

Harvey Nash USA

CIO Survey 2005 / 2006

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INTRODUCTION

We are pleased to introduce the 2005 Harvey Nash USA CIO Market Survey, sponsored by Harvey Nash and PricewaterhouseCoopers.

Although Harvey Nash has produced an annual survey in the UK for seven years, this edition is our first survey in the U.S. It will be an important benchmark for our future surveys of the North American market, and using additional Harvey Nash research, we will be able to compare data among IT executives worldwide.

Included in this first U.S. survey is a profile of U.S. CIOs and the IT role within their businesses, a look at current issues facing senior IT executives, and a report on their compensation and bonus structures. Over time, we will report changes in the roles and provide insight into the trends they face.

We hope you will find this survey useful and informative. Please contact us if there are topics from the survey you would like to discuss in greater detail or if you would like additional copies.

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“While most themes in this survey are common to IT executives worldwide, there are key issues distinctive to the U.S. marketplace.”

KEY FINDINGS

Chief Information Officers (CIOs) and the Information Technology (IT) departments that they lead are in the midst of an enormous transformation, and this survey shows these global trends are also at work in the U.S.

As a global provider of top-level technology talent and IT resources, Harvey Nash has seen firsthand the transformation of CIOs from supporting roles, where they focused primarily on automating existing operations, to strategic roles where they focused on using technology to drive revenue and lower costs.

The trends revealed in this survey bode well for CIOs and their teams. Those who enhance their strategic consulting capabilities and provide growth insights to the business will earn greater recognition—and responsibility. For more analysis on this shift, see the conclusion of this survey report.

While most themes in this survey are common to IT executives worldwide, there are key issues distinctive to the U.S. marketplace.

Top three findings

First, IT budgets are growing again worldwide. IT spending limited by recession has led to pent up demand for operational improvement that's now being released. In addition, a significant portion of IT budgets in the U.S. has been devoted in recent years to complying with new regulatory requirements like Sarbanes-Oxley. With the initial controls assessment behind them, many respondents indicated their companies are once again feeling confident that they can afford to invest more in technology.

Second, security ranks as the top concern for U.S. companies. This is in contrast to their counterparts in the UK, where security ranked third as a perennial concern.¹ The high U.S. ranking for security most likely stems partly from new regulations on information privacy, and partly from increased awareness of security threats that other global markets already seem to have some familiarity with.

Third, the survey indicates that American CIOs aspire to be more strategic and more in tune with the needs of the business. The good news is that their aspirations come at a time when business executives want to deploy IT more strategically in their companies. This confluence of career and business goals sets the stage for CIOs to gain even more influence in their organizations.

OTHER KEY FINDINGS

Increasing interest in corporate strategy

Most respondents answered positively when asked if their roles were becoming more strategic, but their stated desire to have more say suggests that IT is itching to flex some muscle. Nonetheless, a majority concedes that IT still needs to be more closely aligned with the business to achieve this goal.

Outsourcing a given; offshoring increasing

Nearly all respondents reported some outsourcing of IT functions and most expected it to increase. Nevertheless, many IT leaders are developing strong opinions as to what tasks can be successfully outsourced, suggesting that the case for outsourcing varies by industry and should be considered carefully.

A limited number of respondents reported direct experience with offshoring, and all of those admitted some disappointment with initial results, especially in regards to quality. Nevertheless, those currently offshoring expect it to continue and even increase.

Not actively job hunting, but many IT leaders expect to move

Interestingly, most respondents reported being satisfied with their current roles and compensation, and though they said they were not actively looking for new positions, many reported that they expected to be working for other companies within the next two years. A dynamic business climate of mergers, acquisitions and reorganizations may account for these expectations.

To consider a job change, respondents indicated that better work/life balance and greater involvement in corporate strategy were more motivating factors than the prospect of greater pay.

Evidence of skills gaps on IT teams

Even though respondents rated internal relationships positively, the abilities of IT teams to interact with other business units are somewhat lagging. In addition, a large percentage of participants reported their organizations use no formal competency career model to match employee skills to needed functions, and training seems to be similarly ad hoc, with organizations relying by far on on-the-job training.

