HARVARD | BUSINESS | SCHOOL

9-606-153
REV. MARCH 15, 2007

ROBERT D. AUSTIN

Jack Carlisle, CIO

Jack Carlisle, senior vice president and chief information officer of IZL Corp, flipped the telephone back into its cradle and spun in his chair. As he'd done a thousand times before when he needed to think, he snagged the edge of a file cabinet with one heel, which left him facing out the window. His view of the Manhattan skyline was usually spectacular but today low clouds made it difficult to see landmarks. Carlisle had the distinct impression that the chair had continued to turn, blurring his surroundings.

The person he'd just been talking with was a peer, another SVP. The call had conveyed news that was making its way around the executive suite: Jennifer Pierce, the firm's Strategy SVP, a long-time confidant of recently departed founder and CEO, Chuck Hansen, had just resigned.

Pierce likely had been asked to leave by the new CEO, Jim Giles. Two weeks earlier, the board of directors had asked for Hansen's resignation in the wake of stock "performance issues" that had materialized in the last eight months. Giles had been the firm's newly hired COO when the board asked Hansen to leave; according to rumors, the board had forced Hansen to hire a COO. Giles had been with the company for barely a month when the board, presumably frustrated by a big client's decision to go with an IZL competitor, forced the CEO change. Some speculated that replacing Hansen had been the board's plan from the beginning.

The hot topic on the phone call had been whether Pierce's departure signaled an executive house cleaning. If so, they wondered how far it would reach. Carlisle had been with the firm only 17 months and had been hired specifically to address some issues with his predecessor, who had not grown the company's IT capabilities fast enough. Pierce had been with the company since its beginning nine years earlier; she was a part of Hansen's inner circle in a way that Carlisle, because of his much briefer tenure, could not be. In thinking about who might be on the firing line, this fact was comforting.

On the other hand, there *were* reasons to worry. Carlisle knew he'd been hired specifically because his personality and management style were considered a good fit with Hansen's own forceful manner. A more experienced candidate had been passed over when Carlisle was hired and some members of the executive team had disagreed with the choice. The person who'd led the charge in favor of the other candidate was Carl Strati, the SVP for Administration, who now seemed to spend a lot of time in one-on-one meetings with Giles. Strati had clashed often with the old CEO, who had

Professor Robert D. Austin prepared this case. This case was developed from published sources but describes a fictional company. Any resemblance to an actual company is unintended and accidental. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

conspicuously passed up at least two opportunities to give Strati more responsibility within the firm. It had often seemed to Carlisle that Strati recommending a course of action actually made it less likely that Hansen would decide in that direction. Needless to say, Strati had been frustrated by that situation. Now, however, the fact that Strati was not a Hansen insider seemed to be working in his favor with the new CEO, Giles. If Strati had significant input into how Giles should rearrange things at IZL, Carlisle had trouble seeing how that would be good for him.

Another concern of Carlisle's had to do with improvements he had made within IT. When he'd arrived, systems had been insufficiently robust, services were not professionally enough run, and the IT infrastructure could provide little in the way of operating metrics for the increasingly processing-oriented financial services firm. Carlisle had addressed these issues and, almost a year and a half later, the firm had a professional IT capability that fit its current size and business. Everyone welcomed the more robust data and call center operations (even if they quickly found new things to complain about). But in tackling the issues so quickly, Carlisle had generated some friction. There had simply been no time to take the slow road, not when the problems were so fundamental and the company's growth so rapid. Most issues arose from the pace of change that Carlisle had set to minimize the possibility of an outage that could have been public and damaging. Some managers felt they hadn't been consulted sufficiently about some of the changes, many of which formalized and eliminated variation in operating processes. Carlisle wondered whether any amount of consultation would suffice for some managers, who were accustomed to his predecessor's "if that's what you guys want" style of leadership.

