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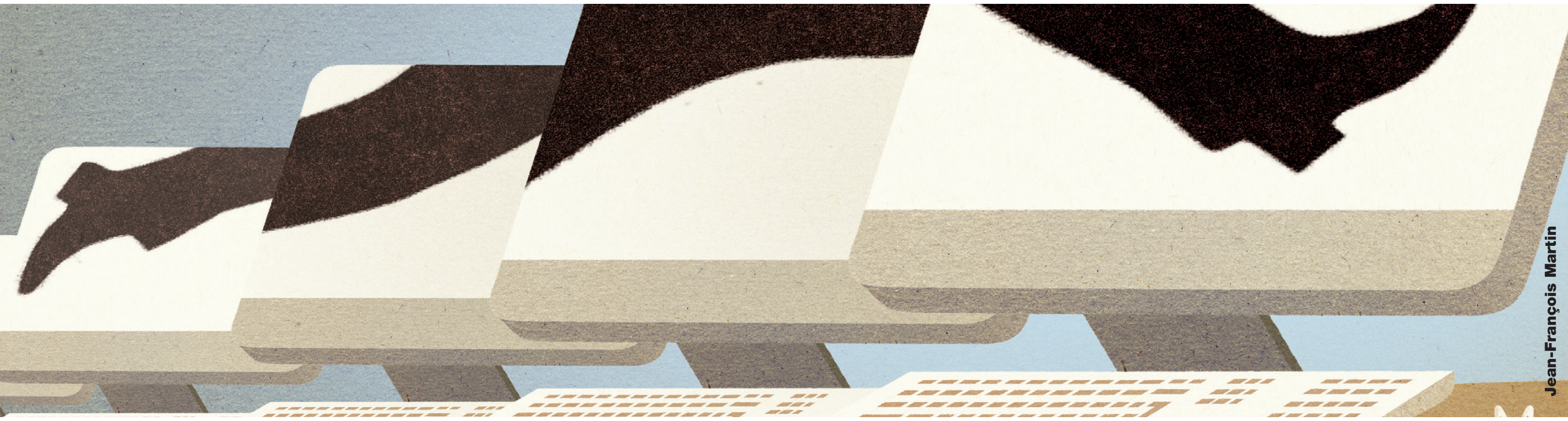


Business Technology Office

IT under pressure:
McKinsey Global Survey results

Recognition of IT's strategic importance is growing, but so is dissatisfaction with its effectiveness, according to our eighth annual survey on business and technology strategy.

Naufal Khan and Johnson Sikes

More and more executives are acknowledging the strategic value of IT to their businesses beyond merely cutting costs. But as they focus on and invest in the function's ability to enable productivity, business efficiency, and product and service innovation, respondents are also homing in on the shortcomings many IT organizations suffer. Among the most substantial challenges are demonstrating effective leadership and finding, developing, and retaining IT talent.

These are among the key findings from our most recent survey on business technology, which asked executives from all functions about their companies' priorities for, spending on, and satisfaction with IT.[1] Overall, respondents are more negative about IT performance than they were in 2012 and, notably, IT executives judge their own effectiveness more harshly than their business counterparts do. Compared with executives from the business side, they are more than twice as likely to suggest replacing IT management as the best remedy.

Evolving priorities

Comparing the 2013 responses with the previous two surveys, the data indicate notable changes in organizations' current priorities for IT. Concerns about managing costs are down, while larger shares of executives now say their organizations are using IT to improve business effectiveness and information availability (Exhibit 1). Respondents cite these same objectives most often as *ideal* priorities, suggesting that companies are getting better at aligning their actual

[1] The online survey was in the field from October 8 to October 18, 2013, and garnered responses from 807 executives. Of these respondents, 354 have a technology focus, and the other 453 represent other functional specialties. The respondents represent the full range of regions, industries, company sizes, and tenures. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

Takeaways

Companies' views on IT are changing. IT is now viewed less as a cost center and is increasingly recognized as a core component of the business.

