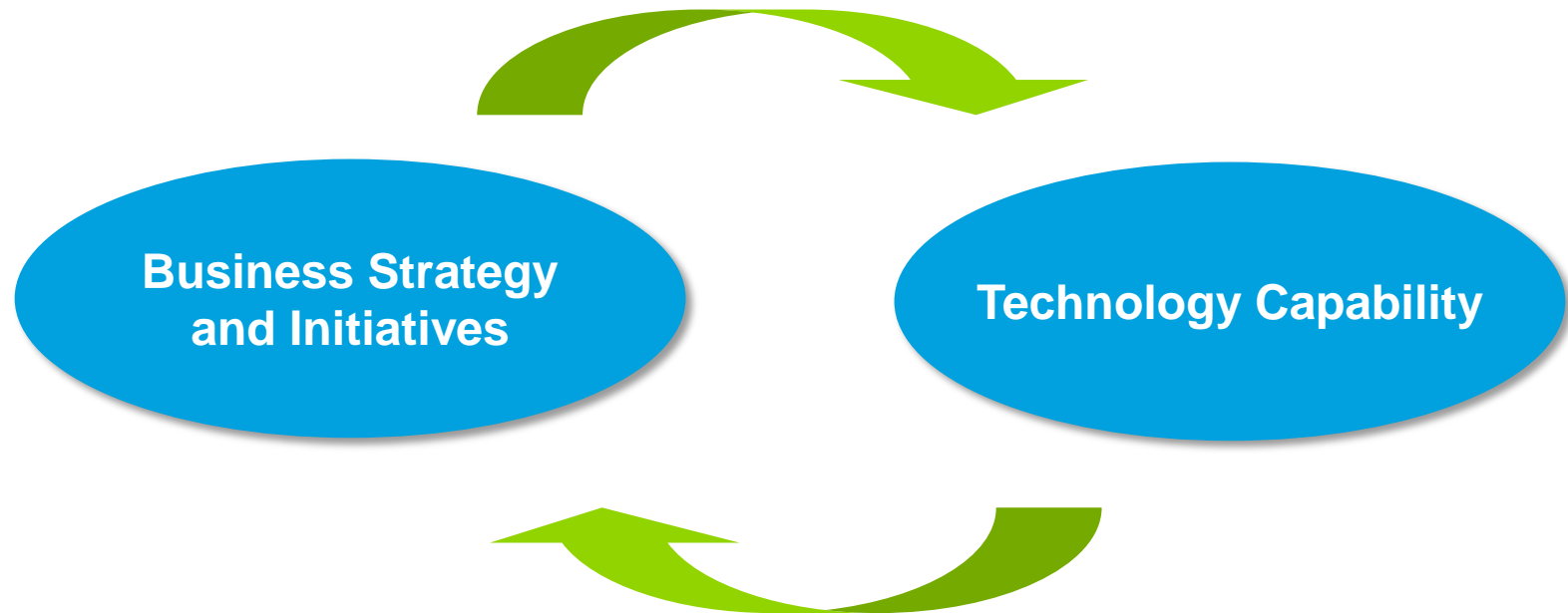
Reduction in Development and Distribution Time for New Products

Business Capability Implication

- Need for rapid integration of new business entities
- Need for rapid integration of e-commerce/mobile infrastructure with existing business infrastructure
- Rapid, world-wide deployment of new business infrastructure integrated with existing infrastructure
- “Follow the Sun” customer support
- Rationalization of sourcing across multiple vendors
- Reduction of logistics costs
- Need for focused customer information
- Integration of customer information with all customer contact and support processes
- Tighter integration of R&D processes with downstream processes

These two dynamics now position IT as both an enabler and a shaper of corporate business strategy

Business Strategy Determines Required Capabilities...



