CIOs and CFOs Find Opportunities and Challenges in IT/Finance Alignment

Over the past 15 years, chief financial officers and chief information officers have found themselves called upon to play an increasingly pivotal role in the executive suite. At a June 7, 2005, Executive Thought Leadership Summit in New York moderated by Wharton finance professor David Wessels and co-sponsored by Cisco Systems and the Tuck School of Business at Dartmouth, a group of 18 senior financial and IT officers from a cross-section of industries agreed that CIOs and CFOs are spending more time on strategy than they did in the past.

The breadth of concerns IT and finance executives discussed at the summit—which focused on IT/finance alignment—shows just how far the two roles have come from the days when CFOs' concerns didn't extend much farther than the company ledger and IT executives' responsibilities were confined to the care and feeding of mainframes. Historically, CFOs have been engaged in IT management and strategy to some degree, but with today's focus on productivity measures and regulatory issues (driven to a large extent by Sarbanes-Oxley and other regulatory and market forces) CFOs are increasing their interaction with Chief Information Officers and taking on a new level of involvement in IT strategy.

At the same time, the mandates for tighter internal controls are giving many CIOs more recognition for their expertise in understanding how the organization's business processes are knit together. It's a reputation that some information chiefs appear to be leveraging into a new level of influence.

A follow-up survey of Knowledge@Wharton readers reinforced these points and offered additional insight about the ways CFOs align IT with business initiatives: According to the survey, although ROI is no longer the only metric used for IT investments, it still ranks number one.

I. Summit on IT/Finance Alignment: "Turning the Wheel"

The growing participation of CIOs and CFOs in the strategic dialogue may be adding new dimensions to the way decisions are made, if the executives who attended the June 7 summit are representative. When the participants were asked by moderator David Wessels how they rank projects, the techniques reported suggested that contemporary CFOs and CIOs now think far outside their respective silos.

CFOs are stretching in new directions: For instance, a number are becoming adept at thinking about the value of IT in the enterprise in terms of non-traditional returns. Betsy Rafael, vice president, corporate controller and principal accounting officer at Cisco Systems, said that at Cisco executives now try to measure the value of a possible project not just on its financial return but its value in "turning the wheel" of a key performance metric. "ROI is good, but it's not the be-all, end-all," she said.

The financial executives' understanding of IT risk also appears to be growing more nuanced. IT risks, for example, have financial implications, but handicapping those risks used to lie outside the CFO's traditional job description. But now executives report that before patching security vulnerabilities for a firm's web site, for example, decisions about the degree of investment that's needed sometimes require making some real calculations that balance risk against profit.

"We ask the business [unit], what do you really need? How long can you be down before it's going to really start to hurt the business? And they tell you, 'X,' and you say, 'it's going to cost you this much. If you want to cut it in half or double it, it's going to cost you this much less or this much more,'" said John Mahoney, executive vice president and chief administrative officer of Staples.

Likewise, CIOs have taken a wider view when planning new projects. Esat Sezer, corporate vice president and CIO for Whirlpool Corporation, for instance, reported ranking projects based on their impact on customer loyalty—a key factor for Whirlpool, but not necessarily a traditional concern of the CIO.

The degree to which IT investments extend outside the department may be part of the reason for the more ecumenical view CIOs are taking. Several CIOs reported that IT projects are now largely decided in conjunction with a sponsoring business unit, and only rarely by the IT department alone. As Rita J. Heise, Cargill's corporate vice president of information technology and CIO, noted, "In our environment, it's not about the technology…it's about, how are we going to get this done?"

Glen Salow, until recently the CIO of American Express and now executive vice president of technologies and operations for Ameriprise Financial, stressed the value of examining a business process before automating it. "You can have all the right IT…but if all you're doing is just taking really good technology and automating a really bad process or a really bad model, you're just going to do it faster," he said.

The increasing amount of value in labor rather than hardware and software is also forcing CIOs to develop some new capabilities as well in making strategic decisions about where work is done. For some CIOs, a closer look at labor costs has led them to rely heavily on outside contractors. Salow reported that he has now negotiated outsourcing agreements for programming and maintenance that allow him to turn much of his department's labor into a variable cost.

