

## McKinsey Global Survey Results:

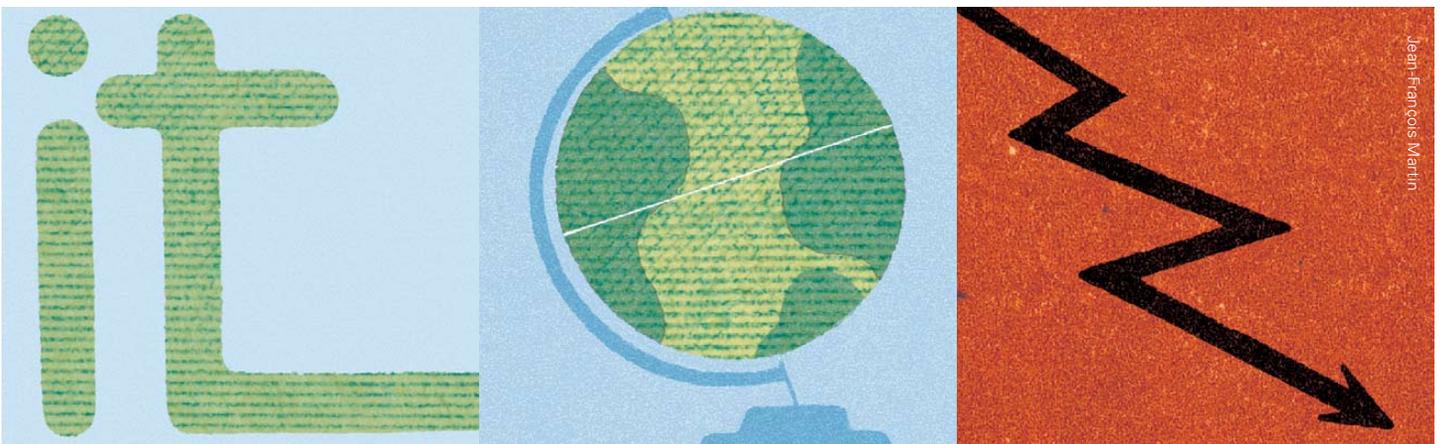
# IT's unmet potential

*Senior corporate leaders and tech executives want IT to better serve business strategy, but current performance still falls short, our third annual survey reveals.*

McKinsey's third annual survey on information technology strategy and spending affirms the continuing importance of IT for strategic success. In this survey, we asked chief information officers (CIOs), chief technology officers (CTOs), and other C-level executives to think broadly about the impact of information and technology on their business: how IT can serve as a tool to help build competitive advantage, what risks arise as competitors use disruptive technology, how companies develop their IT strategies, and what challenges they face in implementing those strategies. Significantly, our survey reached respondents in October, after they had time to absorb the implications of the credit crisis and deteriorating economic environment.<sup>1</sup> This year's spending expectations are notably, but not surprisingly, more conservative than last year's.

Respondents highlight risks they face from information- and technology-based disruptions and the corresponding increase in importance of information and technology capabilities for improving business performance and outperforming competitors. Though improvements have occurred since last year, respondents also underline the need for IT executives to apply these capabilities more effectively in developing and executing business strategies.

<sup>1</sup> *The McKinsey Quarterly* conducted the survey in October 2008 and received responses from 548 executives from around the world, representing a wide range of industries. Forty-nine percent of the respondents are C-level executives.



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CIOs and other senior executives agree that ideally these capabilities should, for example, promote innovation and better enable companies to seize new opportunities. Still, they continue to see a gulf between these aspirations and the value that IT currently delivers.

The global economic downturn complicates matters. Respondents cite continuing pressures to deliver on existing IT projects and services at a time when they expect spending to fall. So they are making trade-offs: reducing IT operating expenses so they can maintain high-priority new investments that support broader business goals, such as improved sales force or supply chain management.

### Unprepared for disruption

Nearly two-thirds of respondents say their organizations are at risk from information- and technology-based disruption. Ranking highest among disruptive forces are potential shifts in customer expectations for better products or differentiated services enabled by information- and technology-based capabilities. Pressures may be arising from widespread use and acceptance of emerging products and services. Web applications such as Facebook or Salesforce.com, for instance, are changing expectations for ease-of-use and availability of information, while the iPhone has rapidly raised the bar for user interfaces and accessible features in personal devices and other consumer electronics products.

