

# Interview with: **WILLIAM DOUGHERTY**

**President and Director  
North Carolina National  
Bank Corporation**

**By: HERBERT  
HALBRECHT**

President  
The Society for Management  
Information Systems

*MIS Quarterly: What do you believe that top executives in general expect from their information function, compared to what they actually do receive, and what do you see for the future?*

MR. DOUGHERTY: What we expect at North Carolina National Bank Corporation (NCNB) is a comparison of actual results against predetermined objectives or against the plan. First of all, we don't want actual data standing alone. We want to see it in comparison to objectives agreed upon previously by the various levels of management. I think the problem with Management Information Systems in the past in many companies has been that they're overwhelming as far as the executive is concerned. He has to go through reams of reports and try to determine for himself what are the most critical pieces of information contained in the reports so that he can take the necessary action and correct any problems that have arisen. My personal viewpoint, and I think it expresses the viewpoint of NCNB Corp. is that we want to see the material exceptions or variances from plan shown by the reports.

Second, we want everything condensed down so that we see the key item bits of information, not

the total reports themselves. For example, we want to see how well a profit center did compared to plan, current month, year-to-date, and not even stop there. Right across the page from those items are two paragraphs for the profit center manager which tells why he is off target, and more importantly, what he expects to do about it. It's one thing to know why he is off. It's something else to find out what he expects to do about it, or if he can do anything about it, at his level. For example, is the result internally generated or externally generated by the environment?

Third, our reports contain an addition to the profit plan and actual performance comparison data--anywhere from 5-15 additional key items of information on any one segment of the company. We look at those 8 items or 15 items including the profit plan data. We know exactly what the problems are, what's causing them and what line management expects to do. Finally, are we in agreement? If we are in agreement, we let lower management take its course of action.

What I'm saying is: 1) We developed a key item information system which is dove-tailed into a profit planning, profit center measurement, and a cost center reporting system. 2) We built in the key item reporting system segment, and to me that's the most important part. 3) We have three or four condensed books that come to senior management once a month. Top management only has to look at the key item section of each of the cost center/profit center reports and within about an hour to an hour and a half, they can know exactly what is good or bad about the company, what's being done, and determine if agreement on action exists.

*MIS Quarterly: Do you see any changes over the next few years in the type or quality of information provided to CEO's or Presidents?*

MR. DOUGHERTY: I think it will be changing more in the amount of material coming in. The reams of paper will be disappearing and more management by objective and management by exception will be reported. I want to see the exceptions to the rule, to the plan, or to the

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objectives, not all the detail. For example, I could care less about seeing three columns: actual, plan, and variance. I want to see the actual and variance columns. I see in our own company, that we're shrinking down the amount of paper work coming to the top executives. These people don't have time to spend wading through reports and trying to discover the key items. These need to be set up for them in advance. That's the change we see. I think the other area is more online information at our fingertips. This relates to automation where we can interface with the computer and get information more quickly. For example, I'm thinking about finding out during a given month how certain trends are developing.

*MIS Quarterly: Many top executives use information that is not produced by computer. Could you describe your principal source of useful information?*

MR. DOUGHERTY: We start with the foundation of the house and build up. We start with a three-year plan of what actions we are going to take. Can the various parts of the company accomplish our agreed upon objectives? For example, certain firm objectives are a 15% return on equity, 1% on our assets, and about 1.3% on earning assets. These are our measures of performance in the industry that we're in. We then develop action plans that comprise various components including a marketing plan: how is our market going to grow, whether there is a need for new products, what's likely to happen to existing products and services, what share of the market do we have, and what share of the market do we plan to try to obtain in the next years? We have an economic scenario of what we think the economy is going to be doing during the planning period and how well deposits, loans and so forth will grow during that period of time. Then we at the upper executive level approve the action plans, and every year we take off the front part and add the third year so it's a continually moving dynamic plan. The front part of the three-year plan we take out becomes the basis for the annual profit plan that we're preparing for the coming year. For example, in the fall of 1976, we did this for 1977. Next we

dove-tailed the current process into that and brought it up to date with the economic outlook and then examined the result at the executive level. At that point we've approved the objectives of the company, the three-year action plan, then the one-year profit plan. We then measure actual performance against the plan along with the key item bits of information coming to us from each segment of the company.

Nothing works according to plan, so what we have set up is a backup—a balance-sheet management committee that ties into our finance committee. Their job, among other things is to take the variances in the balance-sheet segment of our profit plan which is mainly loans, deposits and investment securities. We determine from looking at the key item reports and profit center reports what's off target and to what extent. For example, if loan demand is softer than we had anticipated and we are going to meet the plan as far as income from earning assets, we're going to have to do something to increase the securities portfolio or take other action. We then decide if we're going to take action and to what extent.

