

THINK ACT

BEYOND MAINSTREAM

...opoly on
...gy work? H
...e work gets
...er the com

January 2016

ments and all who are res-
anning process has not got
he context in which strate-
ted has grown less stable.
make business decisions
uation, it is not a bad idea
e traditionally been the key
any years' experience with
n relation to strategy in ge-

They too are responsible for ensu
ces set aside for strategy work an
that genuinely adds value.

This year's analysis of our C
precisely this topic: the value ad
tegy departments. How does v
done? And where in the co
What part do CSOs play
play? How do com

Revealing the chief strategist's hidden value

How CEOs can measure their CSOs' performance
Chief Strategy Officer Survey 2016 – Key findings

THE BIG

3

44%

of companies draw on decentralized resources – strategists in product lines or country organizations, for example – in the course of their strategy work.

Page 5

LESS THAN

5 YEARS

is the time most people stay in a strategy department, so they never taste the fruits of their own efforts for more than one strategy cycle.

Page 8

70%

of firms use CSO-specific indicators to measure the value added by their Chief Strategy Officers either irregularly or not at all.

Page 12

Does the central strategy office have a monopoly on strategy work? Far from it! The work gets done all over the company.

The work of strategy departments and all who are responsible for the strategy planning process has not got any easier in recent years. The context in which strategic plans must be formulated has grown less stable. Volatility and uncertainty make business decisions more difficult. Given this situation, it is not a bad idea to critically review what have traditionally been the key pillars of strategy work. Many years' experience with research and project work in relation to strategy in general and chief strategy officers (CSOs) in particular help us identify and visualize gaps between ideal and reality. At a time when belts are being tightened all around, we see companies thinking twice about highly qualified and expensive corporate functions. And strategy departments are no exception. Challenged to make their work more transparent, CSOs are themselves being forced to look closely at how they see their role and how they approach their assignments. Nor can business managers and CEOs simply pass the buck:

They too are responsible for ensuring that the resources set aside for strategy work are deployed in a way that genuinely adds value.

This year's analysis of our CSO study focuses on precisely this topic: the value added by CSOs and strategy departments. How does valuable strategy work get done? And where in the company does that happen? What part do CSOs play – and what part should they play? How do companies measure the performance of their chief strategists? This year's theme dovetails seamlessly with those of previous years, in which we examined the requirements placed on CSOs in a volatile environment (2013) and the role of CSOs in transformation processes (2014). → [A](#)

A CLOSER LOOK AT THE STRATEGISTS' LANDSCAPE

Having a central strategy department is par for the course these days: 94% of respondent companies have

A

OUR METHODOLOGY

For the fifth year in a row, Roland Berger and the Institute of Management at the University of St. Gallen has quizzed around 600 companies in 16 countries on the work of CSOs and strategy departments. 109 chief strategy officers/strategists completed the questionnaire in part or in full, a response rate of **17%**. Individuals from a broad spread of industries took part: **38%** from manufacturing, **18%** from services (including media, communications, transportation and logistics), **16%** from retail, **16%** from the life sciences and **12%** from financial services. **64%** of the companies represented employ between 2,500 and 25,000 people. The written survey was complemented by interviews conducted with selected CSOs in order to validate and interpret the findings.

one in house. Over the past five years, the size of these departments has remained fairly constant. Across firms of all sizes the median figure is six full-time equivalents (FTEs), and two thirds of respondents said their department did not have more than ten people. Far higher staffing levels are commonplace at large companies:¹ These firms employ almost double the number of strategy staff seen at small and medium-sized enterprises. → **B** However, any evaluation of the people involved in strategy work must also take account of other corporate and decentralized departments. This conclusion can be drawn from a key insight gained in this year's analysis: Companies' strategy work is spread out across organizations to an astonishing extent. Contributions to strategy come from all kinds of operating units, from the regions and from a series of other functions. The survey showed that 44% of respondent firms also have strategy departments in their divisions. However, contributions to strategy work also come from M&A departments at 54% of respondent companies, from departments for alliances/strategic partnerships at 20% and from in-house consulting units at 18%. One conspicuous finding is that companies in (financial) services involve their divisions to a greater degree than firms in manufacturing, retail and the life sciences. 70% of respondent firms willingly draw on the expertise of externals as a temporary support, especially for strategic analysis and the formulation of new strategy options.

