

The Role of Chief Strategy Officers

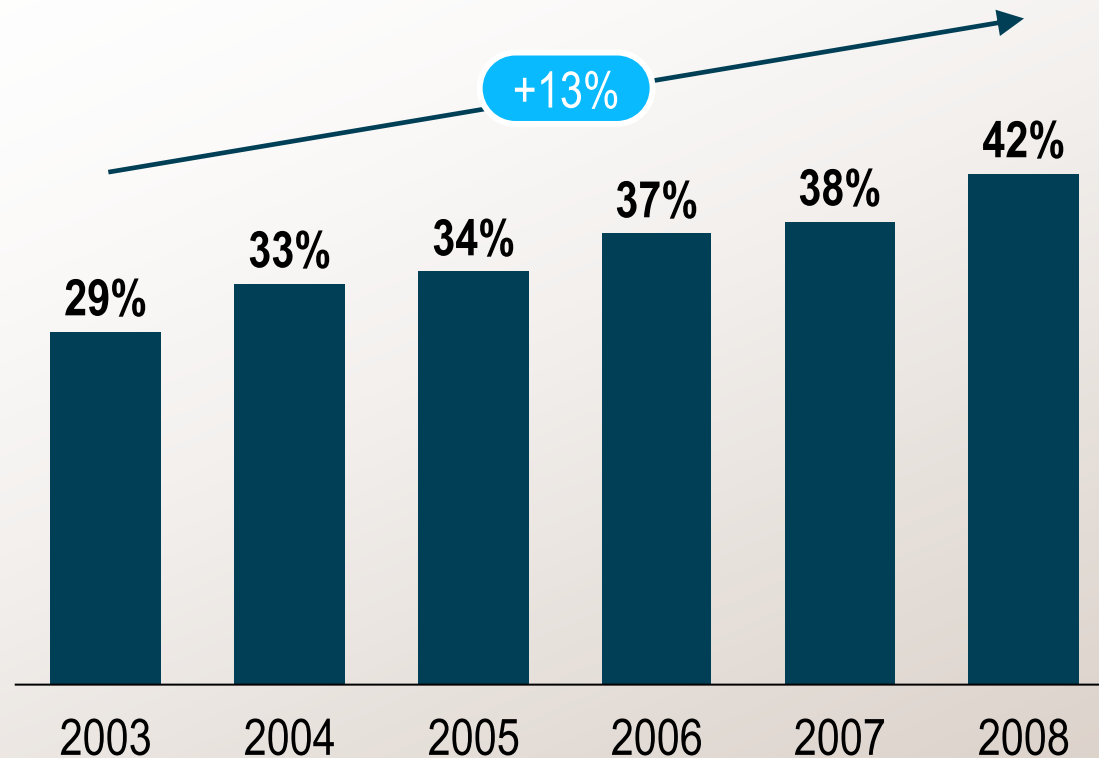
Study Report, December 2011

Roland Berger
Strategy Consultants

 Institute of Management
University of St.Gallen

Chief Strategy Officers (CSOs) – Increasingly prevalent

S&P 500 firms with CSOs in the TMT



"In the past five years, the position of the Chief Strategy Officer (CSO) has emerged as a new addition to the senior executive ranks in a significant number of companies"

Delmar, 2003

Note: Random sample of 150 S&P 500 firms

Source: Menz & Scheef (2011)

Chief Strategy Officer Survey 2011: Background & Method

Joint Study by the Institute of Management at the **University of St. Gallen** and **Roland Berger Strategy Consultants**

- PURPOSE**
- > Understanding of role, background, behavior, agenda, and benefits of CSOs
 - > Building/further strengthening CSO-Community

- PARTICIPANTS**
- > Targeted at the strategy heads of the 300 largest companies in DACHLI
 - > 110 CSOs participated in the study (36.7% response rate)

