



Bringing IT into the Boardroom

Implementing Technology as a Strategic Resource for the Board

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Corporate Board Member hosted a roundtable event earlier this year in association with Deloitte Consulting LLP to discuss the evolving use of information technology as a strategic resource for corporate boards.

Participating in this engaging discussion were W. Ronald Dietz, CEO, W.M. Putnam Co. and audit committee chair for Capital One Financial Corp.; Gary F. Colter, president, CRS Inc. and audit committee chair for Canadian Imperial Bank of Commerce and Owens-Illinois Inc., as well as director of Core-Mark Holding Co. Inc.; William P. Sutter Jr., principal, Hopewell Ventures and chairman of Regent Communications Inc.; Thomas M. White, chief financial officer, Hub Group Inc. and director of FTD Group and Landauer Inc.; and Rajinder (Raj) M. Gupta, adjunct professor, Technology & Innovation, Kellogg School of Management, Northwestern University. The discussion was moderated by Deloitte Consulting LLP Senior Principal, Ken Porrello.

Ken Porrello: We'd like to start by discussing the role of information technology in business today. How have you seen it evolve over the last few decades?

Ron Dietz: In financial services, the role of technology has changed dramatically. If you look back 15 years, a key technology chore in financial services involved item processing—handling large amounts of paper, starting with checks. Today, the technology platform must support many more activities, running on a real-time basis. In fact, one could argue that we are more of a technology shop today than we are a credit shop. The integrity and functionality of the operating system is critical to how we perform. There's also been a rise in security issues—it's unbelievable how good our defenses against unauthorized use of our data must be. Finally, the size and complexity of technology projects has grown tremendously. We have one project under

way that's a half a billion dollars in scope, which makes it a board-related item of concern. So in all three areas, there has been fundamental change.

Porrello: Ron said his is "almost more of a technology shop than a credit shop." I wonder how many businesses that could be said about today?

Gary Colter: Without modern technology, you just can't run your business today. Technology is critical, and one of the biggest challenges for the board and management is to figure out what the issues are because when you try and fix them, many times the fix is not obvious and a lot of your competitors haven't figured it out either, and then you've got short-term earnings pressure in terms of what your capital expenditures budgets are. Coping with this is a very topical issue with several of the boards I'm on. So technology all the way around is going to become increasingly more important as we go forward, and without a proper basis of understanding, these businesses are not going to do nearly as well.

Raj Gupta: It's fair to say that the role of technology, not just in financial services

good example—is a problem. Information becomes your "service" more and more. That which used to be considered infrastructure—the stuff in the back room that allows you to go out and exist in the marketplace—now becomes your business, or in some cases, it becomes your cutting edge, allowing you to mine and better reach your customers. In that sense, it also becomes a director's issue. Yet there are still distinguishing elements between infrastructure and strategic technology. For example, as directors, we don't decide on every little system, nor should we. But there's a level at which either the dollars are so big or the strategic importance is so critical that it becomes a board issue. But even so, we aren't IT experts who are fluent in all the things our corporations are doing, especially as they get larger and larger.

Porrello: From your perspectives as board members, what are some of the challenges to this rise of information technology as a business driver?

Tom White: The rate of change is an issue. Whereas 10 years ago we were looking at changing out the enterprise systems because of Y2K, many legacy systems



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Ken Porrello, Senior Principal, Deloitte Consulting LLP

but across any industry, has become more critical to the success of those businesses. Yet, why do we have so many IT people that are seemingly not able to do their jobs? Or is the real problem with members of management who don't understand technology responsibilities and potential? In essence, everybody has to do a better job of aligning expectations and the realities of what can be done.

Bill Sutter: Certainly today, communication of information—financial services being a

remained at the base. Yet today there are new applications that are very nimble and fast-changing. The challenge I see for many CIOs—much less board members—is that they may not have the bandwidth or the experience to deal with new applications that are put on top of the customer interface, for example. And if management can't effectively deal with it, then the board will certainly have a tough time.

