

Diamond's Third Annual *Digital IQ* Study

Dear CIO, Grow the Business or You'll Lose your "C"!

There has never been a better time to be a CIO. Every product's information wrapper is growing, social media is transforming marketing and service, the infrastructure of the organization has new cloud-based options, and personal devices from the iPad to those running Google's Android are flying off the shelves. Every business needs an informed, capable, and decisive technology executive to help the company unlock the productive and innovative power of these new choices, while simultaneously running the information factory efficiently.

However, Diamond Management & Technology Consultants' third annual *Digital IQ* survey uncovered some disturbing news that indicates the role of the CIO is weakening. Our survey of 724 business and technology leaders had three key findings:

- First, innovation efforts of three out of four CIOs were focused not on new products or services, but on internal business process or IT improvements (see Figure 1).

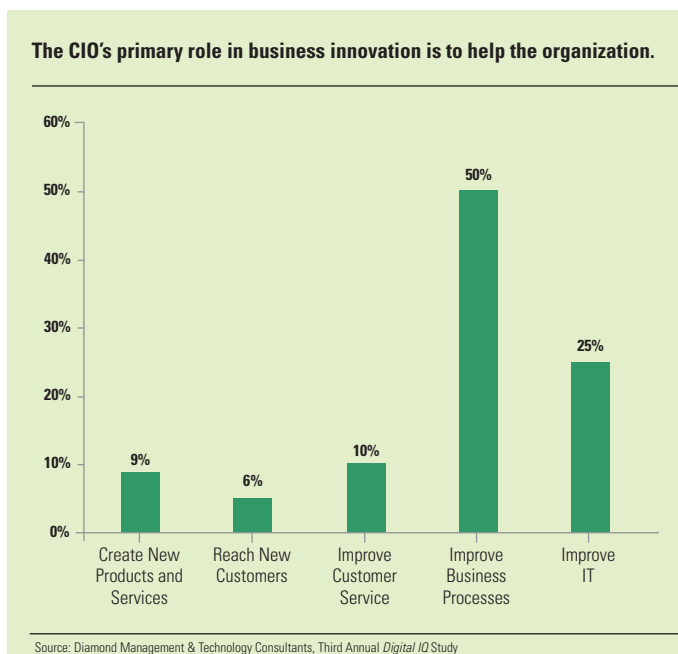


Figure 1

- Second, we discovered that in more than half the companies surveyed, business leaders other than the CIO control at least 30% of the money spent on IT.
- Third, firms with the strongest financial performance not only had strong alignment among the business and IT leadership, but also strong mobilization and execution capabilities. The results of this year's survey once again indicate that achieving superior growth and profit require more than simply aligning the business with IT. Rather, the CIO must also drive mobilization (preparing the organization and understanding details of the strategy) and execution. Among respondents, the strongest indicator of performance was the existence of a single roadmap for designing and executing the corporate strategy (see Figure 2).

About the Diamond *Digital IQ* Study

Diamond's third annual *Digital IQ* study reflects responses from 724 senior business and IT executives. The companies represented are of significant size, most with annual revenues greater than \$1 billion. Survey questions covered an array of issues, ranging from attitudes about information technology's contribution to corporate competitiveness and business/IT alignment to IT management practices. Collectively, these issues help determine a company's *Digital IQ*.

Our core findings have two critical implications for the technology executive—one personal and one organizational. On the personal side, CIOs who help create innovation, revenue, or superior service have more influence within the organization. The organizational implication is that CIOs who do not have sufficient influence cannot shape the resources, organization, and processes required to drive business success. A lack of willingness to step up to creating business growth and profit relegates the CIO to the singular role of “order taker”—instead of also being a “demand shaper.”

Are Your Aspirations High Enough?

When we asked business executives (half our sample) for the top two attributes they want from their IT executive, “innovative thinking” and “leadership abilities” topped the list, ranking much higher than “deep experience in running IT operations.” In other words, the business wants the IT executive to drive growth as well as lead the function. Only slightly more than one in two (55%) of the entire sample viewed the IT executive as both a business and IT leader. It appears that almost half of the IT executives were not delivering on the hopes of the organization. Not only that, but we found that the majority of executives (60%) do not know how much they spend on technology—which, again, implies a shortcoming of the IT executive. If the business is asking for broad leadership and growth, the IT executive needs to be willing to step up to that challenge.

Which Actions Lead to Better Performance?

The results do, however, show that some CIOs appear to be driving significant business value at their firms. We believe that what sets those companies apart is an executive team that creates the “trifecta” of alignment, mobilization, and execution. In 77% of the better-performing organizations, the CEO was a champion of IT’s business value, and the level of integration of business and technology was high (see Figure 3). The data support the idea that aligning business and technology starts at the top.