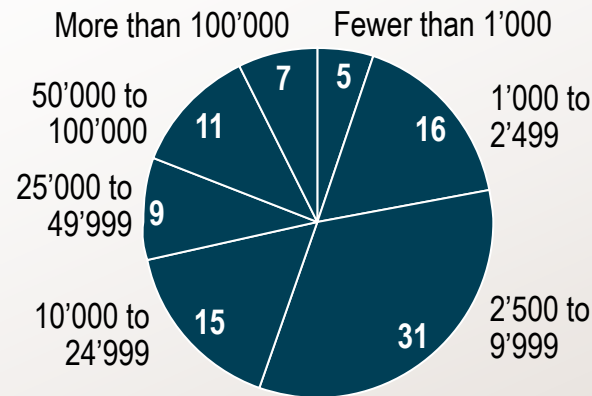
Complete **report published in December 2011**, some results have been published in the November issue of Harvard Business Manager

Chief Strategy Officer Survey 2011: Sample Characteristics

Sample distribution:

Firm size

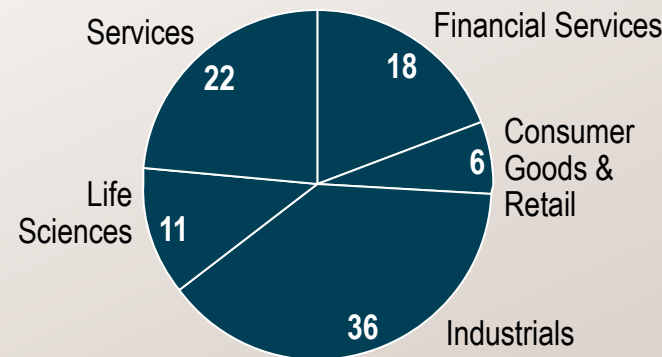
[No. of employees]
(n = 94)



Sample distribution:

Industry sectors

(n = 93)



- > 77% of the participating CSOs' firms **have more than 2'500 employees** – Average firm size is 33'100 employees (median: 6'100)
- > **Almost all large firms** (i.e. with sales exceeding USD 2.5 bn) in Austria, Germany, and Switzerland **have a CSO**

Chief Strategy Officer Survey 2011: **Eight Insights**

Insight 1 CSOs are in **powerful positions** because of direct CEO access

Insight 2 CSOs **focus on corporate development** – but there is a range of other activities

Insight 3 CSOs' active involvement in their firms' **strategic decisions** is important

Insight 4 CSO's **capabilities** are supposed to compensate the frequent lack of "street credibility"

Insight 5 There is **no standard career path** leading to the CSO position

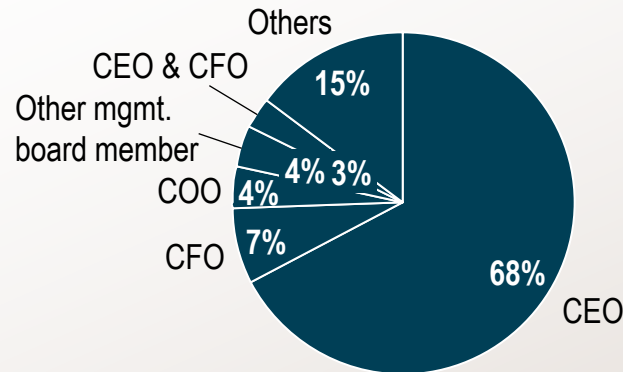
Insight 6 One Type does not fit all – **different firms employ different CSOs**

Insight 7 The problem to **measure strategic impact** and missing **internal acceptance** are main pain points