Another risk respondents noted centers on competitors using technology to significantly reduce the cost of manufacturing or delivering of current products or services. Concerns are most acute among executives at high-tech and telecommunications companies, and less so among those at financial and professional services firms.

Fewer than half of those responding believe their companies are well prepared to meet these risks. Notably, CIOs rate their companies as less well prepared to respond to risks (39 percent of IT executives responded “extremely” or “very prepared”), compared with non-IT executives (47 percent of non-IT executives rated themselves “extremely” or “very prepared”).



Exhibit 1  
**Focused on efficiency, wanting to create value**

% of respondents,<sup>1</sup> n = 548



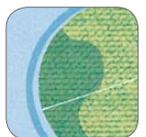
<sup>1</sup> Respondents could select multiple answers; those who answered “other” or “don’t know” are not shown.

**IT's value to the corporation**

The survey found aspirations for IT are substantially unmet: respondents see a large gulf between their IT organization’s current priorities and what IT could contribute. Respondents, both CIOs and other senior executives, would like to see IT focusing on growth opportunities such as creating new products and services, as well as on improving the effectiveness and performance of business processes (Exhibit 1). At the same time, non-IT executives would like IT staff to spend less effort on reducing IT costs and ensuring compliance with regulations, though they expect them to maintain the same level of service and delivery.



*Almost 70 percent of executives rank information- and technology-based capabilities among the top three corporate levers for creating competitive advantage*



Executives say they would like to dedicate almost 40 percent of their technology spending (up from 20 percent today) to development of business capabilities that match or surpass the competition

Indeed, while executives view IT as largely effective in the delivery of basic services, companies still are struggling to get IT to go further (Exhibit 2). Non-IT executives cite shortcomings in how their IT organizations support key activities such as working with the business to develop new, technology-enabled capabilities, or targeting areas where IT can create higher value. When asked similar questions, IT executives echo these concerns, highlighting the difficulties they face in partnering with business units to deliver activities that will have a high impact (only 31 percent rate themselves as “extremely” or “very” effective). This year, more CIOs and IT executives rate themselves as only “slightly effective” or “not effective” at targeting areas where IT can add value (a 75 percent increase from the prior year). That mirrors IT executives’ view of their ability to introduce new technologies more swiftly than their competitors (an increase of about 25 percent responding “slightly effective” or “not at all effective” versus the prior year).

Exhibit 2  
**Delivering the basics but challenges remain**

% of non-IT respondents,<sup>1</sup> n = 276

Currently, how effective is your IT organization in each of the following areas?

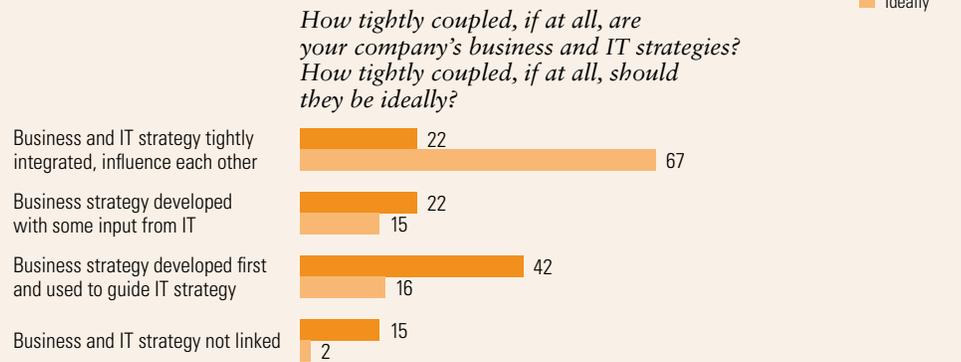
	Extremely/very effective	Somewhat effective	Slightly/not at all effective	Don't know
Providing basic services cost-effectively (eg, e-mail, laptops/desktops)	50	33	15	2
Working with leaders in the business to improve existing systems or functions when asked	36	38	24	2
Delivering new projects or enhancements on time and within budget	29	38	30	2
Partnering with the business to develop new business capabilities supported by technology	26	35	37	1
Proactively engaging with business leaders on new ideas/enhancements to existing processes, systems	24	38	36	1

<sup>1</sup>Figures may not sum to 100%, because of rounding.