Thanks to Carlisle-sponsored initiatives, new metrics and reports were now pouring out of IT systems at regular intervals. In some cases, the new reports had begun to produce data that seemed inconsistent with the stories that some executives had been telling. One exec had confronted Carlisle, made it clear that this new "transparency" was unwelcome, and had insisted that the reports come through his department before going public, to allow his people to "interpret, explain, and possibly adjust" some of the numbers, so they would "paint a more realistic picture."

Yet another concern arose from resentment some of Carlisle's staff had been generating since his changes had relieved them of nonstop firefighting and put them in a more proactive mode. IT staff who had once spent all day fixing problems now found some of their time freed up to work on longer-term issues. Partly this was due to new hiring Carlisle had pushed through, but mostly it was due to improvements. Some of his staff had begun thinking about how to better align IT systems with company strategy. But questions to business-area managers made it increasingly clear that the firm's strategy was not completely worked out, and the business area people didn't thank the IT staff for pointing this out. Newly freed-up IT staff had also begun to ask employees questions about how systems ought to work when they were redesigned, as was likely to happen in the next year or two. These questions had a way of resurfacing disputes between business areas, differences that often derived from the ambiguities in firm strategy. Also, in these situations, IT people often ended up looking like troublemakers for asking the awkward questions in the first place. It didn't help, of course, that diplomacy was not the strong suit of some of the IT staff members. The net effect was a feeling among some company managers that Carlisle had turned the IT group into a bunch of "boat rockers;" these managers wanted the IT staff members to "go back to the basement" because they'd begun to ask about things that were "none of their business."

Carlisle had never, in his extensive experience as an IT manager (including his former CIO jobs), played it safe. He had always been outspoken, a "straight shooter," and this style had worked well for him, even when it had sometimes generated heat. It had worked particularly well with Hansen, who was prone to make disparaging remarks about the IT organization. Carlisle went right back at Hansen when he did this, challenging him to explain further and help facilitate resolution of perceived IT issues that often actually extended beyond the boundaries of the IT department. This reaction had elicited respect from Hansen. Carlisle's predecessor, the former CIO, had generally dived for cover when Hansen went on the warpath, which cost him respect from Hansen and made it more likely that Hansen would disparage the IT department again. In truth, Carlisle *was* something of a boat rocker, and intentionally so. He didn't believe in the "IT department in the basement" model.

But now he fretted that his past boat-rocking might place him in the new CEO's gunsights. It was worrying that Giles seemed to be relying so much on Strati. Carlisle had liked working with Hansen, respected him—and thought he'd been right about Strati. Giles was a good guy too, and by all accounts a fine manager, but he'd been with IZL a very short time before taking over the CEO job. He really knew very little about the lay of the land, who was good at what, and so forth. But it was pretty clear that the board was looking to him to quickly right the IZL ship. In such circumstances, even the smartest leader could rush into things and make mistakes.

Carlisle wondered what it all meant for him. He was 49 years old, had three small children and a fabulous marriage, and wanted to do what was best for his family. If he was going to be forced out, maybe he should move on soon. If he lacked confidence in the new leadership—he hadn't decided yet that he did, but *if* he did—that would be a reason to think about making a move. On the other hand, the company still looked very promising. Despite recent hiccups, the fundamentals of the business remained strong, and he had personally addressed many of the risk factors that could have interfered with success. All of the reasons he'd decided to come to IZL were still valid, recent stock performance notwithstanding.

And Carlisle knew he could do still more to help the firm with another set of problems. He was pretty sure his group could help return the firm to more aggressive growth. IT capabilities that he knew they could create could be big selling points with clients. If Carlisle had his way, he would be a part of future sales meetings with big clients, and features he could bring to the table—the services edge he could provide when compared with competitors—would be deal closers. To get to that point, the hardest job would not be technical; he would have to change the way the sales organization thought about IT. At the moment, the idea of including the CIO or a member of the IT staff in a meeting with a prospective customer was about the furthest thing from a salesperson's mind.

