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EXECUTIVE PROGRAMME

IT Leadership in Turbulent Financial Times

F Warren McFarlan
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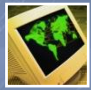

Environment – deep gloom – May 2009

- Stock markets down 50% from peak – housing crisis (prices down 26%)
- USA unemployment 4.5-8.5% – 10% (before year end)
- Effective nationalisation portions of UK and USA financial services industry
- Deep global recession
- Respite in oil price increases (temporary) – demand down
- 1907 and 1931 – best benchmarks for today
- Years of excess to undo (no short-term fixes)
- Solution likely to trigger long-term inflation and significant weakening of the dollar
- Record low USA consumer confidence

Drivers of problems

- Short-term incentive compensation system – no claw back
- Loose monetary policy – housing bubble (house as a piggybank)
- Weakened mortgage under-writing standards – commissions plus deregulation
- Very complex financial products (mortgage backed securities) – no-one understood real risks
- Oil bubble $\longrightarrow$ car sales shock (not over)
- Hollowed out industrial skills – example nuclear reactors
- ‘Fear itself’

Pluses

- New USA administration – confidence
- An energised 20-29 year old cohort
- Economists have much deeper financial insight than in 1931
- Safety valves in place – that is, in USA, Social Security, FDIC, Medicare, unemployment insurance, etc
- Technology continues to evolve – IT, biotech, etc, opportunities are there
- Massive economic stimuli being executed
- Strong higher education skills

The three themes for the next century:

- Leadership more important than ever
- Globalization (opposite of 1930s) – second great wave (we could kill it)
- Future and reshaping of managerial capitalism (more planned economy today USA – Social Security, Medicare, FDIC), varies globally; a complex spectrum of alternative forms of capitalism

CIO leader types and skills

- **CIO leader types:**
  - Entrepreneurial – fast growing – The **Enabler**
  - * Steady state/declining – The **Consolidator**
  - Transformative – The **Change Agent**
- **Skills:**
  - Learner, listener, mentor, motivator

CIO challenge 2009

- Tight **cost** control – (fighting trim – house in order)
- Customers' viability – watch your vendors, bankruptcies. Credit worthiness really critical
- Globalization ⟶ new tax regulations, etc, coming:
  - – Need escape valves (a portfolio)
  - – Satyam fiasco
- Alignment portfolio to immediate value creation activities:
  - – Quality, service, new features
  - – Cost always important – even more so in 2009

CIO challenge 2009 (continued)

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- Operations must be reliable, secure, cost efficient – don't get blown out of box. Sine qua non – Beyondcore.com
- Reach for unusual talent available in market
- Renegotiate contracts (can be win-win)
- Protect core technologies and staff – ruthless on the rest

Strategic impact – applications development portfolio

STRATEGIC IMPACT – APPLICATIONS DEVELOPMENT PORTFOLIO

STRATEGIC DEPENDENCE EXISTING OPERATING SYSTEMS

High

Factory	2009 Strategic
Support	Turnaround

Low

High

IT application opportunities

- Company boundary redefinition, insourcing, outsourcing, offshoring (Cost/Asset – 2009) – Liz Claiborne/Li & Fung
- Infrastructure transformation – time, quality, cost, integration, decision rights relocation (cost) – BYD
- Service transformation (a global service economy) Renttherunway.com
- Product transformation (value proposition discontinuously altered) Bostonglobe.com, Local-Motors.com

Corporate IT per employee in the US, 1987-2004

US Corporate IT per full-time employee (FTE), 1987-2004

Each year's value is calculated by taking total IT stock (at historical cost) and dividing by total FTEs

(Data source: Bureau of Economic Analysis (BEA) Tangible Wealth Survey)
(Adapted from a paper by Brynjolfsson, McAfee et al)

Breakdown of US corporate tangible wealth 1987-2004

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Equipment, Plant and IT as percentages of total US Corporate Tangible Wealth, 1987-2004

The three values for each year sum to 100%

(Data source: Bureau of Economic Analysis (BEA) Tangible Wealth Survey)
(Adapted from a paper by Brynjolfsson, McAfee et al)

GRID today

- Little movement on vertical axis:
  - Cost key, vendor stability
- Horizontal axis (drifting left):
  - Cost and asset reduction are dominant value added (short-term focus)
  - Infrastructure stability/security also key
  - Legal-compliance-must be done
  - Reliability/quality $\longrightarrow$ cost
  - Global outsourcing
  - Acquisition consolidation
- Other forms value less prevalent right now, but pressures of digital disruption are intense

Summary

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- We live in an information-dominated economy (a strategic pause)
- More factory than strategic for most firms in 2009
- Applications development portfolio less exciting than five years ago (temporary)
- Operational issues can sink you
- Al Chandler's, *A Nation Transformed by Information: How Information Has Shaped the United States from Colonial Times to Present* (Oxford University Press, 2000)