A ROADMAP FOR FUTURE STRATEGY WORK

Isn't it enough to keep strategy work within the walls of the corporate strategy office? The work of professional strategists has certainly been instrumental in helping the strategy process to reach a certain level of maturity. While that is a good thing, it also means that a well-managed strategy process per se nowadays does little to keep a company ahead of the pack. Why? Because it has become a given, much like the strategic importance of IT and controlling did in the 1980s. In the future, the strategy process will be able to add considerable value only if it is continually developed and refined – in response to both trends and the specific corporate context. CSOs see potential for such development even in non-core areas such as "strengthening innovation". Here, an exceptionally wide gap has opened up between the value that CSOs currently add and what is expected of them.

¹ The following categories were used for the purposes of this study: large: >25,000 employees; medium-sized: 5,001-25,000 employees; small: <5,000 employees.

B

BREAKDOWN OF STRATEGISTS ACROSS THE COMPANY

Strategy work is spread across the organization to an astonishing extent

Internal support...

No. of employees (median)

Mergers and
acquisitions

4.0

Alliances and strategic
partnerships

3.5

In-house
consultancy

8.0

Other strategy-related
functions (e.g. innovation)

6.0

44%

of companies have
distributed resources at their
disposal for strategy work

External support...

e.g. from consultancies

...is used
by more
than

half of
small firms
and

79%

of large
companies.

Staffing levels atcentral strategy offices

No. of employees (median)

Large companies

11

Medium-sized companies

5

Small companies

5

Let's take a look at a number of major trends that are already shaping the activities of CSOs and other strategy workers today. We have already mentioned the growing volatility and uncertainty that prevails in the strategic environment, and this is giving rise to new demands in terms of flexibility, granularity and processes. Our interviews confirmed that the majority of chief strategists are already taking these demands on board: Strategic initiatives frequently originate in specialist departments or country organizations, and the various

strands are then pulled together at HQ. Companies have a global footprint and want to be able to respond quickly and with suitable strategic answers to local requirements. So if strategy work is spread around, this helps companies stay closer to their customers and markets. Another important factor is that the chance to be involved in shaping strategies promotes integration and nurtures stronger motivation among product business units and regions than if strategy is simply dictated from the top down.

CSOs' core task is to orchestrate contributions to strategy. A closer look must therefore be taken at their skills, activities and understanding of their own mission.

Having ascertained that valuable strategy work is done by many different players within companies, let us now turn our attention to CSOs, analyzing their skill sets, seeing where they fit into the organization and reviewing their portfolio of activities. CSOs are essentially there to coordinate and usefully advance the contributions made by others who play a part in strategy work. In this kind of model, CSOs are central, active nodes positioned between all other strategy workers. Ideally, they serve as "catalysts", bringing individual contributions together to form a coherent whole that is worth more than the sum of its parts. CSOs are the conductors that lead this "collaborative orchestra" (or hub) of strategic work, ensuring that each part gets involved right on cue.

Our study explores whether the data supplied supports the emergence of this constellation. We also develop an idea of the direction in which the specified dimensions could evolve in the future.

HOW DO CSOs WORK?

This year's study once again shows that CSOs' skill profiles are still tailored to a traditional understanding of their role. → [C](#)

CSOs are highly qualified and have spent most of their career tackling strategic issues. As far as functional experience goes, finance and marketing are better represented than operations, research and development. In line with this traditional view, many see the position of CSO as a stepping stone to higher things.

C

WHO IS THE CSO?

What do CSO profiles look like?

53%

are aged
between
41 and 50.

34%

of CSOs come from
outside the company
or have been with
the company less
than 2 years.