Background—IZL Corporation

Chuck Hansen, a hard-charging investment banker, founded IZL Corporation in 1996 and located its headquarters in Manhattan, near many potential clients and partners in the financial services industry. The firm had originally engaged in a variety of niche loan markets, such as mortgages to people with less-than-ideal credit, loans for luxury items, and inventory financing for companies that stocked small but highly valuable products. Hansen and colleagues, experts in risk assessment and pricing, tended to swoop in, learn a lot about very specialized, often high-risk loan or insurance markets, and then create financing instruments, which they eventually securitized. Over time, however, they increasingly found revenues in performing back-office functions for large financial services clients who wanted to offer specialty loans of various kinds, but who had no systems or processes in place to support that business. IZL created services that clients could brand their own. Revenues from specialized back-office services had become the major part of IZL's business.

After an initial period of experimenting and further developing the business model, the company had begun to grow aggressively, primarily due to its successful strategy of private labeling specialty services to major banks and other financial services companies. The sharp upward trajectory in both revenues and profits created the potential for a successful initial public offering, accomplished in early 2004, about a year before Carlisle's arrival at IZL. After the IPO, the company's stock became an investor favorite. The stock rocketed upward. Sales hit $300 million, and profits were a handsome percentage of that.

Eventually, however, the company's success attracted imitators. The most dangerous of these were other already established financial services companies who could afford to invest money developing new lines of business. Shortly after Carlisle's arrival, several good-sized competitors had emerged. The market had adjusted its assessment of IZL stock based on this new competition, and the upward slope of the stock price leveled some, though it remained impressive. In the months that followed, however, competitors began to make inroads into the heartland of IZL's new business prospects. The stock reacted when competitors won sales that before would have gone to IZL. IZL was forced to discount its prices. Revenues and profits began to level further.

The real trouble had started about eight months earlier, with a quarterly announcement from IZL that disappointed investors. The shortfall between expected and actual revenue was small, but the reaction was not. The stock plummeted, losing almost half its value. Analysts began to debate the "right" price for a company in this business that "no longer exhibited such a promising growth pattern." In response, the board pressured Hansen to get more involved in the sales process, and to get the company back in aggressive growth mode. Hansen's in-your-face style increased pressure on everyone. The company experienced wins but also made blunders. The former happy growth rate had concealed more than a few operating problems. The new circumstances revealed these problems but simultaneously reduced funds available to solve them (especially in IT). For eight months, the company's stock went sideways, some days a little up, some days a little down. After a period during which it was pretty clear that the board was pressing Hansen, the decision to change the company's leadership was made. The change of leadership had little effect on a skeptical stock market.

Background—Jack Carlisle

John David Carlisle had grown up in a middle-class family in Providence, Rhode Island, in a neighborhood that was tough but not dangerous. He'd made good grades in school, had been a pretty good high school wrestler, and had learned along the way from his parents the value in being honest and direct. His most natural mode was straight ahead, bringing all of his considerable personal resources to bear on the problem at hand. He was great at problem solving, and at designing systems to keep problems solved. After working his way through college and taking a degree in business, he went to work for a large financial corporation in the IT department, where he quickly distinguished himself. While receiving a rapid succession of promotions, he learned a great deal from this mature financial company about controls, systems for risk reductions and reliability, and ways of making metrics information available to support decision-making. The company had a reputation as a training ground for IT managers, so it was not long before Carlisle began receiving calls from headhunters. He had risen to the level of Director of Infrastructure in one of the several major companies within this financial conglomerate when he decided to take his first VP position, in a mortgage company. Carlisle was 33 years old.

Within three years, he had been appointed CIO. Over the next decade and a half, he went through a succession of CIO jobs, at a larger loan company, an insurance company, and a brokerage firm. He stayed at each at least five years, which gave him time to do the jobs right. An executive search firm had contacted him about the IZL position and he decided to follow up on the opportunity. He had nearly completed a turnaround at the firm where he'd been working, and he was feeling an itch to do something different. A firm growing as rapidly as IZL would be a new experience.

