The Role of Chief Strategy Officers

Study Report, December 2011

Roland Berger
Strategy Consultants

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

Source: University of St. Gallen, Roland Berger Strategy Consultants (CSO Survey 2011)
Chief Strategy Officer Survey 2011: Sample Characteristics

Sample distribution: Firm size
[No. of employees] (n = 94)

<table>
<thead>
<tr>
<th>Firm Size Range</th>
<th>No. of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>50'000 to 100'000</td>
<td>11</td>
</tr>
<tr>
<td>25'000 to 49'999</td>
<td>9</td>
</tr>
<tr>
<td>10'000 to 24'999</td>
<td>15</td>
</tr>
<tr>
<td>1'000 to 2'499</td>
<td>16</td>
</tr>
<tr>
<td>2'500 to 9'999</td>
<td>31</td>
</tr>
<tr>
<td>More than 10'000</td>
<td>7</td>
</tr>
<tr>
<td>Fewer than 1'000</td>
<td>5</td>
</tr>
</tbody>
</table>

Sample distribution: Industry sectors (n = 93)

- Services: 22
- Financial Services: 18
- Life Sciences: 11
- Consumer Goods & Retail: 6
- Industrials: 36

> 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
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

Source: University of St. Gallen, Roland Berger Strategy Consultants (CSO Survey 2011)
CSOs are in powerful positions because of direct CEO access

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).

Source: University of St. Gallen, Roland Berger Strategy Consultants (CSO Survey 2011)
CSOs are in powerful positions because of direct CEO access

Median no. of employees in the Strategy Department

<table>
<thead>
<tr>
<th>Industry</th>
<th>Median (0-10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services</td>
<td>7.5</td>
</tr>
<tr>
<td>Consumer goods &amp; retail</td>
<td>9.0</td>
</tr>
<tr>
<td>Industrials</td>
<td>7.0</td>
</tr>
<tr>
<td>Life sciences</td>
<td>6.0</td>
</tr>
<tr>
<td>Services</td>
<td>5.5</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Industry</th>
<th>Average [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services</td>
<td>0.040</td>
</tr>
<tr>
<td>Consumer goods &amp; retail</td>
<td>0.045</td>
</tr>
<tr>
<td>Industrials</td>
<td>0.033</td>
</tr>
<tr>
<td>Life sciences</td>
<td>0.030</td>
</tr>
<tr>
<td>Services</td>
<td>0.022</td>
</tr>
</tbody>
</table>

(n = 110)

Source: University of St. Gallen, Roland Berger Strategy Consultants (CSO Survey 2011)

> There are – partly significant – differences in the size of the strategy departments across industries

> In general, larger firms also have larger strategy departments
CSOs focus on Corporate Development – But there is a range of other activities

**Corporate development [%]**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Very important</th>
<th>Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic initiatives and programs</td>
<td>41</td>
<td>47</td>
</tr>
<tr>
<td>Strategy formulation/planning</td>
<td>25</td>
<td>51</td>
</tr>
<tr>
<td>Sounding board for CEO or board of directors</td>
<td>37</td>
<td>40</td>
</tr>
<tr>
<td>New business (model) development</td>
<td>42</td>
<td>34</td>
</tr>
</tbody>
</table>

**Portfolio management [%]**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Very important</th>
<th>Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mergers &amp; acquisitions</td>
<td>27</td>
<td>36</td>
</tr>
<tr>
<td>Strategic alliances</td>
<td>37</td>
<td>9</td>
</tr>
<tr>
<td>Coordination across-businesses (synergy management)</td>
<td>28</td>
<td>11</td>
</tr>
<tr>
<td>Divestitures</td>
<td>21</td>
<td>5</td>
</tr>
</tbody>
</table>

**Process management [%]**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Very important</th>
<th>Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy implementation (incl. monitoring)</td>
<td>45</td>
<td>27</td>
</tr>
<tr>
<td>Competitive analysis/market research</td>
<td>36</td>
<td>21</td>
</tr>
<tr>
<td>Performance evaluation of strategic projects</td>
<td>36</td>
<td>21</td>
</tr>
</tbody>
</table>

**CEO assistance [%]**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Very important</th>
<th>Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy communication to internal &amp; external stakeholders</td>
<td>36</td>
<td>10</td>
</tr>
<tr>
<td>Functional strategies (e.g. IT, marketing, sales, etc.)</td>
<td>30</td>
<td>5</td>
</tr>
<tr>
<td>Investor relations</td>
<td>12</td>
<td>17</td>
</tr>
</tbody>
</table>

(n = 110)  
Very important  Important

> 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

Source: University of St. Gallen, Roland Berger Strategy Consultants (CSO Survey 2011)
CSOs' active involvement in their firms' strategic decisions is important.

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

- **CEO**: Average 4.92
- **CSO**: Average 4.39
- **Board of directors**: Average 4.24
- **CFO**: Average 4.20
- **Other top management team members**: Average 4.06
- **Divisional managers**: Average 3.44
- **Middle managers**: Average 2.38

Source: University of St. Gallen, Roland Berger Strategy Consultants (CSO Survey 2011)

- 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" [%]

- **Analytical skills**: 60.9% (considered by 89.1% of the participants as "important" or "very important")
- **Communicative and persuasive skills**: 59.1% (87.3%)
- **Interpersonal/social skills**: 31.8% (81.8%)
- **Negotiating skills**: 20.0%
- **Intercultural skills**: 22.7%
- **Political skills**: 17.3%
- **Technical skills**: 3.6%

Source: University of St. Gallen, Roland Berger Strategy Consultants (CSO Survey 2011)

> 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 the focal firm, which limits their authority and power
CSOs' capabilities are supposed to compensate the frequent lack of "street credibility".

