Memo to the CEO

Are you getting the best out of your CIO?
## Contacts

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</table>
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Executive summary

In an increasingly digital world, the role of the CIO is evolving rapidly. The rise of consumerization and new technologies, combined with a highly competitive environment, will pull IT further into the heart of the business agenda. More and more, CIOs will hold the key to unlocking competitive advantage and business benefits. With this shift come growing pressure and higher expectations.

As a CEO, you need to ensure that your CIO and the IT function he or she leads are best positioned to help shape and enable your business’s response to these opportunities and challenges. This report, which contains a number of key insights from Strategy&’s inaugural CIO Success(ion) Study, should provide helpful perspective on the role of the CIO.

The study, conducted during the first half of 2013, involved more than 60 CIOs from large international companies across industry sectors. Our goal was to better understand the CIO’s career path, succession trends, and success factors. The study revealed some surprising and unexpected insights — a number of which are directly relevant to you as the CEO — on what the concerns and goals of CIOs are today, where to find the right people to fill the role, and how to help them and their IT departments succeed in nurturing and delivering the digital capabilities required to effectively pursue your company’s business strategies and priorities.
Regardless of your industry, your company is likely to grow ever more dependent on a variety of mature and cutting-edge information technologies to connect with customers, suppliers, and employees; to stay competitive; and to succeed. Digitization is a fundamental part of the new business model, affecting supply chains and operations, marketing and sales, interactions with current and potential customers, and daily collaborations between employees. You are highly aware of the importance of the technology your company uses.

Your IT department is accountable for helping enable your broader organization embrace and exploit the potential of digitization, in close partnership with the business. Therefore, the selection of a chief information officer (CIO) to lead the IT function and help shape the business’s IT agenda has never been as critical as it is now. And it doesn’t stop there: Motivating and empowering your CIO — and creating the conditions that will allow him or her, as well as the IT department, to succeed — are equally important.

The CIO role is multifaceted and particularly challenging. Coordinating an increasingly complicated set of internal and external resources and capabilities, CIOs must ensure that the technologies and solutions that support critical business processes are constantly available. They need to oversee the development of complex new IT-enabled projects on time, on budget, and in a way that delivers the promised business value. They need to visibly contain and repeatedly attack the IT cost base. They also need to ensure that the potential impacts of new and emerging technologies and solutions are continually assessed and, when appropriate, pursued and exploited. They juggle all this while shaping and pursuing a strategic IT agenda for the business and balancing the inexorable demand for new services and solutions from every part of the organization.

Strategy& recently conducted its inaugural CIO Success(ion) study. In this study, we surveyed and interviewed CIOs from a wide range of large multinational companies, most of them headquartered in Europe, across industry sectors. Our goal was to better understand the CIO’s
career path, succession trends, and success factors. The study revealed some unexpected insights, a number of which are of direct relevance to you as the CEO. Our findings provide a set of up-to-the-minute perspectives on what the concerns and goals of CIOs are today, where to find the right people to fill the role, and how to help them and their IT departments succeed in nurturing and delivering the digital capabilities required to effectively pursue your company’s business strategies and priorities.
Where should you look for your next CIO?

The CIO Success(ion) study set out to examine where today’s CIOs came from and how they were selected and appointed.

The vast majority of CIOs are being recruited externally, our study found, the implications of which are stark for ambitious and talented members of your current IT leadership team: The odds of being promoted to the CIO role in the foreseeable future are slimmer than they may have thought — assuming, of course, that a CIO turnover even takes place. First, they are competing against their peers to be considered for the top IT job. And second, there seems to be an innate bias among organizations toward outsiders; they usually look externally for the next CIO (in a handful of cases, they consider sideways moves from other functions). The reality for current IT leaders may be even worse. Through our CIO interviews, we discovered that a number of today’s CIOs who were promoted from within had switched organizations at the level just below CIO in order to be groomed as a successor prior to their elevation (see Exhibit 1, next page).