An extensive series of interviews followed, mostly with IZL senior executives. Several themes emerged consistently in the interviews. Most prominent among them: the difficulties of dealing with growth, and dissatisfaction with current IT management. He discovered that shortly before the firm's IPO, a group of consultants had performed an assessment of the IT capability and staff and found much room for improvement. The basic problem was that the IT department and systems had not matured as rapidly as they needed to. In effect, the company's IT capability was a good fit with a much smaller, younger company, the one IZL had been not so long ago. Reading between the lines, it was also pretty clear that many considered Hansen a volatile and challenging boss, and that it was pretty universally agreed that the current IT executive had a management style that was ineffective within IZL, which still had an entrepreneurial sensibility despite having become a large company.

Carlisle's Initial Impressions

Just listening and looking around during initial interviews, Carlisle knew he could help this company. Problems that he could see even before joining the firm included:

Alignment of IT with business strategy Carlisle saw no sign that the firm had a business strategy that most people in the company understood. Thus, it had been impossible to align technology with the direction of the business. Strati seemed to own responsibility for business strategy, but complained that he had never been empowered by Hansen to formulate strategy. Hansen had stated loudly and often that he was the master of the company's strategy, because he had founded the firm and steered it to market success. At that time, it had been tough to argue with his string of successes.

Without a well-understood business strategy from which to derive practical objectives, however, technology investment planning and prioritization became exceedingly difficult. A senior executive team met weekly to discuss IT project priorities, but there was a growing backlog of client-requested and company-essential projects that were not being delivered. The constant flux in priorities, and the absence of clear objectives, made forward progress on projects inefficient. Just about the time IT staff would get going on one project, a crisis would force them to set it aside and move to a different project. For the unhappy IT staff, this kind of thrashing had become a way of life.

Organization and people The leaders within the IT group had been around since the early days of the company and had done a fine job while IZL was a small private company. But they were poorly prepared for the responsibilities inherent in running a large, public company and in dealing with mature financial institutions and regulators. When Carlisle asked one of the top IT managers, "How do you know how things are going?" the manager had replied, "If I don't get a call, everything must be fine." Formal reports and other means of monitoring the health of IT infrastructure and the business did not exist. A number of new hires had joined the company but their roles and responsibilities were not clear. The IT team essentially focused on firefighting; no one had time to think about how to make things better.

Application infrastructure Financial reporting was done via spreadsheets. Throughout, too much of the business remained manual. Applications that did exist were old and customized nearly to the point of collapse. There was little system documentation and most systems ran at volumes grossly in excess of their originally designed capacity. Projects required by a reengineering plan developed two years earlier had not been completed. The problem of replacing application infrastructure had grown so daunting that teams trying to make progress often just lost momentum—the problem was just too hard, it seemed.

Policies, procedures, regulatory infrastructure The company was a steward of client financial information, but Carlisle suspect that the policies in place to protect this data would not meet his standards. In addition, the company would have to undergo public regulatory review to demonstrate compliance with Sarbanes-Oxley (SOX) regulations. This was a challenging task for all companies, but IZL's IT situation appeared likely to make it especially hard. When Carlisle asked about things like change controls, he got vague and uncomforting answers.

Physical infrastructure Equipment was insufficiently protected from environmental hazards. Cabling inside the datacenter was a rat's nest with a myriad of unlabeled wires, some of which remained in place despite having no apparent function for fear that removing them might cause a failure. Disaster recovery and business continuity plans were out-of-date and had never been rehearsed.

Landing the Job

As the interview process drew to a close, Carlisle had begun to realize that landing the job was a long shot. He gathered that there was a much more experienced candidate for the position, maybe more than one. The only thing that made him hopeful was how well he had hit it off with Hansen. The CEO liked to provoke, prod, and test people, to watch their reactions. Carlisle recognized this; when prodded, he pushed back. He enjoyed the interaction and Hansen did too.

