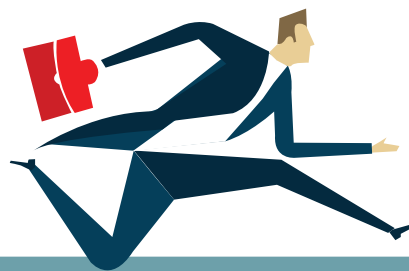# CIOs SHIFT
DIGITAL TRANSFORMATION
EFFORTS INTO HIGH GEAR

IT organizations are speeding ahead with new digital initiatives, yet it remains a struggle to balance innovation with traditional duties.

CIO
FROM IDG

MIKE MCCRANIE IS NO MAGICIAN, but when he joined Serta Simmons in June 2016, he signed up for a CIO post that would require some sleight of hand. Stitched together from a private equity sale in 2011, the mattress manufacturer had inherited a mix of disparate legacy applications that were seriously out of date. Along with a charter to overhaul existing systems, McCranie is simultaneously charting the company's digital future by racing to construct a modern foundation for business.

This includes creating direct communication channels with consumers, along with new digital experiences to keep Serta Simmons competitive, as the sleep industry is disrupted by a swarm of online mattress upstarts.

"We're trying to get the organization to take a quantum leap all at once, and aiming to do that quickly and effective-ly," says McCranie. "To get there, it's like I'm changing the oil in a race car going around the track at 200mph and putting new tires on it—we're doing our role in a much more agile fashion than we ever had in the past."

Whether it's McCranie, putting the basic building blocks in place while mapping a digital course, or IT organizations shifting new business initiatives into high gear, companies of all sizes across all industries are speeding ahead on their digital transformation journeys. To get there, CIOs are still balanc-ing two modes of working, split between traditional duties around IT operations and the strategic exercise of planning and imple-menting transformation.

The 2018 State of the CIO survey con-firms that the CIO role has become much more digital and innovation focused, an emphasis touted by 88% of IT leaders. The focus on digital transformation efforts ranks highest among shops run by strategic (90%)

Companies are speeding ahead on their digital transformation journeys.

and transformational CIOs (89%) and is slightly less in functional-CIO driven organizations (83%).

CEO priorities for IT leadership also reflect the march towards digital transformation. According to CIOs, leading digital business initiatives (35%) and helping the organization reach special goals for corporate revenue growth (35%) are the top CEO directives for CIOs in 2018, just after boosting cyber security protections. Upgrading IT and data security to avoid cyber attacks was the highest ranked CEO priority, cited by 36% of CIOs and reflecting the importance of increased safe-guards as companies steer critical business processes and revenue-generating operations to the digital landscape.
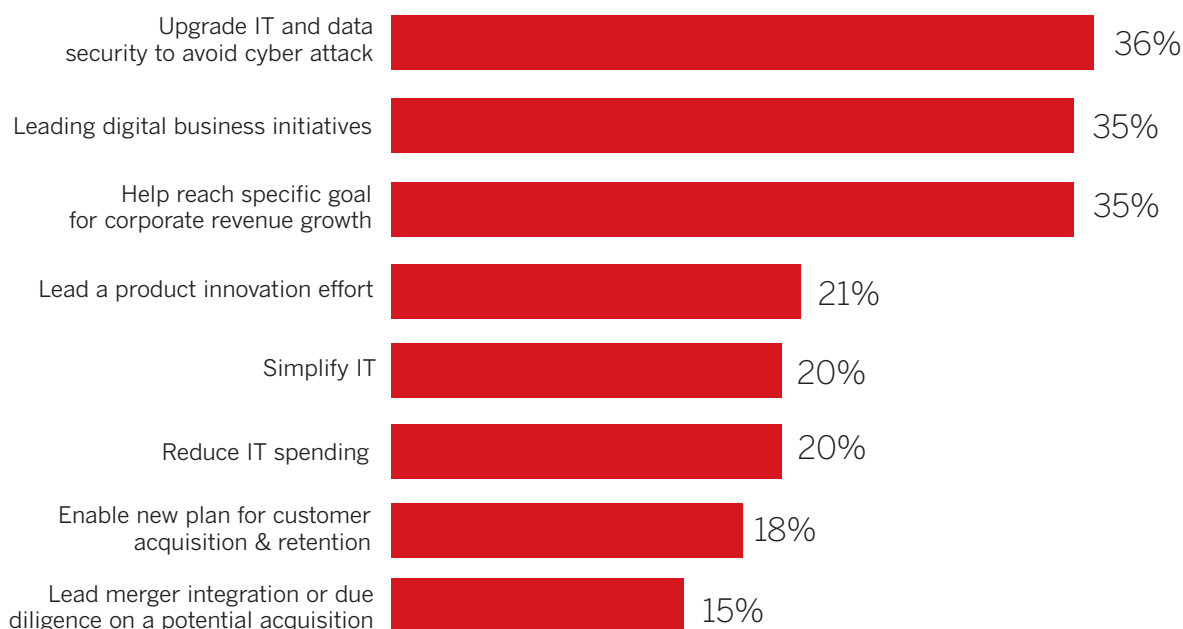
As organizations advance plans for digital transformation, 37% of IT leaders said their IT organizations can play a critical role in innovation, helping to identify parts of the business that are ripe for a digital makeover. Strategic and transformational CIOs are more likely to report that innovation is an