There are several reasons that appointing a CIO from outside your company might be appealing. If your former CIO wasn’t seen as up to the task, why would you expect his or her direct reports to be much different? As the CIO of a large engineering firm explained, “A high percentage of CIOs are brought in specifically to act as change agents.” Despite this view, many CIOs we spoke with were surprised and concerned to hear how few of their peers at other companies were promoted directly into the role. One, the CIO of a global energy company, expressed the opinion that “unless we can demonstrate a clear path of senior progression within IT, our ability to attract, develop, and retain the top workforce we need to drive digitization in our business will rapidly deteriorate.” Indeed, almost every CIO we spoke to made reference to active senior-level succession planning taking place within the IT function, although many admitted that when the time came, serious consideration would probably also be given to identifying external candidates for the role.
### Exhibit 1
**The CIO life cycle**

<table>
<thead>
<tr>
<th>20s</th>
<th>30s</th>
<th>40s and 50s</th>
<th>The next step</th>
</tr>
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<tbody>
<tr>
<td>More than 80 percent of CIOs have bachelor’s degrees or higher; only 12 percent have MBAs</td>
<td>Almost 70 percent worked for a management consulting firm or systems integrator at some point in their career</td>
<td>Almost 40 percent moved from a previous CIO position to their current role</td>
<td>Almost 60 percent expect to stay where they are for less than three years</td>
</tr>
<tr>
<td>Just over 50 percent began their working lives in IT</td>
<td>Almost 50 percent bring members of their previous teams with them to their current company</td>
<td>More than 50 percent have been in their current position for more than three years</td>
<td>Just a quarter of CIOs move on to similar positions at their next organization</td>
</tr>
<tr>
<td>Sixty percent worked in a different company in a different industry before joining their current organization</td>
<td>Less than 30 percent got their current job through a headhunter</td>
<td>The average CIO is about 48 years old, and virtually all are male</td>
<td>More than 40 percent have been with their current company for more than six years</td>
</tr>
<tr>
<td>More than 60 percent expect to stay where they are for less than three years</td>
<td></td>
<td></td>
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Source: Strategy& analysis
We offer a simple rule of thumb: If you believe IT and digitization are currently on the right path in your company, and there is broad confidence in the strategy and road map laid out by the CIO and his or her top team, looking internally for a successor should be the default plan. If, however, these conditions do not exist, consider an external successor. (You should also then look within your organization to identify what allowed such a disappointing situation to develop in the first place, whether on the business side or within IT itself.)

It seems that although executive search firms continue to play an active role in finding and placing CIOs, their dominance in this space has diminished dramatically with the advent of LinkedIn and other social networking sites. According to the CIO of a leading financial-services company, “a personal referral, based on a combination of accomplishments and relationships, is increasingly the way that I get introduced to opportunities, and it’s also the way I found many of my own external hires. The world is rapidly becoming a better-connected place.”

Of the CIOs who do come from outside the company, the majority switched industries to take on the new role. (One exception to the industry-hopping phenomenon appears to be financial-services companies, where the majority of CIOs have worked in the industry for most, if not all, of their career.) And nearly three-quarters of today’s CIOs have worked at either a management consulting firm or a systems integrator at some point in their career. This suggests that breadth of experience is valuable and that that value is recognized. “The virtue of experience as a consultant lies in the exposure to a variety of business problems, large programs, stakeholder management, and strategic thinking,” the CIO of a leading industrial products company told us.
Is your current CIO likely to succeed?

To address the question of what drives success, the CIO Success(ion) study explored a number of different angles: What do today’s CIOs believe the critical success factors of the role to be? On what key dimensions are CIOs and their IT functions measured by others? And on the other side of the coin, what are the primary reasons for CIO failure?