For others, the same considerations have led them to buck the trend toward outsourcing and hire staff instead. At Whirlpool, for example, Sezer has most of its development work done in house, by internal experts who understand the business. "I can't find consultants good enough to both understand my processes and the challenges I'm trying to address…."

Some financial officers appreciate the growing business sophistication of CIOs. "I would say the best IT people I've worked with are the ones who actually understand the business side as well as understand the technology side …," said Cliff Verron, managing director and deputy CFO of Citigroup Corporate and Investment Bank. "An IT guy who understands the business actually prevents people from wasting money by programming a bad process."

A Wider View of Metrics

The range of metrics the executives now use to monitor performance is another indication of just how ecumenical the CIO and CFO view of the company has grown. Executives at the roundtable discussed the metrics their firms follow today, a list that extends far beyond traditional financial ratios or help-desk response logs.

Most executives reported that their firms use a mix of financial, customer satisfaction, and employee satisfaction metrics to try to stay ahead of the curve against relentless competition. At Cargill, for instance, Craig Ekegren, vice president and controller for risk management and financial solutions, said that the firm measures its employees' level of engagement—what do they tell their friends about what it's like to work for Cargill? How responsive do they feel the company is to their needs? "Measuring the level of engagement of our employees is a pretty important part of measuring how our business is doing," he explained.

Yet others indicated that finding what some called "a single vision of the truth" can be very hard to achieve, but crucial. "You know the saying, 'No one ever lies; they just don't volunteer all the information.' And when you don't have it all available, you can make it look however you want," warned Brad Boston, senior vice president and CIO of Cisco.

For a metric to be useful, he noted, the data collected must be of the same vintage across the company and measured in the same way. Achieving such consistency might sound easy enough, but it can be a daunting challenge: Boston says that it took him 18 months just to gather consistent data on four financial metrics that spanned all of Cisco's divisions.

Metrics also tend to decay over time, as people find ways to game the system, participants said. M. Eric Johnson, professor of operations management and director of Center for Digital Strategies at Tuck who participated in the roundtable, recalled one consulting engagement with a southern grocery store chain in which he was part of a team investigating why one distributor had so many fewer stock-outs than the others.

When the investigators visited the distributor, Johnson recalled, a manager told his group how he prevented the stock-outs: "Well, it's easy. Here's what happens. If I run out of frozen peas, I just spread the word. I call up the stores and say, 'I'm out of frozen peas. No one will order any frozen peas.' Of course, if there's no order for frozen peas, there's no order fulfillment panic," explained Johnson—but not much has been accomplished.

Several executives warned that it's easy to harm a company with the wrong metrics even if no one is deliberately cutting corners. In addition, Staples' Mahoney warned against the trap of maintaining metrics for their own sake, without reference to the vision of the company. "You have to remember that metrics are a conversation-starter. Metrics aren't an end in themselves."

New Pressures and Opportunities

Some executives noted that the increasing attention on regulatory issues (such as Sarbanes-Oxley)—although a driving force in the expanding influence of CFOs across departments—might also distract CFOs from their emerging focus on strategic concerns.

Rafael of Cisco said she believes that Sarbanes-Oxley (SOX) has pushed the emphasis of the CFO's job away from such strategic-level concerns as evaluating and facilitating business partnerships and back toward such traditional concerns as corporate control. At Staples, for example, Mahoney estimated that he now spends 25% strategic issues and 35% on controls.

Some of the CIOs present, however, noted that their unique process-oriented view of business is giving them greater recognition now, because that's the perspective needed to comply with SOX. "In our organization, technology was the part [of the company]…that understood business processes," explained Salow.

As a result, some CIOs are not only gaining recognition as the go-to executives for SOX, but for change-management in general. Robert Sell, vice president and CIO for Eaton Corp., said that his IT department has become Eaton's internal consultants on the best ways to streamline a process.