Sutter: That is the reality. Management

styles haven't changed, and executives typically deliver the information to the directors pretty late in the day. Often, there's not enough time for the directors to have a discussion or really get involved in the issue. So the board is faced with a de facto approval of a technology issue and with the hope that management knows what it's doing—that they've vetted it carefully and that their IT people can find the right products and/or vendors for it.

Dietz: Getting a good consensus to work with is hard to achieve in IT, partly because of cascading technologies. There's also a tendency of technical people to disagree with other technical experts, so you'll hear, "You've got to listen to me because the last guy you talked to doesn't know what he's talking about." This lack of consensus makes it difficult for senior business executives to feel comfortable about how to move forward in key areas or with expensive projects.

Porrello: This gets to the issue of effective communication between technologists and nontechnologists in a corporation. We recently interviewed a director who made the observation that he knew when the board had a good CFO, but he had a really hard time figuring out when he had a good CIO or not. Have you experienced that challenge?

Dietz: That can be a problem. First, when you're talking about big technology projects, you've got to deal with business practice change as well as with technology change. Relating to both simultaneously requires a lot of integration between technical people and business people, integration that depends on a special kind of technical leadership. That challenge is aggravated by the fact that senior management and the board generally don't have a wealth of experience with big-systems installations. This creates less confidence in assessing the quality of the technical people responsible for delivering successful results.

Gupta: Plus, the levels of understanding that exist between the various layers of the corporation are very different. There is an inherent communications gap between the

disciplines of IT and management, which is made worse because technology is changing so fast. Even when you try to implement the latest technology, you can't be too much on the leading edge or you'll bleed to death. So you need a strong sense of trust between the CIO and management. Plus, management needs to understand there is no immediate payback on some of these things. You must decide on the metrics on which you want to have accountability. In the companies where we see it working really well, the CEO absolutely understands this and has a CIO on whom he or she can rely to say, "Here's the truth."

Colter: But you've also got the challenge of trying to figure out whether the CIO is any good or not, because the CEO is making the greatest judgment there. Normally, the CEO doesn't have a lot of experience or background in the technology area. From a board member's point of view, usually after a year or so, you can figure out whether you've got a decent CEO or CFO. But when a CIO appears in

ways, you have to start by asking, "Do we have the right management and do we have the right leadership?"

Sutter: So your company really worked on bridging the communication gap, which is what Raj was talking about, by taking a manager and embedding him to help the board understand what's really going on with technology. Traditionally, board members are experts in either operations or finance—we have that common fluency of language. But we typically don't have expertise in information technology. I think the point of this panel is to consider whether boards need to evolve toward having technology fluency, and if not, then how do we as directors get it? Do we hire experts to be our translators, or do we trust management?

White: Here is another good point. Let's say you determine you don't have an effective CIO. You bring a new CIO in. The first thing that CIO does in the first 100 days is come back and say, "We need to spend a gazillion dollars to fix



"There's a need to have an environment in which the board, the CIO, and the CTO come together in a 'how do we solve the problem?' mode. It really does require a certain kind of culture and spirit of collaboration."

W. Ronald Dietz, CEO, W.M. Putnam Co.

the boardroom and makes presentations, he or she often uses terms directors don't understand. One of the ways to test CIOs, of course, is to hold them accountable for the financial implications of their projects—whether they are delivered properly and on time. With one of the boards I'm on, we've decided technology is really critical, so we've taken one of our top three or four executives who is experienced in other aspects of the business and has a lot of credibility with the CEO and the board and we've moved him over and put him in charge of technology initiatives. He's not a propeller-head but he understands the important technology aspects. So in many

something." And you think, "I don't know this person. But he's better than the other guy, or at least I think so." With this in mind, bringing in a trusted confidante to be a "super CIO" sounds like a darn good idea.