CIO folklore would have it that the quickest way to find oneself being pushed out of the job is to fail to deliver day-to-day IT services — the ability to process transactions, quickly access customer information, and even send and receive email, for example. But although the logic of this seems irrefutable, in reality we found few current CIOs whose predecessors were let go for this reason. That may be because technologies and associated solutions have matured to such an extent that major service failures are now far less common than they once were.

We did, however, find that on becoming CIO, half of our study respondents inherited, and then had to rescue or abandon, major projects. In a sizable number of cases, the failing program was what led to their predecessor’s departure (see Exhibit 2, next page).

The proportion of IT projects costing more than US$1 million that fail to come in on budget and on time, or to deliver the original business promise, remains high — almost 30 percent, according to IT research firm Gartner Inc. These are typically big-ticket, multiyear, enterprise-wide programs involving new ERP, CRM, or core industry-specific solutions that promise to fundamentally change business performance and competitiveness. Unfortunately, these complex, joint IT–business projects are often allowed to deteriorate into very costly IT-driven systems implementation and replacement initiatives, which lack genuine ownership and buy-in from the business areas involved.

According to the CIO of a global consumer products company, “If you’re not extremely careful with these programs, business stamina and patience run out. ‘Just get the #@*$!! system in once and for all so that we can pick ourselves up again and move on’ becomes the dominant refrain. That’s of course assuming that you can get to a working system at all.” The result
Exhibit 2
Poor business partnerships and failing projects are the primary causes of CIOs’ being forced out

<table>
<thead>
<tr>
<th></th>
<th>Reason</th>
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<tbody>
<tr>
<td>1</td>
<td>Not partnering well with the business</td>
</tr>
<tr>
<td>2</td>
<td>Failing IT programs</td>
</tr>
<tr>
<td>3</td>
<td>Too many service failures</td>
</tr>
<tr>
<td>4</td>
<td>Excessive cost</td>
</tr>
<tr>
<td>5</td>
<td>Insufficient business impact</td>
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</table>

**Top five reasons for CIO failure**

Note: Reasons for failure that were not ranked in the top five include lack of innovation; not responding to new trends; being late in adopting new technologies; and ineffective outsourcing.

Source: Strategy& analysis
frequently is an expensive, shiny new IT solution that doesn't quite do what was promised, isn't well integrated into or absorbed by the business, and ultimately doesn't have much tangible impact on business performance.

Although many factors affect the success of large programs involving IT, CIOs need to ensure a strong sense of joint ownership and work in genuine partnership with business stakeholders on such journeys to ensure the successful delivery of complex IT-enabled business change. Recall that failing to establish a strong business–IT partnership was listed as the number one reason for CIO failure, followed closely by failing IT programs.

Our survey showed that although a small number of CIOs reported to a COO or other operational executive, the majority had a direct line to the CFO or CEO, in roughly equal proportion. All the CIOs we interviewed noted that the reporting line can be a critical issue, because whom they report to has a big influence on where they focus their IT organization’s energies and resources. Those reporting to the CEO suggested that they were typically encouraged to take the perspective of enterprise-wide business value — how much the IT department delivers to the business — whereas reporting to the CFO can shift the primary emphasis of IT to the cost agenda and automating operations.

According to the CIO of a major transportation company, “The cost-versus-value equation changes with reporting line. With the CEO, it’s all about focusing on strategy and value. With a CFO, the focus tends to be on costs in the back office.” The CIO of a large beverage company, who has reported to both CEOs and CFOs, noted, “My experience is that a CEO reporting line results in more ‘adult’ end-to-end business-oriented discussions with a far greater focus on value and on shaping a balanced portfolio of investments, while a CFO reporting line puts a much stronger emphasis on the ROI of individual investments and a real obsession with IT costs, sometimes leaving business value on the table.”

