WHAT SHOULD YOU BE: STRATEGIC OR TACTICAL?

WHEN DO YOU NEED TO BE WORRIED ABOUT EFFICIENCY INSTEAD OF LOFTIER PROJECTS? WATCH THESE INDICATORS.

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THERE ARE TIMES FOR CIOS TO PLAN strategically, looking at the big picture to improve overall business effectiveness. And there are times for CIOs to concentrate on tactical matters, such as improving the performance of I.T. and cutting costs as computer technologies become cheaper and faster.

Somehow, becoming "strategic" is seen as increasing the prestige of a CIO's job. I agree—up to a point. Discussions on how information technology can become a "strategy-enabler" should occur only after the tactical management of daily operations is more reliable, more secure and less expensive than the competition's.

When should a CIO pursue strategic instead of tactical actions? I suggest that CIOs compare a half-dozen indicators for their company and competitors, including annual sales growth and employment growth, current I.T. spending per employee, and ratio of I.T. budget to total employee count. For example, if the difference between your company's employment growth rate or I.T. spending per employee is 25% or more compared to your competitor's, focus on the tactical.

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Also, pay attention to your Information Productivity and Knowledge Value per employee. Information Productivity represents the costs to move bits and bytes, and can be derived by dividing operating profits by sales, general and administrative costs. Knowledge Value per employee is obtained by subtracting a company's shareholder equity from its stock-market valuation, and dividing that figure by the total number of employees. (See go.baselinemag.com/prodtools to calculate each.)

By examining these indicators for a few high-profile companies (see chart), you can see how these companies' fortunes have changed from the prosperous years of 1995 through 1999 to the leaner years of 2001 through 2005. And you can see where these companies may want to switch their approaches.

Wal-Mart's Knowledge Value per employee turned negative during the past five years versus 1995 through 2000, an indication that Wal-Mart's CIO should increase I.T. spending on strategic investments in business-value innovation. The CIO also needs to execute tactical moves with less money to keep Information Productivity ratios from falling.

The tactical/strategic profile of the GE CIO varies depending on the performance of various businesses in this diversified conglomerate. The mix will be similar to that of Wal-Mart except for one major difference—GE can expect to have difficulty keeping up the high Information Productivity ratio in its financial services segment. That business, which accounts for more than half of GE's profits, is under increasing global competition. As a result, GE's CIO will have to make strategic innovations much faster than competitors and cut the risk of failure before burning too much cash.

Microsoft's sales growth has declined, from an annual average increase of 47% from 1995-1999 to 11.5% from 2001-2005. As a result, Microsoft should embrace specific strategic measures, such as improving its capacity to match Google's network services capabilities.

The once-glorious job of the strategic-minded Xerox CIO (a position I held from 1969 through 1975) is now to dig the company tactically out of its downturn—it has seen its annual sales fall from $19.6 billion in 1998 to $15.7 billion in 2005. Xerox's average employment and Information Productivity have been declining steadily for 10 years. My advice? Proceed tactically to cut expenses and improve performance.

CIO would benefit from abandoning generic references to loosely defined terms such as "strategic" and "tactical." Instead, historical as well as competitive analyses of a business unit's metrics such as sales and employment growth and Information Productivity could demonstrate that the CIO recognizes the firm's business reality.

Average Annual Growth Rate

	1995 TO 1999			2001 TO 2005		
Companies	Employment	Information Productivity	Knowledge Value, Per Employee	Employment	Information Productivity	Knowledge Value, Per Employee
Wal-Mart	14.5%	8.7%	62.4%	9.8%	10.5%	-8.9%
General Electric	11.5%	47.8%	35.2%	0.2%	59.2%	-1.7%
Microsoft	15.0%	14.0%	112.0%	5.6%	5.8%	-7.8%
Xerox	2.0%	-8.0%	-2.0%	-6.0%	-6.8%	33.6

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