CIOs have the opportunity to cement IT as an integral business strategy, but they must balance the need for operational efficiency with transforming IT.
As the digital revolution spawned by the explosive growth of disruptive technologies such as mobile, cloud, social, and analytic tools continues to fundamentally reshape the enterprise IT landscape, much has been made of its effect on the CIO role.

Are CIOs leading their companies into a new era of Enterprise IT? Or are they losing control of their technological fiefdom as companies embrace this transformative shift by increasingly deploying technology outside of the data center? According to CIO magazine’s 13th annual ‘State of the CIO’ survey, many CIOs find themselves in the thick of a digital revolution.

“I look at it as the CIO role has never been more important than it is today, and the survey backs it,” says Adam Dennison, publisher of CIO.

Certainly, streamlining today’s infrastructure while exploring the staggering potential of next-generation Enterprise IT demands the ability to work across functions as enterprise business strategists rather than technical tacticians. “Today’s strategic CIOs have to have a firm footing in their organizations and work well with all C-level groups, and our data shows that that’s exactly what they are doing,” says Dennison.

However, IT leaders must do so amid continuing pressure to keep costs down and increase operational efficiency—a delicate balancing act for many.

“I LOOK AT IT AS THE CIO ROLE HAS NEVER BEEN MORE IMPORTANT THAN IT IS TODAY.”

— ADAM DENNISON
PUBLISHER OF CIO
**How CIOs Work**

There has been a lot of talk about line of business executives increasingly taking over IT functions—Gartner recently predicted that the CMO would have a bigger budget than the CIO by 2017, for example. However, the State of the CIO survey, conducted among 722 top IT executives responding from mostly North America and EMEA, found that the role of the CIO is growing stronger rather than weaker. For example, the average tenure of a CIO is at an all-time high of nearly six years. “There’s been a lot of misperception in the market that CIOs are only in their roles for about 18 months, but in fact tenure has been climbing since 2010,” says Dennison.

Additionally, more CIOs now report to the CEO, highlighting the increasingly strategic role that IT plays in the corporate world. Forty four percent of the CIOs surveyed report to the CEO, up from 38 and 39 percent in 2012 and 2013, respectively. At the same time, only 18 percent report to the CFO, down from 23 and 21 percent in 2012 and 2013. IT leaders at small mid-size companies (51 percent) are significantly more likely to report to the CEO than their enterprise company counterparts (29 percent), which suggests there are fewer layers of hierarchy at small and medium-sized companies.

**Increased Strategic Focus**

Moreover, the percentage of CIOs utilizing their time and energy on activities at the more strategic end of the spectrum continues to climb. The survey asked respondents to identify with several CIO profiles—functional, transformative, or business strategist. “Business strategist hit an all-time high of 34 percent, and it’s been climbing since 2011,” says Dennison. “It’s a testament to technology moving to the center of the business—it’s really business technology, not information technology.”

Respondents report increased focus on activities such as driving business innovation (31 percent, up from 26 percent the previous 2 years) and developing and refining business strategy (27 percent, up five percent from 2012.) Twenty percent say that they are involved in identifying new opportunities for competitive differentiation, while 17 percent work on developing new go-to-market strategies and technologies.

CIOs with a business strategist role cannot succeed without a constant external focus on business functions and activities, so it’s not surprising to find many respondents deploying tactics designed to strengthening their general relationship with business stakeholders. Many report that they are delegating more, developing leadership and cross-functional skills among their IT staff and increasing their attention and focus on customers.

For example, the CIO of a U.S.-based natural gas energy company created new roles within IT specifically targeted at improving customer focus. “We developed roles such as solutions architect managers and business architects to give business leaders an IT go-to person to interact with whenever they were thinking about the kind of business improvements they wanted to invest in,” he says. “It helped for us to have somebody who could talk about the process and business end goals rather than just about technology requirements.”

CIOs even take their customer experience show on the road, as one third of CIOs now actively call on customers, up from just 18 percent two years ago, and 34 percent train their IT staff to focus on external customers, up from 25 percent in the 2011 survey.

