

CIO ROUNDTABLE:

Should CIOs make a break with the past?

A recent executive survey from Forrester Research shows that many CIOs have made little progress among fellow executives in being perceived as drivers of the business, in part because their agenda is still linked to the CFO. This connection colors everything they do with a cost-cutting perception. Is it time for the CIO to cut this and other cords with the past?

In addition to the Forrester report that planted the seed for this discussion, recently a retired French CFO said in an interview that he finds the language used by CIOs to be too technical and that their understanding of risk management isn't as mature as the CFO's understanding. He said CIOs could use help calculating total cost of ownership, and that CFOs are very tentative and afraid of schedule overruns.

On the other side of this argument, a recent report from IBM talks about the fact that CFOs who've traditionally managed and orchestrated just the flow of capital are now expanding their scope and collaborating with CIOs in new ways to become more agile, anticipate future outcomes and drive what they call a discipline of performance.

Panelist Profiles



PETER BUONORA
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BJ's Wholesale Club



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THE ENTERPRISERS PROJECT (TEP): To kick off with all of you, do you know of situations where the CIO agenda is seen as a direct outgrowth of the CFOs? And if that has been a problem, how has it resolved itself?



Cliff Tamplin

CLIFF TAMPLIN: I find the comment amusing that the CIO talks too technically, on the grounds that if you've ever sat in a meeting with a bunch of finance guys, they've got techno-babbles every bit as confusing as IT's. There's just an assumption they make that everybody should understand finance terms, whereas the other assumption is that a CIO has to translate everything into non-technical terms for everybody else. And I don't know how we address that one. I think that's a perennial problem.

AARON STIBEL: I think it's probably very industry specific. If you're a technology product company like we are here, I think having the CTO report into the CFO sends a bad message. If you were to go to high-tech and product-focused companies, I bet you wouldn't find too many CTOs that report to the CFO. It just won't happen. On the other hand, if you go to large companies that are capital-heavy and the product is not technical, it makes more sense for the CIO or CTO to report into the CFO.

The IT cost center stigma: Public v. private or industry-specific?

TEP: What do you see as the downside or liability of being tied to the CFO?

AARON STIBEL: I wouldn't like it, and I think it's a little bit more difficult running your team. We enjoy it when our software engineers come up with ideas that could potentially be put into action. But if you're seen as a cost center, which is kind of the way I translate reporting into a CFO, then you're never going to be seen as an innovation center. Not really, right?

CLIFF TAMPLIN: I certainly support everything you just said, Aaron. The one other thing I would tend to throw into the mix potentially is that the CFO - or the finance department, in general - tends to be thinking about the numbers for the next quarter for the Street, whereas with product development, whatever the product of the company is, one has to think longer-term than that, and IT projects generally tend to run longer than that. So I think there's a conflict that comes from that.

AARON STIBEL: That's a really good point. We've discussed being not on the same page when it comes to goals and what you're doing each day, but you bring up a point of how you could be not on the same page on your calendar, too. That's probably truer in a public company than a private environment as well.

CLIFF TAMPLIN: Exactly.

AARON STIBEL: I understand organizations where the CTO reports to the CFO. I'm just being prejudiced because I'm looking at myself. I am product-focused and customer-focused. We don't have a ton of CapEx here, but that's just the way we like to op-

erate and it just goes with our goals. I'm not blind to the other side, though. There are organizations where cutting money here or spending money there in technology connects to the role of the CFO and can be aligned with the company's higher goals.

PETER BUONORA: I think you mentioned a good point about the industry and also where the IT industry is headed and how that's tied to what's happening economically. Retail has always been very cost-conscious, but after 2008 I saw a lot more of the CIO reporting directly to CFO, and a lot more focus on cost optimization, cost-cutting in IT, and so on. And then as we've moved forward now to where retail is much

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more focused on data, customer innovation, customer experience, all those kinds of things that require IT to focus more outward than inward. I've seen a shift in terms of reporting, with more CIOs reporting directly to CEOs, but I also have seen a more tech-savvy CFO mindset.

AARON STIBEL: I know on a daily basis, when I look at who I work with most often, it is, hands down, the CMO, not the CFO. I probably spend 90 percent of my time with the CMO working on product and other things.

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IT's acceleration role: Applications or understanding?

TEP: One of the findings of this new Forrester report is the perception that IT doesn't accelerate success in customer service, product development, or sales. Executives in these areas - 79 percent, 78 percent, and 74 percent, respectively - said that IT did not accelerate their success. Do you think that's an outgrowth of IT being linked too much as a cost center? If you were getting poor numbers like these back yourselves, theoretically, how would you move to build confidence with these leaders?



Aaron Stibel

AARON STIBEL: To be honest, I'd fire myself if I got numbers back like that! I can't imagine product development ever saying something like that to me. I understand more on the sales side, because maybe there you're just implementing systems to keep the lights on and enabling them, but we spend every waking hour trying to figure out how to get sales better leads out of a model. So I hope that this survey was swayed by the industries that they were queried, because when I saw those numbers I was shocked.

CLIFF TAMPLIN: I certainly agree with Aaron that it probably varies dramatically by the industry you're in. Actually, though, it's probably more widespread than any of us would like to admit, which goes back to the topic that there's a massive lack of understanding of what it takes to develop applications and systems. A lot of the time, we don't do a good job of explaining the complexity of what it is we do. That leads to that expectations gap. If I can go to the app store and get something now, why are you telling me it's going to take six months or a year to develop whatever it is that we need?