Perhaps because of their different perspectives on SOX, some of the executives seemed divided along role-lines between those who saw Sarbanes-Oxley as an opportunity to improve technology processes, and those who feared that a law intended to prevent fraud may in fact be creating risk-averse corporate cultures that will find it hard for U.S.-based firms to compete globally.

Cisco's Rafael argued that the controls mandated by SOX go far beyond whatever additional regulation was required. "We needed a little bit of insecticide and we got a nuclear bomb," she said.

But Salow argued that the SOX regulations are no different than when OSHA, the Occupational Safety and Health Administration, came into being many years ago. "At that time, businesses said, 'Oh my gosh, that's going to kill us, having to have safe factories.' But we figured out how to deal with that -- hopefully." The key to successful adoption, Salow continued, is rethinking the underlying business processes so the kind of controls SOX requires can be built into the firm's technology. "The reality is these things are a pain in the neck if you address them on the preexisting model. You've got to move [the controls] down into the fundamental capabilities of your organization so they are handled as a matter of course," he said.

One factor slowing down compliance is a lack of ready-made solutions, according to Salow, since each company is coming up with its own. He said there is an opportunity for a vendor to help out in providing standard compliance solutions for SOX. "None of us has a competitive advantage on how we deal with e-mail retention," he said.

While some executives bemoaned the new level of bureaucracy brought on by SOX regulations, Paul Loftus, vice president for business process and integration architecture at IBM, argued that the real problem with SOX is not paperwork: "I see it as massive risk aversion," he said. "People will not take the risk."

Getting Things Done

But strategy and compliance are only part of the game. In the end, it's execution that may matter most. Here too, CIOs and CFOs apparently have a role to play.

Heise of Cargill said that when it comes to IT projects, she finds that it's important for the business unit manager to keep pushing even after they are under development. "Even if you've got a good team…you can't throw it over the wall to them," she said. "You've got to be there. You've got to be involved."

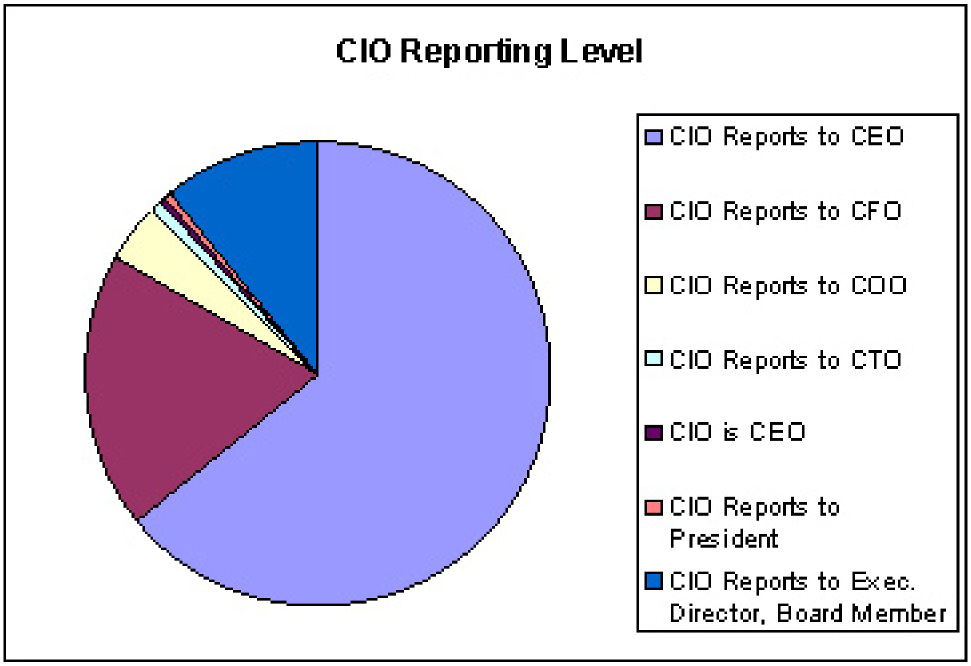
Individuals on the teams need to be personally engaged as well, according to Verron of Citigroup. "You've got to pull them off line," he said. "You've got to let them know, 'This is your project; you've got to execute.'"

