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Chapter Extract

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CIO as venture capitalist

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CIO as venture capitalist

Trading on IT's assets, talent, risk, and results

CIOs who want to help drive business growth and innovation will likely need to develop a new mindset and new capabilities. Like venture capitalists, CIOs should actively manage their IT portfolio in a way that drives enterprise value and evaluate portfolio performance in terms that business leaders understand – value, risk, and time horizon to reward. CIOs who can combine this with agility and align the desired talent can reshape how they run the business of IT.

CIOs have historically focused on core delivery and operations with a budget and operating model built around low risk – buying enterprise-class software, building a talent base that could support a well-defined future state, driving for efficiencies in light of constant cost pressures. More and more CIOs, faced with disruptive forces such as crowdsourcing,[1] mobile only,[2] big data,[3] and cybersecurity,[4] are shifting from a world of known problems into one filled with unknowns. To make matters worse, organisational governance has become more complex as barriers for other parts of the business to enter the technical arena have fallen.

CIOs are seeing this divergent behaviour – and realising that their current tools for managing risk and leveraging assets may not work in this new world. Instead, many are beginning to manage their technology portfolios in ways that drive enterprise value, actively monitor the performance of the portfolios, and communicate the portfolios' positions in language the business can grasp. To do this, CIOs are borrowing from the playbook of today's leading venture capitalists (VCs). As a result, they are reshaping how they run the business of IT.[5]

Thinking like a VC

Effective VCs are often shrewd businesspeople who operate across a range of intertwined capabilities. They manage portfolios of investments, continually evaluating individual and aggregate performance in terms of value, risk, and reward. They deliberately attract entrepreneurial talent with technical skills and business savvy – as well as vision, passion, and the intangible spark of leadership. And they cultivate agile organisations to anticipate and respond to changing market conditions – open to decisions to exit, take public, reinvest, or divest. These capabilities are closely related to the CIO's leadership role in today's growth-oriented organisation.

Portfolio investment strategy. CIOs today juggle an ever-growing portfolio of projects, ranging from long-term strategic initiatives to keeping the lights on. CIOs need clear lines of sight across their portfolio of programmes and projects – the objectives, dependencies, status, finances, associated resources, and risk profiles. But in-flight initiatives are only one piece of their balance sheet.

CIOs should also understand their assets – hardware, software, facilities, delivery model (the way work gets done), contracts, vendors, and people. The portfolio of IT is a complex one. But that complexity is no excuse for flying blind.

Valuation. An effective portfolio view enables the CIO to continually evaluate the strategic performance of each asset, project, and vendor in terms that business leaders understand. A CIO with a VC mindset doesn't just report on the organisation's to-do list or inventory of assets; the CIO communicates the quantitative and qualitative value the IT organisation contributes to the business. This means delineating the strategic importance of programmes, projects, and assets. What initiatives are mission-critical for the business? What is the confidence level around on-time, on-budget delivery? How deliberately are business case results tracked? Which hardware and software assets are identified for growth? For sunsetting? For active retirement? How "heavy" a balance sheet do you want to carry?

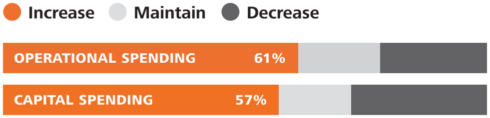
Handicap. In many emerging areas, there are no clearly identifiable winners. How much do you know about the product roadmap of your existing providers? Are you actively scanning small and emergent players? No part of your portfolio should be off-limits – software, hardware, services, talent, data, methods, and tools. Do you have the skills and the discipline to evaluate and predict how the landscape will evolve – not only in the market but, more importantly, for your company, for your customers, and for your business partners? Make sure you are getting what you need in order to provide what the business wants from IT. And be ready to reevaluate in light of market shifts, M&A events, or leadership transitions.

