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Where Should The CIO Report?

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EXECUTIVE SUMMARY

For a CIO, reporting to the CEO is both an asset and a liability. Factors favoring a direct reporting relationship to the CEO include the size of the organization, business complexity, and the need for significant change. Reasons that favor a lower reporting relationship include if a CIO lacks business skills or if IT is merely a support organization.

RESEARCH CATALYST

A member of The CIO Group asked where CIOs should report.

REPORTING TO THE CEO IS NOT A ONE-SIZE-FITS-ALL

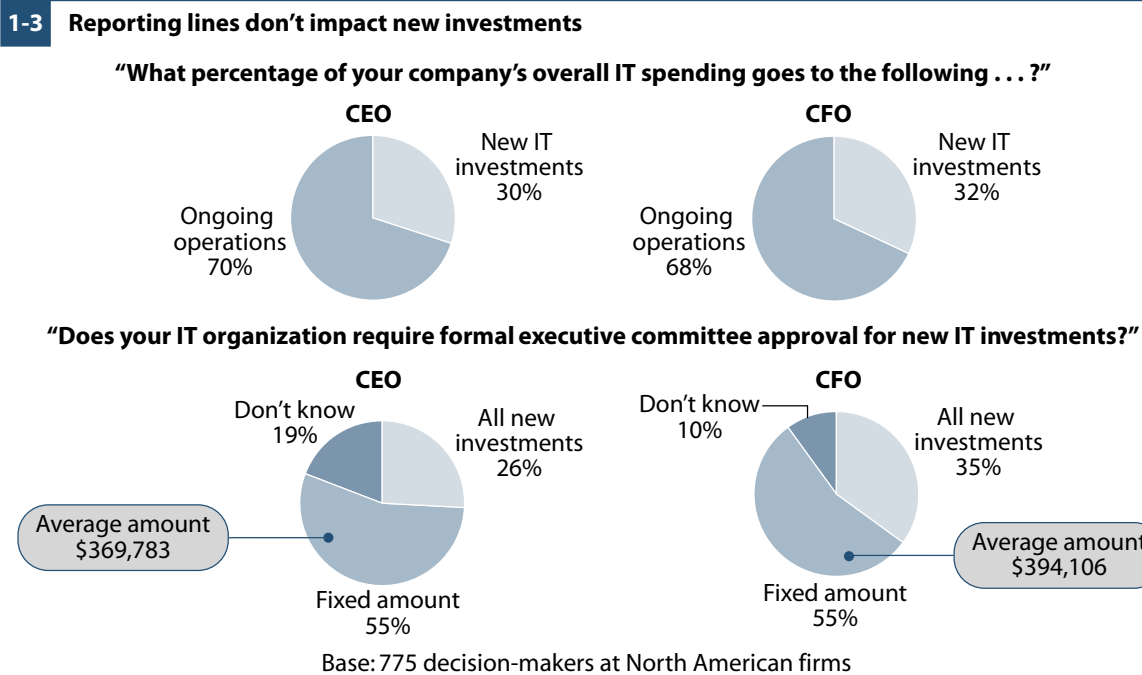
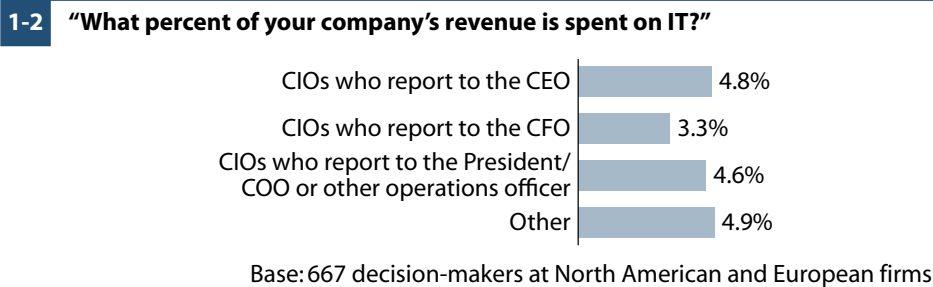