OVERVIEW OF SURVEY PARTICIPANTS

In total, those surveyed are:

Responsible for nearly 2,500 IT staff and 450 contractors

Managing budgets of nearly \$410 million

More likely to read CIO Magazine than the Wall Street Journal

Likely to be male and over 40



“Overall, 84% of IT teams were employees, while just over 15% were contractors.”

SURVEY RESULTS

3.1. Participants' Profile

3.1.1. Geographic Location and Sector

Survey participants work across several industries, with concentrations in manufacturing, distribution/transport and financial services.

Participants were based in the U.S. Roughly one third were from the Northeast, one third from the West Coast and a quarter from the Midwest.

3.1.2. Size of Company and Geographic Scope

More than half of respondents work in the mid-market, but more than 20% of the respondents work for companies with more than \$500 million in annual revenue. Nearly 30% are responsible for IT budgets greater than \$5 million.

Half of the respondents' companies operate in the U.S. only, but one third operate beyond North America. The majority of mid-sized companies operate only within North America, while smaller and larger companies tended to report a global focus for IT.

3.1.3. Job Title

Respondents hold senior-level positions in their organizations. More than 30% of them are CIOs or CTOs, 22% are director level and an additional 14% are Vice Presidents. business and business critical applications.

3.1.4. Age and Sex

Nearly all respondents were male, almost exactly in line with the demographic profile resulting from a recent Harvey Nash survey in the UK.² But IT leadership in the U.S. seems somewhat older in comparison: more than three quarters of UK-based CIOs are between 30 and 49, while a similar percentage in the U.S. are between the ages of 40 and 69.

3.2. Nature of Role

3.2.1. Reporting Lines

Reports to	%
CEO	36%
CFO	18%
COO	12%
CIO	17%
Other	17%

Although participants' reporting lines are high level, they are not as direct as participants would like.

One remarkable result of this survey is that nearly two in three believe their role should report directly to the CEO, but in fact only one in three actually do. Another 30% report to either the CFO or COO. Those most likely to report directly to the CEO work for companies with less than \$50 million in revenue.

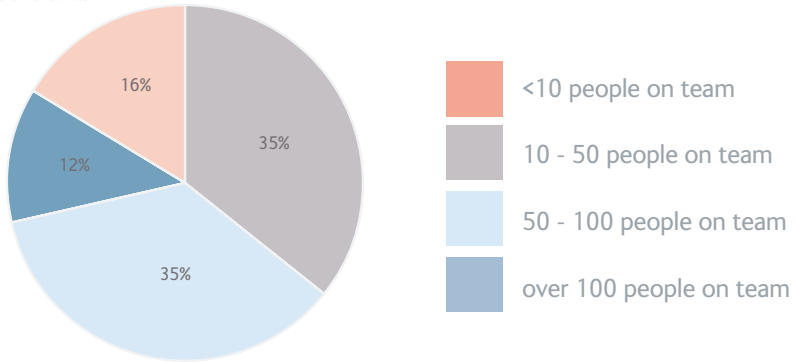
For those in the private sector, one in five were members of their company's main board group, while a slightly smaller number were members of subsidiary boards. Most claimed no representation on organizational boards (63%).

For non-profits, the results were similar: 20% were on the main management board while 22% were not. A majority (59%) said no such boards existed in their organizations.

²The Annual Harvey Nash CIO Market Survey, 2005/6. Copyright Harvey Nash plc 2005, Sponsored by PriceWaterHouseCoopers and The Sunday Times.