***... but Strategic Options Continuously Expand
as Technology Creates New Business
Possibilities***

The role of IT in supporting market competitiveness should be closely linked to the primary operating discipline of the company

Operating Disciplines

CUSTOMER INTIMACY

Build a bond with your customer like your best friend

PRODUCT LEADERSHIP

Continually push products into the realm of the unknown, the untried or the highly desirable

OPERATIONAL EXCELLENCE

Best Combination of quality, price and ease of purchase

FLEXIBLE INFRASTRUCTURE AND APPLICATION

Blending of on/premise applications with cloud solutions and mobile solutions

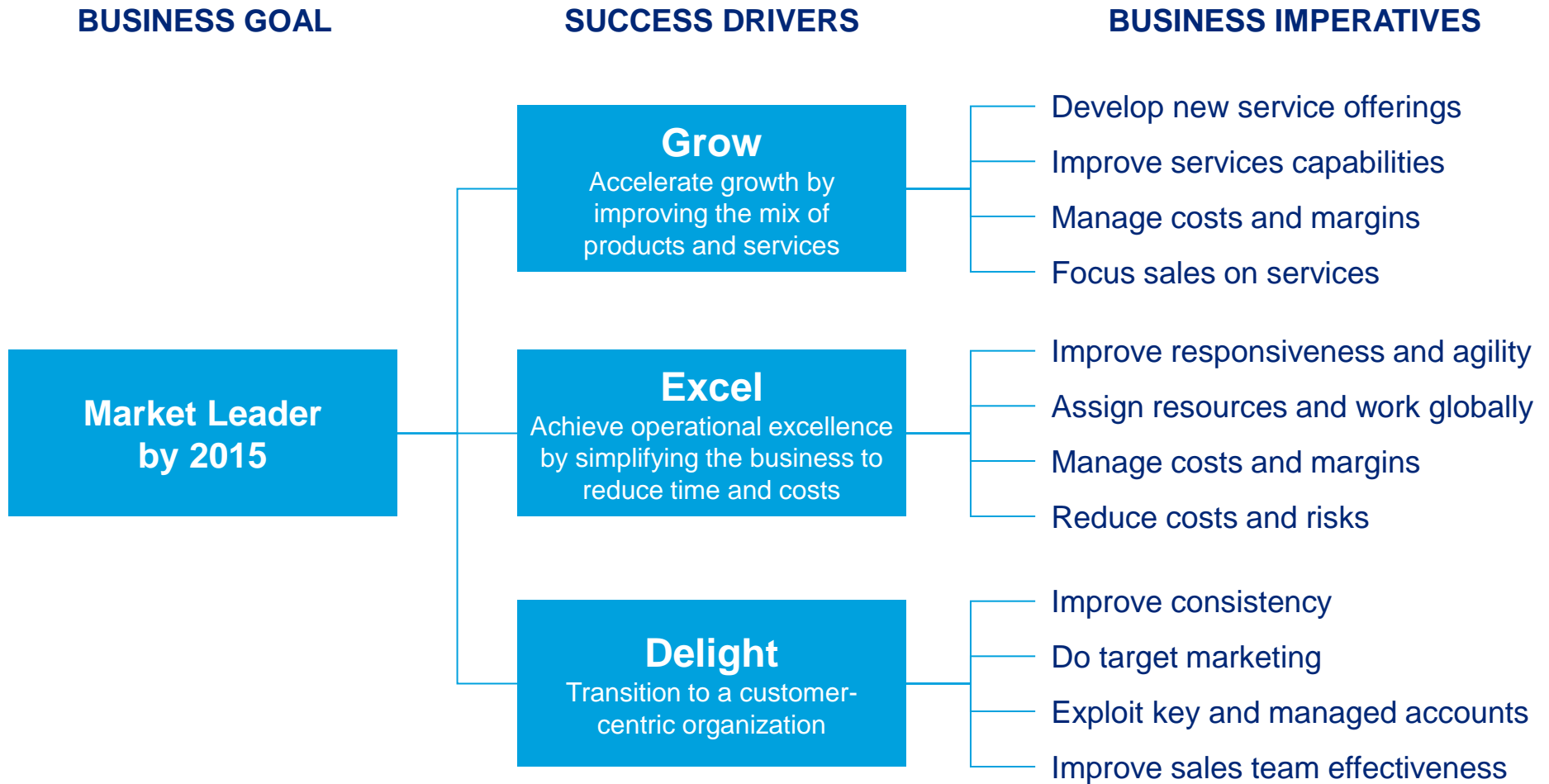
The appropriate role of IT requires an understanding of the core processes and functions associated with the primary business operating discipline