61%

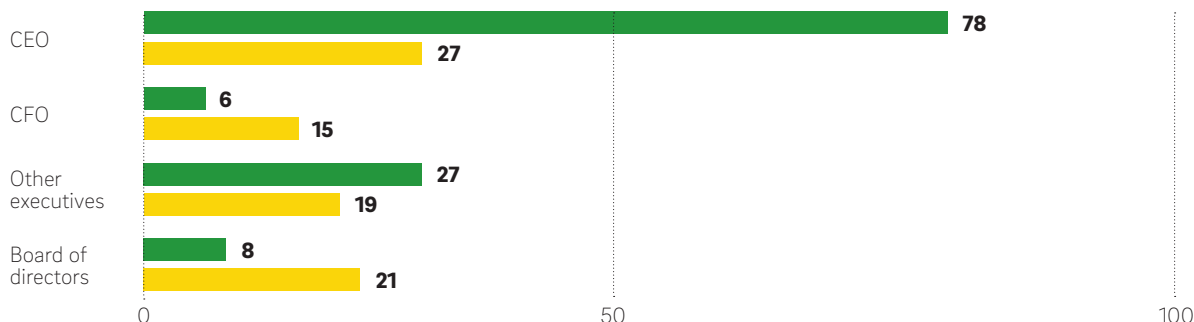
of CSO positions are
reappointments, i.e.
the position existed
before the current
holder took office.

Only 10%

of strategy employ-
ees stay in office for
more than 5 years.

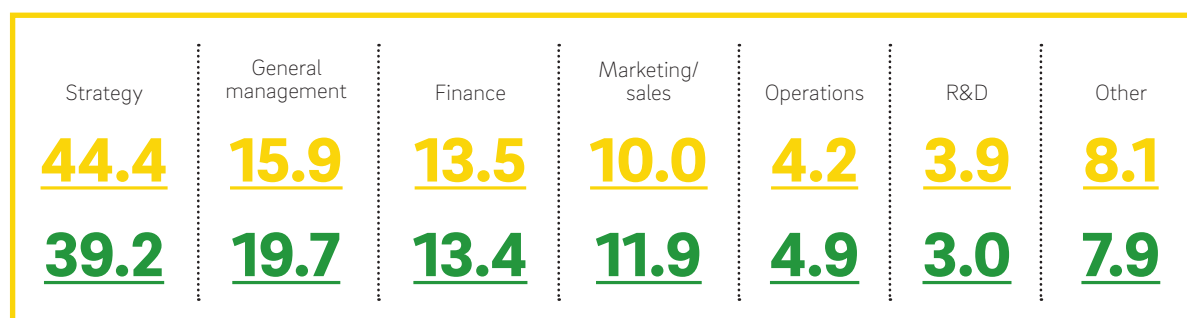
Where do CSOs fit into the organization?

CSOs' reporting lines in 2015 [no. of mentions; multiple answers possible] ■ direct ■ indirect



What skills do they possess?

Previous experience in specialist departments [% of ■ 2014 ■ 2015]



"The value added by the strategy function involves global coordination of inputs as well as corporate strategy communication."

(Study participant)

"The CSO orchestrates decision-making at board level, but also at the level of specialist functions. This is done for standard and non-standard processes alike – bilaterally or multilaterally, depending on the topic."

(Interviewee)

35% of our respondents said their predecessor had been promoted to top management level, with 13% of them becoming either CEO or at least joining the executive board. Only 10% of employees in strategy departments – including CSOs themselves – stay for more than five years. Our study clearly shows that one planning cycle extends over about five years at most companies. It thus follows that many strategists do not enjoy the fruits of their labors, be it bitter or sweet.