Porrello: Are there other things you believe directors can do, either individually or collectively, to better equip themselves to deal with this area?

Sutter: Well, there are topics I care more about than information technology, particularly backbone infrastructure systems that really only become a board issue, in my opinion, if they cost a lot of

money or if they're failing in their delivery such that systems are shutting down. On the other hand, there are things that really start to touch your whole business strategy—your products and your services—and that's where I would say boards are trying to catch up to the emerging importance of technology as we educate ourselves and develop ways to communicate better.

Dietz: I think it's hard to invest in a deep dive of education for the board as a whole. We have adopted enterprise risk management across the company, and we're finding that a logical place to put more intensive focus on IT and operations is with the audit and risk committee of the board. In financial services, we're getting a lot of outside stimuli as well. The regulators are much more interested now in operating risks and in processes that are controlling operations. BASEL II will have a big operations risk management component. So it's really hard not to invest at the board level in a certain amount of understanding. However, I think you can provide more substantive oversight through a committee—particularly if that committee has some members that come out of the technology world.

Sutter: Look how difficult it was for companies to meet Sarbanes-Oxley standards just for financial experts on the audit committee. That's the real world. So while it's going to become harder to populate these committees and to find the experts, I believe it's the direction we've got to move in.

White: I agree it would be appropriate for a subsection of the board to spend a lot more time on technology, but as I reflect on my board activities, when was the last time we really heard the IT strategy explained in board-level terms?

Sutter: That's the chairman's power of the gavel. Just recently we started to schedule a portion of our board meeting based around our technology initiative because I felt the board was poorly educated on it. I knew the company was trying new things that it wasn't telling us about—web

streaming and podcasting—and we needed to talk about them. So we began setting aside a block of time at the board meetings. Now, that doesn't make us technology experts, but it's a first step toward at least understanding what management is doing in this realm.

Gupta: In some cases, the company strategy is very much dependant upon and critical to the IT strategy. You almost can't separate the two for a number of companies. So you must allow time for the education of the board, because in some situations, that's the only way to bridge the gap between communications and expectations.



“The whole idea of getting some of this [technology discussion] off the board agenda and onto a committee of the board to actually deal with it in more detail is a critical point.”

Gary F. Colter, President, CRS Inc.

Dietz: The *sine qua non* is to be able to articulate an IT strategy in terms of business performance and payoff, which is different than a plan that concentrates only on technical matters. If you don't have a businessperson as the CIO, then that person has got to be able to bring business and technical issues together and make them whole, and help the board understand it.

Porrello: You've all spoken about the connection between the IT strategy and the business strategy. How well have you typically seen IT strategy linked to business strategy, and from your points of view, how would you like to see them linked?

Dietz: In our annual IT plan, we expect a fair amount of explicit linkage of technology initiatives to business performance. It's also interesting that in a big IT project we have currently under way, half of the expenditures involve business practice change. That condition suggests you've got to integrate business and technical issues at the project management level.

Porrello: And I would guess in nine out of 10 IT projects that fail, probably it is not because the technology wasn't delivered, but because the business practice change that was required to make it a successful project couldn't be realized.

Gupta: Before you spend half a billion dollars figuring that out, at least a few major chunks of that technology expenditure ought to be clearly linked to something within the business strategy, which means the board and the CEO have to be able to buy into that. If the linkage is not clear, then that concept will be a problem.

Porrello: Let's return to the question of the readiness of the CIO to represent IT matters to the board. If you were asked to mentor a new CIO to become an effective representative to the board, what are the kinds of experiences you would want that person to have?

Colter: I would say that person has to understand that when the information comes forward, it's got to be in a user-friendly business format directors can understand. Also one of the things that is often missing from the CIO is information on peer group comparators, as well as information on the negative impacts of a potential strategy. In addition, I'd like to see the options that are available to us if we choose not to take action. What I often see is a vague presentation that is too technical. At that point, the organization is set on getting board approval on a proposal, and while the board may ask questions, I can't remember one situation where it changed a proposal at that stage.