3.2.2. Team Composition

Figure 1. Size of team

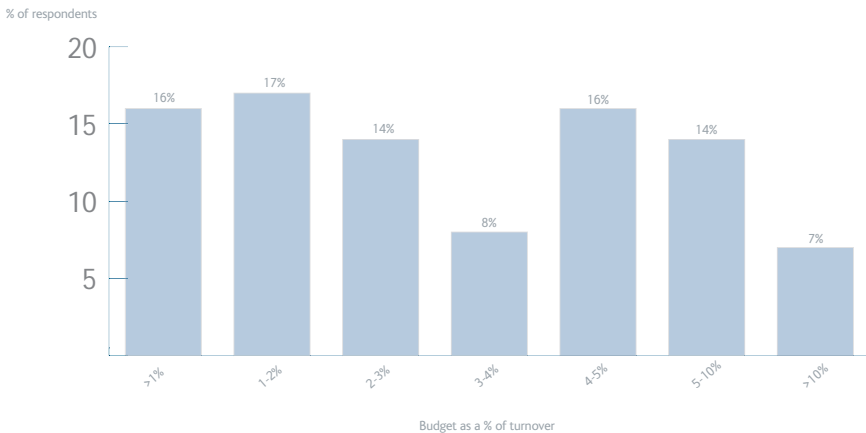


Survey participants were responsible for teams of various size. One third had teams of 10 or fewer, another third were responsible for teams ranging from 10 to 49, and yet another third had teams of 50 or more (12% had teams greater than 100).

Overall, 84% of IT teams were employees, while just over 15% were contractors. Companies deploying a higher than average percentage of contractors were from various sectors and included media, manufacturing, distribution, financial services and other professional services.

3.2.3. IT Budgets

Figure 2. IT Budget as a % of turnover

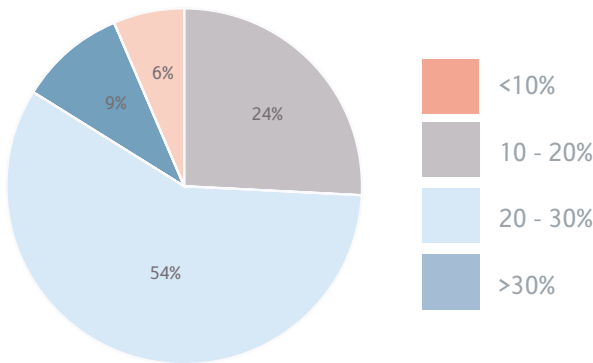


IT budgets vary widely, ranging from less than one percent of revenue to more than 10. One interesting aspect of these findings is that economies of scale make a big difference. Of those above or approaching double-digit percentages, all have revenue less than \$500 million.

Revenue	Average IT Budget
\$50 - \$500 million	\$7.17 million
\$500 million - \$1 billion	\$8.04 million
\$1 billion - \$3 billion	\$9.01 million
\$3 billion	\$13.33 million

Although every sector had a range, bigger IT spenders as a percentage of revenue tended to be in financial services. Tighter budgets tended to be in manufacturing or distribution.

Figure 3. Percentage increase in IT budget in the last twelve months



Regardless of the level of spending, nearly all respondents are seeing increases in allocated spend. Half saw increases of less than 10% in the last year, one in four saw an increase between 10-20%, and 13% of respondents saw increases greater than 20%.

3.2.4. The Strategic Involvement of the CIO

While nearly two out of three believe the role of CIO is becoming more strategic in their organizations, a similar percentage didn't think that the current role is as strategic as it needs to be.

3.3. Work and Working Practices

3.3.1. Relationships

Business relationships were generally considered good or excellent. Relationships with immediate supervisors and the rest of the IT team were usually thought to be excellent, but the assessment of relationships of IT teams with other people in the business were somewhat lower (only 29% thought them excellent).

In terms of frequency of interaction, clear majorities of respondents thought that meeting with other people in the business and senior business executives should be only 'as necessary' (74% and 54% respectively).

3.3.2. Capabilities of the IT Team

In results that could indicate a skills gap, the most important capabilities for IT teams were thought to be building and maintaining relationships with the business, planning future IT architecture and infrastructure, and managing and delivering IT operations. But respectively, only 30%, 26% and 39% of teams were thought to be excellent at those activities.