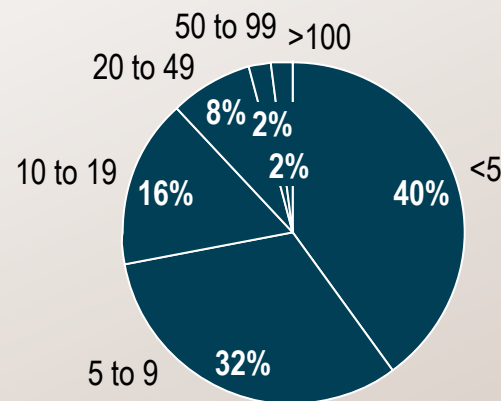
Insight 8 CSO's agenda reflects the need to **adjust the strategic business model** to recent developments

CSOs are in powerful positions because of direct CEO access

CSO's direct reporting line(s) (n = 109)



No. of employees in the strategy department (n = 100)



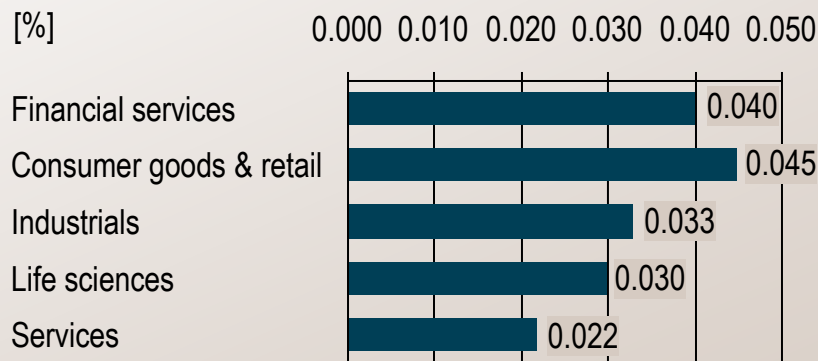
- > More than two thirds of the participating CSOs **report directly to the CEO** – Only 7% report to the CFO and 4% to the COO
- > The vast majority (73%) is located on the **second level of the hierarchy below the CEO** – The remaining CSOs are located on the third level of hierarchy
- > More than two thirds of the CSOs **head departments with fewer than 10 employees** – Average department size is 16 employees (median: 7)

CSOs are in **powerful positions** because of direct CEO access

Median no. of employees in the Strategy Department



Average no. of employees in the Strategy Department as % of total no. of employees

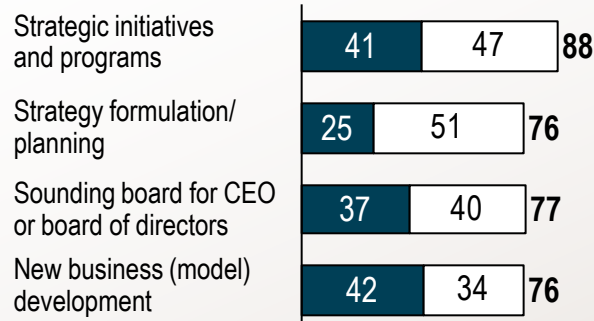


- > There are – partly significant – **differences in the size of the strategy departments across industries**
- > In general, **larger firms also have larger strategy departments**

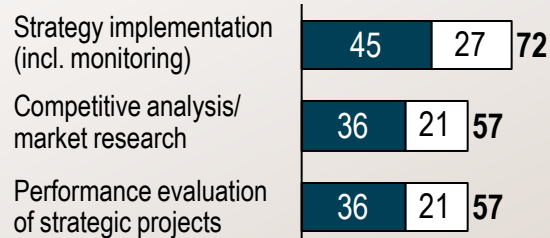
(n = 110)

CSOs focus on Corporate Development – But there is a range of other activities

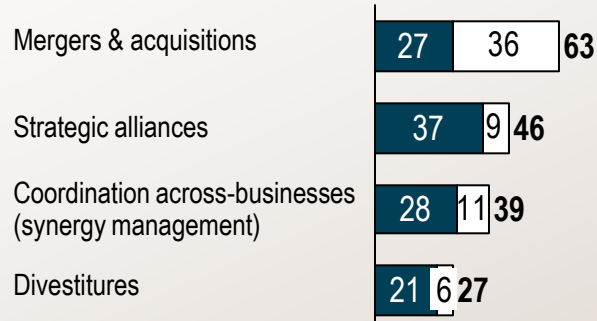
I Corporate development [%]



