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Demonstrating Leadership

*How the Chief Information Officer Can Help Beat
the Downturn*

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How the Chief Information Officer Can Help Beat the Downturn

The financial crisis is far worse than anyone predicted even a few weeks ago. Initial estimates put the likely losses of financial institutions globally at around \$1.5 trillion, with a resulting decline in credit capacity of \$19 trillion. But the International Monetary Fund recently estimated crisis-related losses of nearly \$1.5 trillion on the worldwide holdings of U.S. assets alone.

The knock-on effect on the real economy—which BCG has described in a number of articles in the Collateral Damage series—is becoming pretty clear.¹ It is no longer a question of *if* there will be a recession; the question now is how bad it will get and how long it will last. Our current expectation is that the United States and Europe will suffer a deep and prolonged recession. Asia, while in better shape, will not be unaffected.

In this difficult climate—the worst for business since the Great Depression—we advise companies to act rapidly and systematically to define the size of their problem, understand where and how to address it, and take action.

Clearly, the IT organization—and the chief information officer (CIO) as its leader—will be affected in a significant way. In 2009, we expect that global growth in IT spending will be 1 percent at best—down from more than 5 percent in 2008. But many companies will cut their IT budgets, and available discretionary spending will shrink significantly.

However, for all the gloom, we think that the downturn presents a significant opportunity for CIOs and the IT function. Technology is at the heart of many industries and has become a key driver of business transformation. The CIO and the IT leadership team can—and should be encouraged to—play an instrumental role in navigating the business through the downturn. IT can be a key driver of change and can even help the company emerge from the recession stronger than before.

But to ensure that the company can survive the downturn and thrive when the upturn comes, CIOs need to consider a series of practical steps as part of a well-thought-out action plan.

Five Ways to Beat the Downturn

The challenge most companies are facing at the moment is the need to prepare for short-term pain while at the same time keeping an eye on longer-term opportunities. The CIO has a major part to play and is, in many respects, uniquely positioned to create value for the company.

In our view, there are five action areas that CIOs should focus on:

- ◇ Reducing IT costs in the short term
- ◇ Optimizing investments to create short- and medium-term business value
- ◇ Managing the human resources agenda
- ◇ Enabling business transformation
- ◇ Transforming the IT function itself

1. To read *Collateral Damage, Part 1: What the Crisis in the Credit Markets Means for Everyone Else*; *Collateral Damage, Part 2: Taking Robust Action in the Face of the Growing Crisis*; and *Collateral Damage, Part 3: Asia, Advantage, and Action*, please go to www.bcg.com.

Reducing IT Costs in the Short Term

Cost reduction has been on the CIO's agenda for a long time; arguably, it never disappeared. But the current crisis calls for an altogether different, smarter approach to cost reduction. This approach should include the following:

- ◇ *Delaying the IT Organization.* This has twin benefits because delaying not only helps cut costs—and free up resources for transformational business changes, such as postmerger integration—it also improves the speed with which the IT organization can respond to business demands.
- ◇ *Reviewing All IT Contracts and Sourcing Arrangements.* These should be reviewed not only from a procurement perspective but from a trust-based-relationship perspective: work with vendors to find win-win solutions.
- ◇ *Tackling Business-Driven IT Costs.* There should be an assessment of the number of personal computers per employee, as well as the level of service offered to the business. In the current climate, there will be a greater readiness to accept a lower PC-to-employee ratio (which, by the way, in many organizations is greater than 1.3), slower response times, and silver or bronze—rather than gold—service standards.

Optimizing Investments to Create Short- and Medium-Term Business Value

Discretionary spending will be under extreme scrutiny in 2009. CIOs must find a way to minimize project spending. But they must simultaneously protect investments that deliver short-term impact (that is, improve the cash or liquidity position) or medium-term value (that is, capabilities or new business models for the upturn) for the company.

Key actions for the CIO include:

- ◇ *Protecting the Financial Fundamentals and the Existing Business.*
 - *Review cash-management and credit-risk systems.* The business will need robust systems that provide reliable information and simulation capabilities for the management of cash and liquidity in the short term.
 - *Improve overall risk-information architecture and institute early-warning systems.* For many businesses, in particular financial services companies, greater control mechanisms for managing financial risks will be required. All companies will need an early-warning system to quickly detect issues around key value drivers such as working capital, customer attrition, and supply-chain performance. An effective risk-information architecture and early-warning system will be key building blocks for many companies going forward.
 - *Enable customer-retention initiatives.* Customer retention will become even more important for the business during the recession. IT support—in terms of providing accurate customer data and fast implementation of required systems changes—will be a key capability.
- ◇ *Reviewing All Large Projects.* There will not be many new large-scale projects in the portfolio for 2009. But the existing ones should be reviewed and challenged in terms of their potential creation of real (short-term) business value. Based on BCG's experience, about two-thirds of "monster" projects do not deliver on time and on budget; these types of projects should receive particular scrutiny.
- ◇ *Investing in "Clean the Mess" Application-Retirement Programs.* Demand for IT projects will decline significantly next year because of budget constraints on the business side. As a consequence, available IT resources can be used for simplification initiatives that were not undertaken in the past owing to supply constraints. This is a unique opportunity to tackle IT complexity and deliver a step change in IT cost and speed.
- ◇ *Identifying Capabilities That Will Make a Difference.* Investments made now will come on-stream once the recession is over. The CIO should work with the company's other senior executives and play a lead role in identifying those capabilities that will make a real difference.

Managing the Human Resources Agenda

The coming months will be uncertain times for most IT employees. The real threat of redundancy will affect morale and, as a consequence, productivity. The CIO and the IT leadership team have to lead through this difficult time.