As leaders become more aware of the critical strategic role of IT, they are also becoming less satisfied with how effective it is within their organizations.

Increasing shares of respondents believe that a change in their IT management is necessary for increased IT effectiveness in the organization.

Exhibit 1
Organizations are using IT to improve business effectiveness and efficiency, not just manage costs.

% of respondents[1]

Current IT priorities at respondents' organizations	2013, n = 807	2012, n = 667	2011, n = 927
Improving effectiveness of business processes	61	49	47
Improving cost efficiency of business processes	48	47	45
Providing managers with information to support planning and decision making	47	42	40
Reducing IT costs	31	52	44
Creating new products or services	29	26	29
Ensuring compliance with regulations	23	26	23
Managing risk	16	15	14
Entering new markets	12	17	20

[1]Respondents who answered "other" or "don't know" are not shown.

priorities with what's ideal—and that more executives see IT as core and relevant to day-to-day business, not merely a cost center.

To support these priorities, many companies are spending accordingly: 64 percent of executives say their budgets for new investments will increase next year, up from 55 percent who said so in 2012, though they are evenly split on whether operational spending will increase or decrease. When asked how their IT budgets break down, respondents say the largest share is spent on infrastructure—as they have said since 2010—followed by core transactional applications. Looking ahead three years, executives expect less of their budgets to go to infrastructure (Exhibit 2), perhaps because infrastructure is the area within IT where the head count is most likely to have decreased due to companies' use of cloud-computing technology.[2]

Growing dissatisfaction

Despite the promise of increasing investments and aligned priorities, overall satisfaction with IT performance—particularly within the IT organization—is down. Smaller shares of respondents than in previous years say

[2]Technology executives were asked how their IT organizations' head counts had changed, if at all, due to deployment and adoption of cloud technologies in four areas: infrastructure, application development, application maintenance, and vendor management. Thirty-five percent of these respondents say their head counts in infrastructure have decreased as a result of cloud use, while between 8 and 17 percent say the same for the other three areas of IT.

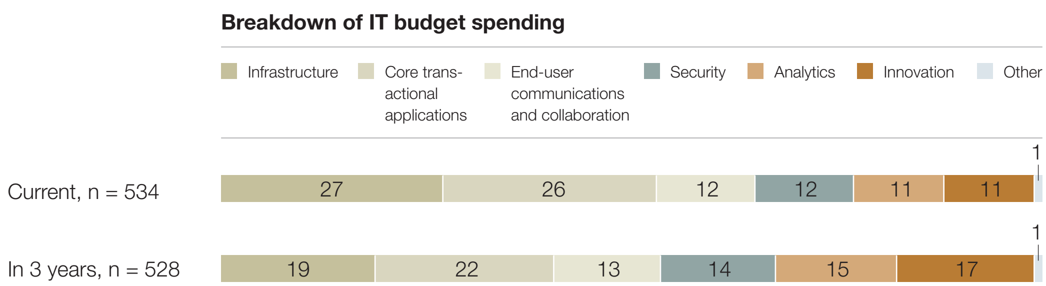
IT facilitates a range of business activities, especially the creation of new products and entry into new markets (Exhibit 3).

On specific functional tasks, executives from the business side are less likely than they were in 2012 to say IT performs effectively.

The IT executives are even more negative. Just 13 percent of them say their IT organizations are completely or very effective at introducing new technologies faster or more effectively than competitors, down from 22 percent in 2012 (Exhibit 4). These results likely reflect the overall rising expectations for corporate

Exhibit 2
In coming years, executives expect their IT organizations to spend less on infrastructure and more on analytics and innovation.