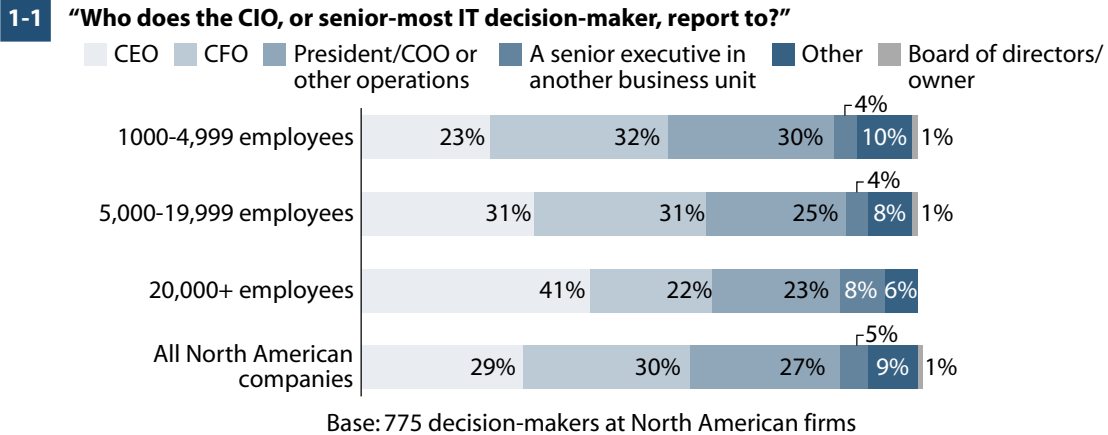
Reporting to the CEO is a statement of the importance of IT to the enterprise. In federated organizations, it can increase the status of a structurally weak position — the corporate CIO. In organizations that are centralizing, it can provide an offset to the power of business unit leaders who may be asked to give up some control over technology assets like people, machines, and dollars. Regardless, the greatest driver for the need to report to the CEO is the degree to which change is required; a secondary driver is the liability associated with failure. With this in mind, some organizations simply don't need to have CIOs report to the CEO, and in a few cases, doing so would hurt both IT and the CIO.