This year's results show an area of notable improvement: the way IT strategy is developed. Fifty-nine percent say that their companies develop multiyear IT plans, up from the 52 percent response last year, and 56 percent say that their IT strategies include technology-driven business innovations, versus 42 percent last year. Still, two-thirds of executives say further improvements are possible by integrating business and IT strategy more closely. They favor a process where IT strategy and the "art of the possible" in technology influence the development of business strategy, closing the loop in strategy development (Exhibit 3). This joint development of strategy by business and IT would reduce risks of surprise disruptions and better involve IT in bolstering competitive advantage.

Exhibit 3  
**IT and business strategy:  
 no marriage yet**

% of respondents in a job function other than IT,<sup>1</sup> n = 548



<sup>1</sup>Figures do not sum to 100%, because of rounding.

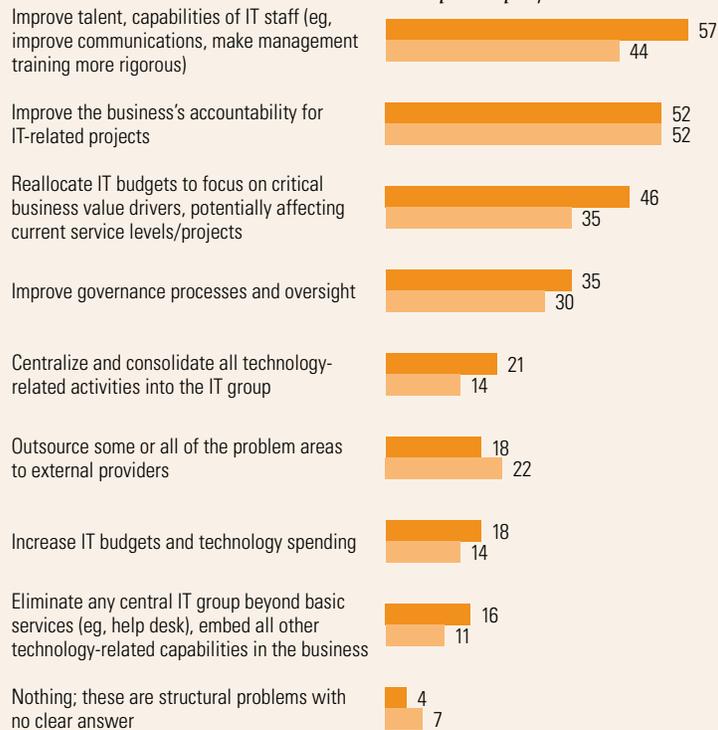


Exhibit 4  
**Improvement needed on capability and accountability**

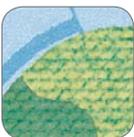
% of respondents who report IT is at least "somewhat effective"

IT executives, n = 262  
 Non-IT executives, n = 248

*Where there are shortcomings in IT's effectiveness, what do you think would be the most important initiatives to improve performance?*



Executives in both IT and non-IT roles largely agree on a short list of steps to improve the IT performance gaps cited above. Over 40 percent of respondents favor improving the talent of IT staff and increasing the accountability of business units for implementing IT initiatives (Exhibit 4).



**IT Spending**

Most respondents expect IT budgets to decrease from last year's levels. This likely stems from the worsening economic environment and increased cost-consciousness. Only 23 percent of executives expect to increase their operating costs in 2009, while 43 percent expect to reduce them (Exhibit 5). By contrast, in 2008, half of the respondents expected operating expenses to increase.<sup>2</sup>

The situation is more favorable for new investments. More than 40 percent of executives expect to increase their new IT investments in 2009 (though down from last year's 69 percent who forecast an increase for this year). A further 17 percent are planning to hold investments steady. This suggests that many companies are prioritizing new IT investments even when a sizable share are cutting operating expenses. That's a significant change from past downturns which were marked by drastic cuts in discretionary IT investment.<sup>3</sup>

<sup>2</sup>In a recent survey on economic conditions, 75 percent of respondents reported that their companies are cutting operating costs as a result of the ongoing economic turmoil, see "McKinsey Global Survey Results: Economic conditions snapshot," November 2008.

<sup>3</sup>See James M. Kaplan, Roger P. Roberts, and Johnson Sikes, "Managing IT in a downturn: Beyond cost cutting," mckinseyquarterly.com, September 2008.