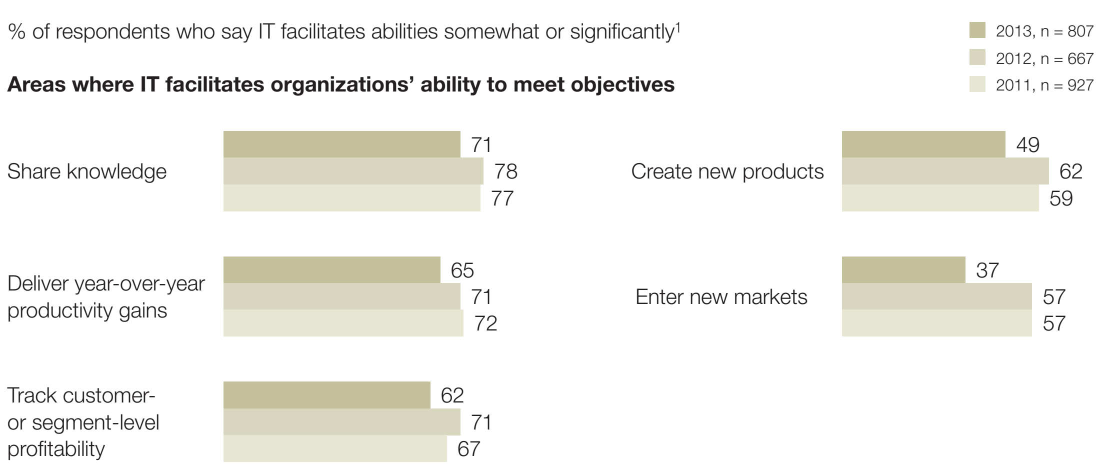
% of overall IT budgets[1]



[1]Does not include respondents who answered “don’t know” to either question; figures may not sum to 100%, because of rounding.

Exhibit 3
IT has become less effective at enabling business goals.

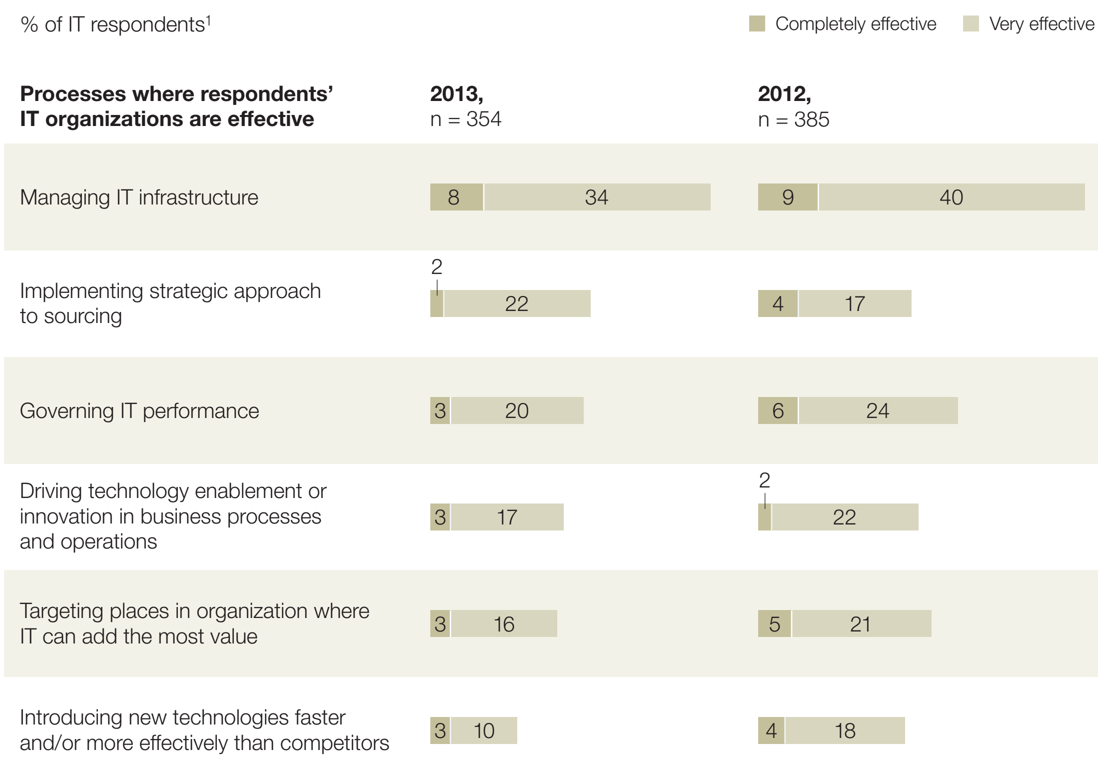
% of respondents who say IT facilitates abilities somewhat or significantly[1]



[1]Respondents who answered “no effect,” “inhibits,” or “don’t know” are not shown.