CIOs Report To The CEO In Large Firms With Greater IT Budgets

Where does the CIO report today? Thirty-five percent of CIOs of North American and European enterprises report to the CEO, 27% to the CFO, and 21% to the president or COO, according to Forrester's Business Technographics® July 2004 North American and European Benchmark Study of 1,300 technology decision-makers.¹ More specifically:

- **CIOs at most large enterprises report to the CEO.** In North America, 41% of CIOs report to the CEO at large enterprises with greater than 20,000 employees. At enterprises with 5,000 to 20,000 employees, 31% of CIOs report to the CEO, while the percentage of CIOs who report to CEOs at firms with 1,000 to 5,000 employees is 23% (see Figure 1-1).
- **Reporting to the CEO correlates with higher IT budgets . . .** Among North American and European firms, CIOs who report into the CEO spend 4.8% of revenue on IT. By contrast, those who report to the CFO spend 3.3% of revenue on IT (see Figure 1-2).

Figure 1 Reporting Lines To The CEO



Source: Forrester's Business Technographics® July 2004 North American And European Benchmark Study

Source: Forrester Research, Inc.

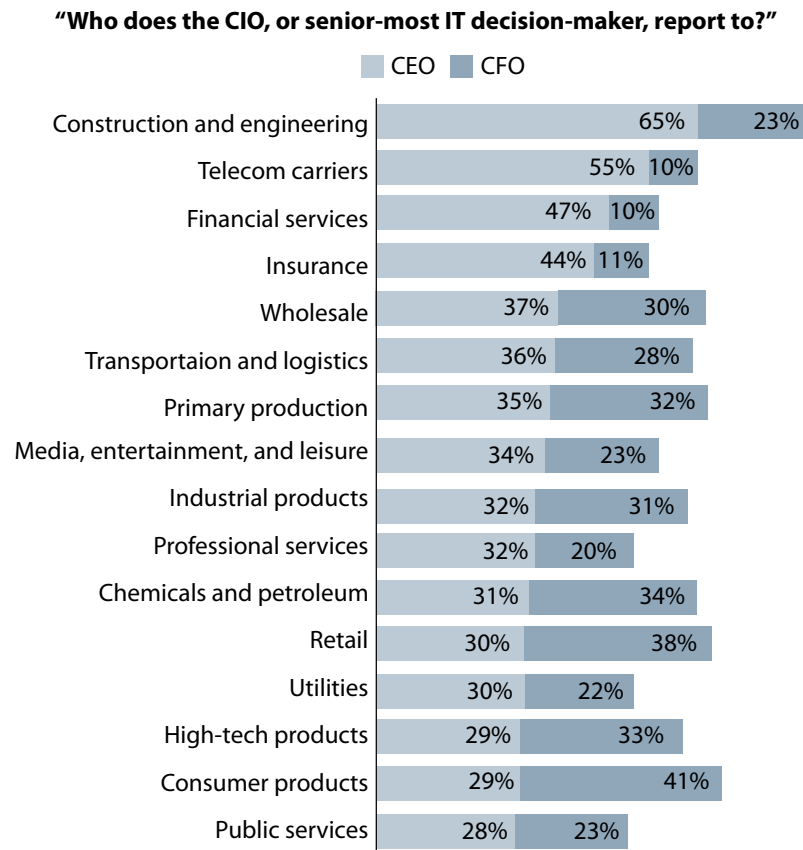
- **... but doesn't impact oversight of new IT investment budgets.** Regardless of where the CIO reports, North American and European firms spend about one-third of their total IT budget on new IT investments versus ongoing operations and maintenance. And reporting to the CEO doesn't translate into greater control over new investment dollars: Despite having higher IT budgets, North American firms with CIO-CEO reporting lines still require executive committee approval for new IT investments (see Figure 1-3).
- **Financial services and telecom CIOs typically have hard lines to the CEO.** More than half of telecom CIOs — 55% — report to the CEO, and 47% of CIOs at financial services firms report to the CEO. Consumer products companies, by contrast, are more likely to have a CIO-CFO reporting relationship, with 29% of these firms revealing their CIO reports to their CEO, and 41% answer to the CFO (see Figure 2).

The CIO-CEO Connection Yields Greater Influence

In general, reporting to the CEO gives the CIO:

- **Access to senior business execs and decision-making.** Many decisions, especially at the executive level, are made incrementally and through ad hoc conversations.² Reporting to the CEO removes the structural barrier to the CEO and senior business leaders. In effect, the CIO becomes a peer of other business leaders, providing greater access and increased involvement in both formal and informal decision-making.
- **Amplified business clout.** Undeniably, at the executive level, politics matter. Decisions are based as much on a strong business case as they are on the status of the person proposing an idea — and those who report to the CEO have a leg up on getting business buy-in from executives and driving massive changes with IT. Witness GM's CIO Ralph Szygenda, who successfully won the support of his CEO and other business executives to collapse geographic and product-based IT fiefdoms into a globally managed IT group that has greatly improved GM's competitive edge.³
- **Increased responsibility — and liability.** Reporting into the CEO magnifies a CIO's successes as well as failures. Furthermore, there is less coaching available, as the CEO will expect direct reports to be able to run their own shows. Finally, with the CIO as a direct report, the CEO is less insulated from IT decisions that hurt the business, and will have less tolerance for IT mistakes. For example, CIO Tom Lesica of Avaya has the joint responsibility of CIO and COO, controlling larger parts of Avaya's business along with IT.