Exhibit 5

**Protecting new investments**

% of respondents, n = 548

*How, if at all, do you expect your organization's IT budget for operating expenses and new investments will change in 2009?*

- Increase
- No change
- Decrease
- Don't know

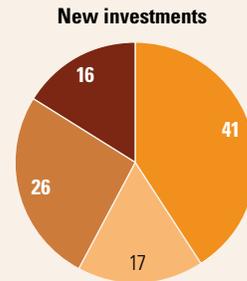
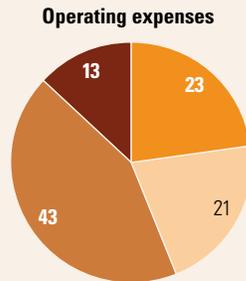
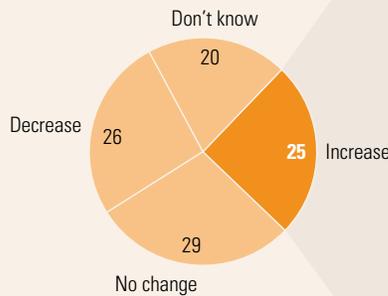


Exhibit 6

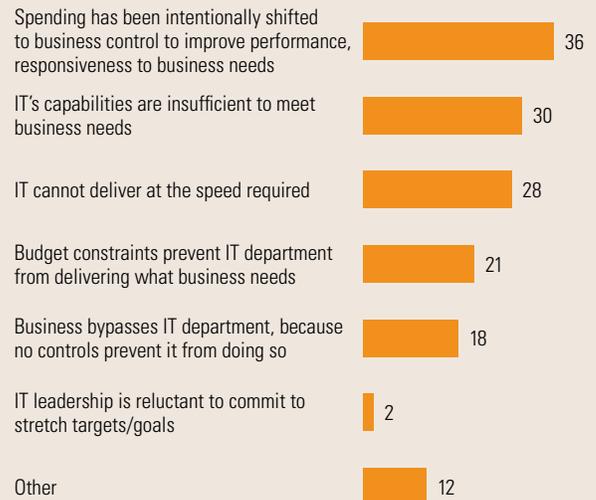
**Why companies spend outside IT**

*How, if at all, do you expect technology-related spending outside the IT function will change in 2009?*

% of respondents, n = 548



*Why will this spending increase?*



Meanwhile, IT-related spending outside the IT department has increased in recent years. That is due in part to the increasing ease with which business units can independently bring in IT solutions, like open-source software or Software as a Service.<sup>4</sup> This year, however, there is no clear spending trend (Exhibit 6). For those that are planning to increase IT-related spending outside the IT function, the main reason given is a belief that performance will improve when technology is under the control of the business units, perhaps reflecting the general lack of confidence in IT's responsiveness. IT's lack of capability, speed, and flexibility are also cited as contributing factors for the decision.

<sup>4</sup>Software as a Service, or SaaS, is the online delivery of software. Rather than buying a software license and installing software on individual machines, a business signs up to use the application hosted by the company that develops and sells the software.



*Executives expect to reduce spending on innovation-related projects, with 16 percent saying they will spend more than 20 percent of their budgets on innovation, down from 25 percent targeting that spending level in 2008; almost 30 percent indicate that innovation spending will total only 1 to 5 percent of their budget in 2009*

### Looking ahead

- Though companies appear to be prioritizing IT investments, they plan to reduce spending on innovation. That suggests they are constrained in making technology as high a priority as might be expected based on the threat they see from technological disruptions. The likely reasons are a need to refocus spending due to the economic downturn, as well as persistent gaps in IT's performance to date.
- To better serve business goals, the IT function must develop stronger managers. This will require training, and perhaps the seeding of IT management ranks from external hires or rotating highly regarded non-IT managers from other parts of the business.
- More importantly, IT executives and senior IT staff must deepen their knowledge of business needs. Improving business accountability for IT also is crucial, as tech executives and others agree. The first step, our experience suggests, is to improve transparency in the planning and execution of IT projects for business leaders. Then IT can demand increased business involvement and accountability for the delivery of these projects. ■

Contributors to the development and analysis of this survey include **Roger Roberts**, a principal in McKinsey's Silicon Valley office, and **Johnson Sikes**, a consultant in the New York office.

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