Exhibit 4

Even IT executives report declining performance from their own function.



[1]Respondents who answered "somewhat effective," "slightly effective," "not at all effective," or "don't know" are not shown.

IT—that it can, for example, provide service comparable to the consumer-grade cloud and mobile applications that are readily available outside the business.

When asked how to fix the shortcomings in IT, the largest shares of all respondents say improving business accountability, reallocating funding to priority projects, and improving the level of IT talent would do most to improve performance (Exhibit 5). These sentiments are fairly consistent with prior results. However, one-fifth of executives also identify replacing IT management as a fix, up from 13 percent when we asked in 2011. We offered this option only to non-IT respondents in 2011, but in the 2013 survey, the IT executives had the option as well. Remarkably, 28 percent say new management would boost effectiveness, more than twice the share of business executives who say the same.

Struggling with talent

Amid the increasing pressure and dissatisfaction, the enthusiasm to replace management highlights the concerns of some IT organizations that their leaders cannot manage change in rapidly evolving circumstances. Just 55 percent of all executives say their CIOs have a significant impact on their organizations' business issues, and a nearly equal share says their CIOs are part of the most senior executive team. Across regions, those working in Europe are the least likely to say their CIOs are on the senior team.

What's more, CIOs spend an average of only 8 percent of their time developing talent, an area where IT organizations have a clear need to improve. Fully two-thirds agree that it's a significant challenge for their organizations to find, develop, and retain talent, with IT executives even more concerned about this than their business peers. This problem is a long-standing one for many IT organizations. But it is even more critical now as they look to roles that require more business experience and are in higher demand (such as analytics specialists and data scientists). The challenge

Exhibit 5

Surprisingly, more IT executives than business leaders see changing IT leadership as a priority to improve IT performance.

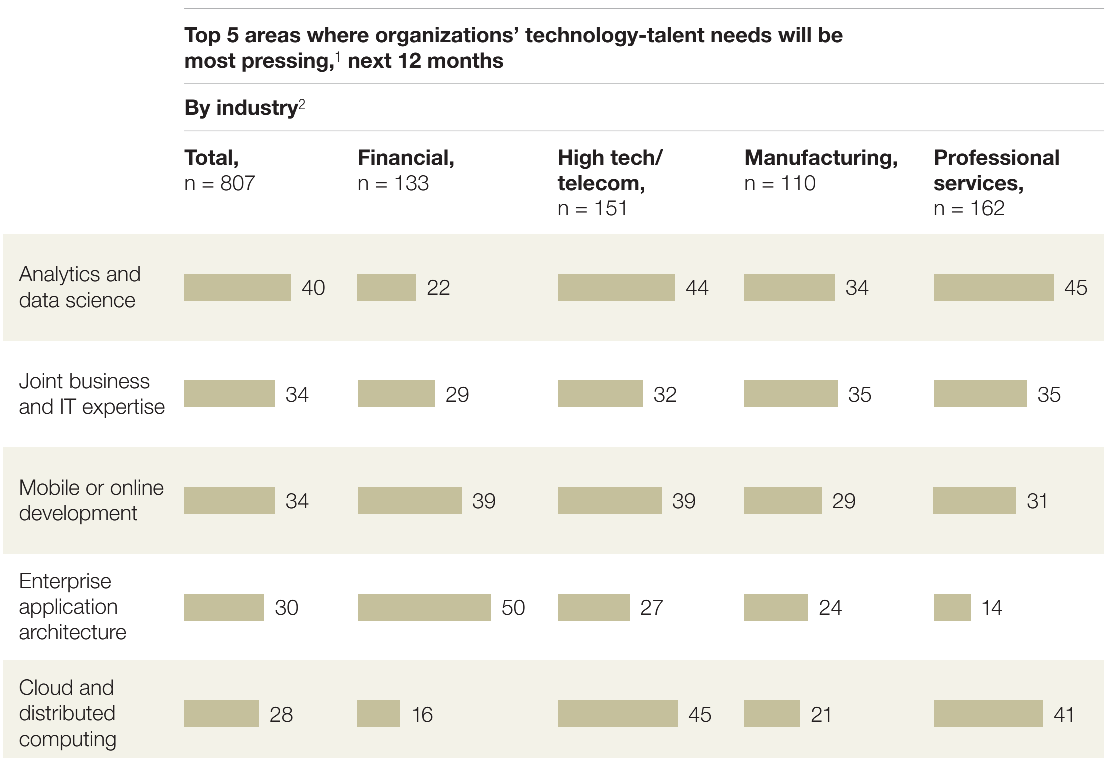
% of respondents[1]