Sixty-eight percent of the top-quartile firms had a single roadmap for corporate strategy, while such a roadmap existed only 44% of the time among the lower-performing firms. In addition, initiative-level roadmaps were in place at four out of five of the top-performing firms, and only about half of the lower performers. Again, the ability to translate from plan to mobilization correlated with higher performance.

The ability to execute correlated even more strongly with performance. In this regard, only one in four bottom-quartile firms showed an ability to mobilize the resources to execute the roadmap.

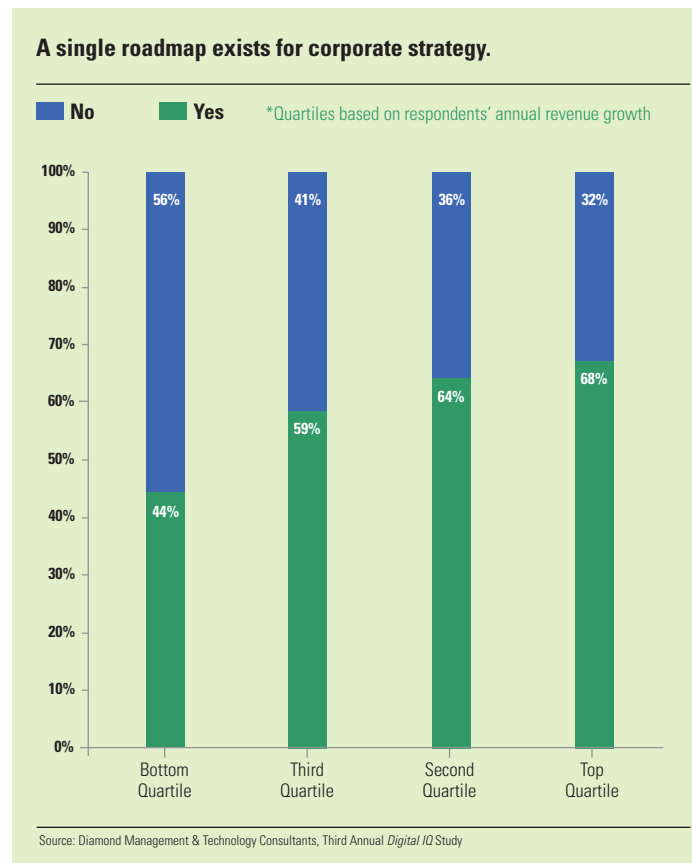


Figure 2

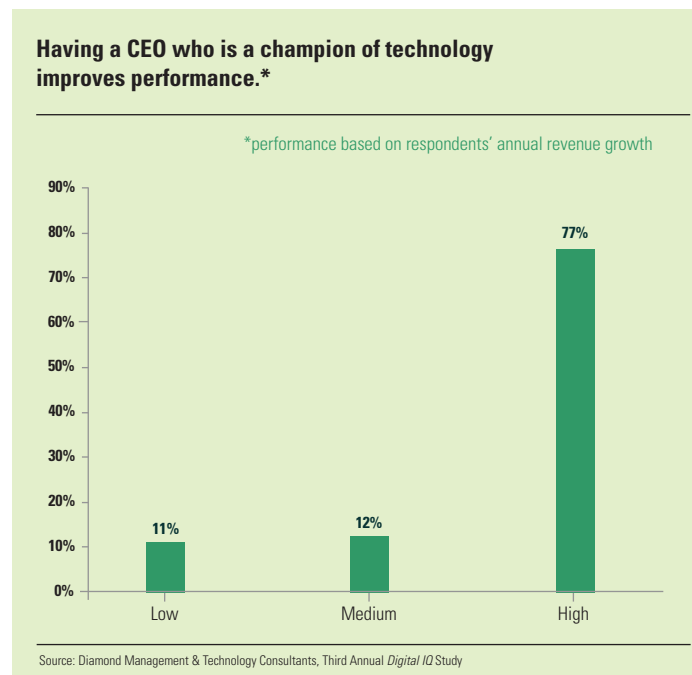


Figure 3

For comparison, the better-performing firms reliably found the resources to put behind strategic initiatives 54% of the time—even in the down market of 2009 when everyone was scrambling for resources (see Figure 4). Notably, the better-performing companies were more than twice as likely to have clear accountability for roadmap milestone delivery (25% for the bottom quartile vs. 55% for the top – see Figure 5).

The Unique Challenge of the CIO

In our experience, the CIO is the only C-level executive who fills both “staff” and “line” roles. In the staff role, the CIO has to provide the information to control the business, comply with regulations, and measure performance. In the line role, the CIO drives productivity, increases sales, and helps foster innovation. The chief financial officer, for example, is clearly staff while the vice president of sales clearly fills a line function. It is only the CIO who plays this dual role. As a result, it is the CIO’s duty to shape his or her role and responsibilities as both a staff and a line executive.