"WE ARE MORE EXTERNALLY FOCUSED THAN WE HAVE EVER BEEN, BECAUSE IT’S NOT ENOUGH TO ALIGN IT TO BUSINESS STRATEGY..."

*JOE TOPINKA, CIO AND VICE PRESIDENT, MULTICHANNEL COMMERCE, RED WING SHOES*
“We are more externally focused than we have ever been, because it’s not enough to align IT to business strategy—that implies that IT is an afterthought,” says Joe Topinka, CIO and vice president of multichannel commerce at Red Wing Shoes. “In the age of the customer, IT and business have to be more converged and integrated—IT should be proactively involved in strategy development on an ongoing basis.”

Controlling Technology Investments

CIOs report their average IT budget as a percentage of revenue is 8.6 percent, up from 5.2 percent last year and 4.7 percent in 2012. While that is good news, there continues to be controversy over the perception that CIOs are losing control of technology budgets at many large companies.

Survey respondents report that IT directly controls an average of 65 percent of the total dollars currently invested in technology products and services at their organizations. Roughly eight out of ten of the surveyed CIOs say that other non-IT groups or functions have budgets specifically earmarked for investments in technology products and services. Operations (42 percent), marketing (39 percent), finance & accounting (34 percent) and sales (27 percent) are the most commonly identified non-IT functions currently holding technology budgets. Many CIOs look on this as a fact of life, as 48 percent view these shadow IT groups as a constant that fluctuates in response to shifting business priorities. However, that doesn’t mean they have to like it: More than three quarters of respondents (76 percent) agree that IT projects developed without IT involvement are more likely to run into problems.

CIOs do not expect to lose further budget control to shadow IT, as most predict that the percent of IT dollars under their control will remain about the same.

“Good collaboration is how we do these things.”

CIO, US-BASED NATIONAL GAS COMPANY

In fact, the numbers could reflect the general increased importance of technology rather than a siphoning of dollars from the CIO’s bailiwick to business functions, says Martha Heller, president of Heller Search Associates, LLC, and author of “The CIO Paradox: Battling the Contradictions of IT Leadership.” “Because IT is becoming as pervasive a concept as money or air, full control cannot belong to the CIO—nor should he want that,” says Heller, who draws an analogy between the CIO role and that of the CFO. “Think about financials—not all of the financial resources in a company belong to the CFO—he’s not the boss of all the budgets, but he does set guidelines. That’s what a CIO needs to do—to be the expert voice and set guidance going forward. Command and control won’t work.”

The CIO at the energy company agrees with Heller’s characterization of the CIO role, and welcomes technology projects that come from the business side of the house.

“I think its wonderful thing that our business leaders are comfortable with technology to the point where they are exploring other technology projects,” he says. “An idea coming from the line of business is usually better than one coming from us.”

He has instituted governance practices for Software as a Service projects to ensure that security and integration issues are addressed, and says that cloud projects help his group respond to business demands quickly. “Time to market with cloud applications is a fraction of the time it would take us to build or install an app ourselves,” he says.

It works for his company because he has built strong communication channels between the business and IT. “Good collaboration is how we do these things,” he says. “We have a company culture that doesn’t reward data cowboys.”
Discovering rogue IT projects can actually help CIOs build partnerships, if they take the right approach. “It’s a wonderful sign to the CIO as to where both dissatisfaction and innovation are happening,” says Heller. “The savvy ones will take the opportunity to build a partnership with that group.”

**Changing CIO Role**

Not surprisingly, more than half of the survey respondents expect their position to evolve even more strongly to an enterprise strategic business leader role over the next several years. Although some expect to focus on internal business capabilities while others predict that they will spend time working with customers and partners to establish inter-organizational capabilities, respondents said that engaging business stakeholders more effectively is the top action needed to elevate IT’s relationship with the business.