88%
of CIOs say their role is becoming more digital and innovation focused

CEO ADDS TO INNOVATION/OPERATIONS CHALLENGE

What are the CEO's top three priorities for you in the coming year?

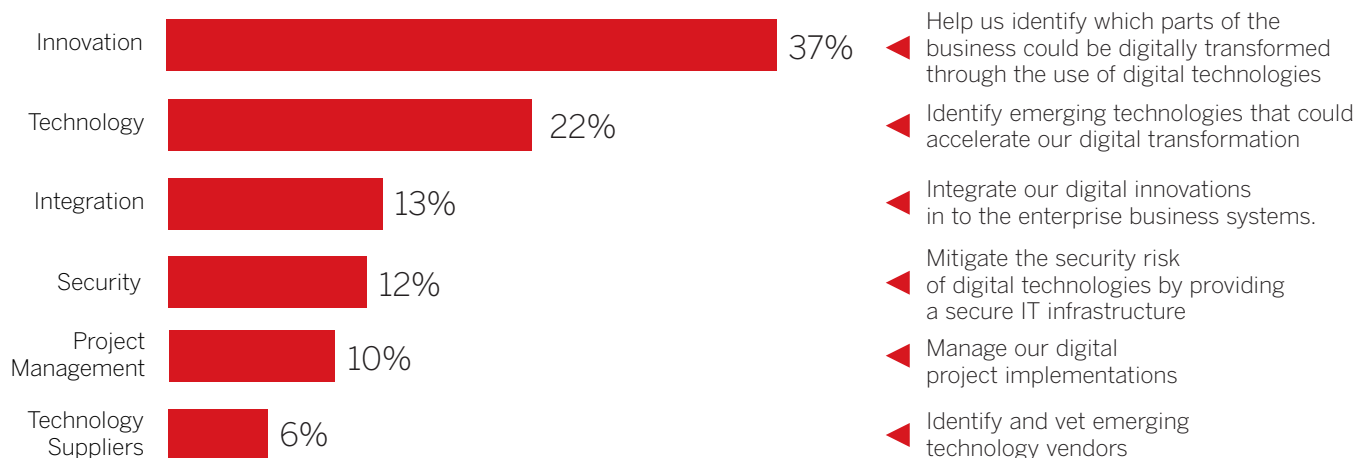| Priority	%
Upgrade IT and data security to avoid cyber attack	36%
Leading digital business initiatives	35%
Help reach specific goal for corporate revenue growth	35%
Lead a product innovation effort	21%
Simplify IT	20%
Reduce IT spending	20%
Enable new plan for customer acquisition & retention	18%
Lead merger integration or due diligence on a potential acquisition	15%

important role that their organization needs to undertake in order to transform their business (45% and 36%), compared to functional CIOs (32%).

At the same time, 22% of IT leaders said IT's expertise could be instrumental in helping identify emerging technologies to accelerate the transformation. Other possible areas where IT could provide a boost: integrating digital innovations into existing business systems (13%) and providing a secure infrastructure that would ward off risks associated with digital business (12%).