The other key item of information for our industry is the source of our funds. This is vital for our institution. It's our life-line, and we try to match the type of funds and their volatility, *i.e.*, how soon they can flow in or out of the company. Further, we examine the cost of these funds against the type of earning assets into which we're going to invest. For example, if we're going to take thirty-day money, we're going to try to put that in thirty-day or very short-term type assets. Then we're going to look at the cost of this action to determine if we are getting the proper spread between the cost of money and the rate at which we can invest it. With a ninety-day piece of paper, we have to forecast what is going to happen to rates during that period of time.

*MIS Quarterly: Do you have an asset model?*

MR. DOUGHERTY: We have an earning simulation model which pulls the whole company together, a liability model, and an asset model.

We use these models to make decisions. Sometimes models are like little toys that people like to say they have, but in our case we don't want to have anything that we don't use. In banking, balance-sheet management is how effectively we manage the net-interest margin, that is, the differential between interest earned and interest paid. This will make or break the profitability of the bank. We need these models to generate this type of information to properly manage the balance-sheet, and as we manage the balance-sheet, so go the earnings of a financial institution. This also assumes we have good expense control, which we do.

*MIS Quarterly: What approach would you recommend that a CEO take to identify his information needs as well as provide the resources to meet them?*

MR. DOUGHERTY: We started with an organization chart of the company, as well as a listing of the products and services we sell. We also need a balance-sheet to show the sources of funds, where they're being invested, and a current P & L statement. This provides financial statements on one hand, and an organizational chart on another, *i.e.*, the products and services sold. Key item information on each profit center and major cost center of the company is required.

Another thing we developed was the geographic distribution of the markets we're in – the locations and the various information about the markets. Those are the pieces we looked at to determine what we really need to run this company effectively—what types of information do we need, when do we need it and in what form should it be?

*MIS Quarterly: How big is your bank?*

MR. DOUGHERTY: We ranked as the 26th largest bank in the country as based on year end 1976 deposits. We like to think we have one of the most sophisticated management information systems in the country. We call this our Financial Planning and Control System. We've been one of the trail-blazers in our industry.

*MIS Quarterly: If you were looking for a head information services executive, what would you look for?*

MR. DOUGHERTY: First of all, I would look for a person who is intellectually very bright. In fact, I prefer a person who has had a great amount of math. He or she should have an analytical kind of mind, and the proper personality to go with it. I found a man, for example, who majored in math and minored in economics and today is one of the better management information and financial men in banking. He had very little accounting except the very basics. I like a person who has a good analytical mind, a smart individual who is well-rounded in the financial world.

Then I want a person who has the capability to take an overview of a company. Some people get in a big company and can never get up in the sky and look down and see what makes it go. They get imbedded in the various parts and never know what happens to the total. I want someone to help us determine with keen analytical ability what the various parts are and what's needed for us to see that they are managed well. He or she should have a very practical approach, yet not so practical that innovative ability is restricted. This is a tough person to find. We were fortunate. We have two of these people in our company.

*MIS Quarterly: Information services impacts upon and is impacted by all parts of a company. Are they represented in the planning process from the beginning or are they the recipients of the end product of the process?*

MR. DOUGHERTY: The information services function of the company serves as the catalyst that makes planning go. Our viewpoint is it's wrong that the corporate planning function or the corporate planning officer does all the planning. In some companies this has happened; all the planning is done in one place which is deadly. On the other hand some companies have the line units do all the planning and then it all comes up and is dumped on the corporate planning officer's desk. This is equally bad.

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What we do is involve the planning officer from the very beginning. He works with executive management or senior management in determining how we're going to go about the planning process and what types of information we need and so forth. This request goes out from us for the preparation of the plan which he has helped to draft. He then is at the disposal of the various units to assist in the preparation of the plan.

*MIS Quarterly: To whom does the information services head report?*

MR. DOUGHERTY: Information services as we would define it in our institution reports to the chief financial officer. The planning officer reports to the CEO.

*MIS Quarterly: The information services function then does participate in planning at the inception of the process?*

MR. DOUGHERTY: Yes. They're aware of exactly what we're doing, from the inception, together with the planning officer and executive management all the way.

*MIS Quarterly: What criteria or methods do you employ in evaluating the information services lead executive in the performance of his responsibilities? How and what do you measure in the function he heads?*

MR. DOUGHERTY: First of all we're very strict on the reliability of the data. How accurate is the data we're getting and how timely is it? For example, if I don't have the key data by the tenth business day following the end of the month, it's too late. In addition, I'm really looking at how well can that person assist executive management in looking at any one profit center, any one division or unit of the company to help evaluate what the key items of information are that should be presented. He actually works with the unit line supervisor in helping him determine what is needed to send up-stream to higher management and the chief executive officer. He should be able also to look down from the top with us to see what we need to run the organization. What we're looking for

is his ability to get out there and really know the various parts of the company. We also want to help in evaluating what the key items of information are for every segment of the company. We then evaluate performance based on how well he pulls it together, how well he displays it to us whether it is delivered in narrative form, graphic form, chart form or whatever.