This suggests that reporting lines typically determine not just what people CIOs interact with, but how they think and what they concentrate their IT organizations on. How you select the right CIO and where you position that person within the senior team will depend on the nature of your company and the balance it aims to strike between cost and value. As a CEO, you need to make active choices depending on what you wish to achieve. Of course, this is not a hard-and-fast rule; there are exceptions. The CIO of another global energy company who currently reports to a CFO noted, “At the end of the day, a lot of this comes down to the nature of the relationship between the executives. If the CIO is credible [to] and accepted by the top team, and has the IT management basics like service and cost under tight control, the fact
that they report to the CFO becomes more of a convenience and doesn’t have to make a lot of difference.”

The IT architecture of a company — its landscape of systems and technologies — can also reflect the nature of the CIO reporting line. Companies in which the CFO has a strong influence over the IT agenda and priorities will often have powerful and well-designed transactional IT systems, such as ERP and core banking, but may be weaker in other areas, such as sales, marketing, and product development. So the choice of where the CIO role should sit organizationally should take into account the agenda you believe IT should have in your organization, today and in the future.

Just as important as the CIO’s reporting line is the IT leadership team he or she builds. More than three-quarters of CIOs cited “people and skills” as a primary focus upon taking on a new position, second only to delivering major programs. The third most important focus: the IT organization itself. Several of the CIOs we interviewed pointed out that leadership was essential in this area and that they rarely brought their own people with them into new positions — at least at the start — preferring to meet the inherited team and learn their strengths and weaknesses.

Every CIO we spoke to also confirmed the importance of stakeholder management and the ability to forge strong partnerships at the junction between business and technology (see Exhibit 3, next page). “To succeed as CIO you need to communicate, communicate, communicate,” said the CIO of a major logistics firm. “Reach out and get to know people. The ability to convince people is crucial, so invest time in helping stakeholders understand the business case of every IT program.”

CIOs also ranked “visionary and strategic thinking” — the ability to envision how their company can benefit from technology combined with the ability to think strategically — as an exceptionally important success factor. This is becoming increasingly relevant in an era when effective use of technology is more and more closely linked to business success, and therefore is a skill that CEOs should pay particular attention to. A CIO who combines this skill with the other important success factors will likely be instrumental in your firm’s ability to gain strategic advantage through technology.

Looking at how the IT organization is viewed from the outside, it is curious to see CIOs reporting that innovation appears far down on the list of measures of IT success, well below cost control, scalability, flexibility to deal with changes in the business, and quality of solutions and services. “It’s a matter of pragmatism. In my view, the CIO’s day job takes up most of the time,” said the CIO of a leading pharmaceutical
Exhibit 3
Stakeholder management and strategic thinking top the list of success factors for CIOs

<table>
<thead>
<tr>
<th>CIO success factors</th>
<th>Rank 1</th>
<th>Rank 2</th>
<th>Rank 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong stakeholder management skills</td>
<td>33%</td>
<td>29%</td>
<td>13%</td>
</tr>
<tr>
<td>Visionary and strategic thinking</td>
<td>24%</td>
<td>29%</td>
<td>22%</td>
</tr>
<tr>
<td>Deep understanding of the business</td>
<td>13%</td>
<td>15%</td>
<td>24%</td>
</tr>
<tr>
<td>A seat at the top management table</td>
<td>18%</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>Oversight of all relevant resources: people, spend, etc.</td>
<td>5%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Technical background and expertise</td>
<td>5%</td>
<td>9%</td>
<td></td>
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</tbody>
</table>

Source: Strategy& analysis
company, “so you can leave innovation to the vendors.” The CIO of a
financial-services company agreed with this view. “Don’t innovate for
innovation’s sake,” he said, “but do innovate selectively, on topics like
mobility and big data, taking advantage of innovation early where
appropriate.”