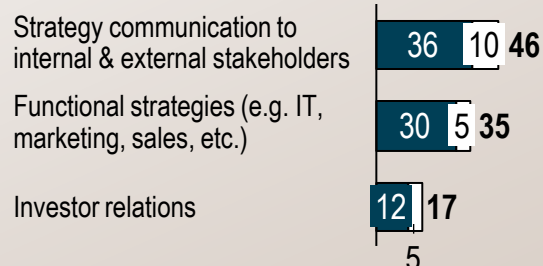
III Process management [%]



II Portfolio management [%]



IV CEO assistance [%]

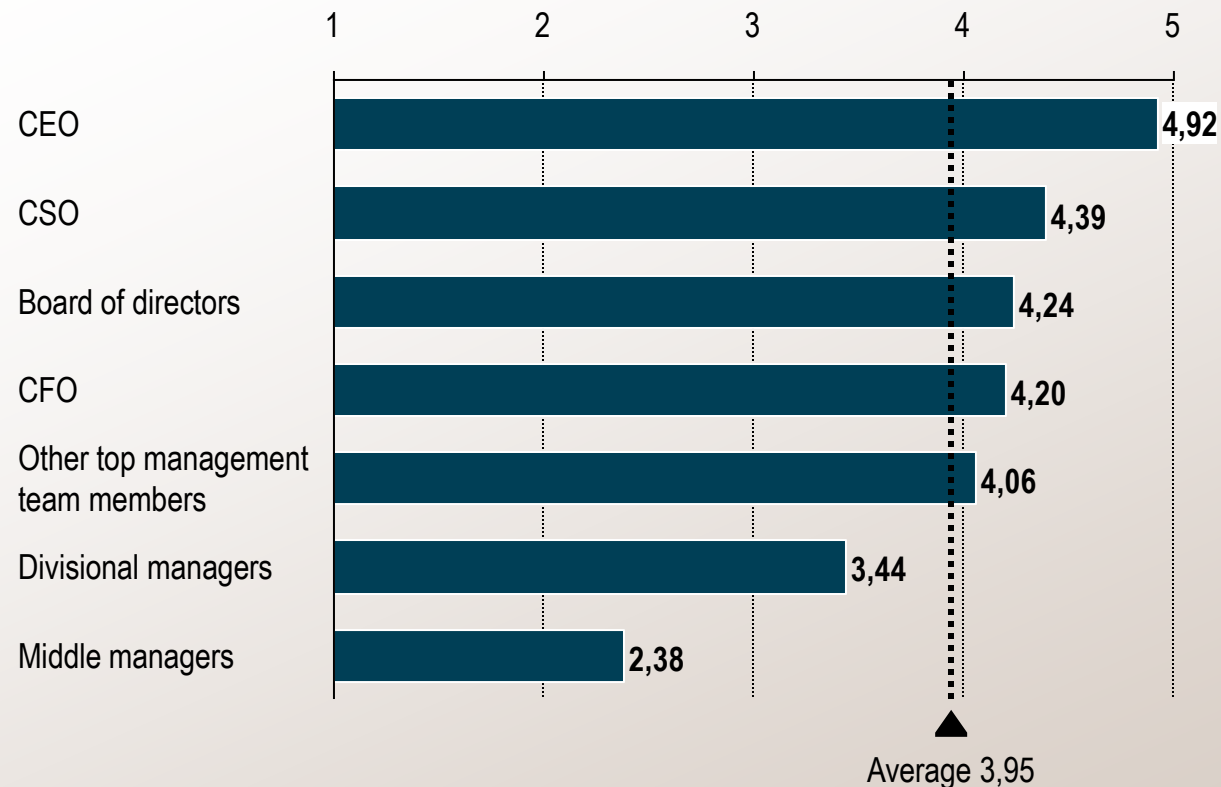


- > **Corporate development activities** are top of the list
- > Particularly, the **importance of strategic initiatives and programs** reflects the need to actively transform the organization
- > Frequently, the **CSO's department serves as "incubator"** for specialized, newly emerging activities such as corporate responsibility