Sometimes things take a long time to do. And as we mentioned earlier on, that crunch that you get on testing is fatal. We see it every time. It really does wreck our reputation when something goes out that isn't properly tested. So then you get slammed both ways. You know, "You took longer than we wanted you to take and you haven't delivered a product to the quality that we wanted."

PETER BUONORA: I agree. There is a need to shift the perception of IT in our industry so that it moves more toward innovating and helping accomplish business goals. This can only be done through building strong relationships with different business areas and delivering on our expected results. It is interesting because at the end of the day, outside of IT most don't care about all of the complex pieces that need to come together. Similar to when you get into your car in the morning. There are hundreds if not thousands of parts and systems that allow the car to get you from point A to point B, but none of that matters if it doesn't get you to where you want to go.

Evolving to a new kind of cost consciousness

TEP: Have there been moments you remember when IT broke free of that perception or evolved right in front of you? Or have you had the luxury of defining IT differently from the get-go?

AARON STIBEL: I've actually had both, because I'm privileged to be part of this organization now where we do define things, but I also spent 14 years in the government space, which was wildly the other way. We operated our own co-los in our own build-



... there's a massive lack of understanding of what it takes to develop applications and systems.



ings. I can't even fathom doing that again. Everything in government is a cost center. And it gets even crazier than that. You could accurately say, "Hey, this project will make you ten dollars for every one dollar you spend," but if you couldn't afford the dollar in the budget, you couldn't do it. Your budgets were literally set. Your tax dollars at work.

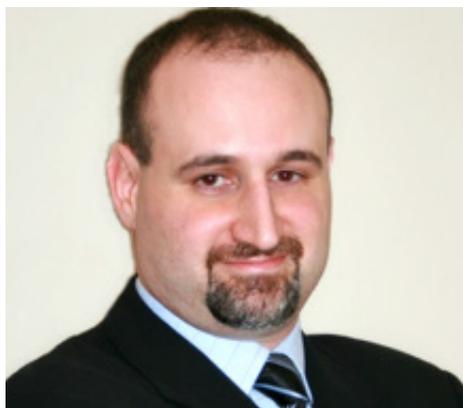
PETER BUONORA: We can definitely be more proactive now. Even in our industry, though we're low margin, there are too many competing forces at play to give us the luxury to just follow a blueprint that's already been drawn. You don't always know what the ROI is up front because you don't necessarily know what the adoption will be until after a few iterations. All that said,

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we're not free of the cost-conscious environment. It's still at play, it's just figuring out better ways to do more with less and try things out at a much smaller scale before rolling it out.

CLIFF TAMPLIN: My question for you on that, though, when you're putting a project together and you're going and asking for funding to set something up, you presumably have to do a cost model – just your range estimates for the returns are going to be probably greater than those in where there's a more defined outcome.

PETER BUONORA: Yes, that's the typical approach to projects. We always do the ROI analysis, but in some of these areas where



Peter Buonora

there's a great amount of uncertainty, it's difficult to estimate and we don't necessarily have all the answers around what the uptake will be. So if tomorrow I look into putting beacons everywhere and figuring out how it's going to tie in our member's experience, allowing us to present different promotions or different enhancements based on the product you're standing in front of, how do you estimate the ROI around that? These things get more difficult to measure when you are not in an online environment, where you can see every single click and every single thing that a customer is interested in, versus knowing they are standing

in front of something in a store and how to measure that interaction.

TEP: Something you said a minute ago that's interesting is this sense, even in 2015, that we can continue to do more with less, as if IT is like RAM and it should continuously go down in price and up in capability and that's just the natural order. Whereas if you're trying to take advantage of new technology, that costs money.

PETER BUONORA: Definitely. Some of it you can mitigate, but eventually there is a cost associated with doing more innovative things. My point is that it's not like launching a Space Shuttle, where you know all the coordinates and you have the ability figure everything out ahead of time and have that perfect trajectory. There's no way to have a perfect trajectory because it's still so undefined in so many areas, especially the crossroads where digital channels meet brick and mortar retail. It's a difficult conversation, and I think that's where Eric Ries and the Lean Startup movement is pretty interesting, because the whole notion of innovation accounting is something that people haven't really brought forward in the enterprise environment as much, but it provides proof and "validated learning" to move forward, where a typical ROI calculation is so uncertain.

TEP: To that point about modeling, are there areas where CIOs can implement technology and processes such as predictive analytics that more explicitly support brands, products and services?

CLIFF TAMPLIN: It depends. I think the big thing is to say that IT, whether it's part of the business, part of product development, or part of something else, we do have to remember that we're around to make money for the company, and whether we're directly responsible to the Street, part of some

government arrangement, or in a startup or privately funded, it's incumbent upon us to think like finance people and to ensure that anything we put together relates closely to the overall objectives of the business.

TEP: Anything you do with things like predictive modeling or predictive analytics to help implement technology in a more revenue-generating and less cost-center way?

AARON STIBEL: Well, most of our leads start with our analytics team. So marketing and sales come up with campaigns, they work with us to pull the leads, and then we work together to do the analytics. And then we do just a ton of multivariate testing after the fact, try to hone that messaging in. A lot of that revenue starts with our models, so we actually do help sales and marketing via predictive analytics.

TEP: And that's great, because it brings us full-circle. It sounds like CIOs should think about making a break with the past in terms of changing their reporting structure so that they are less seen as a direct link or direct report of the CFO. That's because it's harder to innovate. Yet the onus is still on CIOs to help people understand what it really takes to do what IT departments do. Given realities like length of development time, testing, and areas where predictable ROI are hard to come by, it's not surprising that CIOs and CTOs can still struggle to make the case for IT. But an improved economy and clearer communication certainly help.

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