How the CSO slots into the organization varies from company to company. Most respondents indicate that the corporate strategy office is set up as a corporate department. 72% of CSOs report directly to the CEO. Only a handful report to other board members such as the CFO, or to the board of directors as a whole. Just one in five CSOs at least has a seat on the executive board, although it is much more common to find CSOs ranked among the C suite in Nordic countries (44%) than in German-speaking Europe (15%). On the other hand, it is noticeable that, among respondents who work in financial services, retail and consumer goods companies, not a single CSO holds an executive board position – against a comparatively high figure of 38% in the life sciences. In manufacturing, the number of CSOs in top management positions is below average but still reaches 16%. Interestingly, our data suggests that having the CSO in top management contributes to a company's success: We found that, among high-performing companies, as many as one in four CSOs are members of the management board. In addition, nearly one in three companies has a strategy committee as a separate unit within its board of directors. This solution is especially popular among retail firms, where nearly half are part of such governing bodies.

It comes as no surprise to find that, as in the previous year, strategic planning, the formulation of strategies and responsibility for strategic initiatives and programs come top of the list of activities respondents rate as important for CSOs. → **D**

Respondents report that decentralized strategists play very little part in these core activities, but do more for the company's success in the areas of implementation and performance measurement. Having said that, one third of our respondents also claim to have no interaction with divisional strategy departments during the strategy process. Strategists in retail, consumer goods and the service sector find themselves particularly isolated. As far as priorities are concerned, coordi-

D

ACTIVITIES AND SELF-PERCEPTION

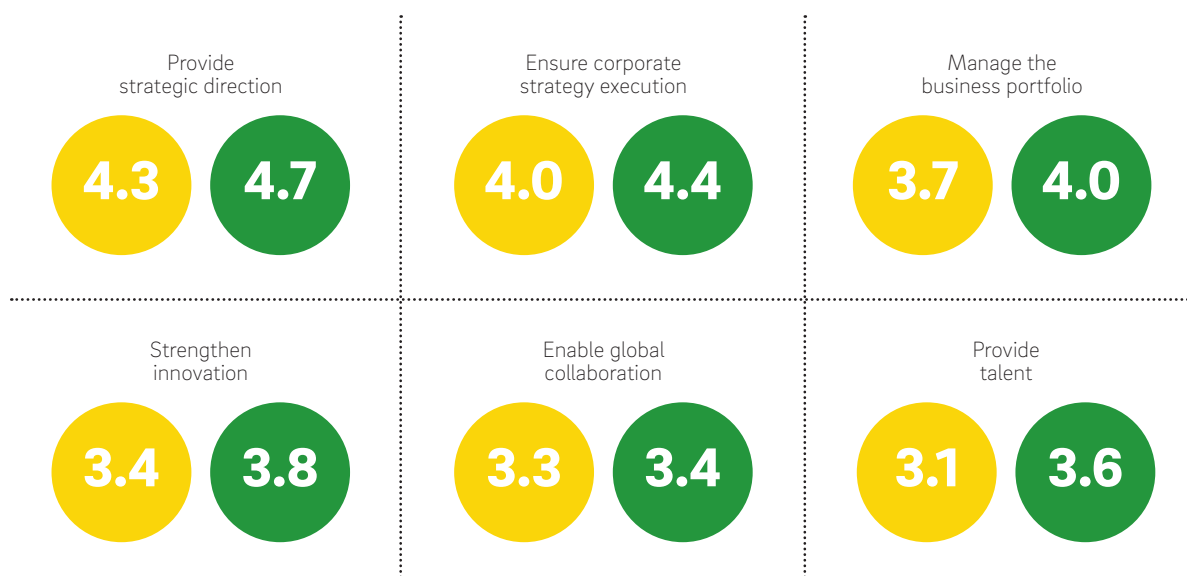
Initiatives that CSOs rate as important or very important

<u>> 75%</u>	<u>> 60–75%</u>	<u>> 50–60%</u>	<u>≤ 50</u>
Strategy formulation/ planning Strategic initiatives and programs Sounding board for CEO/ board of directors	Competitive analysis/ market research New business model development Mergers & acquisitions Strategy implementation (including monitoring)	Coordination across businesses Strategy communication to internal and external stakeholders Performance evaluation of strategic projects Strategic alliances	Divestments CEO/executive management assistance for non-strategy topics Investor relations Functional strategies

Where CSOs see themselves contributing value at corporate HQ

Average on a 1-5 scale [Mean values; 1=to no extent; 5=to a very great extent]

■ Current contribution ■ Optimal contribution



nation and communication do not quite make it to the top. These tasks are seen as less important than "market analysis", "new business model development" and "M&As", for example. Chief strategists are decidedly upbeat about the contribution they make to value-added activities at corporate HQ: They see themselves as calling the tune in "providing strategic direction" and "ensuring strategy execution", as well as claiming to fulfill an instrumental role in "providing talent" and "strengthening innovation".