However, while 86 percent of respondents agree that the CIO role is becoming more important to their businesses, there is an increasing schism in how the IT executive role is defined. While many CIOs view themselves as business game-changers, 28 percent report that they feel sidelined, resulting in a bifurcation of the CIO role.

While some CIOs position themselves as innovators who contribute to high-value revenue oriented products, other CIOs focus on running a tight operational ship, designed to produce a safe, inexpensive and secure infrastructure. “The assumption is that those that excel at operational efficiency will be relegated to the sidelines, but I see them moving into roles like chief business process officers or shared services officer,” says Heller. “The trick is to understand what kind of CIO you have and treat them accordingly.”

There is increasing evidence that companies tend to value the business strategist skills more highly, however. For example, the 61 percent of respondents whose compensation packages are tied to overall corporate sales or profit levels also have far different priorities and expectations than the 38 percent of CIOs whose pay is not tied to financial performance. They are being asked to tackle strategic tasks such as improving products and services, or enabling market growth. These ‘game changing’ CIOs also make more, as these types of CIOs average about $249,000 annually. Conversely, CIOs who report that IT is viewed as a cost center report an average salary of $182,000. Moreover, those CIOs who say the IT group is perceived by colleagues as a cost center are much more likely to feel sidelined. While the percentage of CIOs overall who report to the CEO is up, among game-changers that number is at 64 percent, while for cost-center CIOs it’s only 37 percent.

This skills gap could also reflect an inherent organizational bias from the top, as respondents report far different expectations from the CEO depending on their CIO profile. For example, CIOs who say that IT is viewed as a cost center report that the top priorities from their CEO involve finishing a major technology project, simplifying IT, and cutting spending. On the other hand, the game-changers report far more strategic goals from their CEO, such as leading product innovation initiatives.

**Top Tech Trends**

An increasingly interconnected digital and physical world has increased pressure on IT to support elastic, real-time business interactions, so it’s not surprising that cloud and mobile topped the list of hot technology trends for both business and IT. For example, a full third of CIOs and business decision makers reported that mobility will have a profound effect on both the CIO role and the organization at large.

The CIO at the natural gas energy company says that demand for mobile applications and services comes from both internal workers and external customers. “They don’t want to call, they would rather access information via their mobile device,” he says. “It has really caused us to raise our game in terms of not only mobile capabilities, but also customer service and how compatible the two are.”
In fact, his group went live with a field mobility project last year designed to mobilize key business processes. “Mobile must be integral to any new applications and service rollouts, because we want the mobile experience to be as real time and responsive as when you do call customer service.”

The survey found that cloud (32 percent) and Big Data (29 percent) will also significantly impact many companies. Topinka, for example, just finished integrating a multichannel marketing solution including CRM, call centers, and point of sale (POS) retail systems, and everything except the POS system is cloud-based.

Better use of data and analytics also ranks as a top technology initiative, cited as a top-five priority by 72 percent of IT executives.

However, according to Forrester’s report, “Top Technology Trends to Watch: 2014 to 2016,” companies must plan on deep technology change to capitalize on top trends such as mobile and delivering a digital experience to customers.

One problem lies in the fact that many companies have underinvested in their infrastructure for years. “They can say that they need to go to a digital services model, but for many companies, their legacy infrastructure is not ready,” says Heller. “They have to bite the bullet and pay their technical debt. The digital model is great, but it will require some serious investment to get there.”

That may be why one of Forrester’s top trends was entitled, “Infrastructure takes on engagement.” In order for corporate infrastructures to fully support new business demands to engage with partners and customers digitally, CIOs need to continue to dismantle silo-ed communication tools and applications to move to a converged infrastructure that supports better digital engagement.

**Changing Vendor Roles**

Digital transformation affects more than the CIO and the IT group. In particular, Technology companies face a double challenge. Not only must they optimize their own business and IT model for the digital era, but also develop smart strategies that help their customers do the same. As a result, many companies are reassessing the way they reach out to current and prospective customers, a wide-ranging process aimed at reinventing the customer experience. For example, some companies are revamping licensing policies to help customers move on-premise software to the cloud, and nearly all are analyzing how to use new communications channels such as social media and mobile technology.