II. Follow-up Survey on IT/Finance Alignment: Is ROI Still King?

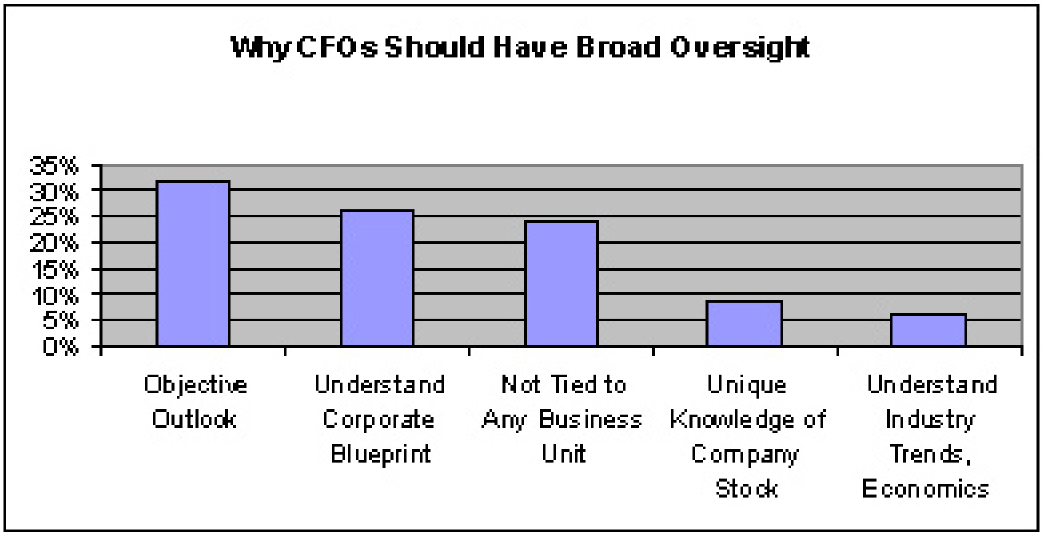
Following the June summit, Cisco and Knowledge@Wharton teamed up to survey Knowledge@Wharton readers on the subject of IT/finance alignment. The survey findings reinforce some of the executives' points from the summit while painting a clearer picture of the ways in which the CFO's role has expanded. In the case of IT strategy, CFOs seem to be taking the lead in defining key metrics for IT investment, with ROI at the top of the list.

In order to determine the relationship between Finance and IT in companies, the survey asked respondents to identify the reporting level of their company's CIO. Although the majority noted that their CIOs report directly to the CEO, approximately

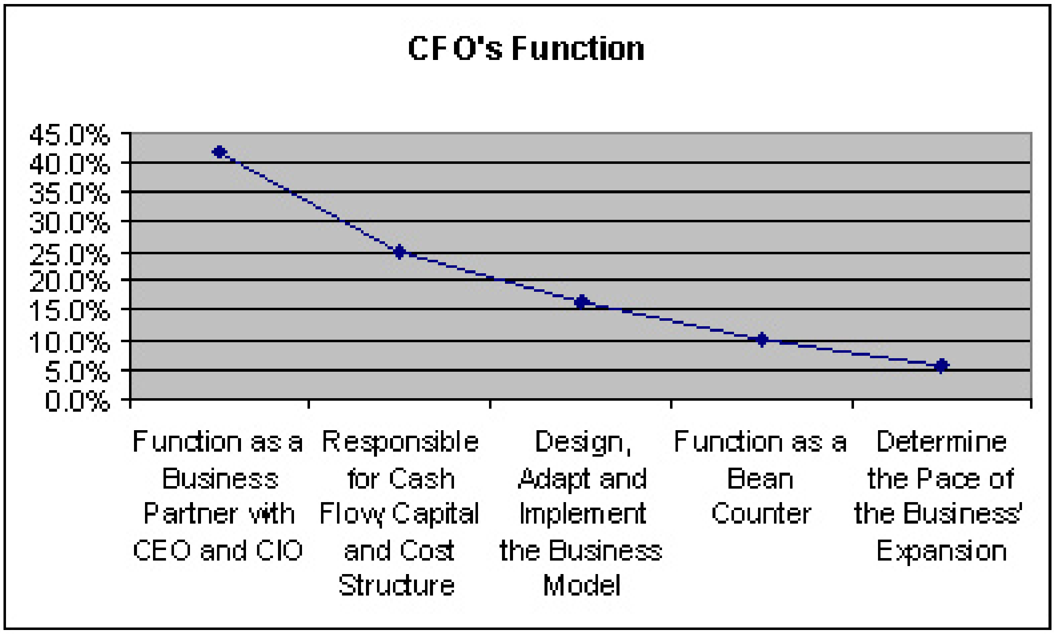
18% noted that their CIO reported directly to the CFO.