Insight 4

Average importance of CSO capabilities

<table>
<thead>
<tr>
<th>Skill</th>
<th>Financial services</th>
<th>Consumer goods &amp; retail</th>
<th>Industrials</th>
<th>Life sciences</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analytical skills</td>
<td>4.59</td>
<td>4.61</td>
<td>4.44</td>
<td>4.73</td>
<td>4.73</td>
</tr>
<tr>
<td>Communicative and persuasive skills</td>
<td>3.83</td>
<td>4.17</td>
<td>3.83</td>
<td>3.83</td>
<td>3.83</td>
</tr>
<tr>
<td>Intercultural skills</td>
<td>4.64</td>
<td>4.42</td>
<td>4.24</td>
<td>4.17</td>
<td>4.36</td>
</tr>
<tr>
<td>Interpersonal/social skills</td>
<td>3.97</td>
<td>3.59</td>
<td>3.83</td>
<td>3.81</td>
<td>3.75</td>
</tr>
<tr>
<td>Negotiation skills</td>
<td>4.00</td>
<td>4.05</td>
<td>3.83</td>
<td>3.77</td>
<td>3.82</td>
</tr>
<tr>
<td>Political skills</td>
<td>4.18</td>
<td>3.91</td>
<td>3.83</td>
<td>3.83</td>
<td>3.32</td>
</tr>
<tr>
<td>Technical skills</td>
<td>4.73</td>
<td>4.64</td>
<td>4.17</td>
<td>4.44</td>
<td>4.55</td>
</tr>
</tbody>
</table>

(n = 105)

- 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.

Source: University of St. Gallen, Roland Berger Strategy Consultants (CSO Survey 2011)
There is no standard career path leading to the CSO position

Insight 5

Functional background [%] (n = 105)

- General Mgmt: 36.2%
- Finance: 17.1%
- Marketing & sales: 8.6%
- Strategy, corporate developm. and M&A: 8.6%
- Consulting: 8.6%
- Operations: 3.8%
- R&D: 2.9%
- Special services: 1.9%
- Other: 8.6%

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

- Fewer than 2: 54%
- 2 to 4: 18%
- 5 to 9: 15%
- More than 100: 14%

> 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)

Source: University of St. Gallen, Roland Berger Strategy Consultants (CSO Survey 2011)
One Type does not fit all – Different firms employ different CSOs

<table>
<thead>
<tr>
<th>Location of the prior position</th>
<th>Type of the prior position</th>
<th>Consultants 26% of the participants</th>
<th>Coaches 23% of the participants</th>
<th>Specialists 26% of the participants</th>
<th>Implementer 24% of the participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the same firm</td>
<td>Functional management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In another firm</td>
<td>General management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

> **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.

Source: University of St. Gallen, Roland Berger Strategy Consultants (CSO Survey 2011)
The problem to **measure strategic impact** and **missing internal acceptance** are main pain points.

**Insight 7**

**Hurdles and pain points**

<table>
<thead>
<tr>
<th>Hurdle</th>
<th>Financial services</th>
<th>Consumer goods &amp; retail</th>
<th>Industrials</th>
<th>Life sciences</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational units do not follow strategic directives</td>
<td>2.56</td>
<td>2.94</td>
<td>2.91</td>
<td>2.64</td>
<td>2.67</td>
</tr>
<tr>
<td>Success of strategy development cannot be measured accurately</td>
<td>3.00</td>
<td>3.00</td>
<td>2.89</td>
<td>3.14</td>
<td>3.00</td>
</tr>
<tr>
<td>The strategy department gets different tasks in times of economic downturns (e.g. cost reduction)</td>
<td>2.67</td>
<td>3.00</td>
<td>3.14</td>
<td>2.36</td>
<td>3.09</td>
</tr>
<tr>
<td>Lack of support from management board</td>
<td>2.33</td>
<td>2.33</td>
<td>2.19</td>
<td>1.82</td>
<td>1.95</td>
</tr>
</tbody>
</table>

(n = 96)

- **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.

Source: University of St. Gallen, Roland Berger Strategy Consultants (CSO Survey 2011)
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**

- Development of new innovative products/integrated solutions
- Adding additional and innovative services to the organization's portfolio
- Entering new, emerging regions
- Improvement of the organization's internal cross-selling/generation of cross-business synergies
- Defining and exploiting new customer segment/-groups
- Strategic partnering to complete the organization's offering/to share customers
- Planning a different configuration of the organization's value chain (to improve efficiency/effectiveness)
- Planning to change the organization's value creation model in the future
- Use the direct channels (e.g. online) to serve the organization's customers
- Launching e-business activities

> 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

Source: University of St. Gallen, Roland Berger Strategy Consultants (CSO Survey 2011)
Some results were published in the November issue of the Harvard Business Manager

CSO survey 2011

> HBM 11/2011

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