A few days later, he received a generous offer, which he accepted. He joined IZL in January of 2005 and immediately set to work. Within the first few weeks, one of Carlisle's peers suggested he take a year to learn the ropes, as he did. Another advised him not to get sucked down into the mud of day-to-day firefighting, which he tried his best not to do.

Early Accomplishments

In his first six months, Carlisle was able to make progress against several objectives, including:

Establish management systems and practices Carlisle had worked closely with his peers and Hansen to understand the critical needs of the business. Carlisle solicited business direction and assumptions in meetings with his peers and used that information as a basis for codifying and aligning technology strategy. He developed a framework for facilitating discussions and decision-making among his peers about project priorities based on a simple portfolio analysis of technology investments and their respective returns to the business. To ensure transparency, Carlisle formulated a monthly report comprising tactical (operational) and strategic (discretionary project delivery) metrics, reviewed it with Hansen, and provided regular updates to senior managers. It was the first monthly report from any department that was not related to required public financial disclosures.

Stabilize the physical infrastructure Day-to-day, the business thrived or struggled based on whether IT infrastructure was up and running. But systems availability was not formally managed and the company had sometimes gone off-line during the busiest of times. Carlisle immediately established simple availability-related metrics and assigned responsibility for each to their respective areas in IT. As problems arose he encouraged problem-solving discipline, to identify and address root causes. Further, he set in motion plans to house transaction systems in a world-class data center. He conducted a capacity-planning exercise to ensure that business volumes could be processed with a safety factor. This initiative generated difficulty with peers when Carlisle asked for business volume projections. No one had ever asked for that information before. He worked, too, on rationalizing the technology vendor base. IZL had too many vendors in all categories and most were poor performers. In many categories, this happened when a business area procured services on its own instead of going through IT. (This didn't keep them from blaming IT when the services went down.)

Institute policies and procedures infrastructure Carlisle developed policies, procedures, control objectives, and testing to satisfy regulatory review. He met and worked closely with the external auditors to define the scope of the Sarbanes-Oxley (SOX) audit for IZL. Carlisle also reported to the audit committee about progress on issues of IT, risks, and compliance with SOX. IZL passed the audit.

Influence the business In meeting with his peers and Hansen, Carlisle saw opportunities to increase revenue and net income. He developed a rapport with board members who understood the importance of technology to the firm's future. Leveraging the Internet was one example. In the past two years, the portion of the business conducted over the Internet had shrunk from 52% to 49%. Carlisle pitched to the board and senior management an initiative to convert the business primarily to the Internet. The cost-saving benefits of such a plan were overwhelming, but it was not just an efficiency play; the capabilities developed to support Internet-based services would be a selling point. Though successful with almost everyone, the proposal did not go over well with Strati, who seemed to feel that such proposals should come from his area.

Carlisle proposed other such "revenue side" ideas. One that he considered very promising in the long run: Abstractions of client data might be of great value. Carlisle recommended portals to allow partners to manage their own businesses better, on the basis of data summarized for them by IZL. Carlisle gained agreement from peers and incorporated these initiatives into the project backlog.

Carlisle met with representatives from IZL's largest three clients and with several of the most innovative and demanding clients to get a variety of customer perspectives. In one meeting Carlisle discovered that a client expected delivery of a system feature within a year and had decided not to renew the IZL contract if the feature was not delivered in time. This had been conveyed to the IZL sales managers but never relayed it to IT. In the IZL plan, the feature was scheduled for delivery in two years. Thanks to the client meeting, Carlisle was able to rearrange priorities so that he could deliver the feature in the time frame expected by the client.