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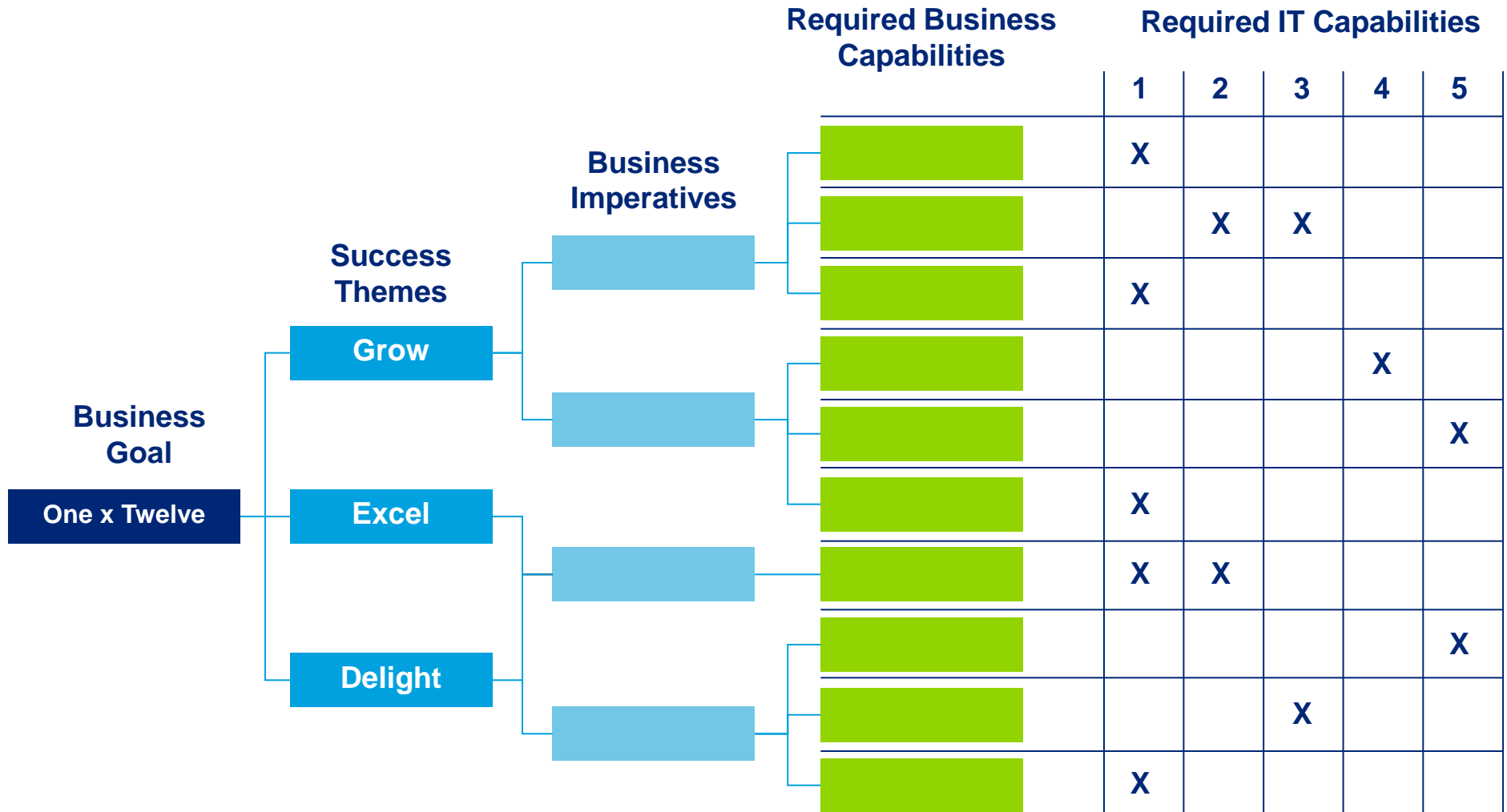
Upwardly mobile CIOs have a clear “line-of-sight” from business goals, success drivers and business imperatives, ...