Throughout the coming year, digital transformation and IT investments will be funneled towards business initiatives that increase operational efficiency (39%), improve customer experience (38%), and grow the business (33%). Introducing

CIOs WEAR MANY HATS IN DIGITAL TRANSFORMATION

Hat	%	Description
Innovation	37%	Help us identify which parts of the business could be digitally transformed through the use of digital technologies
Technology	22%	Identify emerging technologies that could accelerate our digital transformation
Integration	13%	Integrate our digital innovations in to the enterprise business systems.
Security	12%	Mitigate the security risk of digital technologies by providing a secure IT infrastructure
Project Management	10%	Manage our digital project implementations
Technology Suppliers	6%	Identify and vet emerging technology vendors

new digital revenue streams is also a critical priority, cited by 17% of respondents. When looking at this by LOB respondents, we see slight variance in their top initiatives—increase operational efficiency (43%), increase cybersecurity protections (32%) and growing the business (26%).

To accelerate those initiatives and to drive innovation and

transformation, IT leaders are investing in a number of technology areas, including enterprise applications (35%), data and business analytics (33%), cloud computing (28%), and security/risk management (28%).

At Serta Simmons, for example, investment in a new cloud-based Enterprise Resource Planning (ERP) platform will be the foundation on which the company will up its digital game and create a stronger presence with consumers, not just its traditional retail customers, CIO McCranie says. The core ERP implementation will serve as the basic building block to integrate digital capabilities in areas like online shopping carts, marketing automation campaigns, conversational commerce, and advanced analytics aimed at generating insights into its consumer base, he explains.

"I'm pitching an ERP project to the board of directors—something I never thought I'd be doing in the year 2017," says McCranie, adding that the plan calls for Serta Simmons to implement the core ERP platform and digital innovation projects in parallel. "Implementing ERP takes a while in an organization like ours because it's the foundation for everything. At the same time, we can't wait to do other things so sequencing is critical."

CIOs AND LOB ALIGN ON BUSINESS INITIATIVES DRIVING IT INVESTMENTS

Heads of IT		
39%	Increase Operational Efficiency	1
38%	Improve Customer Experience	2
33%	Growing the Business	3
31%	Increase Cybersecurity Protections	4
30%	Transform Existing Business Processes	5
LOB		
43%	Increase Operational Efficiency	1
32%	Increase Cybersecurity Protections	4
26%	Growing the Business	3
25%	Improving Customer Experience	2
14%	Transform Existing Business Processes	8

CIOs WEAR MANY HATS IN DIGITAL TRANSFORMATION

	Head of IT			LOB
Enterprise Applications (CRM, ERP, etc.)	35%	1	3	19%
Data/Business Analytics	33%	2	2	21%
Cloud Computing	28%	3	3	19%
Security/Risk Management	28%	3	1	24%
Application Modernization/Legacy Systems Migration	22%	5		13%
Customer Experience Technologies	19%		3	19%
Infrastructure Consolidation/Virtualization	12%			10%
Business Process Management	12%			17%
Mobile Application Development	11%			9%
Enterprise Management Software & Automation Tools	11%			8%
Agile/DevOps Processes	9%			7%
Internet of Things/Sensor Data	9%			9%
AI (Artificial Intelligence)	8%			4%
Enterprise Architecture	8%			5%

CIOS PLAN TO SPEND MORE TIME ON STRATEGIC ACTIVITIES

Functional		Transformational		Strategic	
Security management	54%	Aligning IT initiatives with business goals	50%	Driving business innovation	28%
Improving IT operations/ systems performance	49%	Cultivating the IT/ business partnership	38%	Developing & refining business strategy	21%
Cost control/expense management	37%	Implementing new systems and architecture	36%	Identifying opportunities for competitive differentiation	17%
Negotiating with IT vendors	22%	Leading change efforts	33%	Developing new go-to-market strategies & technologies	14%
Managing IT crises	19%	Redesigning business processes	26%	Studying market trends/ customer needs to identify commercial opportunities.	10%

THE BALANCING ACT CONTINUES

Much like McCranie, most CIOs are finding themselves spread thin as digital transformation heats up. Seventy-three percent of CIOs participating in the survey said they are finding it hard to strike the right balance between business innovation and operational excellence. An overwhelming majority (88%) of CIOs across different industries said their time is spent on transformational activities, including aligning IT initiatives with business goals (50%), cultivating a better partnership between IT and the business (38%), implementing new systems and architecture (36%), and leading change efforts (33%).