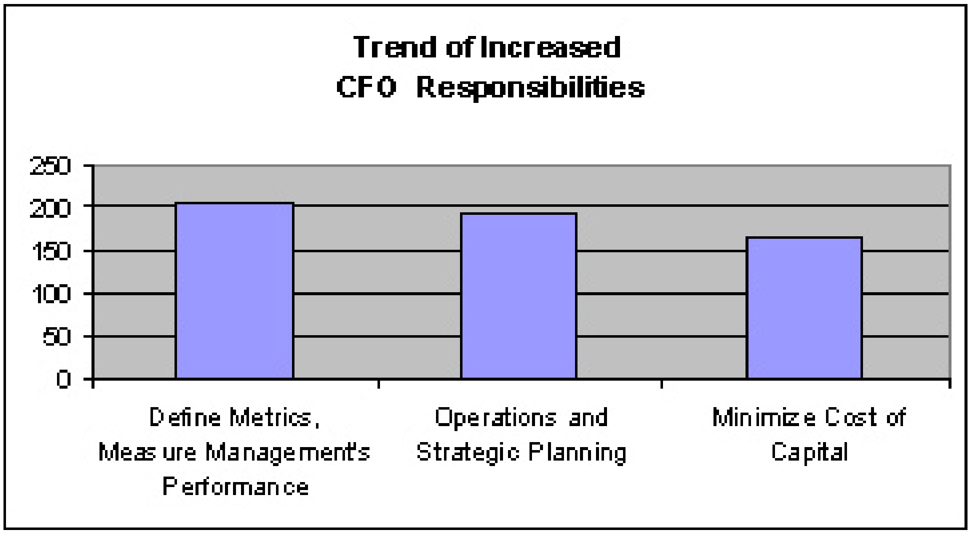
The CFO's expanded decision-making ability with regard to IT and other functions appears to be based on a perception that CFOs are not influenced by ties to any particular department, and the belief that CFOs have unique insight into the needs of the enterprise:



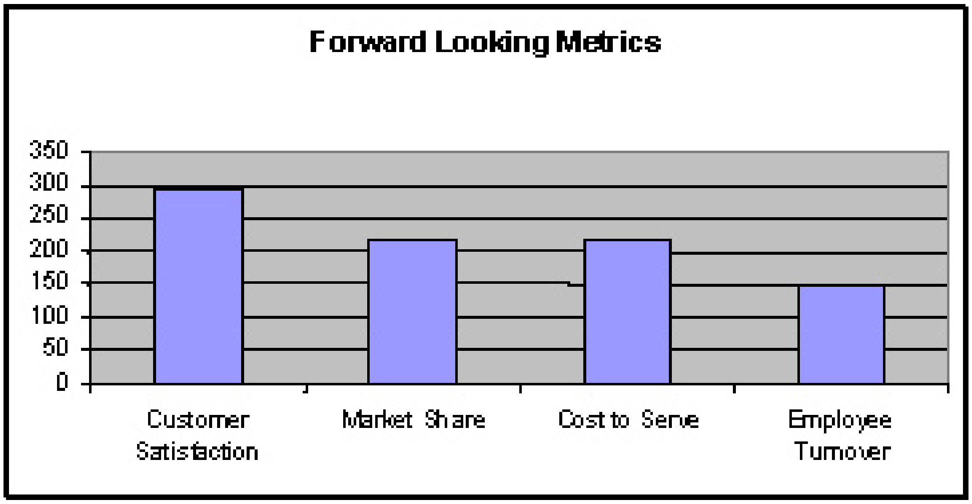
Survey respondents indicated that, as CFOs continue to expand their influence—particularly with regard to IT—they are required to be less of a 'bean counter' and more of a general partner in the business.



