



A Russell Reynolds Associates Series

Leadership for a Changing World. Articles in our *Leadership & Talent* series address key issues companies face in creating effective talent management strategies—to identify, develop and retain successful leaders and leadership teams.

Our CIO Is Leaving—Now What? A Practical Guide to CIO Succession

Given the Chief Information Officer's responsibility for the "central nervous system" of the corporation, filling a CIO vacancy is one of the most critical personnel decisions an enterprise can face. In this issue, Eric Sigurdson and the global Information Officers Practice at Russell Reynolds Associates provide a framework for companies to use to fully assess their options and develop the best strategy when facing a CIO vacancy.

The heightened importance of the CIO role has led to an increased rate of CIO turnover. CEOs, CFOs and Boards do not hesitate to replace incumbent CIOs who fail to meet the rising expectations of the IT function or who no longer fit the strategic direction of the company. And because of this increased demand for talent, skilled CIOs are continually presented with opportunities to move elsewhere.

Confronting CIO succession in this competitive environment is rarely easy. Approaching the problem strategically and systematically helps identify priorities, issues to be mitigated and options that may not have been readily apparent at the outset. Furthermore, such an approach maximizes the chances that the widest pool of appropriate candidates will be considered, and that once a candidate is chosen,

he or she will be able to meet and surpass the expectations of the CEO and the Board.

When faced with a CIO vacancy, a company typically has three succession options:

- 1. Promote** someone from within the IT function, such as the head of application development or IT infrastructure, or a divisional CIO, to the top corporate spot.
- 2. Rotate** a non-IT executive from the business to bring a user's perspective to the role while providing a career-rounding experience to the executive.
- 3. Recruit** from the outside, while potentially including the strongest internal prospects as part of the candidate pool.

The natural tendency—with the clock ticking and the central nervous system of the enterprise on the line—is to choose the most expedient option. But that may not be the best long-term solution. While an acceptable CIO might be able to reliably "keep the lights on," a world-class CIO will be able leverage information technology to drive process improvements, cost reductions, actionable competitive intelligence and revenue expansion opportunities. An optimal long-term result is much more likely if the corporation takes the time to first fully assess the costs and benefits associated with each of the above three talent options and then decide on a plan of action. Forgoing such deliberation might result in a slight initial advantage in time, but that benefit will eventually be far overshadowed by the cost of a suboptimal choice.

Asking The Right Questions

A thorough analysis of your CIO succession options begins with an assessment of four factors: the health of the IT function, the current fit of the IT function with the overall direction of the company, the state of the remaining IT leadership team and how prepared the company is to approach the external talent market. Each of these factors will influence whether you promote, rotate or recruit to fill the vacancy. The resulting decision matrix generated from this analysis outlines how your company's particular situation aligns with the three succession options.

1. The health of the IT function.

The IT function must be evaluated across several different operational dimensions including system uptime, its record of on-time/on-budget system delivery and its track record of enabling the business to accomplish its goals. The level of satisfaction with the service that IT delivers to its internal customers is often the single biggest factor in deciding how to replace an exiting CIO.

- **Reputation:** Does the IT function have a reputation for listening and being responsive to the business? Or are business leaders within the company looking for a "turnaround"—perhaps imposed by an executive from their ranks?
- **Results:** Is the IT function organized to maximize effectiveness? Does the IT team feel motivated and focused to deliver high-quality IT solutions and service?

- **Governance:** Is there an effective IT governance system in place that allows the business to help prioritize IT projects?
- **Economics:** Are IT finances in order? Do projects routinely come in on time and under budget? Is the company's IT spend in line with industry norms?
- **Structure:** What IT functions or roles do not report to the CIO? Consider their overall health and whether a change in this structure should be contemplated. Does the CIO report to the right person?

2. The current fit of the IT function with the overall direction of the company. Determine from a strategic perspective whether a change is needed in the IT function's direction or if the current direction is satisfactory. Take into account feedback from internal business constituents, the Board, investors, industry observers and analysts.

- **Revenue growth:** Has the IT function been able to support and enhance the company's growth into new markets and regions? Have its efforts helped or hindered expansion?
- **Cost reduction:** Has IT been successful in eliminating costs, both within the IT organization and elsewhere in the company?
- **Leveraging data:** Has IT taken an entrepreneurial approach in helping the business leverage data for competitive advantage and for the creation of new products or services?

- **Industry leadership:** When measured against its competitors, does the company stand out for the strength of its IT function?
- **Evolution:** Are any major strategic changes being contemplated (either organically or through an acquisition) that will change what is expected from IT?