Yet at the same time, 87% of CIOs surveyed said they are still wrapped up in functional duties, including security management (54%), improving IT operations and performance (49%), cost control/expense management (37%), and negotiating with vendors (22%).

The CIO's strategy commitments have ebbed somewhat with 53% of IT leaders spending time on business strategist-focused activities. These include driving business innovation (28%), developing the business strategy (21%), and identifying opportunities for competitive differentiation (17%). The numbers are down significantly from last year where 62% of IT leaders said they were busy with strategy work. This finding, coupled with the surge in time spent on security management and other functional duties, signals that CIOs are moving aggressively into the deployment phase of digital transformation.

Looking three years out, however, it appears the cycle will begin anew, with CIOs back in strategy and planning mode for the next phase in their journey. According to the survey results, time spent on transformational tasks is expected to dip to 78% while functional duties dive down to 61%. In comparison, CIO time devoted to strategic efforts bounces back for 77% of CIOs.

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The reality is, regardless of where they are in the transformation cycle, CIOs need to have all avenues covered. "You have to make sure you are delivering basic services because once that starts falling over, IT becomes a difficult place for anyone to come talk strategy," notes Carlos Garcia, CIO at Alverez & Marsal, a global consulting and business management firm.

IT AND LOB: NOW A COLLABORATIVE PARTNERSHIP

Given the high stakes surrounding digital business, it's more incumbent than ever for IT leaders to be working in close concert with their LOB peers. That momentum is well underway with almost three quarters of respondents (71%) reporting more frequent engagement between IT and LOB on collaborative projects where there is shared oversight. The uptick in IT/LOB collaboration is more prevalent in finance, manufacturing and high tech companies with 79% of high tech organizations, and 77% of finance and manufacturing organizations reporting increased collaboration between IT and LOB.

Nearly every company surveyed took steps over the last year to improve the working relationship between IT and its

business partners (97%). When asking this question to LOB individuals, 87% agreed that their organization took steps to improve their IT and business working relationship. More than half (54%) of CIOs said IT is working with business units to develop consensus around prioritization of projects, 38% said IT leadership is spending time in the business, and 29% said IT organizations have launched efforts to improve IT governance frameworks. Agile development techniques, which are instrumental to helping IT organizations deliver projects faster and a key requirement for keeping LOB satisfied with IT service levels, is another fast-growing practice, now embraced by 27% of CIOs.

Dave Berry, a contract CIO who has worked in industries such as retail, aerospace, and finance, says IT leaders must prioritize restructuring their organizations to support agile delivery methods. "In this new world, it's all about agility," he says. "IT organizations need to create something, fail fast, and look at things through a different lens. That means training and recruiting people with different mind sets."