***"The strategy function
can add value by
delivering a
well-communicated
strategy and by serving
as a sparring partner
for executives and
managing directors."***

(Study participant)

COORDINATION AND COLLABORATION – ADDING VALUE BUT UNDERESTIMATED

The interviews we conducted in addition to analysis of the questionnaires helped us validate and interpret the findings of the latter. Interviewees reported that they devote much of their work time – more than 50% in some cases – primarily to coordinating and tracking the strategy process. The questionnaire findings themselves do not make the same point so clearly. Given the spread of strategy work described at the outset of this paper, however, it is obvious why this is the case. This finding could be an indication that the function of CSOs is currently in a transitional phase, heading in the direction of greater specialization in the strategy realm. Typical assignments might in future gravitate more toward a role as strategy hub manager, which would in turn have implications for suitable CSO skill

sets. These could shift away from pure subject area expertise as communication and social skills acquire greater significance.

We believe that close ties to the executive committee are extremely useful to the work of CSOs. This constellation allows the two sides to communicate as equals. It also guarantees direct access to the CEO, who is responsible for the results of strategy work. As in the past, this positioning is still facilitated by top-flight education and years of experience in strategic contexts. Our talks with CSOs further confirmed that a certain authority is helpful to keep the strategy process moving, enable it to assimilate fresh stimulus and then quickly disseminate the outcomes through the organization. Some explicitly spoke of "building pressure and the ability to act" as a responsibility of CSOs. The more widely a company's strategy capabilities are spread, the more important it is to establish binding activity plans, consistent comparability and transparent data. Seen from this angle, CSOs' "traditional" work has lost none of its significance, nor will it do so in the future. The question is rather whether coordination and collaborative skills are perhaps still underrepresented in how CSOs see themselves relative to the value they could potentially add.

By coordination, we mean more than just keeping the annual planning process ticking over. CSOs must take due account of the contributions, wishes and expectations that are placed on strategy work from the top down (from the executive committee) and from the bottom up (from the operating units, regions and functional units). This means that CSOs need a good eye for reconciling divergent interests. They should also be able to keep key stakeholders happy, involve them in decision processes and cultivate a multilateral understanding of the content of strategy issues. It may be that these requirements have hitherto received too little attention in the skill sets of CSOs, even though well-oiled collaboration hubs create powerful opportunities for strategy departments to add real value. In order to change, new methods, ways of working and communication paths must be developed. Another question is whether this shift of focus is at odds with the generally short length of time strategy workers currently stay in the same jobs (less than five years). Lastly, a broader spectrum of previous functional experience could be a useful complement to CSOs' skill profiles, as this could well improve acceptance among other units in the company.

Measuring the value added by CSOs is seen as a tough ask. We show how businesses currently approach the challenge – and what gaps need to be filled.

We began with the observation that strategy work is spread across various players within the company, and that this effectively transforms CSOs into collaboration hub managers for strategy activities. We then worked through CSOs' skill sets, priorities and understanding of their role. In the process, we found that some of their skills reinforce the new positioning, whereas others tend to support the traditional view of CSOs as planners and analysts in the service of CEOs. Based on these insights, we now need to see how the performance of strategy departments and CSOs – the value they add – can be made transparent.

Most respondents see measuring the value added by the strategy department as a tough ask. → **E** Having said that, they still agree that it is important to achieve

maximum transparency in this area, as with every corporate function. It is reasonable to assume that most companies give their CSOs feedback on their performance in some form or other, often adopting conventional Management by Objectives (MbO) approaches in the context of annual performance reviews.