Despite the importance CIOs place on business acumen, strategic
thinking, and stakeholder management, the tension between effectively
managing the cost of IT and creating business value remains their
primary concern. At many companies, IT is still perceived as a cost
center to be managed as efficiently as possible, and CIOs highlight
cost-effectiveness as one of the primary measures of their IT
departments’ success. But although cost management is a critical
concern in an age when IT absorbs such a large portion of companies’
budgets, it’s not necessarily the way to get the most business value out
of IT (see Exhibit 4, next page).
Exhibit 4
Cost-effectiveness remains the most important measure of success for most IT organizations

<table>
<thead>
<tr>
<th>Measure</th>
<th>Rank 1</th>
<th>Rank 2</th>
<th>Rank 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost-effectiveness</td>
<td>33%</td>
<td>18%</td>
<td>22%</td>
</tr>
<tr>
<td>Flexibility and scalability</td>
<td>27%</td>
<td>18%</td>
<td>9%</td>
</tr>
<tr>
<td>Quality</td>
<td>11%</td>
<td>22%</td>
<td>20%</td>
</tr>
<tr>
<td>Innovation</td>
<td>7%</td>
<td>13%</td>
<td>20%</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>7%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Sourcing</td>
<td>7%</td>
<td>5%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Strategy& analysis
As a rule, CIOs are a restless bunch. Almost half have been in their current CIO position for three to five years, but more than 40 percent say they don’t expect to be there beyond another year or two. So if current CIOs are meeting the expectations set for them, understanding how they think and what matters to them in their careers will help you retain them.

In one sense, that should be easy. Almost 90 percent of the CIOs we surveyed said the top reason for moving to their current position was the new professional challenge involved, and more than half suggested that they were dissatisfied with their current role. Providing new business and technological problems to solve, and the support needed to solve them successfully, will certainly help provide ongoing professional challenges and keep your CIO engaged.

At the same time, a third of CIOs are forced out of the role — a finding that surprised most of the CIOs we interviewed. Half of them thought that figure was high, and was a matter of real concern. And the other half expected it to be higher, given the changing nature of the CIO role, the growing focus on digitization, and their sense that many of their current peers at other companies would struggle to be effective in the new world.

In terms of career aspirations, the majority of study participants described another, larger, more prestigious CIO position as being the obvious next step, most likely at another company. A third of participants were in their first CIO role, 25 percent were in their second, and more than 40 percent had held three or more CIO roles. The rise of the “serial CIO” is a very real phenomenon.

A small, but quite noticeable, minority of those we spoke to voiced the desire for their next role to include P&L responsibility, and a similar minority were determined to avoid such a responsibility. When considering options within their existing organization, many pointed to shared-services operations and other support functions as being obvious areas that could be put under the responsibility of the CIO in order to benefit from the service management capabilities they had built up in
the IT function, and to provide the opportunity for greater CIO scope and responsibility without their having to change organizations. Indeed, some participants have already been given responsibility for such activities. “The CIO is among the few roles with a cross-functional, cross-organizational perspective. This in conjunction with running large programs and driving change should prepare them to become COOs,” said the CIO at an international retailer.

A number of CIOs raised the prospect of joining an IT solutions or services supplier — a “gamekeeper turned poacher” situation, as one CIO put it — or a consulting firm, but this is a far less common transition for CIOs.
The best CIOs fully understand the critical connection between IT and the business, and they’re adept at managing stakeholder relationships and forging partnerships. They have an informed, even visionary, perspective on how digital technology will transform business over the next several years, and what that will mean both strategically and for day-to-day operations. They are strong and effective leaders who can coordinate well across organizational boundaries. Just as important, they are a safe pair of hands when it comes to optimizing service quality and costs, and they fully appreciate the importance of being able to do so.

There is a saying that “every organization gets the IT it deserves.” In order to play a strategic role, CIOs can’t go it alone. They need the support of their CEO and other top executives to maintain the necessary connections with business leaders and to ensure that all stakeholders understand their role in furthering the use of digital technology to stay competitive. It’s up to you as CEO to ensure that your CIO is capable and positioned properly to shape and serve the business agenda, and to make sure that business leaders and other stakeholders are working effectively with your CIO. The stakes in the age of digitization are higher than ever, and the success of your CIO will become more and more fundamental to both your own success and that of your organization.
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