Chapter V

The CIO's Strategic IT Resources

Introduction

The CIO can be found at different hierarchical levels in the organization. The CEO is assigned as the only member at level 1. Level 2 includes the most senior executives, and a number of them may sit on a firm's board of directors. Their job titles include chief operating officer, chief financial officer, president, and division president. Level 3 includes the next tier of executives, such as senior and executive vice presidents. Level 4 includes higher-level vice presidents.

The CIO is typically found at level 2, 3, or 4. One of the determinants of hierarchical position is resource allocation. Generally, executives in functional positions associated with larger strategic resource allocations will be at a higher executive level than other executives in their firm. They also will receive greater cash compensation (Carpenter & Wade, 2002). Being at a higher executive level makes a CIO a more possible internal candidate for the position of the firm's CEO (Zhang & Rajagopalan, 2003). Hence, the CIO will improve his or her chances of becoming the next CEO by mobilizing strategic resources.

Resource-Based Firm Performance

As introduced earlier in this book, performance differences across firms can be attributed to the variance in the firms' resources and capabilities. The essence of the resource-based theory of the firm lies in its emphasis on the internal resources available to the firm, rather than on the external opportunities and threats dictated by industry conditions. A firm's resources are said to be a source of competitive advantage to the degree that they are scarce, specialized, appropriable, valuable, rare, and difficult to imitate or substitute.

A fundamental idea in resource-based theory is that a firm must continually enhance its resources and capabilities to take advantage of changing conditions. Optimal growth involves a balance between the exploitation of existing resource positions and the development of new resource positions. Thus, a firm would be expected to develop new resources after its existing resource base has been fully utilized. Building new resource positions is important if the firm is to achieve sustained growth. When unused productive resources are coupled with changing managerial knowledge, unique opportunities for growth are created (Pettus, 2001).

The term resource is derived from Latin, *resurgere*, which means "to rise" and implies an aid or expedient for reaching an end. A resource implies a potential means to achieve an end, or as something that can be used to create value. The first strategy textbooks outlining a holistic perspective focused on how resources needed to be allocated or deployed to earn rents. For a long time, the interest in the term was linked to the efficiency of resource allocation, but this focus has later been expanded to issues such as resource accumulation, resource stocks, and resource flows (Haanaes, 1997).

The resource-based theory prescribes that firm resources are the main driver of firm performance. The resources to conceive, choose, and implement strategies are likely to be heterogeneously distributed across firms, which in turn are posited to account for the differences in firm performance. This theory posits that firm resources are rent yielding, when they are valuable, rare, imperfectly imitable, and non-substitutable. Moreover, resources tend to survive competitive imitation because of isolating mechanisms such as causal ambiguity, time-compression diseconomies, embeddedness, and path dependencies (Ravichandran & Lertwongsatien, 2005).

Firms develop firm-specific resources and then renew these to respond to shifts in the business environment. Firms develop dynamic capabilities to adapt to changing environments. According to Pettus (2001), the term dynamic refers to the capacity to renew resource positions to achieve congruence with changing environmental conditions. A capability refers to the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional capabilities to match the requirements of a changing environment.

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