Sutter: You're right. At that point, management is seeking board approval,

not a board discussion or a board consensus—I couldn't agree with you more. How often do you see alternatives laid out, particularly ones that involve lower costs? Management is already sure they have the right answers.

Dietz: That is a risk, but one way you can address that is with outside consultants.

Sutter: How does your in-house IT group react to that sort of oversight? Does it understand the critical role of the board?

Dietz: They've been pretty open to it, although having multiple opinions about proposals is a part of our corporate culture. Going back to Gary's point, when you have an opportunity to designate a CIO, it might be better that he or she come from the outside, particularly if the person comes from a more sophisticated environment. In our case, we hired the CIO of NASDAQ not long after 9/11. NASDAQ featured a real-time trading environment, which involved a whole variety of things we needed and didn't have within our existing staff.

Gupta: Another standard way to cultivate technology expertise is by using business-unit managers. There are senior people within the business units who are very capable, who have the trust of the CEO, the trust of the business, and the trust of the board, and who can be rotated through to the roles of heads of businesses, or eventually to senior CIO. You still must have an infrastructure that you can rely upon for the hard bits and bytes, but the CIO can then represent the needs of the company because he's got the credibility and confidence. He knows what the business strategy is, so the CEO can take that into the boardroom.

Dietz: But you still need someone who really understands where the technology is going—who understands that evolution from a technical point of view and can talk turkey with technical people.

Gupta: In some organizations there's a CTO who ends up feeding the CIO. But to your point, the CIO can't be ignorant

about technology or he or she would have no appreciation for what the business could accomplish or the technology could accomplish. You've got to have a CIO who has that vision.

Sutter: But we don't want the board to evolve into a bunch of specialized silos, because we have to deal with many broad issues; if you bring in a technology expert, how qualified would that person be to deal with all of the other things we face in this post Sarbanes-Oxley world? We need to find candidates who bridge both worlds and bring business sense, as well as technology expertise, into the boardroom. That's a small set of people. Frankly, it's hard to find experts within the same company, but the companies that do will have a leg up.

Porrello: When we talked with CEOs about this topic, one of the concerns they raised involves the amount of time it would take to properly address IT in an already complex board environment. How much more time can we ask directors to spend on board matters? Where do we find the time to add IT to the board agenda?

Colter: For a CEO to say, "We don't have enough time," is not a good answer. Frankly, whether it's managers or boards

take this issue on and drive it home. If not, we're going to damage our constituencies.

Sutter: I agree, we're going to have to do it. As for the time factor, I'm not sure most of the board meetings we attend are as efficient or as priority-focused as they could be. We need a little less "dog and pony" and less attention on what happened in the past, and more time on forward-looking issues.

Porrello: If we had a group of CEOs here, what are the five or six things you would tell them to do that could make their boards work better?

Sutter: A dynamic tension exists between management and the board. That's supposedly a healthy thing, but there are ramifications. Not every CEO thinks board input is a wonderful thing. On the other hand, some welcome it and use it as a resource.

Gupta: In a sense it goes back to fundamentals and what the CEO wants out of the board meeting versus what the board wants out of the meeting. If the CEO feels strongly and has the sense of where the ship is headed, he or she basically is looking for an endorsement of that vision.



"Even when you try to implement the latest technology, you can't be too much on the leading edge or you'll bleed to death. So it takes a strong sense of trust between the CIO and management."

Raj Gupta, Adjunct Professor, Northwestern University

dealing with this, if we've got to spend more time, then we're going to have to spend more time. It is going to be a lot of work to set up a separate technology committee and you'd probably like to avoid that if you could, but the fact is, we're not doing a good enough job on this issue right now. I sometimes find CEOs resistant about these things. Some CEOs don't devote enough time to governance—they're still great leaders and they're great operators of companies—but boards have to

White: There's a further dimension, which is that boards and their CEOs often view things as complete opposites. I interviewed some board members for a talk I did recently, and many of them said it would be a sign of strength if a CEO said, "I don't know the answer" or "What do you think?" Yet a lot of CEOs think that's a sign of weakness.