The evolving role of the CIO and increased purchasing power of line-of-business executives further complicate the situation, and vendors need effective, long-term strategies that consider the needs of both types of technology purchasers. For example, the growth of digital marketing spending has skyrocketed, making the CMO the master of a fairly significant IT budget. But vendors building partnerships with business-side executives must take care to address the infrastructural concerns of IT executives if they want the relationship to prosper.

According to the 6th annual Digital IQ survey from PWC, digital investments must be transparent across the C-suite. Without such transparency, “companies may make missteps that could cause long-term damage, such as hampering business analytic efforts, new product and service development, or M&A integration.”

While it may be tempting to ignore the CIO and make the sale, that could well hurt future opportunities. Existing vendor/customer relationships are fertile ground for expanded marketing campaigns, and a recent survey on the IT role & influence from IDG Enterprise found that companies report an advantage to buying products from vendors with which they have an existing relationship. Respondents said that purchasing from existing partners cut the purchase cycle time almost in half.
Vendors also need to build collaborative learning into their marketing plans. In order to develop products that align with business goals, vendors need to discover where those businesses plan to go, both strategically and technically. The smart move is to find the innovators amongst your client base and ask them about future plans—and also build R & D partnerships with both customers and research institutions, a move that the PWC report calls ‘outside in’ innovation. According to the report, top performers in the study were more likely to look to outside sources to fill their idea pipelines, tapping sources such as government, university, and vendors. By sharing innovative ideas with customers, vendors gain valuable feedback to help filter and target the most promising technologies, and help their customers build better strategies for future innovation.

Partnering with your customers also means connecting effectively on social media. According to an IDG Enterprise survey entitled, “Customer Engagement: The Role of Content in the IT Purchase Process & Connecting Content Marketing to Sales Follow Up,” 96 percent of B2B technology buyers engage with one or more social media sites and services, and vendors need to find them where they live. For example, video is a particularly popular research channel for many, and many technology purchases use social or business networking sites such as LinkedIn to connect with technology vendors on a variety of topics, such as product research, submitting product reviews, customer referrals and invoice management.

The trick is to deliver content that is best suited for specific channels. For example, the study found that Twitter users most often share blogs and wiki content, events attended, and links to technology content sites, whereas email was the most popular outlet for sharing white papers. Pinterest and YouTube, on the other hand proved popular for sharing visual content such as webcasts and webinars.

Moreover, vendors need to make sure their content and apps work just as easily on mobile devices as they do traditional devices, as large number of survey respondents view content on mobile devices (tablets and smartphones.) In fact, a third of the time that buyers spend accessing tech-related information online each week is via mobile device.

Putting in the effort now could well increase the bottom line: nearly half of survey respondents report that interacting with vendors via social media and business-networking sites has improved their willingness to recommend a technology vendor to others.

In the end, CIOs of any stripe, from cost-center focused executives to those that target business strategy, find themselves balancing the need for strategic new technology initiatives with the equally compelling need to create an IT architecture capable of supporting them. The question is, how do they feed the tip of the iceberg without adding to the bloat at the bottom? Doing so requires CIOs to both see the business value and craft an architectural vision to support it. Many CIOs find themselves implementing short-term fixes while they re-build their infrastructures. Red Wing Shoes, for example, has built a middleware layer of interfaces and RESTful APIs to connect and integrate the company’s digital commerce channels with back-office systems such as ERP. “We’re not opening up the hood on those apps—it’s more like bridging the gap to move the data from one system to another when needed,” says Topinka. “We know it won’t last forever, but we had to find a way to give customers what they wanted quickly.” And for business-strategist CIOs, that balance is a vital prerequisite for success.

**Contact Information**

For more information about the changing role of CIOs, their priorities and how to reach them, please contact your CIO Sales Representative (ciomediakit.com/contacts.html) or Adam Dennison, VP/Publisher, adennison@cio.com.