Hedge. What emerging investments are you making, whether in broad technologies or with specific entities? At what stage are you getting involved? How will you incubate, invest, divest? If you build dependencies on start-ups or niche players, you will need to evaluate not only the technology but the founders and their business models.

Capabilities map for CIOs

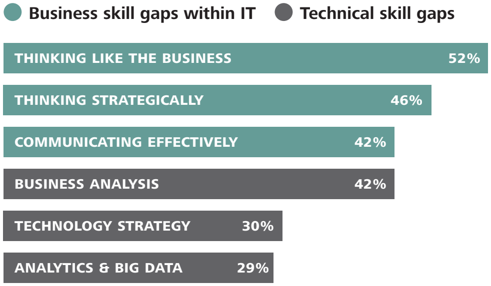
Portfolio management[1]

As IT budgets continue to increase, it is more important to manage them closely. In 2013, 38% of organisations created a portfolio approach to IT.[2]



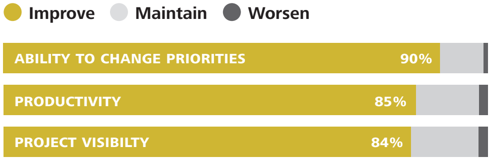
Talent alignment[3]

IT needs the right skillset to maintain systems and innovate.



Agile[4]

CIOs are adopting agile methods to expedite delivery times and improve business alignment. Organisations using agile have seen promising results:

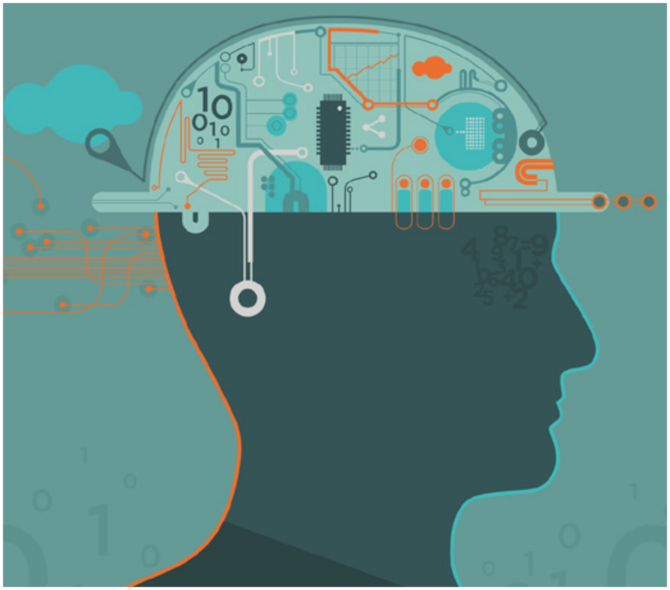


83% of businesses have future plans to implement agile, an increase from 59% last year.

Sources: [1] Computer Economics, *IT spending and staffing benchmarks 2013/2014*, chapter 1, http://www.computereconomics.com/page.cfm?name=it%20spending%20and%20staffing%20study, accessed January 3, 2014. [2] CIO Magazine, *2013 state of the CIO survey*, January 2, 2013, http://www.cio.com/slideshow/detail/79671, accessed January 3, 2014. [3] Deloitte MCS Limited, *The Deloitte CIO Survey 2013. Reconnect. Rebuild. Reimagine. Redeliver.*, 2013. [4] VersionOne, *Seventh annual state of agile development survey*, 2013, http://www.versionone.com/state-of-agile-survey-results, accessed January 3, 2014.

Build a concession architecture that allows you to port assets to different players or to shutter underperforming investments or partnerships in order to move on to the next opportunity.

Promotion. The brand of IT is maligned in some organisations, with the CIO viewed as the operator of the company's technology assets but not as a strategist or catalyst for innovation.[6] Rethinking the role as a VC gives the CIO a backdrop for the business to elevate the understanding – and appreciation – of his or her function. There's no overnight fix. Understand your current brand permission, then build awareness about IT's mission, effectiveness, and vision. Internally, this is important in order to enhance IT's charter. IT should be a board-level topic – recognised as one of the crown jewels of the company. Externally, it's important to attract talent – and attention. Even some leading VCs have launched PR and marketing efforts.[7] Don't assume that once it's built, they will come.