Colter: I'd like to believe that most CEOs, will become more engaged in the

importance of the IT strategy. I've got to believe that if technology is packaged and explained properly, then it's not going to be too tough a sell to CEOs. We need to give it more priority and approach it in a more diligent and effective manner.

Gupta: Even before the board "gets it," though, the CEO has to "get it." And as CEOs' comfort levels increase, as their level of risk perception increases, and as younger corporate board members become more comfortable with technology, eventually IT will become a piece of the board puzzle, just like any other issue.

Sutter: I am an active director myself, so I do want to talk about this. We've got to demonstrate that we care, and then management will start to care.

White: We are just catching our breath from the rash of governance initiatives, and board members are starting to say, "I want to talk more about strategy, I want to talk about succession, I want to talk about competition, and oh, by the way, I want to talk about IT." Getting IT on the agenda, if for no other reason than to discuss it for an hour or two a meeting, is going to dramatically raise its visibility. People will spend a lot more time getting prepared.

Dietz: It's better if you can embed periodic reviews and discussions of IT matters into the board's routine. An annual IT plan that has to be approved by the board, for example, can be a good occasion for a broader discussion of IT issues by the group.

White: At my company, we've stated that at every board meeting we're going to talk about the competition and metrics, but otherwise we're going to spend our time talking about the strategic plan and where we sit relative to it. So for us, it's not an annual event—it's an every-board-meeting event.

Sutter: Delving into this deeper, how do we as directors pierce through all the smoke and all the excuses thrown out by the CIO or the IT staff when a project is late? They're always full of very logical, rational reasons why it happens.

Gupta: First of all, in my view, it's not a one-way street, and many times the CIO is wrong just as often as the CEO. Sometimes management is wrong because it doesn't take the time to match expectations. Or the CEO is looking for an easy answer, but he or she doesn't understand the contingencies or what could go wrong. The fact is, in a dynamic business situation, many things can change between the proposal and delivery.

Dietz: In our business, one value of using forensic analysis on failed projects is not to itemize excuses, but to establish, as corporate property, an understanding of why something went wrong and the lessons that can be extracted and applied to future projects.

Sutter: By doing so, you're really showing you're committed to accountability. You're taking it all the way up the organization to the board level, which makes it visible to the board. And for most people, a trip to the boardroom is a pretty big deal.



"[The board] needs to find special candidates who bridge both worlds and bring business sense, as well as technology expertise, into the boardroom."

William P. Sutter Jr., Principal, Hopewell Ventures

Porrello: Perhaps the other dimension we ought to focus on is the value you get from IT investments. Have any of you been exposed to discussions about ROI from IT?

Colter: Our discussions generally revolve around saying, "If we don't do this, we're not going to be able to run our business properly." I don't know how you calculate ROI on technology, because it is normally presented to us as mandatory, not optional. So I have to make my assessment based on the presentation and the people making it. Like many bets we make as board members, I'm betting on the people. But I would say it's harder with technology, because it's just a difficult concept to

understand and get close to. So, if you accept that, how do you make a better bet on the people? Do you bring somebody on the board who has got more technology experience as part of your director matrix? If you can get the right inside person, that seems like a pretty good idea. Then there are outside consultants, but there are challenges to getting the right consultant: Are you going to hire that consultant as an adviser to a committee of the board or to the board itself?

Sutter: And how do you manage a dispute if the adviser disagrees with your internal staff? How do you, the director, react to that? Who's right, and who are you going to bet on then?

Colter: Management can be really sensitive to the board's hiring outside consultants, whether it be lawyers or another accounting firm or other advisers.