(n = 110) ☐ Very important ☒ Important

CSOs' active involvement in their firms' **strategic decisions** is important

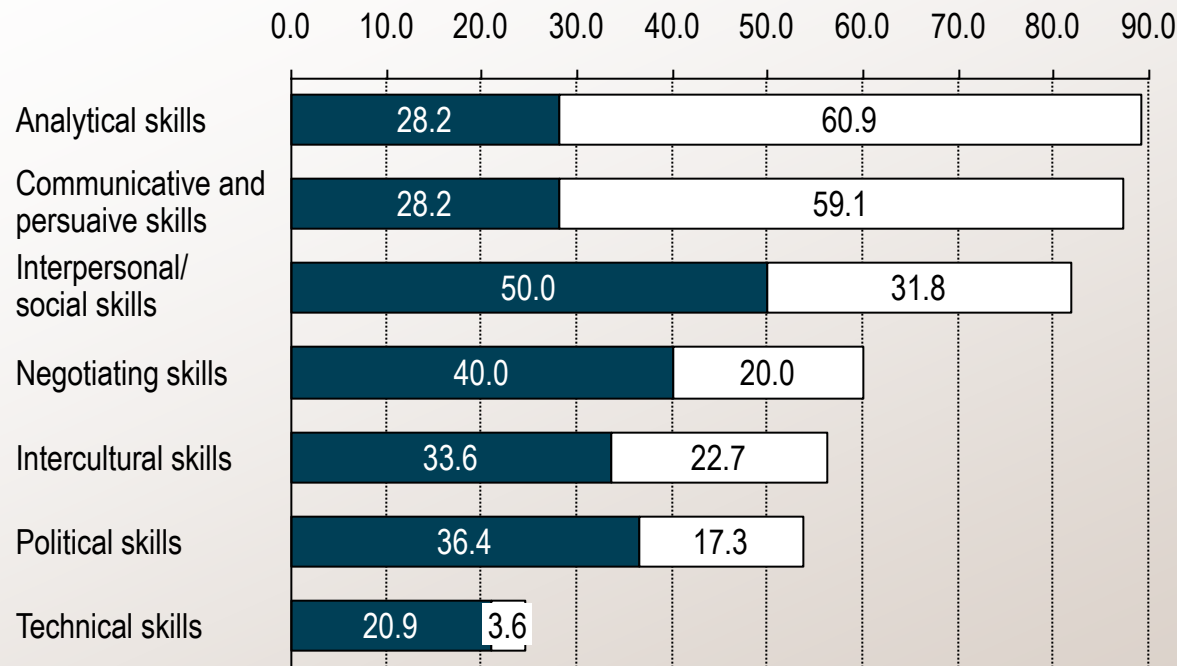
Who's involved in Strategic Decisions? (n=100)



- > **CSOs are actively involved** in their firms' **strategic decisions**
- > However, not only CSOs, but **also other top managers, particularly CFOs, are involved in strategic decisions;**
- > There is a **positive correlation** between CSO's involvement in strategic decisions and the quality of such decisions

CSOs' **capabilities** are supposed to compensate the frequent lack of "street credibility"

CSOs Considering Capability "important" or "very important" [%]