PERFORMANCE MEASUREMENT – STILL AN EXPERIMENTAL FIELD?

The metrics used for CSO appraisals split roughly into key performance indicators (KPIs) and alternative formats. In the former category, respondents primarily mentioned traditional financial ratios that apply to the entire company, such as EBITDA growth and return on equity. The various alternative formats include criteria

relating to strategic performance in general, such as the "number of innovations", "third-party recognition of strategy" and the "number of targets acquired". At the same time, our respondents also addressed factors that apply specifically to the work of CSOs, such as annual feedback meetings and the "number of successful strategic projects". Financial KPIs are used primarily by service providers and manufacturing companies, while the top users of alternative formats are financial service providers.

Although the respondent companies in our survey draw on a very broad spread of dimensions to measure the performance of their CSOs, they are still not satisfied with the results. 70% of respondents admit that CSO-specific criteria are used to measure value added either irregularly or not at all. Clearly, there is a lack of suitable methods to quantify performance in this domain. It follows that appraisals of CSOs and strategy departments are probably based on actual value added only in a few very rare cases. Take, for example, those indicators that relate to a company's financial perfor-

mance: These indicators traditionally lay the foundations on which to design management incentives. By analogy, they themselves act as incentives. Yet they say little or nothing about actual value added. 41% of respondents reckon it takes at least two years before strategies in which a CSO is involved begin to take effect. The entire strategy process can take as long as five years. Nor is it easy to isolate the contribution made by CSOs to companies' overall performance from other influences.

**WHAT COMPANIES COULD
DO TO MEASURE VALUE ADDED**

Interestingly, firms whose strategy work is effective also measure it better and more rigorously than less effective businesses – a powerful argument for investing more to enable CSOs to systematically add value. Looking at the findings of the survey, a "CSO value cockpit" – an exhaustive approach to assessment covering a variety of aspects – would certainly seem to make sense. The dimensions "strategic performance",

E

NOT TRANSPARENT ENOUGH

Measuring the performance of strategy work is important but has so far met with only limited success.

To what extent do you agree with the following statements regarding your department's value creation?

[average; 1= not at all; 5 = to a very great extent]

- Value creation by the strategy department is measured by quantitative criteria: **1.91**
- There is transparency about measuring criteria in the strategy department: **2.02**
- Value creation by the strategy department is measured regularly: **2.14**
- Measuring value creation by the strategy department is important: **3.55**
- Measuring value creation by the strategy department is difficult: **3.96**

F

HOW CSOs ARE CURRENTLY ASSESSED

We bundled the free text responses from our study into three clusters: financial performance, CSO performance and strategic performance.

Financial performance



- EBIT
- Working capital
- Turnover
- Equity value
- EBITDA
- Risk adjustment
- Return on capital
- Growth rates
- Operating profit
- Product readiness

Strategic performance



- Product readiness
- Market shares
- M&A funnel metrics
- Third-party recognition of strategy
- No. of programs executed
- Stakeholder and customer satisfaction
- No. of targets acquired
- No. of innovations
- Relationship with business divisions
- Successful positioning
- Specific strategy developed and implemented

CSO performance



- MBO targets/process
- Qualitative evaluations
- 180/360° feedback
- Performance dialog
- Continuous feedback
- Feedback meetings
- Board/chairman/CEO feedback
- No. of presentations to the board
- No. of (successful) projects delivered

CEO checklist for measuring the CSO's value:

- Has the CEO defined clear, unambiguous tasks and goals for the CSO?
- Does performance measurement include financial indicators?
- Does performance measurement go beyond financial indicators?
- Does the catalog of requirements make due provision for the CSO's collaboration and coordination activities?
- Do valid KPIs exist to measure whether these goals are achieved?
- Does the method used include KPIs that measure both short-term and long-term effects?
- Is a sensible mix of qualitative and quantitative criteria measured?