As part of this more robust working relationship, 73% of CIOs said that IT now recommends technology solutions
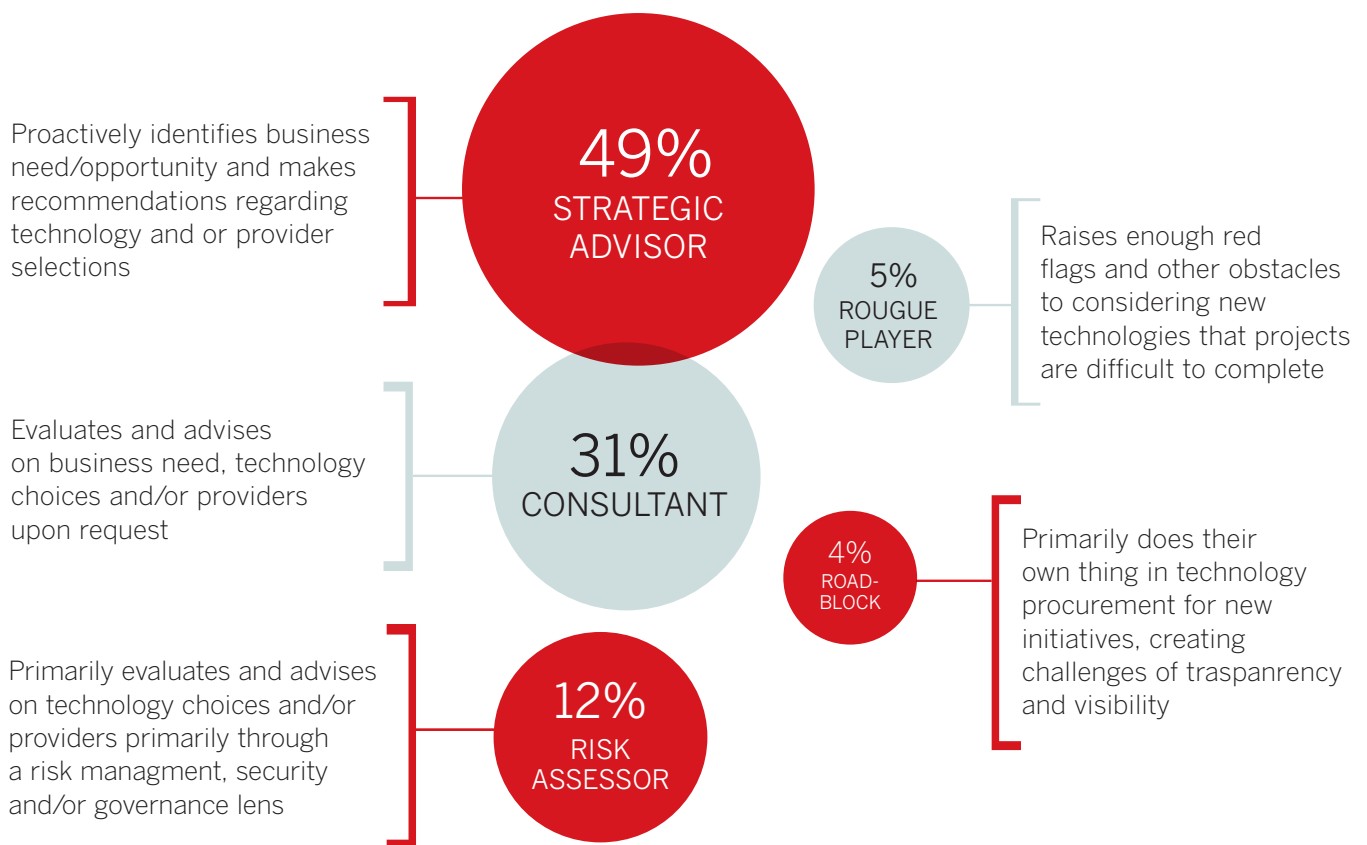
"IT organizations need to create something, fail fast, and look at things through a different lens."

to address business initiatives and 61% say they collaborate with LOB on building a business case for technology initiatives. Functional CIOs are far less involved in working on business case development—only 47% compared to 68% of strategic CIOs and 65% of transformational CIOs.

According to CIOs, IT is also functioning as a strategic advisor (52%) as well as a consultant (32%) when it comes to IT leadership. Not surprisingly, strategic CIOs are far more likely to consider themselves strategic advisors, actively involved in identifying business needs and making recommendations—65% compared to 51% of transformational CIOs and only 43% of functional CIOs. These responses do not vary much when asked to LOB—49% agree that IT leadership is seen as strategic advisors and 31% as consultants.

Even as a percentage of the technology spend shifts to functions outside of IT, the technology group remains

CIOs SEEN AS STRATEGIC ADVISORS

Proactively identifies business need/opportunity and makes recommendations regarding technology and or provider selections

49% STRATEGIC ADVISOR

5% ROUGUE PLAYER

Raises enough red flags and other obstacles to considering new technologies that projects are difficult to complete

Evaluates and advises on business need, technology choices and/or providers upon request

31% CONSULTANT

4% ROAD-BLOCK

Primarily does their own thing in technology procurement for new initiatives, creating challenges of traspanrency and visibility

Primarily evaluates and advises on technology choices and/or providers primarily through a risk managment, security and/or governance lens

12% RISK ASSESSOR

involved, another sign of active collaboration. Eighty-six percent of CIOs said various functional groups had their own technology budgets, most prevalent in marketing (42%) and operations (35%) areas. Regardless of that dynamic, one quarter of CIOs said the technology group retains control of 71% to 90% of the total IT budget.