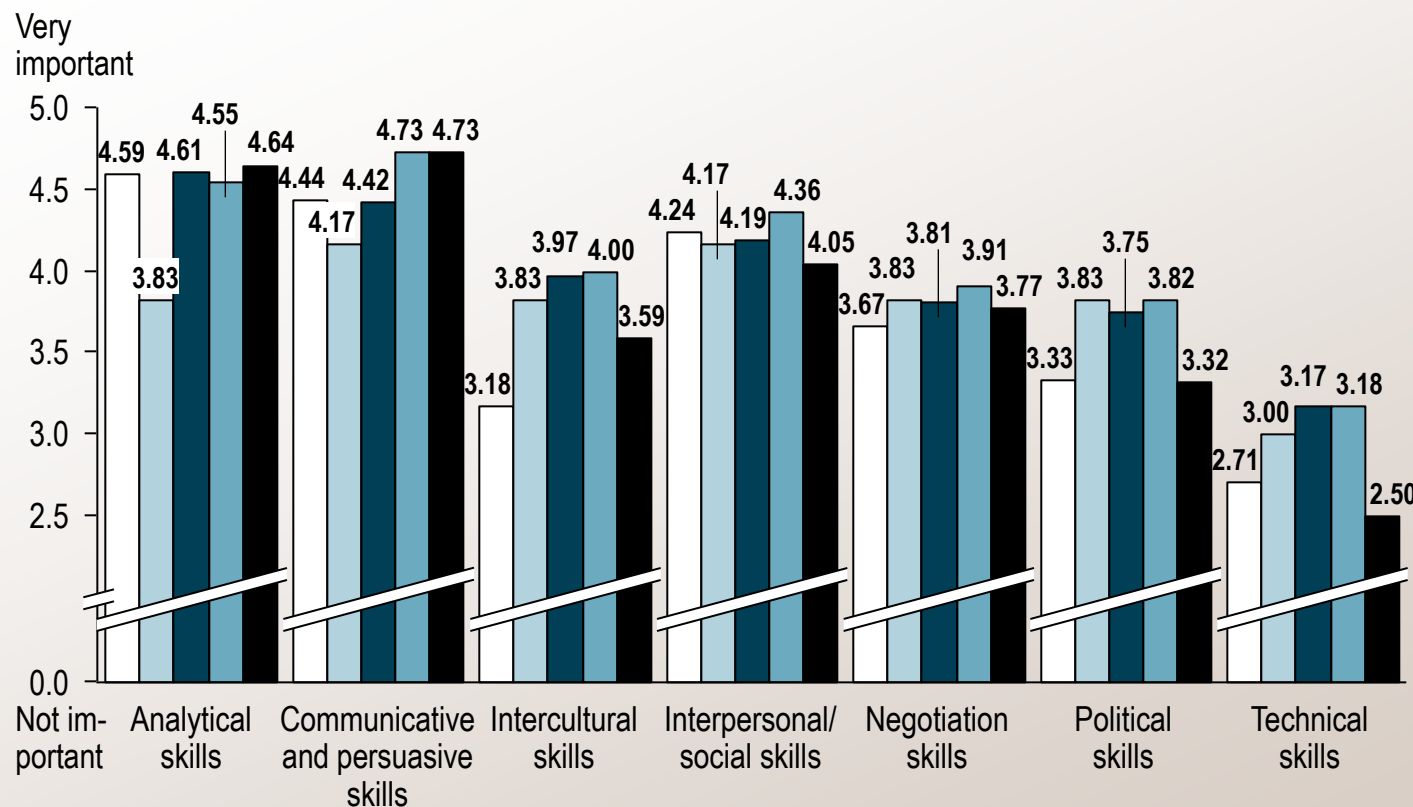


- > Three sets of capabilities are crucial:
 - **Analytical skills** (considered by 89.1% of the participants as "important" or "very important")
 - **Communicative and persuasive skills** (87.3%)
 - **Interpersonal/social skills** (81.8%)
- > A **diverse set of capabilities/skills is important** because CSOs often do not have experience in leading a business unit and/or a proven track record within in the focal firm, which limits their authority and power

(n = 100)  Very important  Important

CSOs' **capabilities** are supposed to compensate the frequent lack of "street credibility"