ILLUSTRATIVE



... To the required business capabilities and the IT capabilities necessary to enable them

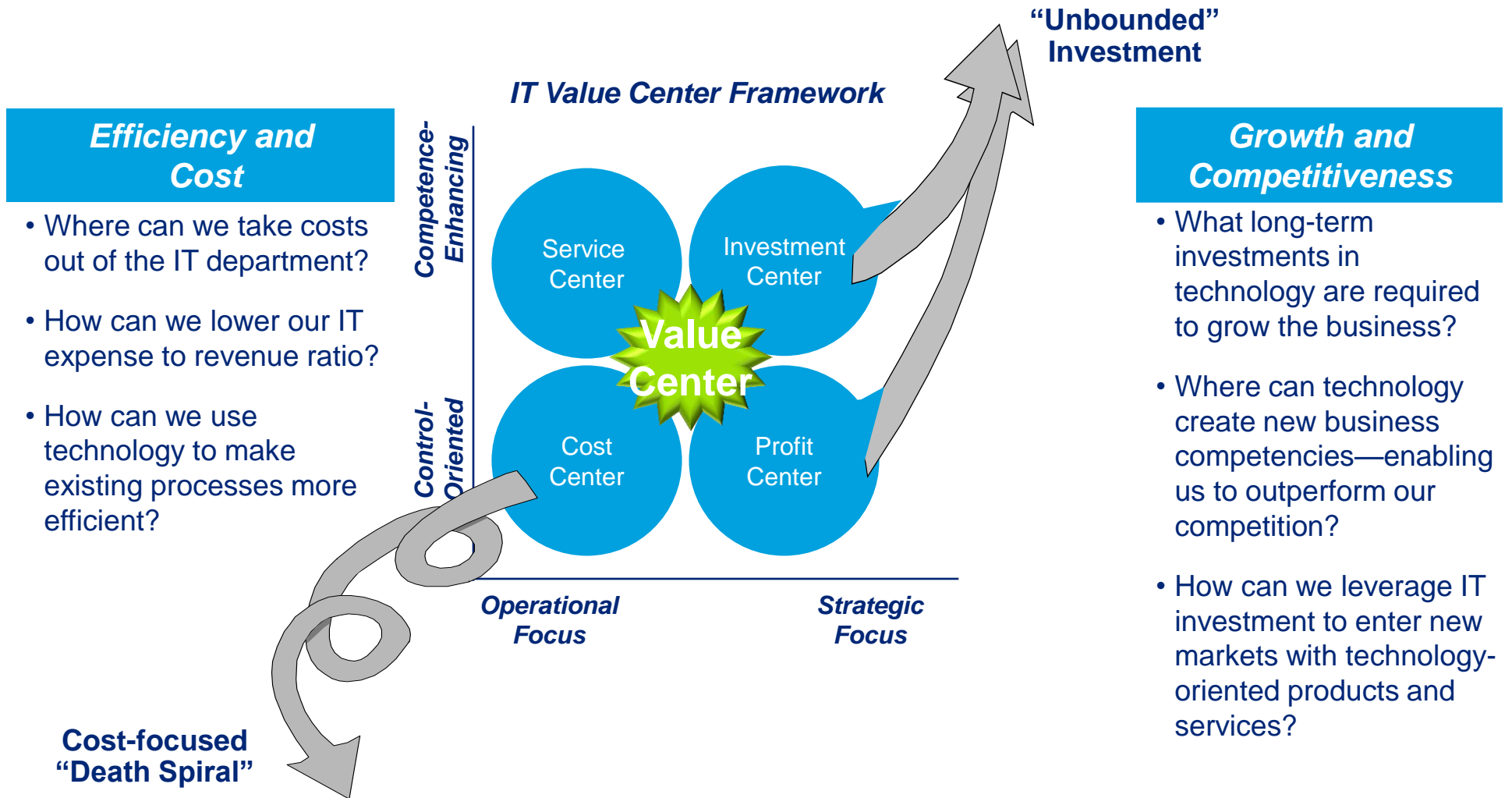
ILLUSTRATIVE



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Establishing IT as a “value center” requires balance in focus between delivery efficiency/cost and support of business growth/competitiveness