Recommended actions for the CIO include:

- ◇ *Reviewing the Fit of People and Roles.* The next year will be very different from the previous five. To ensure that the IT organization is firing on all cylinders and maximizing its contribution to the company, the CIO should make sure that the right people are in the right jobs. In particular, the CIO must ensure that the IT organization has in place experienced project and program managers—those who can make transformational change happen. Tracking and managing those skills and capabilities will be crucial in the coming months.
- ◇ *Taking Care of Your Top Talent.* It is essential for every CIO to take care of his or her staff—and, in particular, the top talent. A conscious effort to make these individuals feel wanted and “loved” will help keep them focused and motivated.
- ◇ *Communicating Regularly.* It is critical that the CIO and IT leaders maintain a regular dialogue with their teams—and dialogue means face-to-face interaction, including town-hall-style meetings. A well-structured downturn communication plan will help keep morale up and the troops focused.

Enabling Business Transformation

The downturn should be used as a catalyst for substantial business transformation. Other industries besides financial services will consolidate. Companies will have to reconfigure their business models and rethink their role in the value chain.

Potential actions for the CIO include:

- ◇ *Proactively Engaging in Business Transformation Activities.* The IT organization has to be involved in these activities right from the beginning in order to ensure that the company avoids implementation bottlenecks in later stages and enjoys the transformation’s short-term benefits. But, because the IT organization is arguably the only part of the company that has an end-to-end view of the business processes, it is also in a prime position to identify opportunities to reduce costs and create value across the enterprise. The CIO should take the lead and create value for the overall corporation.
- ◇ *Establishing an Acquisition or a Divestment IT SWAT Team.* Companies are reviewing their business portfolios and will divest noncore parts. At the same time, companies will consider transformational and opportunistic acquisitions. In many cases, IT would need to play a key role. A robust integration or divestment methodology that enables the business to disentangle parts of the portfolio and integrate new acquisitions quickly (thereby maximizing integration synergies) can create significant business value. Very often, this will also require a review and at least a partial redesign of the IT architecture.
- ◇ *Creating, Together with the Business, a New-Business-Model Team.* The economics of many industries will change because of increased competition, changing input costs, government intervention, and new trade policies. This will lead, at a minimum, to refinements of current business models and, in many cases, to emerging new business models. The CIO should be an active participant in these changes, as the vast majority of them will have an impact on the IT organization or actually be enabled by it. In some cases, the CIO should be the key driver of these changes.

Transforming the IT Function Itself

The downturn will create many burning-platform issues. But it will also create a unique opportunity (and, in some instances, a necessity) for fundamental changes.

Potential actions for the CIO include:

- ◇ *Developing Bold Moves to Respond to the Crisis.* If the economic pressure mounts, fundamental changes in the IT operating model might become necessary. We would expect many IT organizations to push toward stronger corporate governance, aiming at a “one IT” approach for the whole company. For example, an IT shared-services agenda that was not supported by the business in the past could now become a reality.
- ◇ *Establishing New Ways of Working.* Just as consumers will be far more price sensitive, the IT organization will have to adjust its working model in response to the downturn. There will be no time for costly solution development. IT will have to become creative, fast, and very efficient in order to help steer the business through the downturn. This means considering multimode operating models—that is, Web 2.0 or rapid-development approaches—as well as traditional development methods.
- ◇ *Introducing Product or Solution Managers.* Most IT organizations suffer from a lack of end-to-end ownership. The introduction of a product manager who owns an IT product or solution across all technical layers and organizational units will create this continuum. It will also allow proper total cost of ownership (TCO) management and improve alignment between business and IT.

What Next?

We strongly believe that IT organizations have to act *now*. Clearly, nobody can predict what the future will bring. A believer in Keynesian economics might be confident that the International Monetary Fund’s proposed global fiscal-stimulus plan (to be delivered in a concerted fashion by the world’s governments and equivalent to at least 2 percent of world GDP) would be sufficient to overcome the recession. But that plan might never materialize. And even if it does materialize, it might not be sufficient to solve the problem. Companies and their IT organizations should be realistic and proactive.

A Downturn Action Plan for the CIO

Every CIO should put a systematic action plan in place. Development of such a plan should take no more than six weeks and should focus on the following three steps:

1. Identify opportunity areas and quick wins (approximately 1 to 2 weeks)
 - Adopt or develop downturn scenarios and analyze the implications for IT
 - Develop hypotheses for the five action areas
 - Identify quick wins and “no regret” moves and start implementation
2. Develop action plans for all five action areas (approximately 2 to 3 weeks)
 - Analyze the implications of downturn scenarios for all five areas
 - Validate hypotheses
 - Define initiatives for the downturn action plan
3. Prepare for the implementation of the overall downturn action plan (approximately 1 week)
 - Prioritize the key steps across all of the action areas and finalize the overall plan
 - Establish business and IT governance and ensure rapid decision loops
 - Execute communication and broader people plans

Plan B

We also suggest developing in parallel a plan B—a list of activities that you would implement if things got really bad (for example, if sales volume fell by 30 percent and prices dropped by 10 percent). Potential actions could be identified as part of the scenario analysis—and they would have to be radical and formulated in response to some fundamental questions, such as:

- ◇ What is our last line of defense?
- ◇ What is the absolute minimum level of IT service that we can provide before we shut down the company?
- ◇ How quickly can we get to that level?

Having a plan B will allow you to manage risks and react quickly. Developing such a plan is not only a prudent way to address the crisis; it is another opportunity for the CIO to demonstrate leadership.

The downturn will bring difficult times to most companies and IT organizations. The next 12 months, in particular, will be challenging and require true leadership. If the CIO and IT leadership team can execute these recommended steps, they can mitigate the worst effects of the downturn, create business value for the company, and enhance the role and perception of the IT organization.

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