

A Fight for Strategic Technology Alignment

By JD Phelps
Director, Technology Management Group
Compushare, Inc.

In preparing for battle I have always found that plans are useless, but planning is indispensable.

- Dwight D. Eisenhower

Introduction

Finding a community financial institution that plans strategically for their Information Technology (IT) needs within their business practice is a rarity. Finding one that goes so far as to include IT into the decision making process and utilizes technology as a means to competitive differentiation is even more of a rarity. As a long-time provider of technology services to community financial institutions, I find this fascinating. In today's marketplace, virtually everything an institution does is made capable by technology. So why is it that so many of the institutions I begin to work with have yet to succeed in turning their technology infrastructure into a competitive tool for their given market niche?

This can only be achieved through Strategic Technology Planning – firmly aligning IT goals with the greater business objectives of the institution. In order to have a meaningful discussion on Strategic IT Alignment, we must first understand the differences between the strategic and non-strategic uses of technology.

Strategic vs. Non-Strategic

Essentially, strategic technology investments are anything that is outside the realm of fixed cost, business essential services. For example, core processing, wide area network

connectivity, Internet access, desktop PCs, and servers are considered non-strategic investments. These technologies are essential for the institution to compete in the marketplace. Deploying a CRM system or building a website that custom markets the institution's products and services to visitors based on credit score or profession may be considered a strategic use of IT. Additionally, non-strategic infrastructure can often be re-tooled to reduce costs, increase efficiency or boost productivity thus creating a strategic advantage. I see many institutions deploying hardware, software and systems or choosing technology vendors without first ensuring that a well-defined and measured objective is met. This is not a strategic approach and often when challenged for a reason, the answer I receive is simply, "This is what all the other institutions are doing."

IT Lifecycle Planning

Community financial institutions all have a very consistent Annual IT Lifecycle. This consists of:

Planning & Budgeting - Main business objectives are identified and aligned with technology initiatives to ensure success. Additionally, resources are allocated to complete initiatives.

IT Audits & Exams - Audits and exams ensure that the institution is in adherence with regulatory requirements, such as the Gramm-Leach-Bliley Act (GLBA). They measure the effectiveness of security and business continuity programs as well as technology policies and procedures.

IT Steering Committee Meetings – The purpose of the IT Steering Committee is to track technology initiatives set forth in the planning phase of the lifecycle, discuss new initiatives and report back to the Board of Directors on technology and compliance issues.

Ongoing Monitoring & Support - This is the day-to-day, keeping the lights on, portion of IT. It keeps business operations running smoothly and ensures areas of potential risk are closely

watched and reported on.

As simple as this may seem, many community financial institutions fail to successfully navigate the annual IT lifecycle. In many cases that I've witnessed, the institution loses the battle before the first fight by failing to appropriately plan and budget for IT.

Strategic Budgeting

In my duties as an IT Consultant for financial institutions, I have often asked the question, "So Mr. CFO, how does your Institution budget for IT?" The answer, inevitably, (aside from the occasional blank stare) comes in the form of, "...well I look at last year's budget and raise it by X %." Or, one of my favorites, "...I allocate X basis points of our total asset size." Aside from this being a tell-tale sign of an institution that does not strategically plan for IT, I am left pondering how these calculations can in any way support business driven technology initiatives.

Budgeting for IT should fall in line with the overall strategic planning initiatives of the institution. Splitting strategic vs. non-strategic items within the budget clearly delineates the purpose of the funding and identifies which primary business objective the IT initiative supports. Non-strategic items should be devised in such a manner to provide consistent and expected expenses in this area. For example, many institutions do not have an annual technology refresh policy; a portion of hardware and software assets should be replaced each year to prevent equipment from becoming outdated and no longer serviceable. Failure to implement such a policy inevitably leads to long delays in replacing equipment. The institution is then faced with an expensive, tedious and risk-laden project when it finds itself replacing outdated hardware and software at once. The institution ends up suffering for a couple of years, limping along on outdated and failing equipment and unable to tackle any strategic technology initiatives.

Value Added IT

This term "Value Added IT" has been thrown around a lot over the last couple of years. It



is referenced by third party IT providers and we see it in all kinds of marketing material. However, when clearly defined, adding value through IT is really nothing more than strategically aligning an institution's IT initiatives and budget to its business objectives. While many community financial institutions have chosen to outsource IT services, few have chosen to partner with a company who can capture and quantify their business objectives into tangible technology initiatives. In fact, many still view IT as this stagnant, money leeching department or line item on their budget that provides no real value. Oddly enough, these would be the same institutions who fail to include IT in strategic planning and decision making process. However, it is never too late to change the culture of an organization, and to redefine what is possible through the strategic implementation of technology solutions within an institution. For those institutions willing to step outside the norm and do things maybe just a bit different than they have in the past, great success lie ahead in the battle for strategic technology alignment.