

LEADINGedgeforum

EXECUTIVE PROGRAMME

Bridging the Gap Between the CIO and the Board

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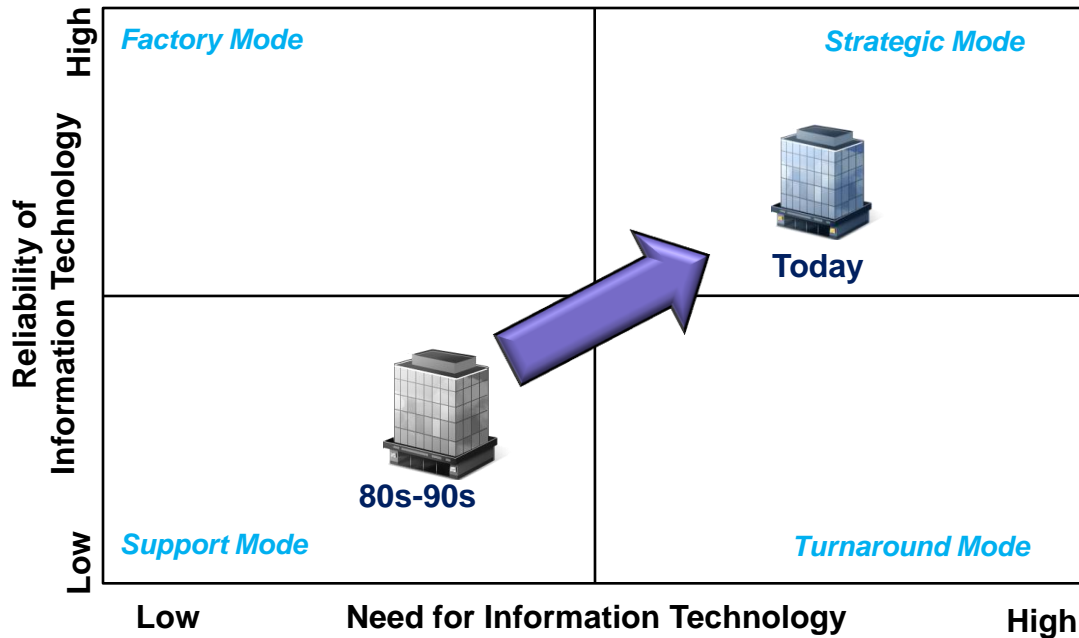
- Nolan/McFarlan research on Boards and IT, and LEF work on CIO career paths and role types:
 - Led to the question of what is the current state of the board/CIO relationship?
- 15 years' experience as CIO of F500 and supporting CIOs and Boards on IT strategy development:
 - Board Member of 2 public companies and 3 start-ups
 - Berkeley business school faculty
- Over 40 interviews (North America, Europe):
 - Directors, CIOs, Domain Experts (search firms)
 - Secondary research (literature review)
 - Board member analysis of top 15 companies by revenue across 15 industries

- ▶ Boeing
- ▶ Microsoft
- ▶ Fedex
- ▶ Aviva
- ▶ Heinz
- ▶ Allstate
- ▶ Birdseye
- ▶ Commonwealth UK
- ▶ Disney
- ▶ FedEx
- ▶ DIUS
- ▶ Flextronix
- ▶ GAP
- ▶ GE Money
- ▶ Genpach
- ▶ Heidrick & Struggles
- ▶ HSBC
- ▶ ISS
- ▶ ITV
- ▶ Jo-Ann Stores
- ▶ Kimberly Clark
- ▶ KPMG
- ▶ Land Securities
- ▶ Motorola
- ▶ Nynix
- ▶ Oracle
- ▶ Pepsi
- ▶ PG&E
- ▶ Royal Mail
- ▶ Spencer Stuart
- ▶ SPSS
- ▶ Sun
- ▶ Unilever
- ▶ United Airlines
- ▶ Unum
- ▶ Whirlpool

- With few exceptions, boards are indifferent to IT
- Our research overwhelmingly points to a continued lack of IT insight from the Board:
 - Vast majority of companies do not have IT expertise on their board
 - Boards are not asking critical IT related questions except around major events/trends (Internet hype, Y2K)
 - SOX and current recession further widening the gap between Boards/CIOs:
 - Marginalising IT and the CIO
 - Minor interest focused on SOX, security, business continuity

“Boards have too many other issues to explore than the value of IT, especially given the economic meltdown. IT is not on the radar.”
(Director, Global 1000 Manufacturer)