Organizing for success Carlisle wanted an IT organization that would 1) be intimate with the needs of the clients and the business, 2) enable the emerging business strategy, 3) be accountable for goals, objectives, and metrics, and 4) stay transparent so that people could see how things were working and that reasonable decisions were being made. He met with and listened to the concerns of each member of the IT staff. He then met with Hansen and each of his peers, obtaining agreement on the new organizational structure, transition plan, and timing of changes.

Carlisle collaborated with each of his direct reports on their own goals, objectives, metrics, and key projects for the coming year. He instructed them to push this discipline down to the next level of IT management. Carlisle conducted quarterly all-hands IT meetings where he fostered communications regarding the direction of the company, IT strategy, their roles in the organization, and other timely subjects. Carlisle's peers and the CEO were frequently invited to discuss the business, key topics, and initiatives.

Carlisle established weekly IT project meetings. Attendance grew as every department joined the forum and it became a place to discuss what was going on in the trenches. Carlisle established a change-review board and problem-review board to complement processes already in place.

Decisions

The IZL job was one that Carlisle felt he knew how to do. So far, he had done it quickly and, he thought, well. But just as the IT group was beginning to get recognition for its achievements, the stock price difficulties emerged. In the generally unhappy mood that descended upon the company, Carlisle was dismayed to find his group taking hits.

Now that the company's leadership had changed, uncertainty had kicked up several notches. Giles was very different from Hansen, much more rational and methodical. He valued thorough analysis and clearly disapproved of the kinds of conflicts that had become routine under Hansen. Where Hansen had watched fights from ringside with enthusiasm, in part to see who would be fittest and survive, Giles thought about merit in a different way. He was quietly evaluative, which Carlisle found slightly disconcerting. One thing he had liked about Hansen: It was always pretty clear what he was thinking about you at any moment, because he was probably telling you straight to your face. Even when you didn't like what he was saying, which was pretty often, you knew what he thought. Giles had a way of sitting back, revealing his thinking only selectively. It was a sophisticated approach aimed at empowering his direct reports and encouraging them to work things out together; potentially an effective approach. Carlisle had worked well with similar managers in the past, and was sure he could do a good job for Giles.

But what mattered, of course, given recent events, was what Giles thought Carlisle could do. The two of them interacted frequently in management meetings, but it was difficult in those settings to get a good read on what the reserved Giles was thinking about any particular manager. Only once had Carlisle had met one-on-one with Giles for an extended period. Giles had begun meeting with all of his direct reports right after taking over the COO position, to begin to get to know his managers and to get up to speed on the current activities and plans within IZL. The meetings were scheduled a couple of weeks in advance for 90 minutes duration.

Carlisle's session with Giles came two days after he had been elevated to CEO. Carlisle presented his department's initiatives and progress against them for about the first 45 minutes, in his usual straightforward style and without exaggerating progress. Giles asked questions for about 30 minutes; Carlisle answered honestly without oversimplifying challenges, explaining where IT issues interacted with business issues and also where he thought IT could improve the company's value proposition to clients. The meeting had remained focused on business operations and finished a few minutes early. Giles appeared impressed by what IT group was doing, and said so a few times. He suggested no direction changes and offered his help at a few points of difficulty.

The conversation had never moved into broader discussions of Carlisle's place on the team, his future career objectives, or anything like that. At several junctures during the meeting, as Carlisle talked about future plans, there had been opportunities for Giles to reach out to Carlisle, to emphasize how important he and his department would be to success of the company. Maybe such endorsements were not the way Giles worked; or perhaps so soon after being given the CEO job, so recent in his tenure at the company, he simply didn't feel in a position yet to make broad statements. The absence of some sort of reassurance, however, was palpable for Carlisle. He had tried not to read too much into what Giles had *not* said, but the meeting had left him feeling adrift. Carlisle had certainly reached out to Giles, but it didn't seem as though Giles had reached back.

Maybe that would come later. Maybe there was no other way things could be, given the company's situation and the inevitable uncertainties inherent in leadership transitions. Time would tell. But Carlisle wondered what he ought to be doing, careerwise, in the meantime.