Initiatives that would be most important to improving IT performance	**Total,** n = 738	**IT executives,** n = 337	**Non-IT executives,** n = 401
Improve business's accountability for IT-related projects	45	46	45
Reallocate IT budgets to focus on critical drivers of business value	43	46	42
Improve overall level of talent and capabilities of IT staff	35	34	36
Improve governance processes and oversight	30	35	25
Increase IT budgets and technology spending	22	18	26
Replace IT management with new leadership	20	28	13
Outsource some or all problem areas to external providers	17	19	16
Eliminate any central IT group beyond basic services	14	17	12
Centralize and consolidate all technology-related activities into IT group	11	12	10

[1]Respondents who answered "other," "nothing," or "don't know" are not shown.

Exhibit 6
The overall IT talent shortage is most pressing for analytics, but needs vary by sector.

% of respondents



[1]Out of 10 areas that were offered as answer choices in the question.
[2]Respondents working in all other industries (ie, industries that are not represented by a statistically significant number of respondents) are not shown.

[3]We asked about the use of formal processes for eight different governance functions. On average, respondents say their organizations have formal processes for three, the most cited of which are allocation of IT resources to projects (47 percent), IT portfolio planning and management (42 percent), and IT resource and capacity planning (41 percent). One-tenth of respondents say their organizations have no processes in place to govern any of the eight functions.

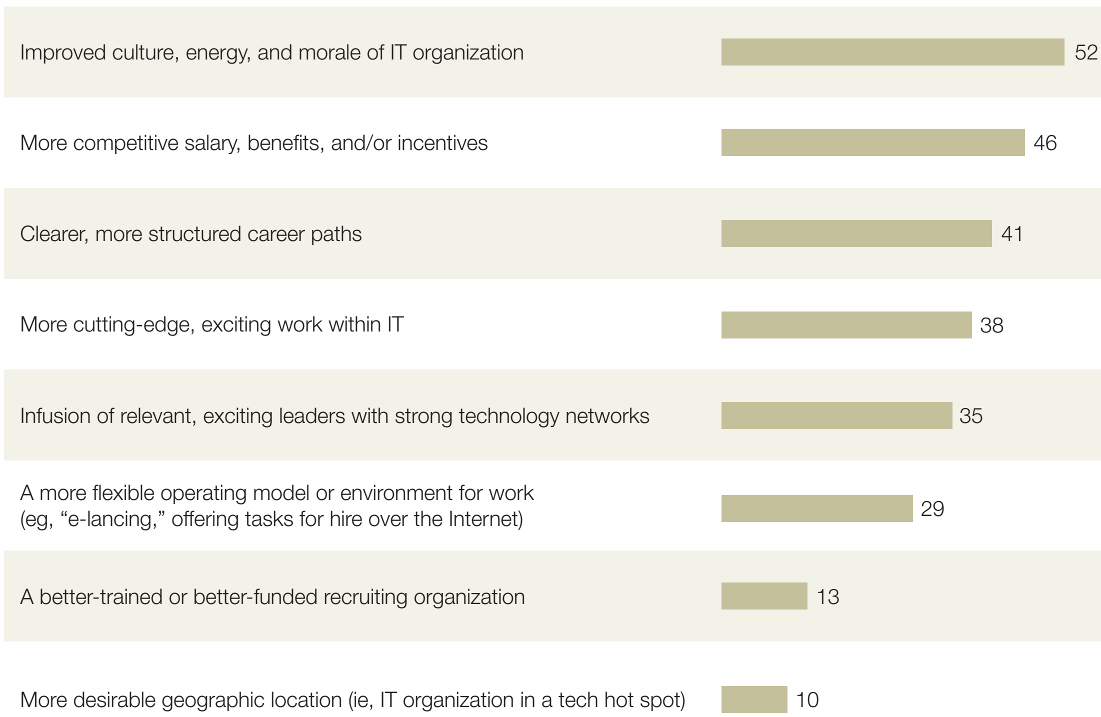
is exacerbated by the lack of formal processes to govern IT talent and skills management. Just 23 percent of executives report the consistent use of such processes to manage talent, the lowest share across all of the governance processes we asked about.[3]