Figure 2 CIOs At Financial Services And Telecom Firms Have Hard Lines To The CEO



Base: 1,263 decision-makers at North American and European firms

Source: Forrester’s Business Technographics® July 2004 North American And European Benchmark Study

Source: Forrester Research, Inc.

Report To The CEO To Drive Change and Strategic Value

It is important for the CIO to report to the CEO when:

- **Critical business changes rely heavily on IT.** Today, many companies are looking to institutionalize SOX by creating or modifying structures and processes. This structural change, the liability associated with failure, and the potential impact on business users, drives the need for IT to be at the executive table to give it the access and clout it needs to implement change.
- **A strategic transformation of IT looms.** A highly distributed IT organization making significant structural change to a centralized, shared-services model requires compromises by business unit leaders. To make this work, corporate will need a CIO who is viewed as a peer to the business unit leaders.

- **The business operating model is large and complex.** Organizations spanning multiple locations with different cultures will benefit from a senior-level CIO with the power to force the appropriate balance between enterprise and local needs. A large European-based consumer goods company deployed SAP through local development teams. When local needs were in conflict with global ones, local always won. As a result, the primary benefits of SAP were not realized. A strong corporate CIO backed by the CEO changed this and redeployed the system with a greater emphasis on consistency and integration.

Report To Another Exec For Leadership and Guidance

Not all CIOs should report directly to the CEO. The need to report to the CEO lessens when:

- **IT is a support organization.** When IT is merely a support organization, the influence and access gained by reporting high is not needed — and culturally, a CIO-CEO reporting relationship probably won't fit. For example, at law firms, if you are not billable and don't sell, you are not considered a peer with the partners. The exception to this would be an IT organization transitioning from a support to a leadership orientation. For instance, financial services firms like ING need IT to help identify what is possible for the business and how to have all systems and processes conform to SOX.
- **The CIO doesn't have the skills to run IT solo.** CIOs without adequate management and personal skills put themselves in a dangerous position by reporting to the CEO. A CIO who is not comfortable running his shop autonomously cannot expect the CEO to provide coaching. Many CIOs have worked their way into the position by being technical problem solvers, insulated from the politics of the board room.
- **IT cost containment efforts eclipse strategic efforts.** Until recently, cost reduction was the highest priority in most IT shops. Cost reduction activities that do not involve dramatic business change are inherently a managerial activity, not a leadership one. For example, a buildings material company consolidated vendors and systems, renegotiated contracts, and formalized the project management of existing initiatives. There is little mystery in the process, as most organizations have done this. For this type of activity, a reporting relationship to the CFO is more appropriate.
- **The budget won't support the reporting level.** On occasion, we see situations where the pay range of the CIO is on a much lower level than other direct reports to the CEO. This, by itself, does not disqualify a direct reporting relationship. However, it does make the higher reporting level more difficult to justify — particularly in government. For example, an agency in a provincial government in Canada needed a CIO. The pay range was too low to attract an executive-level IT person. The candidate pool was reduced by this so that only relatively junior IT managers applied. Having one of these people report at the same level as much more senior agency leaders would have been awkward.

ENDNOTES

- ¹ In a survey of more than 1,300 technology decision-makers, we found that North American enterprises have increased the portion of their IT budgets allocated to new IT investments and R&D, but they lag behind their European counterparts. Both regions share similar approaches to IT governance, dominated by centralized IT structures and in most cases including centralized vendor management teams. That said, this trend toward centralization is slowing — 66% of North American firms, compared with 74% in 2003, describe their IT shops as being centralized. The result? Leaders outside of IT play key roles in setting IT direction, approving projects, and driving vendor selections. See the July 30, 2004, Data Overview “Governing IT In The Enterprise: Business Technographics® North America And Europe.”
- ² Source: Henry Mintzberg, “The Manager’s Job: Folklore and Fact” *Harvard Business Review*, March-April 1990.
- ³ Believe it or not, General Motors is setting a revolutionary IT pace. See the November 24, 2004, Quick Take “My View: The Ralph Revolution.”