The respondents also pointed out that CFO responsibilities are growing in specific areas, with more than half noting CFO involvement in defining management performance metrics:



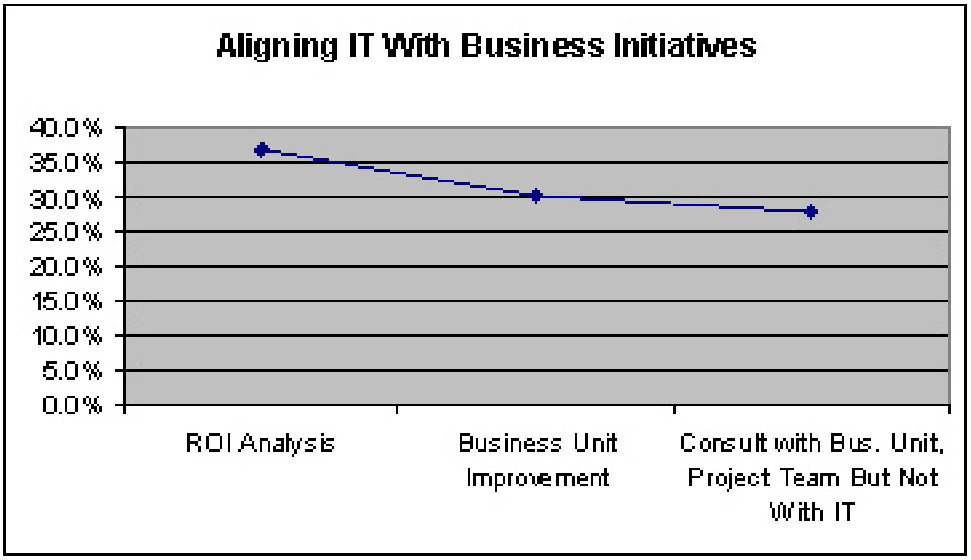
When asked to prioritize metrics for new initiatives, respondents indicated that customer satisfaction is most critical:



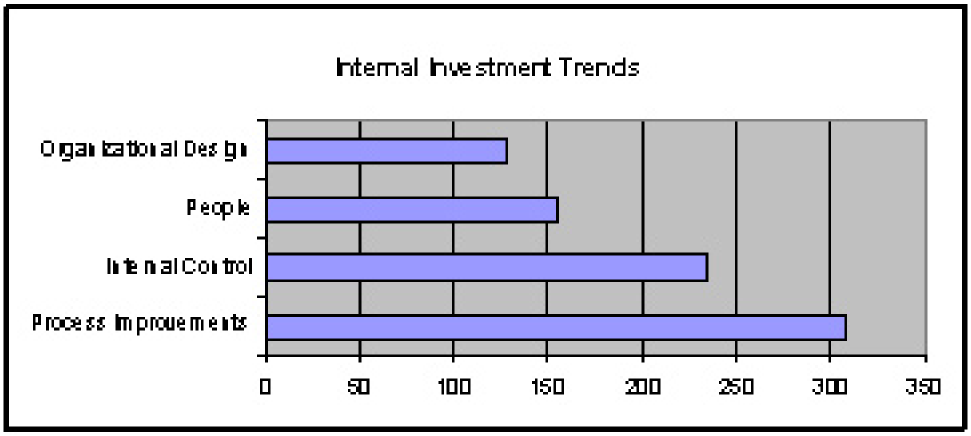
Survey respondents were also asked to identify the issues that drive their corporate initiatives. Business needs ranked highest (57%), whereas investor expectations ranked lowest (5%). In keeping with the increasingly strategic role played by CFOs as indicated by both the survey and summit participants, this may indicate a greater willingness on the part of executives to think long term instead of on a quarter-to-quarter basis.