	% who consider capability very important	% who believe their team is excellent at this capacity
Building & maintaining relationships with the business	67%	30%
Managing and delivering IT operations	61%	39%
Planning future IT architecture & infrastructure	55%	26%
Managing IT developments and programs	45%	24%
Envisioning and managing IT sourcing strategy	38%	17%
Setting and managing IT sourcing strategy	45%	14%

3.4. Employment and Career

3.4.1. Length of Service

Half of those surveyed have been with their companies for six years or more, with 35% serving more than 10 years. Nearly half (43%) have been at their company for less than five years.

3.4.2. Job Hunting Activity

A clear majority finds their job 'very' or 'quite fulfilling' (76%), which may explain why 69% are not actively looking to change companies. Nevertheless, 35% believe they will be working somewhere else within two years.

Motivations for job hunting were various, but the most common by far was greater involvement in business strategy (36%). Nearly one in four would change jobs for a fresh challenge, and another one in four would do so for better work/life balance. Only 14% were motivated by greater pay.

3.4.3. Methods of Job Searching

By far the preferred methods are face-to-face, with recruitment agencies and networking cited by more than 80%. A majority also looks to online recruiting sites; a lesser percentage checks into classified ads in major publications and individual company Web sites.

Reading Habits

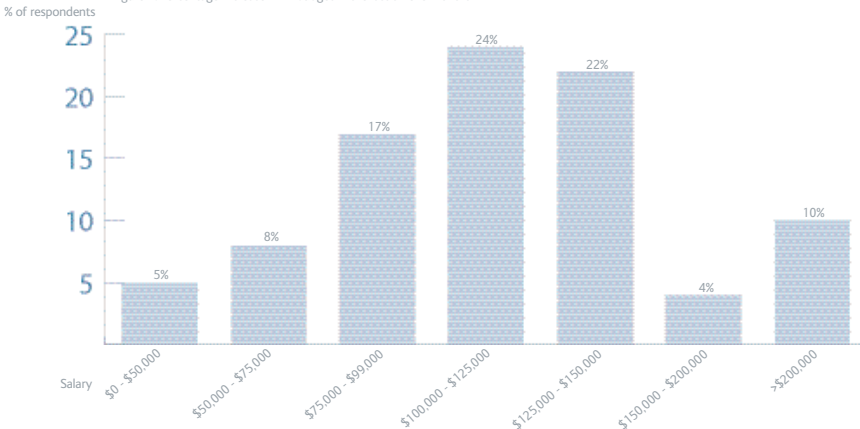
Publications cited by participants included a broad range of industry-specific publications, with many relying on online reports, journals and news services. More than half of respondents refer to *CIO Magazine*, and significant numbers also turn to *Computerworld* and *InfoWorld*. Traditional sources of business information like *The Economist*, *The Wall Street Journal*, *Business Week* and *Forbes* were cited by only a handful of respondents.

3.5. Compensation

3.5.1. Base Salary

Managing large IT teams doesn't necessarily correlate with better pay, but global scope of IT operations just might.

Figure 4. Percentage increase in IT budget in the last twelve months



Most salaries ranged from \$100-200K, with no direct tie-in to team size or company revenue. Those few respondents making less than \$100K managed small IT teams in companies operating only in North America. Participants making more than \$200K had staff ranging from 25 to more than 100, but they shared the fact that they worked in global companies with more than \$3B in revenue.

3.5.2. Benefits

The two most common benefits received were a 401(k) plan and medical insurance. Large percentages also received performance bonuses and life insurance. Nearly 40% also received profit sharing or stock options.

