REAL NUMBERS

BY PAUL A. STRASSMANN

FIND TRUE INDICATORS OF TECH SUPERIORITY

COMPANY DIRECTORS WANT VERIFIABLE MEASURES OF SYSTEMS VALUE—NOT BEAUTY-CONTEST NUMBERS.

PHOTOGRAPH BY STEVE FREEMAN

Magazines periodically trot out lists ranking firms that excel at using information technologies. These lists are usually subjective; they are not produced by and cannot be matched with independently verifiable data sources. And the methods for creating these lists are akin to those used by juries evaluating coffee or judging swimsuit beauty competitions.

A CIO may get satisfaction from these plaudits, yet the "honor" may not persuade those serving on corporate boards and reviewing that CIO's budget requests.

That means CIOs must come up with a better way to prove excellence and convince corporate boards that technology budgets deserve to be increased. What seems to work best? Showing that your organization compares favorably against competitors and using verifiable information to make your case. Specifically, you should demonstrate that your company spends less than its principal rivals and delivers superior returns to shareholders.

To illustrate such an approach, I extracted data on technology spending for major U.S. retail banks in 2004. Banks are fairly straightforward to compare and they use a lot of information technology. From their financial statements, you can produce cost and performance ratios; one of each is shown in the table below, "Rating I.T. Operations."

One cost ratio, technology as a percentage of compensation, is a favorite indicator of economics-based researchers, who maintain that relatively large substitutions of technology for labor are proof that a company manages its processes well.

And another cost ratio—information technology as a percentage of revenue—is frequently used to gauge excellence in managing technology. This is based on the theory that prudent bankers would spend more money on technology only if they could be assured of a good payoff.

Other cost-based indicators, such as technology spending per employee or profits per technology expenditure, don't hold as much promise. That's because there is no proof of a direct correlation between information-technology spending and corporate profits or employee head count.

However, company directors pay attention primarily to conventional indicators such as return on shareholder equity. For competitive benchmarking, you can use my Information Productivity formula, which calculates how a company manages information for the basic goal of improving its profitability (see *Baseline 500*, October 2004, p. 8).

After collecting data from financial statements and then crunching the numbers, my analysis shows that Wells Fargo, Bank of America and Hibernia Corp.—all marked in green—had superior results: low costs and high performance. The opposite holds true for the bottom-ranking banks marked in red—State Street Corp. and JP Morgan Chase. And the other banks fall in the middle of the comparison.

To calculate superiority indicators for your company and its competitors, see the worksheet "Measuring Your I.T. Superiority" (p. TK).

Remember: What matters most is your credibility as CIO. If indicators suggest that costs have been consistently below the competition's for several years while performance remained superior, you can point to technology superiority as a prelude for continued success.

PAUL A. STRASSMANN (PAUL@STRASSMANN.COM) IS CURRENTLY REVIEWING BUDGET PRESENTATIONS BY LEADING CIOS. MOST OF THEM FAIL TO IMPRESS BECAUSE THEY CONCENTRATE ON COSTS AND NOT ON PERFORMANCE INDICATORS.

RATING I.T. OPERATIONS

SUPERIOR | SO-SO | INFERIOR

COMPANY	2004 I.T. SPENDING ($ millions)	COST RATIO I.T./compensation (%)	PERFORMANCE RATIO Information Productivity (%)
Wells Fargo	$714	8.0%	**43.0%**
Bank of America	$2,055	15.3%	**30.1%**
Hibernia Corp.	$38	11.3%	**33.0%**
Huntington Banc.	$92	18.9%	**36.0%**
Citicorp	$3,586	25.1%	**14.0%**
State Street Corp.	$527	26.9%	**-2.0%**
JP Morgan Chase	$3,702	25.5%	**-95.0%**