A CIO’s keys to success are to create the “trifecta”—alignment, mobilization, and execution—and to make sure he or she drives new business value in addition to running the function efficiently. The reward is not only the confidence of your fellow executives (higher-performing organizations were three times as likely to have confidence in the CIO), but also getting the resources to help grow the business. Not to be forgotten, you also get to keep your “C”!

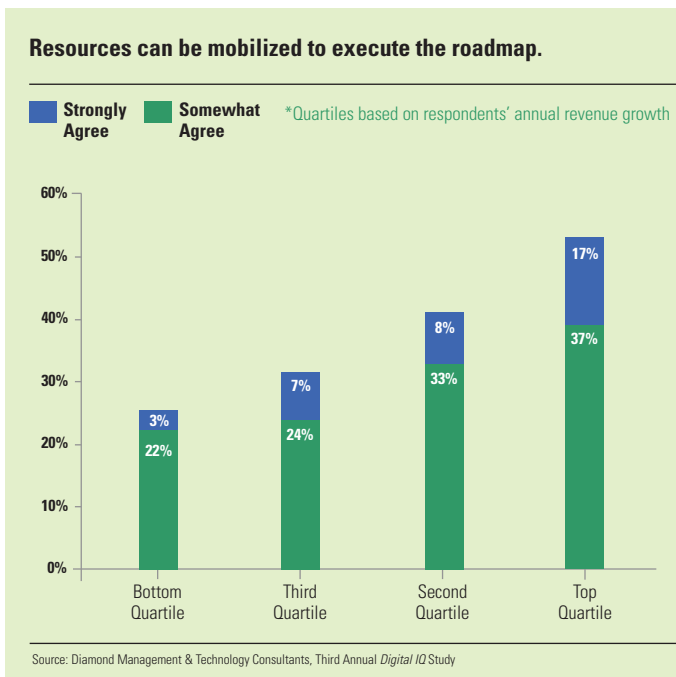


Figure 4

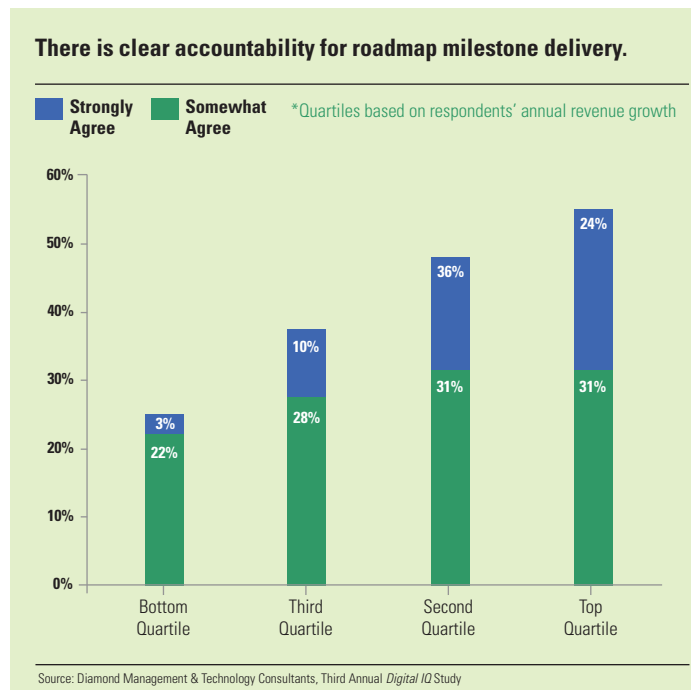


Figure 5

What Should CEOs Expect from the CIO?

Our Digital IQ study has three big implications for top business executives. First, it is vital that the CEO expects the CIO to deliver both excellent leadership of the technology function and also drive growth in the business. Expectations are the bedrock of performance. If the CEO does not expect that technology can deliver utility and capabilities, then IT will never drive innovation or new value.

Second, when the CIO is delivering excellent support for business operations, make sure he or she is included in the senior executive team to help shape strategy, resource allocation, and execution. The CIO can only create significant value if he or she can help shape the organization’s demands and plans. If the CIO is only an “order taker,” it is too late to help the senior management team make the optimal design and tradeoff decisions.

Third, make sure the CIO has visibility into all IT spending in the organization—even if the control of some spending lies within other organizations or functions. Our study indicates that a large share of the IT spend is outside the CIO’s budget. If the technology leader lacks full visibility into the technology spend, it will lead to future problems in turning that investment into business value over time.

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About Diamond

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