Average importance of CSO capabilities

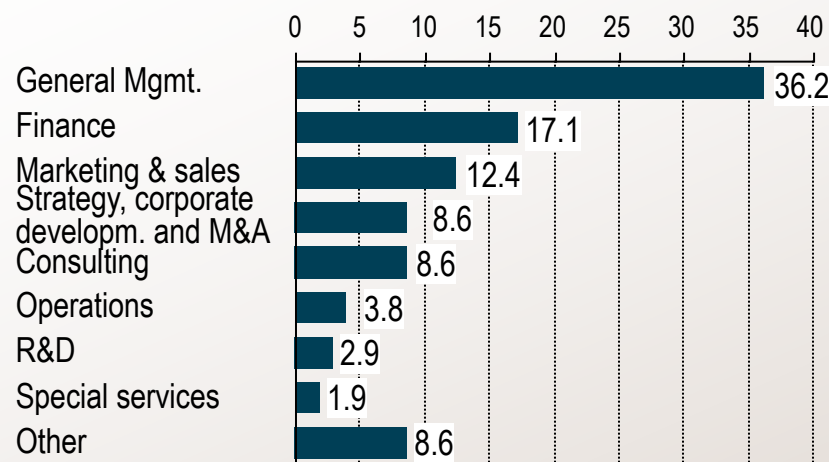


(n = 105) Financial services Consumer goods & retail Industrials Life sciences Services

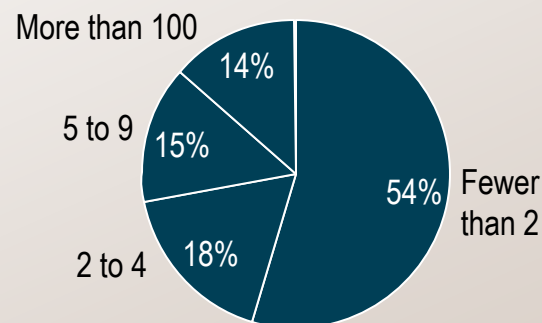
- > There are – partly significant – **differences** in the average importance of CSO capabilities **across industry sectors**
- > CSOs in the consumer goods, industrial, and life sciences sectors consider intercultural skills, political skills, and technical skills more important than CSOs in other sectors

There is **no standard career path** leading to the CSO position

Functional background [%] (n = 105)



No. of years firm-specific experience when assuming the CSO role (n = 103)



- > **More than one third** of the CSOs spent the majority of their careers in **general management** roles (36.2%), followed by finance positions (17.1%), marketing & sales (12.4%), strategy, corporate development, and mergers & acquisitions (8.6%), and consulting (8.6%)
- > There is also substantial **diversity** among the CSOs **regarding the extent of firm-specific experience**; the majority of CSOs had less than two years of experience in the focal firm (the average firm tenure is 7.5 years, and the average CSO tenure is 3.3 years)