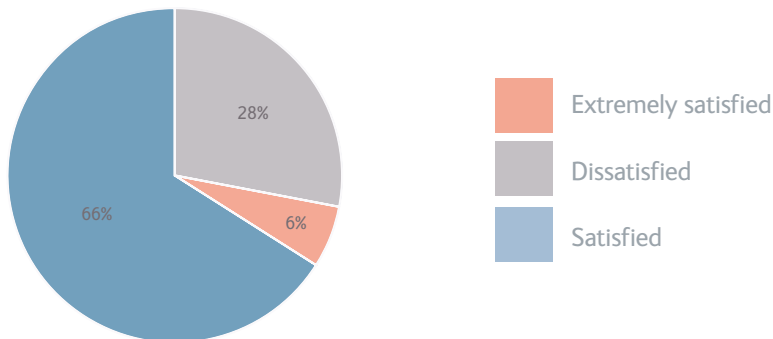
Bonuses

Just over half receive a combination of individual and company performance bonuses, and just over one in 10 receive discretionary, personal performance or company-performance only bonuses. The total amount of bonuses as a percentage of salary ranged widely.

<i>Percent of Salary</i>	<i>Percent of Participants</i>
0	22
0.1-5.0	20
5.1-10.0	8
10.1-15	13
16-20	6
20-33	10
40	8
50	3
60	3
>90	3

Pay Satisfaction

Figure 5. Satisfaction with remuneration package



Most are satisfied with their compensation package, but more than a quarter believe they make less than the market average. Only 6% were extremely satisfied.

3.6. IT Issues

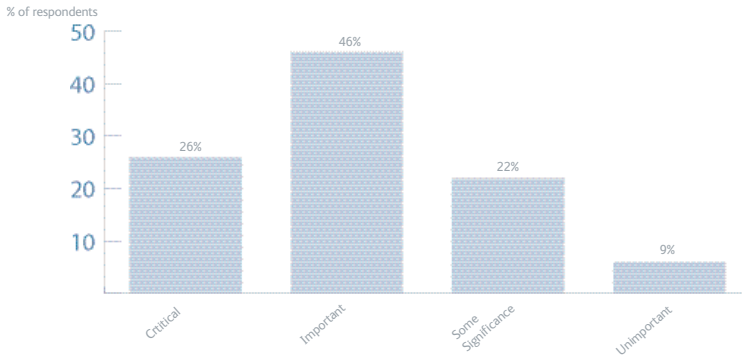
3.6.1. Business Process Change

More than 60% of respondents are currently involved in Business Process Change, and while some are indifferent, nearly one in five are not currently involved but would like the responsibility.

3.6.2. ROI

For survey participants ROI from technology investments is clearly important, but not the only factor in decision-making.

Figure 4. Percentage increase in IT budget in the last 12 months



3.6.3. IT Alignment with Business

Many CIOs seem to be moving their organizations to be more in sync with the needs of the business. Nearly three quarters said they had seen improvement in this area, with only one in five seeing no change. Such efforts are likely to continue, since nearly two thirds see room for improvement.

Most CIOs feel that building and maintaining relationships with the business is of top importance (67%), but only 30% thought their teams were excellent at doing so. When it came to ranking the effectiveness of their teams, respondents seemed to think that their

teams were best at managing and delivering IT operations, and significantly less able to envision and re-design business processes.

3.6.4. CIOs and Commoditization of IT

On an open-ended question as whether the increased commoditization of IT would impact the role of CIO, half of those responded thought there would be none.

Of those who answered yes, their predictions fell into three camps: one, the role will have to become more business-focused; two, the role will become more focused on vendor management; and three, the role will be more complex involving the management of disparate parts internally and externally. One offered gloomily, "Pretty soon CIOs might be outsourced."

3.6.5. Responsibilities Outside IT

One-third of respondents reported some area of responsibility outside of IT, with sales and support, customer relationships, and some aspect of knowledge management being the most frequently mentioned. Other areas cited were specific to their organizations.

3.6.6. Managing Employee Skills

CIOs surveyed rely by far on on-the-job training to cultivate skills in their IT staff, but more than half also use classroom training, online training, formal coaching and tuition reimbursement. Only 14% had no formal program at all.

The findings suggest that IT is largely responsible for its own review processes, with 78% having no HR resource dedicated to managing talent-related organizational matters for IT. Nevertheless, skills mapping of employees to needed skills is by far ad hoc, with 75% of respondents lacking a formal competency career model. During employee reviews, performance is the most important factor in evaluation, and skills advancement was a factor for only 14%. While measurement of employee achievement against objectives is fairly common (27%), manager or supervisor input was the biggest factor for nearly half.

