The Inclusion of CIOs in Top Management Teams: A Longitudinal Study of the Strategic Role of IT

Wenhong Luo, Villanova School of Business, Villanova University, Villanova, PA, USA

ABSTRACT

The inclusion of the CIO in the top management team (TMT) is one indicator of how top executives view the role of IT within their firms. This study draws upon the upper echelons theory to examine the organizational factors contributing to the CIO inclusion. A panel data set is used to empirically test the hypotheses. The results show that TMT age and firm diversification are found to be linked to the CIO inclusion. The study contributes to an understanding of the relationship between the CIO and TMT and provides a potential measure of IT importance within firms.

KEYWORDS

Chief Information Officer, IS Leadership, IT Governance, Longitudinal Study, Top Management Teams

INTRODUCTION

As Information Technology (IT) has increasingly become one of the most critical and expensive resources employed by firms, the position of Chief Information Officer (CIO) has received a lot of attention from both academics and practitioners over the past two decades (Banker, Hu, Pavlou, & Luftman, 2011; Enns, McFarlin, & Huff, 2007; Karahanna & Preston, 2013; Li, Tan, Teo, & Tan, 2006; Peppard, 2010; Preston, Chen, & Leidner, 2008; Smaltz, Sambamurthy, & Agarwal, 2006). Since a CIO is the top ranked executive in charge of IT and has the overall responsibility for corporate IT strategies and operations, one cannot underestimate the impact of CIOs on how effectively a firm deploys IT resources and realizes IT values. At the same time, the role of CIO is evolving in response to the changes associated with technology advancements and IT management practice (Chun & Mooney, 2009; Peppard, 2010).

While early research on CIOs has focused on identifying the characteristics of a successful CIO with the underlying assumption that the role of a CIO in a firm is shaped by the individual occupying the CIO position, recent studies suggest that having outstanding qualifications is a necessary but not sufficient condition for CIOs to drive the strategic vision and use of IT within firms (Peppard, 2010, Gerth & Peppard, 2015). CIO effectiveness is also constrained by such factors as CIO reporting structure (Banker et al., 2011), strategic decision rights (Preston et al., 2008), and relationships with the CEO and other members of the Top Management Team (TMT) (Johnson & Lederer, 2005; Johnson & Lederer, 2010; Preston, Karahanna, & Rowe, 2006), which has been empirically defined as the board of directors, top tiers executives, the executives with a title of senior vice president or above, the executives listed in the SEC filings, the highest paid executives, and so on.

IT strategies and directions are not decided by the CIO alone. In fact, most CIOs are hired based on the job requirements and expectations set by the CEO and the TMT. Arguably, the views of the CEO and the TMT are critical in determining the role and influence of the CIO within the firm. The inclusion of the CIO in the TMT is one indicator of how top executives view the role of IT within their firms. This study draws upon the upper echelons theory to examine the organizational factors contributing to the CIO inclusion. A panel data set is used to empirically test the hypotheses. The results show that TMT age and firm diversification are found to be linked to the CIO inclusion. The study contributes to an understanding of the relationship between the CIO and TMT and provides a potential measure of IT importance within firms.
and attitudes of the CEO and other TMT members could have a significant impact on the firm’s IT strategy as the CIO. Although researchers have recognized the importance of the TMT and frequently advised CIOs to seek support from and establish mutual understanding with TMT members, few studies have assessed how CEOs and other executives in the C-suite determine what the role of IT should be for the firm, partly because it is difficult to directly measure the attitude and perceptions of top executives and board of directors about IT (Huff, Maher, & Munro, 2006).

One useful proxy indicator of how top executives view IT within their firms is the inclusion of the CIO in the TMT. Based on the upper echelons theory, a firm’s most important strategic directions are set by a team of top executives through collaborative efforts (Hambrick, 2007). The TMT usually consists of the CEO and a very small group of his close confidants. Despite what the title might suggest, a CIO is not automatically a member of the TMT because most CIOs do not directly report to the CEO and some firms have CIOs at the division level (Banker et al., 2011). The inclusion of the CIO in the TMT provides a strong signal about the importance of IT to the firm. As a member of the TMT, the CIO would belong to the inner circle of top executives that contemplates and formulates all aspects of business strategy and resource allocation decisions, ensuring IT as an integral part of the corporate strategy. A CIO in the TMT is more likely to be treated as an equal partner by other TMT members, which makes it easier for the CIO to build credibility and gain support from other TMT members (Zafar, Ko, & Osei-Bryson, 2015). Thus, the inclusion of the CIO in the TMT is a deliberate and careful strategic choice made by the CEO and other top executives in the organization and thus can be used as an indicator of how top executives view the role of IT within their firms.

So what kind of executives and/or firms are more likely to value the importance of IT? In this longitudinal study, we examine what are the characteristics of the TMT, firm, and environment that affect the CIO inclusion in the TMT. The results of the study can help explain why some firms consider IT as more strategic than others. Our study complements the existing literature on CIO studies that focuses on the relationships between CIO characteristics and corporate strategy. We provide additional evidence to the importance of interactions between CIO and other top executives in the firm. Finally, an aggregate measure of CIO inclusion in the TMT among firms in an industry or sector can be used as a gauge of perceived strategic value of IT by the industry or sector. The remainder of the paper is organized as follows. In the next section we first review the literature on the role of the CIO, its relationship with the TMT, and TMT composition. We then develop a set of hypotheses identifying the TMT, organizational, and environmental characteristics that may affect the CIO inclusion in the TMT. A panel data of close to 3000 firms, representing a wide range of industries over an 18-year period (1993-2010), was used to empirically test the hypotheses. Results of the study are reported. Finally, practical and theoretical implications are discussed.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The Role of CIO

In a review of academic research on functional executives, Menz (2012) found that the number of articles on the CIO position was highest among all functional executives. There are a number of research streams focusing on the CIO position. First, during the past two decades, we have witnessed a tremendous growth in IT spending. At the same time, not all firms are able to reap substantial values from the IT investments. The IT leadership, including the role of CIO, is considered as one of the key differentiators in building a strong IT function that can effectively manage the returns on IT investments. For example, to determine whether the CIO position added real value to a business, Chatterjee, Richardson, and Zmud (2001) studied the market reactions to announcements of newly created CIO positions and observed significant positive abnormal returns from such announcements, especially in the IT-driven transformation industries.
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