In the next 12 months, the most acute needs for IT talent are in analytics, joint business and IT expertise, and mobile and online skills, though there is considerable variation across sectors (Exhibit 6). Financial-services executives, for example, are less focused than others on analytics (only 22 percent cite this, compared with 40 percent of all respondents) but are much more concerned with enterprise architecture than respondents overall. There is also an interesting split between B2B and B2C executives on analytics: 58 percent of those at B2C companies cite analytics talent as a need, while only 40 percent at B2B companies do. This result suggests that B2B companies may not have been focusing as much on their analytics capabilities as their

Exhibit 7
To address talent challenges, companies should focus on culture and compensation.

% of respondents,[1] n = 493

Conditions that would most help organizations improve effectiveness of talent acquisition



[1]Respondents who answered “other” or “don’t know/not applicable” are not shown.

B2C counterparts—and that B2B companies will be feeling this shortage more acutely in the near future as analytics becomes even more critical to business.

Solving the talent issues will require multiple remedies, and respondents identify two in particular: improving culture within IT and improving compensation (Exhibit 7). Compensation can be resolved more tactically or operationally. In contrast, transforming the culture is a long and complex game that requires a comprehensive assessment of overall organizational health and a serious commitment from business leaders.

Beyond these IT-specific challenges, executives identify some other areas for improvement on the business side. When asked how their companies carry out application development and maintenance projects, IT executives say their organizations tend to follow a traditional “waterfall” approach to their work on legacy systems and a more interactive, iterative approach for new development work. Further, these respondents indicate a desire to increase the share of work they do using iterative approaches but identify barriers to this change. The top barrier cited is a lack of business ownership, followed closely by managers lacking an understanding of when to use an iterative approach.

Looking ahead

- Address talent from the top. As IT continues to evolve as an important strategic tool, the required skills and staff are becoming harder to find and retain, especially in areas such as analytics and next-generation infrastructure. The results suggest that companies could better meet these needs with a more attractive talent value proposition that spans culture and morale, compensation, and career development—issues requiring focused attention from IT leadership. CIOs must be more involved in developing a talent-friendly culture within their organizations to tackle current and future talent issues.

- Increase business-side involvement. All executives must work to address critical gaps in IT by elevating knowledge in areas that span both the business and IT functions. According to the survey, there are three important areas for improvement: data and analytics, business-IT interactions, and approaches to development work. Given the current state of CIO influence, the task of bridging cross-functional gaps may fall disproportionately on non-IT leaders.

- Balance competing demands. Steadily rising expectations for IT underscore how fraught the landscape is for CIOs. These leaders must find a way to fulfill roles that may be at odds with each other—managing the IT function while also leading technology-driven changes. To that end, increased use of approaches (such as iterative development processes) that can help CIOs meet both mandates and manage two-speed IT organizations will become ever-more important. o

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