3.6.7. Perennial Concerns

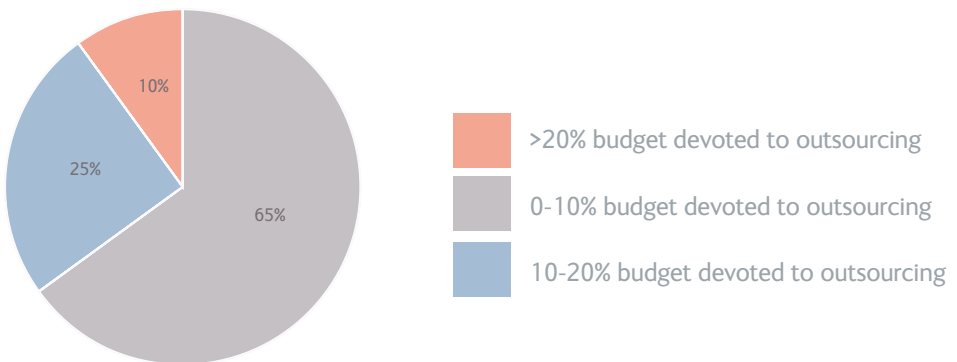
Security ranked well above other perennial concerns, but issues of business alignment and IT's role in competitive advantage were only a step behind.

	% who consider capability important	% who consider capability very important
Security	43%	51%
IT governance	43%	6%
Simplification of IT environment	51%	13%
IT support of compliance regulations	38%	14%
Alignment of human capital with business needs	40%	16%
Quality control of outsourcing	35%	5%
Cost control of outsourcing	32%	8%
Business alignment	44%	38%
Staff turnover	26%	11%
Recruiting IT staff	38%	10%
Keeping pace with new technologies	48%	17%
Effective system integration	44%	31%
Cost reduction	41%	24%
IT Board representation	22%	10%
Perception of IT in the business	51%	25%
IT delivering competitive advantage	48%	35%
Personal use of mobile technology	35%	10%

3.7. Outsourcing and Offshoring

3.7.1. Outsourcing Budgetary Spend

Figure 6. Budget devoted to outsourcing



Nearly all participants have experience with outsourcing, but nearly two in three spend less than 10% of their budget on external resources. One in four spends between 10-20% of their budget, and only one in 10 spends more than 50% of their IT budget on outsourcing.

Overall, outsourcing seems to be increasing. Most will see their outsourcing spend stay the same in the coming year, and 38% expect it to increase.

3.7.2. Service Delivery

Respondents believed their outsourcing to be generally successful, with nearly two in three asserting that all or most of their objectives were achieved. Only 13% said that few or no objectives were achieved. Of the 27% who asserted some negative impact on the business, cost and performance were the most often cited.

3.7.3. Motivations for Outsourcing

Survey participants who outsource were primarily motivated by reducing costs. Other reasons were less important—but nearly equivalent to each other statistically. In order, they were 'to better meet the needs of the business,' 'to provide more responsive service,' and 'to improve performance.' Lagging far behind was an interest in using outsourcing to better use leading-edge technologies.

3.7.4. Offshoring Budgetary Spend

Only 10% of those surveyed are actively offshoring, and most of those responding to this question devote between 10-20% of their budget to it. All but one said their offshoring spend would increase or stay the same in the coming year.

3.7.5. Quality of Offshoring Service

For those offshoring, most felt it met expectations, but a significant 20% believed that quality was sub par, and none found it exceeded expectations.

3.7.6. Offshore Locations

All those responding said they were offshoring to India, with one respondent offshoring to both India and China.

3.7.7. Aspects of IT that Should Not Be Outsourced or Offshored

Nearly all respondents who outsource or offshore offered answers to this open-ended question, suggesting firmly held opinions. The specifics were various and dependent on industry, but the question of how and when to deploy external resources is clearly a serious one that demands careful consideration of issues around the sensitivity of data, analysis of the business and business critical applications.