Talent brokering. The portfolio mindset extends to talent management as well. Talent scarcity is a universal concern, but it has a particular impact on IT. Consider the skills and capabilities that will be needed to deliver on strategic initiatives, as well as those required to maintain existing systems and processes. Where are the gaps? Which capabilities can be grown from existing staff? Which should be acquired? How can top talent be identified, developed, and hoarded – regardless of title or tenure? How can external talent be tapped? Think beyond consultants, agencies, and contractors. Can you leverage the crowd – either transactionally[8] or by finding a way to activate customers and hobbyists?[9] CIOs need doers and thinkers just like VCs, but they also need leaders. Use this age of innovation as a means to launch initiatives to reward (and retain) demonstrated talent with the curiosity and horsepower to help lead growth areas. Demand for talent is outstripping supply in many shops – and expected time to value is shrinking.

Agility. Disruption is a given in technology today, and is extending into many aspects of the business. The balancing act is delicate – driving for more nimble, responsive delivery while maintaining architectural integrity and making solutions built to run.

In this new world, the CIO's role should expand from enabling operations with technical services to building a technology footprint that fuels, and can be responsive to, the executive team's growth and investment strategy. Integration, data, and architecture capabilities should be developed into disciplines, serving as the core pillars of business agility.

Growth and change

Cisco's IT organisation uses a three-tiered model to drive its mission: Run the business – focusing on efficiency, quality, and optimisation of cost performance; grow the business – helping to drive investments that impact business performance; and change the business – transforming how the organisation operates and the markets in which it competes. At Cisco, line-of-business CIOs are encouraged to drive more of their investment portfolio towards growth and change. This doesn't mean that total cost of ownership isn't emphasised, but the "better, faster, cheaper" mindset is not just applied to the business of IT – it's just as important to the business of the business. Technology spend is anchored in running or changing the business – which requires not just bilateral commitment, but ongoing education and teaming between IT and the business.

Line-of-business CIOs look at initiatives as vehicles for tech-enabled business growth and see their roles as orchestrators and shapers. At the financial level, this means actively managing a portfolio of assets with an understanding of cost, return, risk, and strategic importance. More than just inventorying and reporting, it means helping to set priorities, translating the potential of disruptive technologies and making them meaningful, and setting up the organisation for speed and agility. Traditional waterfall methodologies have given way to agile – fast, iterative deployments where the business is fully engaged. At the technology level, orchestration is about creating a seamless experience across a technology landscape that is growing more diverse and complex, bringing together a mix of on- and off-premises solutions – and making sure employees, customers, and business partners aren't exposed to behind-the-scenes complexity. Integration and architecture have been established as key disciplines fueling immediate investments in sales effectiveness, digital marketing across devices/channels, and the technical backbone behind the Internet of Everything.

Cisco has also started to engage more directly with the venture capital and start-up communities. Corporate CIO Rebecca Jacoby has established a company-wide reference architecture covering business, operational, systems, and technology aspects. Emerging solutions that comply with the reference architecture are actively pursued – often in response to specific problems or opportunities the company is trying to address. Like other IT investments, though, an assessment of the solution is made not just on its ability to change the business, but on the ongoing impact on running the business. Like a venture capitalist, the IT organisation measures the portfolio in absolute terms – potential value weighed against total cost of service. Cisco emphasises measurement of vision, strategy, and execution according to the needs of the business. Because of these approaches, Cisco is prepared to deal with whatever the future brings – acquisitions, product innovation, and investments in adjacent services and solutions.

Where do you start?

MASTERING VC capabilities may challenge many CIOs whose traditional role has been to meet business demands for reliable, cost-efficient technologies. And even if the capabilities could materialise overnight, earning the credibility that is required to become active participants in strategic leadership conversations will likely be a gradual process for many CIOs.