White: Getting back to the metrics we spoke of earlier, the IT discussion is becoming more qualitative rather than one

that simply involves cost savings. I think we're beyond that.

Dietz: I think it's a bifurcated scoreboard. Quantitative metrics are important. But IT strategy and performance often involves more subjective evaluations or even explicit measures that aren't strictly quantifiable. You must have the flexibility to ask whether you have the right functionality, and so forth. The important thing is to adopt a workable approach to tracking IT progress and to use that approach consistently over time in order to see the trend lines.

White: With business continuity plans you

can probably measure and figure out if you're going to get richer or poorer, but on the strategic front, it still gets down to whether you are going to spend x or 50 times x, and at some point, you have to draw the line.

Sutter: I'm not seeing those kind of tradeoffs presented to us very much.

Porrello: I'd say if the nature of the dialogue is a series of yes/no decisions but the issue is teed up as "We have to do this," that's not a very high-quality dialogue.

Gupta: And furthermore, where should the dialogue occur? Does the board have the expertise or the gumption to really go through the dialogue of discussing multiple options?

Sutter: Historically, for a lot of us, there hasn't been that desire, but again, that has to change. If you can't get fluent in all the subjects that are required at the board level today, then maybe you shouldn't be on the board. We are required to be independent. We're required to be financial experts. Now we're required to know about technology, and in the midst of all this, we need to become more strategic thinkers. It's not an easy job, and it's a lot tougher than it used to be. How many people go to a single-day board meeting anymore? They're all two-day events now, between committee meetings and special sessions to talk about these subjects. The work load has gone up dramatically.

Porrello: One of the things we found in our research is that where boards are having quality discussions on IT, it's like the tip of the iceberg. What's below the surface of the board's discussion are all the things management does. But you're not going to have a quality discussion in the boardroom if you don't have a quality process beforehand within the company itself.

Sutter: We don't want a CEO who walks in and says, "Well, I don't know. You've got to tell me and I'll go do it." You want some strength there, but you also want receptiveness to your input, because in theory, we're there to challenge and ask tough questions. Most of the time we

should agree with management if things are working right because they should be doing their job. We know they're smart people. But once in a while there should be some friction, or else you ought to be looking in the mirror.

Porrello: Is information technology unique in this regard? I'm sensing that this may be indicative of a broader issue.

Dietz: A director is supposed to be a strategic thinker, which means you're trying to integrate all of these things. That's not easy to do because it involves an intellectual process as well as a basic understanding of the components. So in some regards, it's not just other experience that a director lends to the discussion, it's having the perspective of an integrated view of business and how all the pieces fit together. If we can project that perspective as directors, I think we'll bring more value.

issues in advance. That way the directors can deal with it in pieces and go through the process of fine tuning and asking questions. Then, by the time it gets to the board—we all know boards listen very strongly to their committees—everyone will feel better and you'll get a better process and a potentially better result.

Dietz: The other thing you can't underestimate is the value of an environment in which the board, the CIO, the CTO, etc. come together in a "how do we solve the problem?" mode. It really does require a certain kind of culture and spirit of collaboration.

Porrello: That spirit of collaboration can no doubt be applied to good ends on a number of board topics. Thank you all very much for an excellent discussion.



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Thomas M. White, Chief Financial Officer, Hub Group Inc.

Porrello: To conclude, are there things you believe would better equip you as board members to deal with deliberations on IT strategies in the boardroom?

Colter: On major projects, the key thing is we've got to spend more time at a board committee level, but the whole idea of getting some of this off the board agenda and onto a committee of the board to actually deal with it in more detail needs to be considered. When the CIO comes to the full board with his recommended project, if he doesn't get approval he will see that as a total failure—that is, his not being able to convince the board after he's presumably convinced senior management. You can cut through a lot of that if you've got a committee dealing with the key

Watch in 2007 for the *Corporate Board Member/Deloitte Consulting LLP* national research study that discusses the evolving use of information technology as a strategic resource for corporate boards.

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