The Bottom Line?

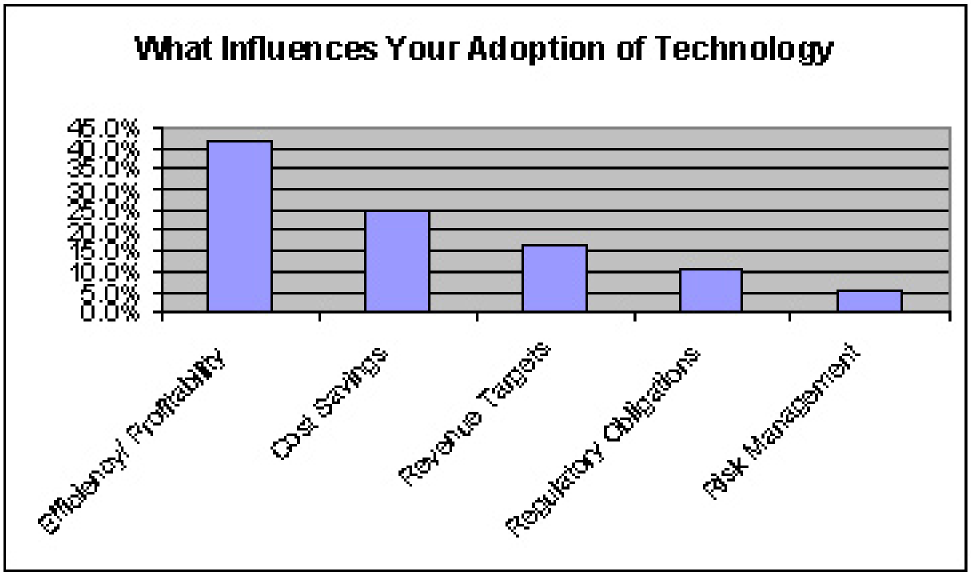
The Cisco/Wharton survey also asked specifically how CFOs align IT and business initiatives. To win the support of CEOs and the heads of business units, CFOs still appear to link operating-profit targets to ROI analysis in many cases (37%). Interestingly, nearly a third indicated that they bypass IT altogether and instead consult with the business units and related project teams.



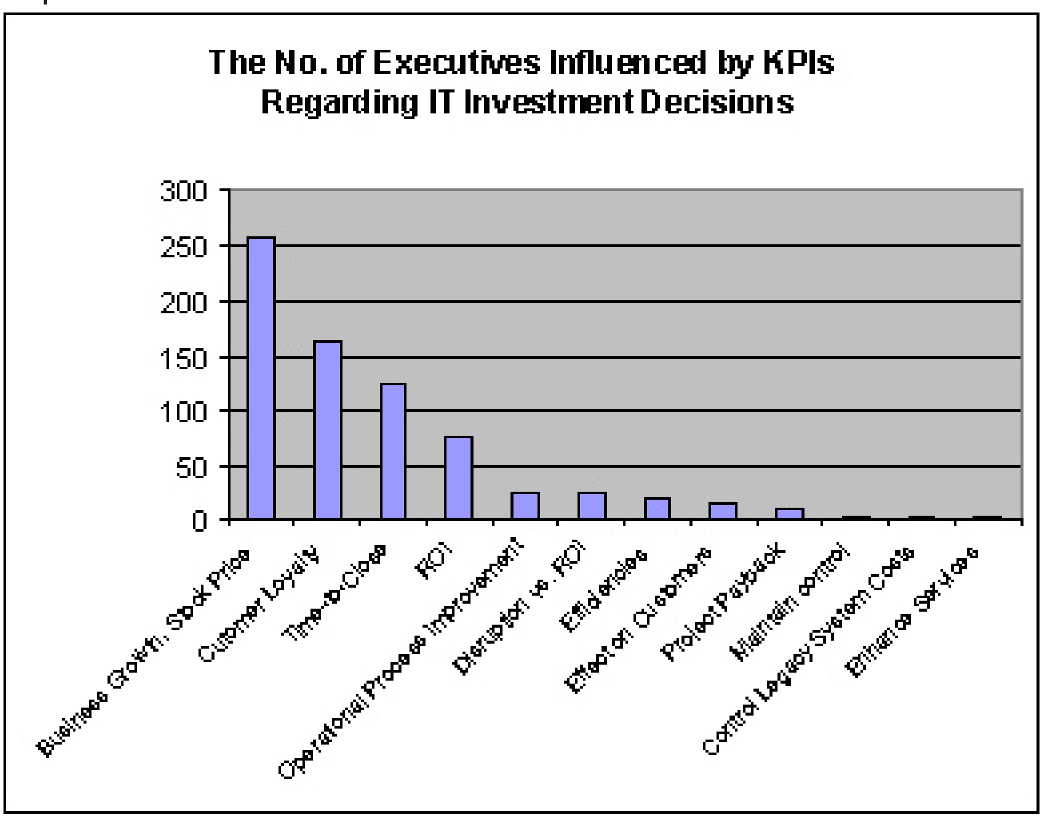
The direction of CFO investment trends can offer clues about the areas that get the most attention. At a time when Sarbanes-Oxley and other regulatory issues command an outsized percentage of executives' time and budgets—as the summit participants noted—it's not surprising to see that process improvements and internal control take the lion's share of planned investments:



Still, when it comes to adopting technology, regulatory obligations take a back seat to such drivers as efficiency/profitability and cost savings:

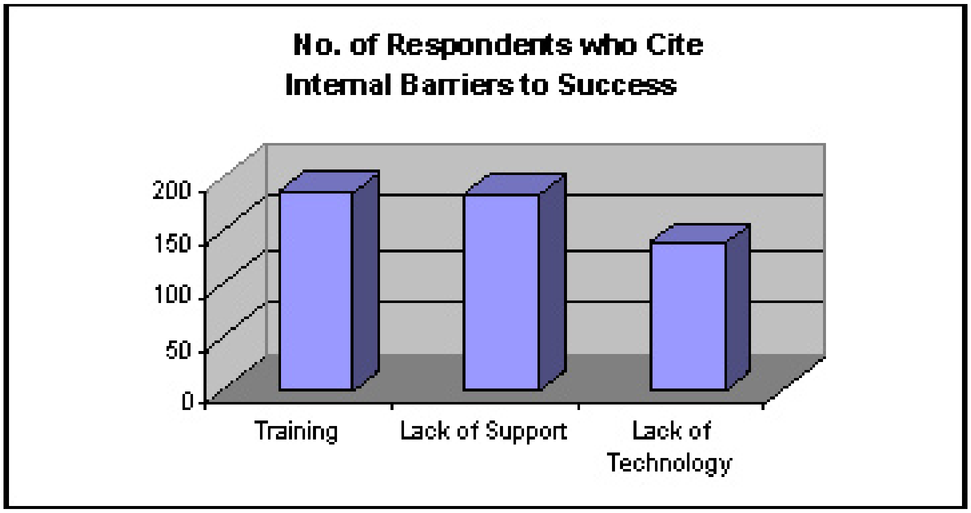


There is some variance in the way that key performance indicators impact technology investment decisions, although the majority of respondents acknowledged the importance of business growth and stock price. Longer-term thinking was again indicated here: "Time-to-close" was a major consideration for less than half of the respondents.



Bringing Others Up to Speed

Even as CFOs and CIOs reshape their relationship, they must cope with organizational and cultural challenges within the enterprise. Asked about the internal threats to balancing short-term business objectives with long-term strategy, the respondents pointed equally to a lack of proper training among employees and a shortage of support from top management.



The survey also indicates that nearly a third of the respondents' companies are not matching performance and value delivery with appropriate incentives and rewards. This could make it more difficult to obtain top performance from employees, hindering productivity and other efforts. In the end—as the CFOs and CIOs at the Cisco summit noted—strategy must turn to execution for IT initiatives to succeed.