To complicate matters, new technology shifts – especially those powered by analytics, mobile, social, cloud, and cyber – intensify talent shortages and process constraints. These gaps make creating a balanced portfolio across traditional and emerging IT services even more difficult. As business users bypass IT to adopt cloud-based point solutions, organisational technology footprints are becoming more and more complex. Visibility into, and control of, the portfolio becomes harder to attain. CIOs have an imperative to get ahead of the curve.

This is especially true in M&A, where change is constantly disruptive. Many industries are rife with potential investments and divestitures. But few organisations can acquire, sell, or divest with surgical precision without reinventing the wheel with each transaction. Seventy percent of mergers and acquisitions fail to meet their expectations. The value from mergers, acquisitions, and divestitures is more directly linked to getting IT right than anything else.[10]

Transformation takes time, but small first steps can make a difference:

- **Inventory the technology portfolio.** What technologies does your organisation deploy today? Focus on the full range, including solutions procured outside of IT. What projects are in play? What vendors do you depend on? What assets are in use, and where are they located? How does each asset contribute to the business mission, and what is its useful remaining life?

  It's not enough to rationalise your assets. Create a model to describe the categories of assets and investments, and use that to guide priorities. Many organisations use Gartner's Pace-Layered Application Strategy, breaking down their IT landscape into systems of record, systems of differentiation, and systems of innovation. Inventorying and classification is just an enabling step, though. What matters is how you use the visibility to direct focus and capital, balancing across the categories in a way that enables (and amplifies) your business strategy. Budgeting cycles typically run like *Shark Tank* – with funds allocated by the business based on its priorities.

- **Evaluate the portfolio.** Define the risk, value, and strategic importance of each portfolio item. Identify where costs/risks outweigh value. Pinpoint potential trouble spots, such as contracts with unclear service-level agreements or data ownership provisions. Understand each vendor's viability – not just in terms of capital and capacity, but also how well the vendor's roadmap aligns with your company's vision. Look for portfolio clusters: Is the proportion of investments in maintenance and upkeep appropriate when compared with investments in new strategic opportunities? Are there gaps that could hold the organisation back? Strive for balance between extending legacy systems and investments in innovation. Aim for transparency, letting your business counterparts appreciate the exhaustive demand curve as well as the thinking that defines priorities.

- **Double down on winners.** And fold the losers. VCs expect some assets to underperform, and they are willing to cut their losses. CIOs should encourage intelligent risk-taking within the organisation.

Failure due to poor execution is unacceptable, but setbacks resulting from exploring innovative ideas are inevitable for organisations that want to compete in a high-growth environment. Borrow from the VC playbook – intentionally being conservative in initial funding to inspire creativity and creating more natural checkpoints. In either case, be prepared to recommend that the organisation pull the plug when a project isn't delivering.

- **Direct line of sight to revenue.** Come up with an approach to vet technologies and their companies to better identify and evaluate winners and losers. Share your accomplishments and goals in terms that the business understands. Openly discuss the state of the projects and assets in which the business has invested. While few CIOs today have the sole power to initiate or withdraw substantial investments, many should develop the ability to evaluate the portfolio objectively. The first few wins can become the centerpiece of your campaign for change.

Bottom line

At first blush, comparisons between CIOs and venture capitalists may seem like a stretch. For example, CIOs can't shoot from the hip on risky investments. They provide critical services that the business simply can't do without, where the risk of getting it wrong could be catastrophic. At the same time, there's a lot to learn from the portfolio mindset that VCs bring to their work: balancing investments in legacy systems, innovation, and even bleeding-edge technologies; understanding – and communicating – business value; and aligning talent with the business mission. Venture capitalists operate in a high-stakes environment where extraordinary value creation and inevitable losses can coexist inside a portfolio of calculated investments. So do CIOs.

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