One Type does not fit all – Different firms employ different CSOs

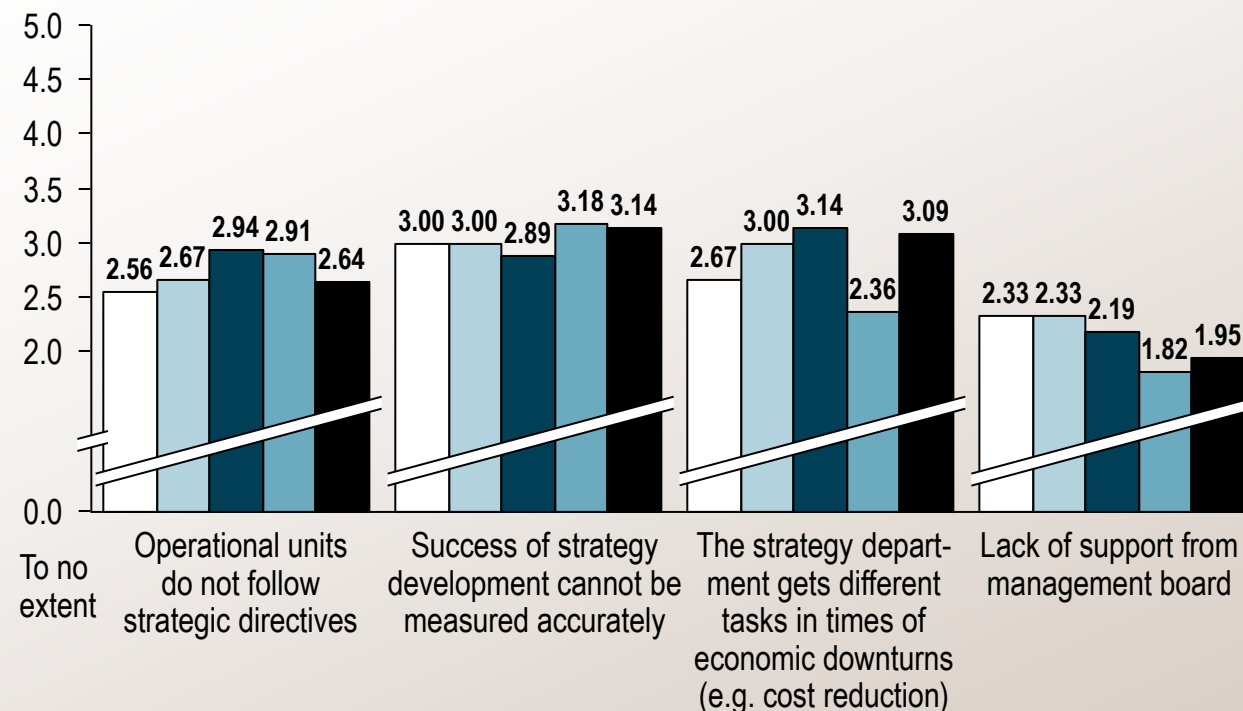
Location of the prior position	In another firm	Consultants 26% of the participants	Coaches 23% of the participants
	In the same firm	Specialists 26% of the participants	Implementer 24% of the participants
		Functional management	General management
		Type of the prior position	

- > **Consultants** lead relatively small teams and are typically located in services or sometimes industrial firms with 5'000 to 25'000 employees that have rather centralized organization designs
- > **Specialists** often serve as CSOs in financial services firms or typically in small to medium-sized firms (up to 25'000 employees), in which decision-making is centralized
- > **Coaches** can be observed in almost all industry sectors – except for life sciences firm; they are predominantly found in decentralized organizations
- > **Implementer** are assisted by the largest strategy departments of all CSO types; they serve in large, decentralized firms in the financial services, industrial, and life sciences sectors

The problem to **measure strategic impact** and **missing internal acceptance** are main pain points

Hurdles and pain points

To a very great extent



- > **Main hurdle** is that the success of strategy development cannot be measured accurately
- > **Another pain point** is the frequently missing internal acceptance
- > There is **some variation** in these hurdles **across industry sectors**: Firms in the industrial and life sciences sectors suffer more from the disconnect between strategy and operations than firms in other sectors

(n = 96) Financial services Consumer goods & retail Industrials Life sciences Services

CSOs agenda reflects the need to **adjust the strategic business model** to recent developments – Euro-Crisis may drive cost cutting

Hot topics related to the strategic business model



- > Actions that enable firms to develop **innovative, more sophisticated products and services** are of major importance for the CSOs
- > Top of the list are **three growth topics**: development of new innovative products/integrated solutions, adding additional and innovative services to the organization's portfolio, and entering new, emerging regions

(n = 96) 1 = To no extent 5 = To a very great extent

Some results were published in the November issue of the **Harvard Business Manager**

CSO survey 2011

> HBM 11/2011



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