



The New Role of the CIO in M&A Due Diligence

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What if the CIO, along with CRE management, could demonstrate a contribution of 37% increase in shareholder value? Implementing an Integrated Workplace Management Solution and being able to reduce workplace operating costs by as much as 15% could help you be a part of the next Board of Directors discussion.

Today the relationship between the CIO and CFO is becoming increasingly closer, with many CIOs reporting now to the head of finance (approximately 40%¹). However, there is an equal number also reporting directly to the CEO. What is changing these reporting relationships goes even higher up the corporate ladder to the Board of Directors. In these days of heightened responsibility and accountability, the information that is required by the CFO and the CEO and communicated out to the world is certified by the Board. They demand that it be accurate and timely and are turning to the CIO to ensure this.

As such, executives want more exposure to IT operations, and in turn, CIOs need to become more 'business savvy' and more proactive in their executive leadership. This Thought Leadership article addresses one area which can demonstrate this new business acumen. As James Cash (ex Harvard Business School) has said recently, CIOs should think about "*performing due diligence on acquisitions, much like equity analysts*". Real estate has been traditionally overlooked in due diligence, which is astounding since it often represents the second highest cost to an organization, after salaries and benefits.

CIOs need to work with the existing CRE (corporate real estate) executive to assess the performance of the real estate IT portfolio. This is most critical in those acquisitions where real estate is actually the prime reason for the merger. "*While real estate may not be a central component of a business, assessing real estate is often a central component of business deals. Lack of attention to even simple factors - think title and certificates of occupancy, lease provisions, and taxes - can turn a good purchase into a dog.*"² One way to do this analysis is to use the methodology recently developed by MIT Sloan School of Management's Peter Weill and Sinan Aral³ who divide investments into four asset categories which we have applied specifically for real estate:

¹ Ingevaldson, Paul, "Chain of Command: IT and the CEO," *Computerworld*, May 23, 2005.

² Quote by Chris Price of King & Spalding cited in Jennifer Caplan's article, "Meet Your New Property," *CFO Magazine*, May 1, 2003.

³ Aral, Sinan and Weill, Peter, "IT Savvy Pays Off." Research publication, MIT Sloan School of Management, May 2005.

- 1) Transactional: Applications dealing with lease transactions, acquisitions, dispositions, move management, procurement, maintenance and help desk. The value is to reduce costs and increase the skill level of staff.
- 2) Informational: Inventory (buildings, land, leases, equipment, rights of way, etc.), location, accounting, performance metrics, etc. which are used to manage, control and report on compliance. Automated for accuracy and timeliness of information. Includes both alphanumeric and graphical software (CAD, BIM and GIS⁴).
- 3) Strategic: Software utilized for competitive advantage. An example of this is a GIS application used for location selection for a new retail store.
- 4) Infrastructure: These are the base foundation components for real estate IT services utilized or interfaced with all the above applications (servers, networks, laptops, databases). By having a shared infrastructure across all real estate and FM, costs are reduced and integration is achieved with increased quality and timeliness.

According to Weills' and Arals' studies, 54% of real estate investment in IT should be in the infrastructure, 20% in the information, 13% for transactions and 13% for strategic applications. Obviously, this is an average and will vary by company, but it gives a beginning benchmark for an analysis. It is very likely that this assessment (which should be done on both the acquiring and acquired real estate IT portfolios) is most likely to be quite disappointing to a CIO as this is the one area in the company that has often been overlooked when it comes to IT strategy and investment⁵. It will require a plan for improving this critical operation for the business that should be a joint project of the CIO, CRE and CFO.

As that strategy is prepared, one area of investigation should be the implementation of an Integrated Workplace Management Solution (IWMS). The IWMS is one of the major components of the 'Infrastructure' of IT assets and includes transactional, informational and strategic applications in its portfolio of real estate, facility management and enterprise asset management modules. As Mike Bell of Gartner has pointed out in his strategic planning assumption, *"Through 2009, 60% of global customers with real estate portfolios greater than 2 million sf will demand IWMS suites over best-of-breed point solutions."*

The CIO can use this analysis and proposed strategy as an example of his or her broadened business knowledge. In addition, they can demonstrate that by utilizing a fully implemented IWMS, and being able to calculate the total cost of occupying and owning real estate (TCO), there can be a potential gain of at least 37% in shareholder value which can be achieved based on only a 15% reduction in these costs.⁶ Now what Board would not be interested in that discussion?

⁴ These acronyms mean Computer-Aided Design (Autodesk's AutoCAD), Building Information Modeling (e.g. Autodesk's Revit) and Geographic Information System (e.g. Autodesk's MapGuide)

⁵ Sinan and Weill have designed an assessment questionnaire which can be found at <http://web.mit.edu/cisr/mitcisr-ITPortfolio.doc>

⁶ Siems, Ole and Moten Dehli, European Automotive Real Estate Benchmark Study, MBA Thesis for Univeriteit Nyenrode, September 10, 2004.

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Nancy Johnson Sanquist is the vice president of Marketing for Manhattan Software in North America. Formerly the director of North American Marketing, she was responsible for leading the company's marketing and communications strategies. With 25 years of diverse experience in corporate real estate and facility management, Nancy has worked with many public and Fortune 100 technology and consulting organizations, including Fidelity Investments, Bank of America, IBM, Kodak, Boeing, the US Navy, EPA, Capital One and the states of Louisiana and Missouri.