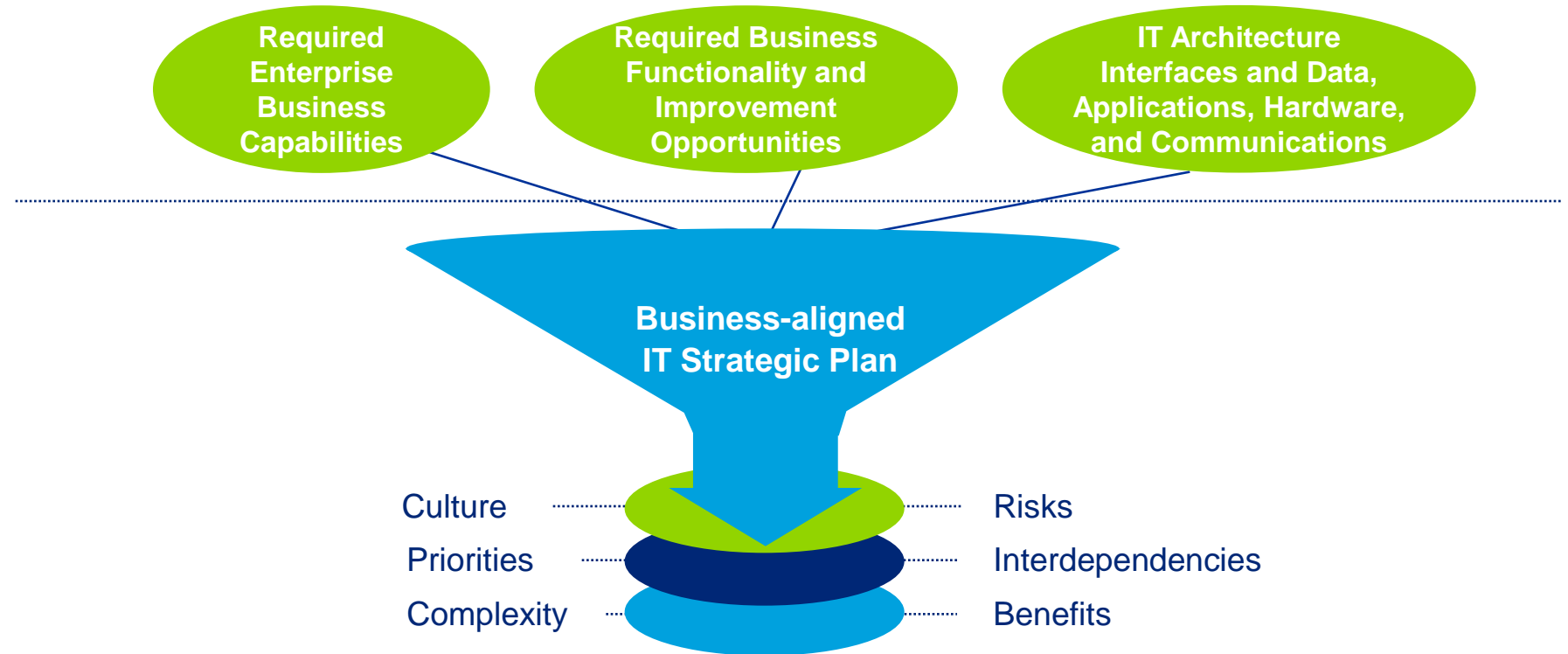


IT must develop appropriate metrics to measure and monitor its performance in both dimensions

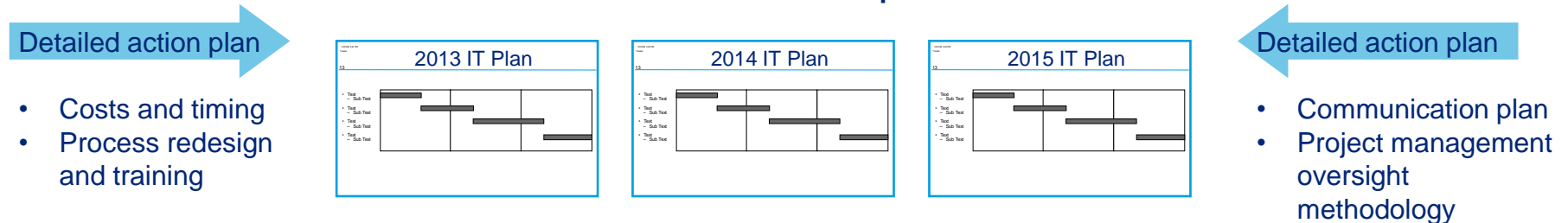
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A Business-aligned IT Strategy ensures that IT activities are appropriately synchronized with the needs of the Business