3. The state of the remaining IT leadership team. Even if radical changes are needed, a current member of the IT team may be the best person to implement them. An analysis of the IT function's existing human capital in light of the company's strategic needs is an important component of the overall review.

- **Internal candidates:** Are there one or more obvious candidates who have been groomed for the CIO role? What are the strengths and weaknesses of the internal candidate(s) and how can any weaknesses be mitigated? Are there IT executives who have the personal competencies to be CIO, but simply need more experience in key areas (infrastructure, ERP, etc.)?
- **Impact:** How will an internal promotion affect team dynamics? How will the human chain reactions set off by an internal promotion reverberate throughout the company? Who might leave (or threaten to) and who will fill the vacancy of the promoted candidate?

4. Assess the company’s preparedness to approach the external talent market. If the decision is made to “go to market” to fill the position, the company must consider how its search will be perceived when measured against other opportunities top-tier CIO candidates may have. Also, determine what can be done to minimize the time pressure for conducting a potential external search.

- **Transition:** How well does the company embrace outsiders?
- **Positioning:** What is its strategic importance of IT to the business as

evidenced by the CIO’s reporting relationship and whether the CIO has a “seat at the table” with the rest of the CEO’s leadership team?

- **Interim plan:** Should an interim CIO be appointed until the new CIO comes on board?
- **Compensation:** Is the company willing to offer a competitive package for the right candidate?
- **Relocation:** Will the company consider a candidate who cannot relocate his or her family but would commute?

- **Miscellaneous:** Are there special considerations—a remote location, diversity requirements, cultural fit or industry considerations—that could hinder recruiting new external talent?

Making The Trade Off

Answering these questions provides an inventory of the forces to be considered when choosing a strategy for filling a CIO vacancy. Each of these factors can tip the balance in favor of one or more of the available options, as illustrated in the following table.

Factor	Promote	Rotate	Recruit
Health of the IT function			
IT has credibility with the business, a solid track record of results and is considered well run	✓		
IT lacks credibility, has underperformed or has suffered from internal management issues		✓	✓
Business leaders want “one of their own” leading IT		✓	
Fit of the IT function with overall direction of company			
IT has been well integrated with the firm’s overall direction	✓		
IT is not aligned with the bottom line and innovation efforts		✓	✓
Major strategic changes are contemplated			✓
Company lagging in IT leadership			✓
State of the remaining IT leadership team			
Internal candidates, with bench strength behind them	✓		
Key IT lieutenants need more development		✓	✓
Preparedness to go to the external talent market			
High cultural barriers for outsiders	✓	✓	
Constraints (e.g., location, budget, time) to accessing external talent	✓	✓	
Openness to diverse backgrounds and ability to manage internal process to ensure success			✓

Not surprisingly, companies with strong internal candidates are more likely to promote from within, while those needing an infusion of new ideas or best practices might be better served by rotating a non-IT executive into the role or recruiting from the outside. If the company has an extremely unique or insular culture (suggesting promotion or rotation), it might still choose to search externally while also recognizing the need to address potential acclimation issues for an outside hire. Rarely, however, is the situation so straight-forward.

From Defining A Pool To Identifying A Successor

The above analysis frames the costs and benefits of the three different paths to filling a CIO position. But once a path is chosen, there is still the critical process of screening candidates and selecting a finalist. The Russell Reynolds Associates Information Officers Practice has developed a proprietary CIO succession planning process that begins with interviewing the company's senior leadership team to determine the specific requirements of the CIO role given the company's strategic direction. A set of CIO competencies are developed against which internal candidates are evaluated through:

- **360° referencing** that early in the process provides added insight from superiors, industry peers, colleagues and direct reports.
- **Online psychometric testing**, interpreted by an in-house psychologist, which gives shape to intangible qualities and helps address the all-important issue of "fit."
- **In-depth competency-focused interviews** that probe for the skills and talents essential for the role.

Russell Reynolds Associates then benchmarks these internal candidates against CIOs of competitors and other relevant companies with best-in-class IT talent. If the company decides to access the external market, Russell Reynolds Associates is ready to conduct a complete CIO search that draws upon our extensive professional network that spans industries and regions. External candidates are put through the same rigorous evaluation process outlined above. Once a finalist has been chosen, we typically facilitate the offer negotiation and assist with successful on-boarding.

Summary

Choosing your company's next CIO—whether you promote, rotate or recruit—is a decision that requires careful thought, answers to strategic questions, and a deliberate process grounded in market realities and your company's unique culture and approach to leadership. While this process will not guarantee a perfect choice for a CIO, it will likely yield the best choice.

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