*MIS Quarterly: What are the incremental benefits your organization gets from the fact that you may have superior information?*

MR. DOUGHERTY: Those of us who are in banking know that for a number of years banks have had very poor information upon which to properly price products. By products I mean loans and various fee type services we offer. We have found that from our financial control system we know not only our actual cost, but our standard cost. We use these to price our products and services and therefore we are certain we are getting a cost return plus a reasonable profit. As a result, we have seen our return on various types of products and services increase through our product profitability and functional P & L program. We have a good handle on the markets we serve, our share of the market, and we are able to determine our market penetration.

*MIS Quarterly: So your information services function is a very key element in your being able to do all of this, and that when you're attempting to evaluate the benefits that you get from your information services, you don't just think in terms of return on investment of a system, but in terms of the strategic information that you were just referring to?*

MR. DOUGHERTY: That's true. For example, the system revealed a line of services that we offered that was unprofitable. In fact, it was the highest cost service that we could possibly offer. We discontinued the whole product line based on the information and it saved us a lot of money. The performance was measured on the bottom line. I think we have a good handle on every facet of our organization.

*MIS Quarterly: What do you look for in your head of information services? What about his knowledge of computers and data processing technology?*

MR. DOUGHERTY: He or she has to have a working knowledge, but this person doesn't have to be the end in automation. The person should have a good grasp of automation and what it can and can't do.

*MIS Quarterly: Do you consider this information systems executive part of top management or very close to it?*

MR. DOUGHERTY: Very close. I think in running a big company, your attorney and your chief financial officer can't be very far away. One is on the right hand side and one is on the left. Your management information-type executive is close to the top also. It would be foolish for a CEO to run a company without that kind of person close to him in the organization.

*MIS Quarterly: How are priorities set within your company for the allocation of the resources of the information systems function?*

MR. DOUGHERTY: That was a big question we asked ourselves about ten years ago when we began to blaze the trails for the industry. How much should we spend and why should we spend it? Then we made a basic decision that we couldn't properly run the company without this type of information and we had to spend whatever it took to get it. That was a decision we made back in 1967, going into 1968. In the year we did that, it had an impact on our earnings. It was a measurable impact and it was worth it. We looked upon it as an investment we were making to enhance future earnings. We have found in the almost nine years that we have had the information system, that it has more than paid for itself.

*MIS Quarterly: Were you the President at that time?*

MR. DOUGHERTY: No, I was a Senior Vice President.

*MIS Quarterly: Do you make a determination that your spending should be a percentage of anything.*

MR. DOUGHERTY: No, we do not.

*MIS Quarterly: Would you spend as much as you need to get the information to really run the bank most effectively?*

MR. DOUGHERTY: We couldn't afford not to.

*MIS Quarterly: You mentioned earlier the use of visual displays and other media. Some companies are going to the chart or information room concept. Do you see that as a trend?*

MR. DOUGHERTY: Yes. Our "War Room" is designed so that nothing distracts us at all. We have to pay attention to what is going on. We can have slides up, either a moving picture or two rear screen slide projectors going at the same time. Or, we can have graphs and charts on a wall that light up one by one to get our attention. This has been very effective. Someone might say, "Well that is a little icing on the cake. Do you really need that?" We find when we get managers in the room we can focus their attention on these items better and as a result make more informed decisions.

The next step is having computer terminals within the immediate reach of the CEO so that he can get information at any point in time of the day, week, or month. However, I don't see that evolving very quickly.

*MIS Quarterly: How often do you use your "War Room?"*

MR. DOUGHERTY: We use it for all our key meetings. Every Monday morning we have a staff meeting there. The balance-sheet management division meets there every Thursday morning, the Finance Committee twice a month, and our profit plan meeting is held once a month. That's six key meetings held monthly and any number of other meetings held from time to time. Anyone at the executive management level can schedule that room.

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*MIS Quarterly: Your bank has been very successful from a profit standpoint. Did information systems help?*

MR. DOUGHERTY: I would be less than honest if I didn't say yes. Our management information system and our financial planning control system have played a major part in our success. But without the right executives who know how to use it, it's worthless. It takes a combination of good talent and good executives to use it.

*MIS Quarterly: If you were addressing our national professional society and you were asked to exhort our membership about something, what would you say?*

MR. DOUGHERTY: Know your company and know what's required to properly assist the executives in running it. Don't let yourself get into the trap of getting information for information's sake. Match up the information needed with what is required.

The other piece of advice I would give is, it's a very dynamic world we're in and the job of the MIS executive is very dynamic. Don't ever sit back and think you've got the ultimate system. A year or two from now you may get hit in the back of the head with a board because the whole economy has changed, the company needs have changed and you haven't changed the system to keep up with these changing needs. I've seen it happen to various people where they thought they had the ultimate system and sat back and enjoyed it. It just isn't that way. It changes every day.