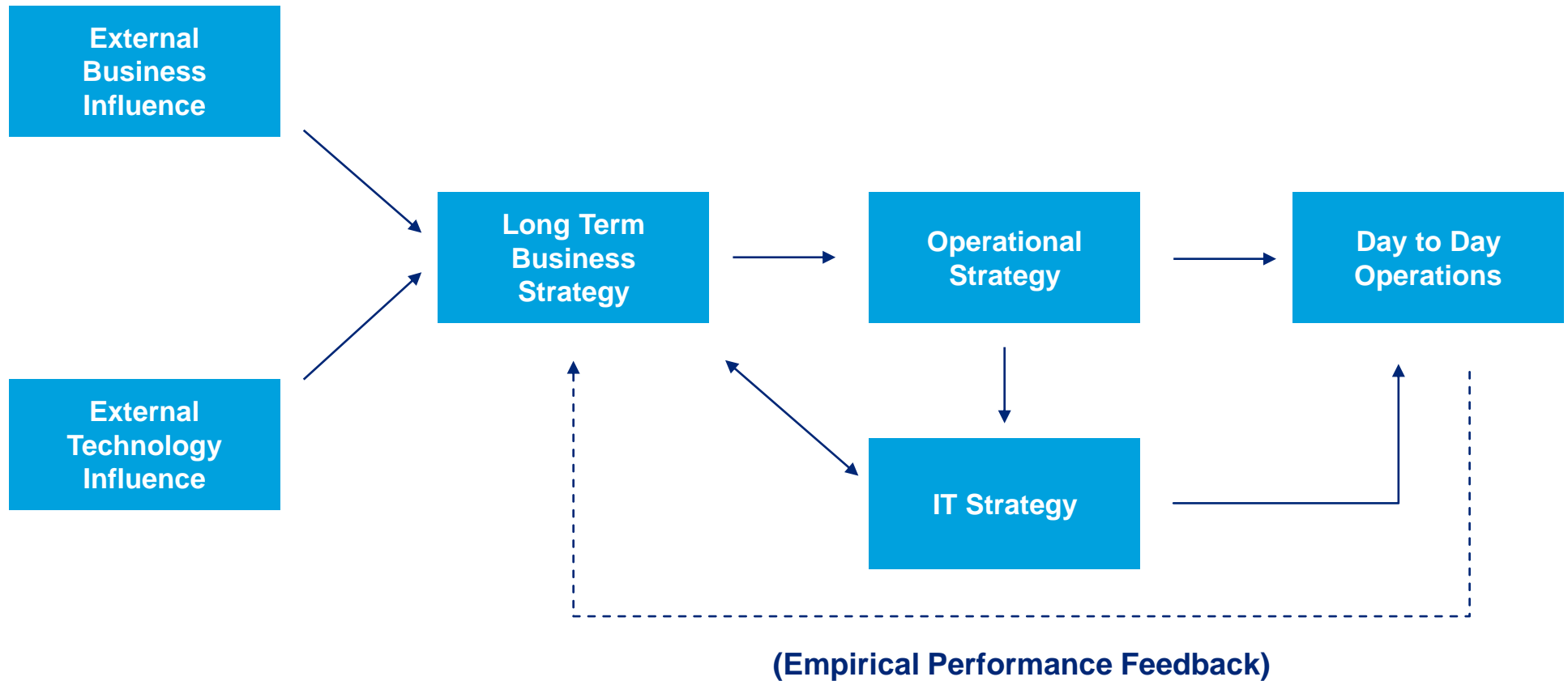


IT Initiatives "Roadmap"



IT Strategy development should be viewed as an on-going process, not a one-time event

IT strategy must be dynamic in all aspects (infrastructure, processes, organization) to reflect changing external influences and on-going operational feedback



Deloitte.