IT Strategic Impact Grid*

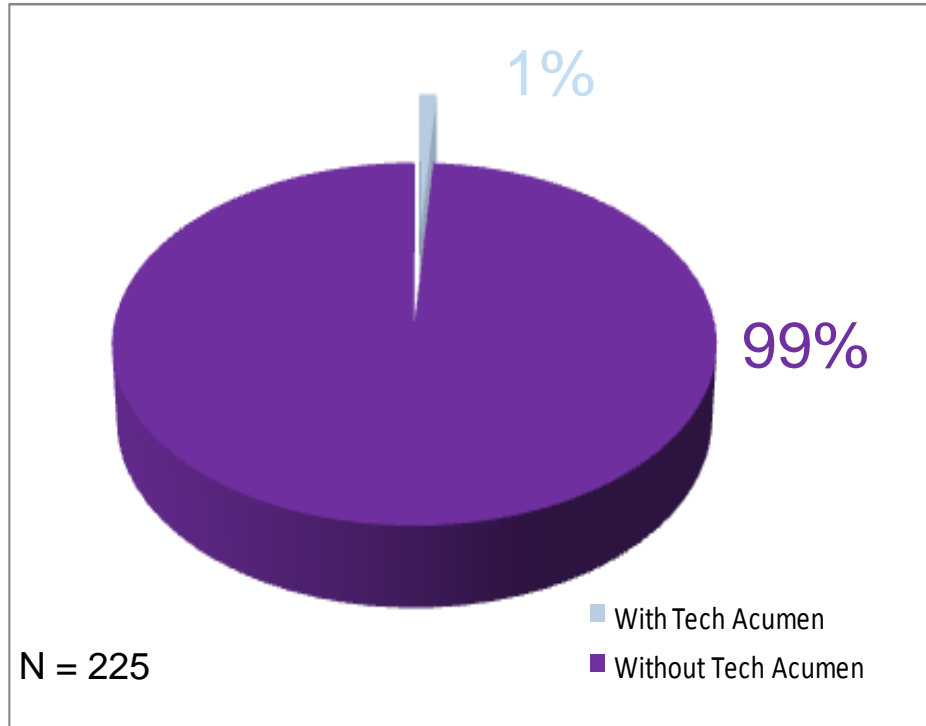


- Most industries in the 80s and 90s were utilising IT in a ‘support mode’ with no major sales or customer impacts from an outage for minutes or hours
- In the last decade, a number of industries have been transformed through advances in technology, particularly the Internet
- These changes have not been reflected by the Boards that serve these companies:
 - Little technology acumen
 - Few governance changes
 - Relationships with CIO are an exception
- If unaddressed will create problems in many firms

* Information Technology and the Board of Directors, HBR, Nolan & McFarlan, October 2005

Board members with IT Expertise/Experience

(Top 15 Companies by Revenue Across 15 Industries)



- Hi-tech obviously an exception given the nature of the business
- We are seeing an increase in CIOs joining boards with:
 - Small cap companies
 - Start-ups
 - Non-profits
- The few boards that do discuss IT are in best practice companies where IT is core:
 - For example, select telcos, Walmart, etc
 - Active owners (select PE firms)
 - Exceptions often seek outsiders to provide perspective

Board Barriers

- Lack of a burning platform
- Little cognitive diversity
- Lack of an effective language
- Aversion to IT given perceived complexity
- Burned in the past
- Lack of time/capacity
- Narrow risk management focus

CIO Barriers

- SOX put IT in internal controls
- Difficulty communicating in a board-relevant language
- Many CIOs don't understand what boards do
- Lack of IT champion on board
- How CEO manages board/IT
- Many CIOs fear the board

“Boards listening to IT is akin to dogs watching TV”
– Director, Global Financial Services Firm

Board/IT Issues

Strategic Alignment

- Directions and intentions
- Aligned with Business Principles
- Disruptive threats/opportunities

