

“Corporate IT Cost Cutting . . . The Top CIO Risk of 2009?”

A series of thought leadership articles for the CIO and executive management

The United States and the rest of the world are experiencing an economic downturn unlike anything seen in more than seventy years. U.S. unemployment now exceeds 7% and the number of unemployed has reached 11 million. Consumer expenditures, corporate profits, corporate spending, and GDP are all in decline. Recent surveys show that corporate IT spending in the fourth quarter of 2008 and well into 2009 will decline, or in the best case stay flat at a majority of companies.

As CIO, CEO, or another member of the executive team, you probably have been or will be asked to make significant cuts in technology expenditures. If this is the case, how will you respond to the demands for budget cuts? Are you prepared to address the challenges of budget cuts? Issues to consider include:

- Unacceptable levels of risk from “to the bone” cuts in operational budgets
- Unexpected loss of customers blamed on technology shortcomings
- Loss of hard to replace or otherwise critical members of your staff
- Decline in perceived value of technology in supporting business objectives

All too often, IT budget cuts take the form of an across the board percentage cut. Logically, because it is typically one of the largest expense areas that a company has, IT is one of the first to be considered, if not specifically targeted, for cuts. In these situations, the CIO can find him/herself in the position of “technology defender,” in a battle for survival, with no executive support and few peer advocates willing or able to step to their side to provide badly needed assistance. Further, the cuts can create an unacceptable, yet still unknown set of risks for the company. This unfortunate situation can be attributed to a set of factors.

First, the CEO and executive team may have no clear understanding of IT spending. Without clarity around how and where the IT budget is allocated and the risks associated with cutting budgets, actions may be arbitrary, and in some ways can be easy. To avoid this indiscriminate cutting, it is up to the CIO to be a “person of numbers.” The CIO needs to have a firm grasp of the number of applications they oversee, the total costs of maintaining and keeping the systems viable and competitive, the number and type of staff supporting each system (as well as their names), the business processes supported by each system, the associated business segment leaders, the business volumes processed by each system, and the cost of system failure for any period of time. Through this knowledge the CIO will be positioned to facilitate a business conversation about the impact of cuts on business segments, thus helping the executive team make better business decisions that result in the prioritization of technology expenses against, and in parallel with other business budgets.

Second, and related to the first point, the executive team does not always understand all of the efforts underway to support the business. This can be due to a number of factors, including minimal involvement, lack of communication, and limited integration of the technology and business units of the company. Technology cuts often result in the cancellation or postponement of long-term plans or projects, or the elimination of enhancements to systems. These cuts can limit the roll out of new products, the competitive

positioning of the company, or reduced customer service and satisfaction. Through creation of a CIO Executive Board, with representation of all unit heads and the CEO, the executive team can play an active role in strategic decision-making with regard to technology expenditures. Applied as part of any budget-cutting exercise, decisions related to IT expenditures will be business-driven, and made in relation to business strategy, business objectives, and all other corporate expenditures.

Third, in any cost or budget-cutting scenarios, the company also introduces risks with the loss of hard to replace or critical IT personnel. Whether the loss is brought about directly through lay-offs, or by residual staff flight, the loss of valuable human resources and their experience and intellectual capital (institutional knowledge) can jeopardize the company's ability to quickly ramp up technology innovations once the economic down-cycle has passed. The CIO can help to avoid these risks through active cutting of easily replaceable resources, careful re-assignment of valuable resources, and the liberal application of incentives to keep key or hard to replace resources. The costs associated with staff retention must be considered in all cost cutting situations.

Finally, all significant cuts in IT budgets can have adverse impacts on: the company's ability to acquire and retain customers, efficiencies brought about with technology, risks mitigated using technology, and the overall satisfaction and value placed on technology and IT by the executive team, the company, and the company's customers. Without good data, thoughtful evaluation, and full participation of the executive team in all budget-cutting decisions related to technology, there is a near guarantee that decisions will be less than optimal. The CIO will be asked to apply deep global cuts to budget funding and spending. As a result, gaps in service will begin to appear, dissatisfaction with IT will grow, and the business goals and objectives of the company for 2009 and beyond may be jeopardized. The net will also include the decline in the overall perceived value of IT and the CIO.

In summary, 2009 will likely present the executive management teams of most companies with a host of economic-related challenges that they have never faced. In a bid for competitive positioning and preserving the bottom line (if not outright survival), the teams will look for opportunities to cut expenses. IT has been, and remains, an easy and large target for cost reduction due to its relative size versus the balance of the administrative budget in most companies. The CIO and executive team must prepare for this situation by fully understanding the true cost of IT, the true value of IT, and the impact of spending decisions for 2009 and beyond. Without this intimate understanding, all other perceived risks (and opportunities), no matter how high on the corporate or CIO's priority list, will seem nominal in comparison to risks introduced through broad IT spending cuts.



About the author: David Coleman is a Fortune 100 senior technology executive with over twenty-five years of leadership experience. He most recently served as Vice President of Technology at Fannie Mae where he led strategic business and technology planning and program management. During his tenure at the company, he also managed technology and business divisions as the industry went through significant transition and was forced to cope with multiple crises. He is currently writing and speaking on "CIO Strategies for the 2009 Economic Crisis."

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