"CSO performance" and "financial performance" can serve as initial points of reference for possible indicators. → **F**

To start with, CEOs must determine which of the many possible tasks the CSOs at their particular companies should concentrate on. Managing the collaboration hub should certainly feature on the list. CSOs should be measured by the extent to which they motivate stakeholders to participate in developing a strategy. Their activities should also be broken down into measurable packages and then translated into suitable KPIs. One indicator could, for example, be annual reviews performed together with the heads of business units and the extent to which the outcomes of these talks are channeled back into the strategy. Innovative activities to beat the drum for strategy – activities that get as many people as possible to buy into what they see as "their" strategy – could also be measured. Other objectives too are conceivable: Should CSOs concern themselves with promoting innovations, for instance? And if so, which ones?

If CSOs are to add value in their strategy work, CEOs must spell out their expectations as clearly as possible. The more concrete the expectations, the easier it is to piece together an evaluation system that creates transparency. We have seen that the decentralized structure of strategy work itself raises new challenges and focal areas for CSOs. And it is reasonable to question whether their function as collaboration hub managers can still be reconciled to the traditional CSO profile. Now would therefore seem the ideal time to think again about the value added by CSOs – and to develop a multidimensional approach to assessing their work in the form of a CSO value cockpit. ♦

ABOUT US

Roland Berger, founded in 1967, is the only leading global consultancy of German heritage and European origin. With 2,400 employees working from 36 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 220 Partners.

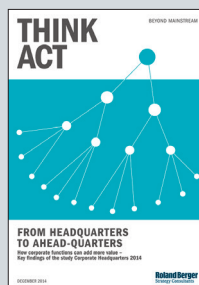
The University of St. Gallen (HSG) is a School of Management, Economics, Law, Social Sciences and International Affairs with more than 7,000 students and 160 international partner universities. Founded in 1954, the HSG's Institute of Management (Institut für Betriebswirtschaft, IfB) focuses on research, teaching, and executive education in the areas of strategic management and organization theory.

FURTHER READING



THE STRATEGIST'S CHANGE How successful CSOs transform their companies

In the 2014 survey, we explored how the CSO acts in specific change initiatives. By focusing on corporate transformation programs and thus using real-life examples, we were able to define typical role interpretations: the developer and the implementer.



FROM HEADQUARTERS TO AHEAD-QUARTERS How corporate functions can add more value.

Corporate headquarters face new challenges. They need to become more flexible and agile, develop new capabilities and position themselves as more of a partner to the operating business units.

Links & Likes

ORDER AND DOWNLOAD
www.rolandberger.com

STAY TUNED
www.twitter.com/RolandBerger

LIKE AND SHARE
www.facebook.com/RolandBergerStrategyConsultants

A detailed insight into current thinking at Roland Berger is available via our new microsite at new.rolandberger.com

Publisher

ROLAND BERGER GMBH

Sederanger 1
80538 Munich
Germany
+49 89 9230-0
www.rolandberger.com

INSTITUTE OF MANAGEMENT UNIVERSITY OF ST. GALLEN

Dufourstr. 40a
9000 St. Gallen
Switzerland
www.ifb.unisg.ch

WE WELCOME YOUR QUESTIONS, COMMENTS AND SUGGESTIONS

DR. TIM ZIMMERMANN

Senior Partner
tim.zimmermann@rolandberger.com

DR. JENS UHR

Senior Consultant
jens.uhr@rolandberger.com

ALEXANDRA FRONZEK

Consultant
alexandra.fronzek@rolandberger.com

Editor

DR. CORNELIA GEISSLER

cornelia.geissler@rolandberger.com

PROF. DR. MARKUS MENZ

Professor of Strategic Management
University of Geneva
markus.menz@unige.ch

PROF. DR. GÜNTER MÜLLER-STEWENS

Professor of Strategic Management
University of St. Gallen
guenter.mueller-stewens@unisg.ch

FABIAN BARNBECK

Research Associate
University of St. Gallen
fabian.barnbeck@student.unisg.ch