When business units do go off and make their own IT investments, 99% of IT leaders said IT still retains a collaborative role. Almost half (48%) said there is still some level of shared project oversight with the IT organizations—a trend more popular among transformational CIOs (53%). Nineteen percent consider IT as more of an advisor, 18% state they have complete project oversight, while only 1% of IT leaders saw no role for IT whatsoever. Additionally, 14% of CIOs say IT controls all tech purchases and LOB shares a similar view when it comes to IT's involvement in their purchases—38% state there is a level of shared project oversight, 15% advisory role, 25% complete oversight, while 6% say IT has no role and 15% say IT controls all purchases.

SECURITY TAKES CENTER STAGE

As critical systems and business processes take shape in the digital world, security continues to be a critical concern and increasingly, a top priority for the C-suite. In fact, upgrading IT and data security to avoid cyber attacks ranked as the No. 1 CEO priority for CIOs in 2018, cited by 36% of CIOs compared to only 32% in last year's State of the CIO survey.

Much like last year, IT and security strategies continue to be closely intertwined and remain an integral part of the overall IT strategy and roadmap. Fifty-four percent of IT leaders described IT security strategy and IT strategy as tightly integrated, up slightly from last year's 51% and expected to climb to 82% over the next three years. This tightly coupled view of IT and security strategy is less prevalent among firms with functional CIOs, at only 47% in 2018 and rising to 77% over the three-year horizon. A far smaller number of CIOs (35%) characterized current IT security strategy as somewhat integrated and loosely incorporated into overall IT strategy and that number drops off precipitously to 16% three years from now.

CIOs are still spending more than half of their time on security management tasks (54%), and security and risk management skills are still the most difficult to find for 39% of respondents.

Spending on IT security is also rising as a percentage of the total IT budget. In this year's survey, 44% of IT leaders said spending on security-related technologies and services accounts for about 10% or more of the total IT budget, up from 38% last year. Overall, the IT security budget represents about 13% of an organization's total IT budget. Security and risk management technologies are also some of the top drivers of IT investments (28%).

Along with an uptick in spending, IT organizations are also staffing and reorganizing to address heightened security concerns. Overall, 51% of CIOs say their organization has either a CSO, CISO or top security executive. This significantly varies by company size—68% of enterprises (1,000+ employees) have a security leader compared to only 34% of SMBs (less than 1,000 employees). **A quarter of CIOs surveyed now have a dedicated CISO role and 11% have named a CSO—**this trend is more common among enterprise firms at 37% compared to only 14% of SMB companies. Yet even as companies bring on additional dedicated security professionals, CIOs are still spending more than half of their time on security management tasks (54%), and security and risk

"We're interacting with clients and colleagues, we're staying in the forefront of new technologies, yet not losing sight of core IT functionality,"

management skills are still the most difficult to find for 39% of respondents.

Despite security and other challenges, CIOs see plenty of opportunity for personal growth and increased visibility in 2018 now that digital transformation efforts are in full swing. Nearly three-quarters of CIOs (71%) are regular participants in external customer meetings while 67% interact with the board of directors—both indicators that CIO leadership ishighly valued during this pivotal time of transformative change.

"We're interacting with clients and colleagues, we're staying in the forefront of new technologies, yet not losing sight of core IT functionality," says Alverez & Marsal's Garcia. "The CIO job is more fun and it's never the same thing."

With higher visibility comes greater accountability, however, and the spotlight is now on CIOs ability to step up and lead the charge towards the digital enterprise. Juggling the demands of a role that requires one foot in traditional operations and another on the pulse of transformation is a delicate balancing act. But for forward-thinking CIOs, the challenge is well worth the work.