Compliance

- Business continuity
- Compliance, security
- Information transparency

Succession Planning/Talent Development

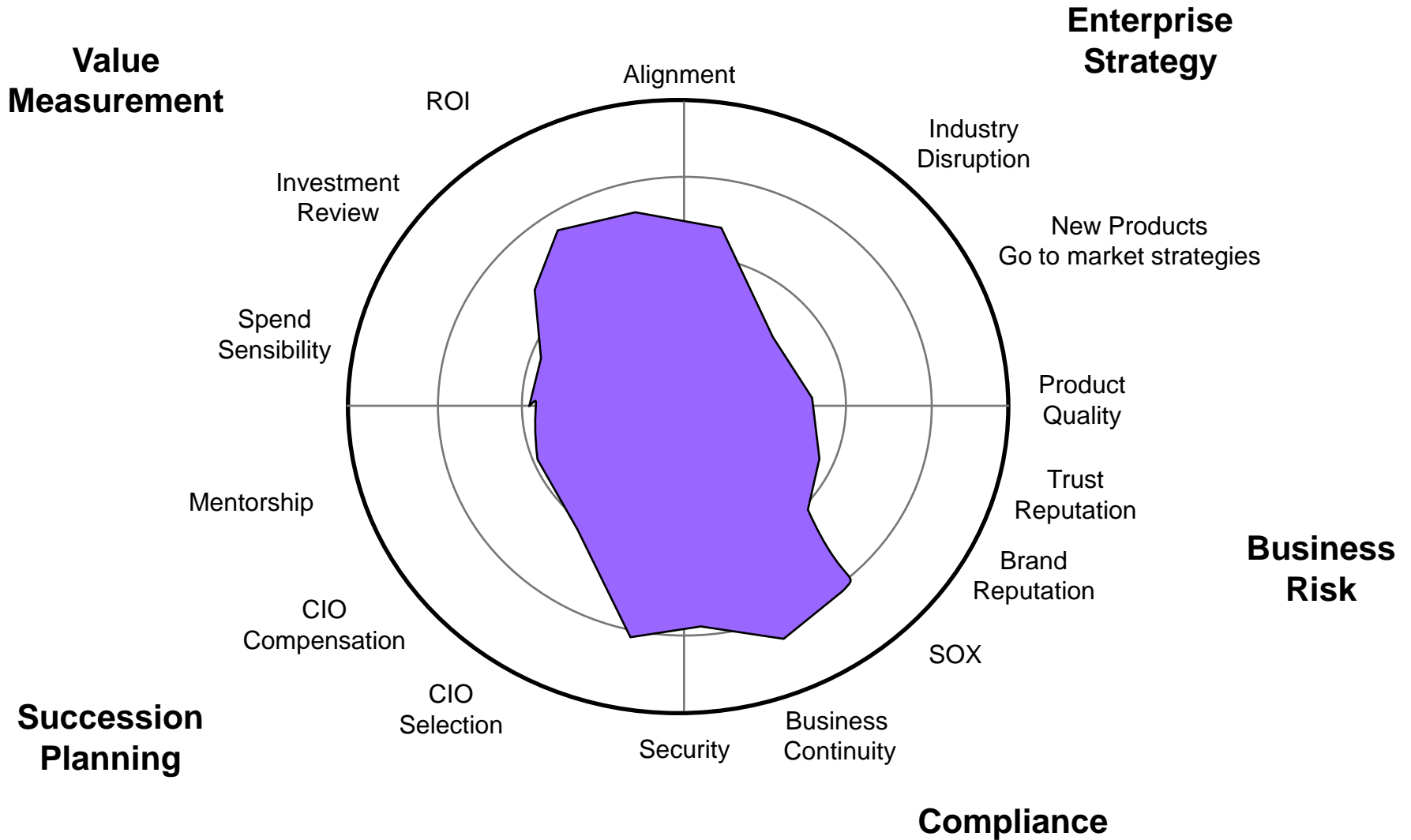
- CIO/IT leadership selection
- Development/Training
- Mentorship

Value Measurement

- Value realised (planned & actual)
- Spend sensibility/rationalisation
- Key investment review

Business Risk

- Trust/brand reputation
- Product quality/safety
- Business complexity



1

Strategic Alignment

- ▶ Seek and understand the board agenda and links to IT
- ▶ Develop the case for more extensive IT/board interaction
- ▶ Sustain a board-level business lexicon for you and your team

2

Value Measurement

- ▶ Provide an annual IT business impact audit/'IT annual report'
- ▶ Present a simple investment portfolio (compliance, KTLO, improve, grow, innovate)
- ▶ Drive business leadership accountability for IT results

3

Business Risk

- ▶ Learn enterprise risk management – make friends with internal audit
- ▶ Get input from, and offer input to, the board
- ▶ Identify where IT can influence (product, customer, information, complexity etc)

4

Compliance

- ▶ Keep delivering (common language, standard processes)
- ▶ Stay abreast of relevant and upcoming requirements

5

Succession Planning

- ▶ Create opportunities for interaction with the board and your team
- ▶ Meet 1on1 with the board during orientation
- ▶ Get personal board-level experience