“Most respondents had revenues greater than \$50 million”

SURVEY METHODOLOGY

In August and September 2005, Harvey Nash USA conducted a written survey of IT executives via e-mail. Seventy-five respondents completed the 61-question survey in its entirety. Respondents included IT executives and CIOs in companies located primarily in the eight major markets and surrounding regions served by Harvey Nash, including Denver, CO; Chicago, IL; New York, NY; Parsippany, NJ; San Francisco, CA; Seattle, WA; Stamford, CT; and Tampa, FL. Most respondents had revenues greater than \$50 million. Harvey Nash used a list from Harte-Hanks, Inc. of 3,950 unique e-mail addresses at 2,655 sites.



“IT leaders seem to be conceding that their industry is increasingly commoditized.”

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CONCLUSION

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Today's CIOs are playing central roles in businesses small and large, and the departments they run are making enormous contributions to efficiency and profitability. Yet along with that comes greater responsibility and accountability, something that IT leaders have increasingly expressed interest in taking on.

Aligning IT with the business

Those responsibilities go beyond a seat at the executive table. IT organizations are faced daily with constraints and opportunities that are constantly being reshaped by a host of external and internal factors such as mergers and acquisitions and regulatory compliance. In order for the CIO to play a more strategic role in the business, it is imperative that the IT organization keep pace with business strategies and align IT initiatives directly to objectives. But by its own admission, IT needs to get better at helping the business understand the risks, practicalities and ROI of investing in technology. Similarly, it needs to be better equipped to understand the business need so that it can address challenges head on.

That is why IT is reaching into every aspect of business processes and integrating itself into every department and function. As always, successful IT leaders need to keep up with advances in technology, but they are also learning more about the industries that rely on them and the business trends their companies face. Increasingly, they describe themselves as business people first, technology experts second.

Aware of commoditization, but confident

Although hardly unanimous, IT leaders seem to be conceding that their industry is increasingly commoditized. Yet rather than seeing this as a threat, today's technology executives show a high level of confidence. They realize that outsourcing and offshoring are here to stay, but seem more strongly focused on what can be achieved when technology is driven by business need. They are aware of the contribution they are

making and understand the necessity of ongoing investments in technology. Individually, leaders know that as demand for IT increases globally, they will not be lacking in opportunities or challenges.

Yet a striking trend is revealed by length of service. Most IT executives in the U.S. seem satisfied with their current positions, compensation and status, and they appear to believe that their opportunities are greater if they stay put and stay focused on the business. That devotion to deeper business knowledge allows us to conclude that IT leaders will continue to push for greater responsibility in their organizations.

Changing the leadership model

In order to realize a more strategic position, IT leaders will need to start at the top. We see an increasing need for executives to reassess how their IT organization's workforce is led, organized and managed. Managing the IT organization is no longer just about having IT personnel perform a job. It's about helping the IT organization learn how to deliver a robust portfolio of user-responsive services that are continually aligned with the business.

Maximizing cost-effectiveness and responsiveness to customers requires the IT organization to run itself "like a business." Adding additional business skills and reorienting the thinking and responsibilities of IT management around a customer-centric and customer-driven delivery model are major steps in this direction.

Retooling the IT organization

This will require a change as to how IT acquires and builds skills within the organization. Adding IT professionals with skills to help transform the business will be critical. Companies struggling to keep the skill base of their IT organizations up-to-date and under control have a critical task ahead of them. Whether dealing with training issues, staff turnover, outsourcing or a departmental retooling, companies need an informed approach for managing IT skills. In doing so they will be making a major contribution to IT value.

How to get there from here

As indicated in the survey, most CIOs view greater input into strategic decision-making as the single most important change that would make their position more fulfilling. Although progress has been made with regards to CIOs' strategic value to the business, there remains a gap between what IT executives believe is important and how effective they really are. Closing the gap will require the CIO to build an agile, high-performing, business-driven IT organization with informed leadership and an IT-specific approach to human capital management.