

Why Put CIOs On Boards

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SARBANES-OXLEY CAUSED A DRAMATIC CHANGE in thinking about effective corporate governance. This change manifested itself primarily in two ways – a significant increase in the percentage of outside Directors and CFOs added as Directors to strengthen financial and compliance acumen at the Board level.

In a time when we talk about an information economy and business processes and operating models living within our information systems, CIOs as Directors are conspicuous by their absence. Is there a further evolution to consider with respect to adding the perspective of a CIO as an outside Director?

The Role of Information Technology in Business Today

OVER THE PAST DECADE, WE HAVE WITNESSED THE extensive application of information technology (IT) as the critical enabler of strategic business transformation programs. Transformation programs predicated on large-scale information technology implementation are referenced extensively in annual reports, shareholder meetings and security analyst briefings. These programs fundamentally renovate business processes, change operating models and create new product offerings. Business processes which once lived primarily in the minds of employees now reside within our information systems.

Effective regulatory compliance and enterprise risk management is completely intertwined with information architecture. Controls are heavily automated if they are to be reliable and cost effective. If information systems are unavailable, business stops: There is no manual, paper-based process to fall back on.

Corporations are increasingly project driven with respect to continuous improvement and commercialization of new products and services. These projects invariably

require significant IT investments and development of capabilities. Imagine the proportion of high-impact projects that do not contain a significant IT component: It's a small percentage.

Acquisition integration and synergy capture are essential elements of growth strategy for many organizations. Best practice suggests a business process-based view of the situation. IT will typically govern speed and facilitate the migration to standard business processes. Acquisition synergy is predicated upon IT.

Globalization impacts are pervasive, and this is nowhere more evident than in the supply chain. Whether it's sourcing or low cost country manufacturing, supply chains are lengthening and becoming more information intensive. Related continuous improvement initiatives are highly data intensive. More and more attention is being paid to the white spaces between trading partners in search of white space opportunities to mine for value. The heart of a highly-effective, adaptive supply chain, as well as the integrated global corporation, is IT.

We have witnessed the maturity of enterprise application vendors, and architectures that can evolve rather than be replaced. Development of new business capability is less programming and more process configuration. Said differently, our IT development teams are less plumbers and more process consultants. Projects are expected to add value. Requirements are not handed off,

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solutions are collaboratively created. There are fewer “business” projects and “IT” projects and more combinations of the two.

What area of business strategy, operations and risk management is not fundamentally influenced by the effective deployment and management of IT? We are long past the time of financial transaction automation and the IT organization reacting to requirements, operating infrastructure and serving as a back office function.

Today's CIO Is Not a Technologist

INFORMATION TECHNOLOGY USED TO BE ALONG FOR the ride, it complemented the business process. Today business processes and IT are fundamentally intertwined and nearly indistinguishable. IT is the strategic underpinning of the operating model. It is nearly inconceivable to imagine a major business initiative where IT does not have an integral role.

The CIO at a high-performing corporation will either be leading or playing a prominent role in major initiatives – optimization of business processes, collaboration with trading partners, mining information for insights, integrating acquisitions, enabling supply network optimization, enabling growth strategies, improving compliance and risk mitigation.

The CIO at a high-performing manufacturing corporation will invariably be a combination of general manager, strategist and operations executive. The CIO will have a solid financial background, understand business process and financial metrics, and have the know-how to successfully bridge many projects from a programmatic perspective. The CIO will understand the application of complex technologies but will not be a technologist.

The CIO will be an excellent communicator who is very comfortable translating complex subjects to the Management Team and the Board of Directors. The CIO reflects a global perspective. The CIO fully understands compliance requirements and the imperative of managing risk in a 24x7, always on, global environment.

The CIO at a high-performing corporation will certainly understand complex technologies but is unlikely to be a technologist. Some of the most strategic suppliers are firms that provide applications, network, storage

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and operating infrastructure to the CIO.

The CIO will be expert in managing strategic vendor relationships. The CIO will ensure that innovations in information technologies and the entire buzz get converted into practical, value added applications. The CIO will drive effective governance across SBUs, geographies and business processes to ensure that major projects are delivered on time, on budget with the expected value. The CIO will have significant experience making tough decisions on capital investment and extracting maximum value.

Board Agendas Continue to Evolve

GIVEN THE CHANGING NATURE OF THE ROLE OF THE CIO, the Board of Directors is highly likely to have routine interactions with the CIO. Consider some of the key topics on the Board Agenda:

- Strategic business optimization projects and transformation programs
- Globalization
- Capital allocation
- Acquisition integration
- Compliance
- Risk management and business continuity

The CIO will be a frequent presenter with respect to the various agenda items. In addition, the CIO will interact heavily with the Audit Committee on topics of risk mitigation and compliance.

The Case for a CIO As an Outside Director

GIVEN THE NUMBER OF BOARD INTERACTIONS THAT will involve the CIO or which have substantial information technology components and implications, where does the Board of Directors look within itself for relevant experience and perspective? This is the very reason that CIOs should be on Boards today and will be found on Boards in increasing numbers in the future.

There are numerous benefits to having a CIO as a Board Member:

- Operating strategy insights
- Due diligence on strategic investments involving IT
- Acquisition synergy and integration due diligence
- Jargon translation
- Compliance and risk oversight
- Capital prioritization

A CIO will bring hands-on perspective and competency to enhance the quality of corporate governance.

Some corporations will benefit more than others from a CIO as a Director. Attributes of these firms include the following:

- Information-based products and services
- Turnaround requirements
- Process transformation enabled by information technology, especially SAP
- Growth strategy driven around acquisition and rapid integration
- 24 x 7 operational requirements

Conclusion

THE WORLD-CLASS CIO OF TODAY IS A STRATEGIST and operational manager. Increasingly for Boards, the agenda involves topics where CIO perspective is critical. There is an imperative for Boards to move beyond the Sarbanes-Oxley compliance emphasis of recent years to an increasing emphasis on transformation, innovation and globalization. For certain industries and business environments, the imperative to add the CIO voice at the Board level is clear. Leading corporations seeking to further strengthen their governance will make the connection and continue to evolve the skill set and experience represented by their outside Directors to include a CIO perspective.

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