McKinsey Global Survey results:

How IT is managing new demands

In our fifth business technology survey, executives say they want more immediate value from IT and forward-looking strategies from technology leaders that support growth and innovation.

Life has never been simple for IT leaders, but these days, complexity is shifting into high gear. This is the key lesson from our fifth survey on information technology strategy and spending. We asked 864 executives, including chief information officers (CIOs), chief technology officers (CTOs), other executives in the IT function, and C-level executives in other functions about their organizations' business technology agenda, their adoption of emerging technologies, and the impact of IT on management practices.[1]

The demands on IT, results show, are more intense than ever. While many organizations express basic satisfaction with their own IT departments, new hurdles face IT executives as business units are demanding more value from the function. C-suite leaders are pressing IT executives for gains from transformational technologies like cloud computing, and they want IT to help turn growing stores of corporate data into information assets that support growth and guide innovation. And all this is playing out in a more challenging IT environment as competitors wield new technologies to wrest competitive gains and shape new product offerings.

Coping with competitive demands

Technology, undeniably, is changing competitive dynamics. Respondents describe this as a double-edged sword: IT is both a competitive weapon and a source of disruption when used

[1] The online survey was in the field from October 5 to October 15, 2010, and received responses from 864 executives representing the full range of industries, regions, and company sizes.

Jean-François Martin

Exhibit 1

Disruptions to business

% of respondents,[1] n = 716

Of the following technology- or information-based disruptions, to which your company is most exposed?		Rank in prior surveys	
		2008, n = 465	**2009,** n = 342
Shifts in customer expectations (eg, to better or differentiated service for existing offerings)	18	1	1
Development of new offerings outside the business's 'traditional' scope (eg, using a mobile phone for payments)	17	2	2
Changes in costs to deliver current products or services (eg, competitors deliver for significantly less)	17	4	5
Emergence of significantly improved products or services (including substitutes) from competitors at current or higher prices	15	6	4
Emergence of new channels or points of purchase	13	7	7
Increased customer bargaining power from better information about existing product offerings and alternatives	9	3	3
Increased use of third-party resources/ infrastructure, such as original equipment manufacturers or outsourcing	7	5	6

[1] Respondents who answered "other" are not shown.

by competitors. For the third year running, executives say their companies are most vulnerable to two technology-enabled threats: rising customer expectations and significant changes in delivery costs (Exhibit 1). This year, as companies begin to consider a return to growth, two other concerns leapt up the list from much lower rankings in previous surveys: the emergence of new products or services from competitors and competitors' development of new offerings outside their current scope, such as telecommunication companies offering cloud-computing services.

The somewhat better news for those managing IT is that pressure to slash costs while simultaneously responding to these threats has eased somewhat. Respondents report that IT is becoming more than a simple cost center in the minds of many executives. Compared with earlier surveys, a smaller share—23 percent—say IT's primary contribution to

the corporation is in delivering IT services at the lowest cost, down from 25 percent in 2009 and 33 percent in 2008. Instead, more IT and non-IT executives are expecting IT to help drive broader business efficiency (39 percent) and differentiated performance (21 percent) this year. These expectations are reflected in executives' beliefs about current IT priorities for their organizations: two of the top three priorities center on using IT to improve business performance (Exhibit 2).

Exhibit 2

Driving better performance

% of respondents,[1] n = 864

		Rank	
Select the objectives that most accurately describe your organization's IT priorities for the next budget cycle.		**Non-IT executives,** n = 332	**IT executives,** n = 532
Improving cost efficiency of business processes	47	1	2
Reducing IT costs	45	3	1
Improving effectiveness of business processes (providing additional or better capabilities)	44	2	3
Ensuring compliance with regulations	30	5	4
Giving managers information to support planning and decision making	30	4	5
Creating new products or services	26	6	6
Managing risk	20	7	7
Entering new markets	16	8	8

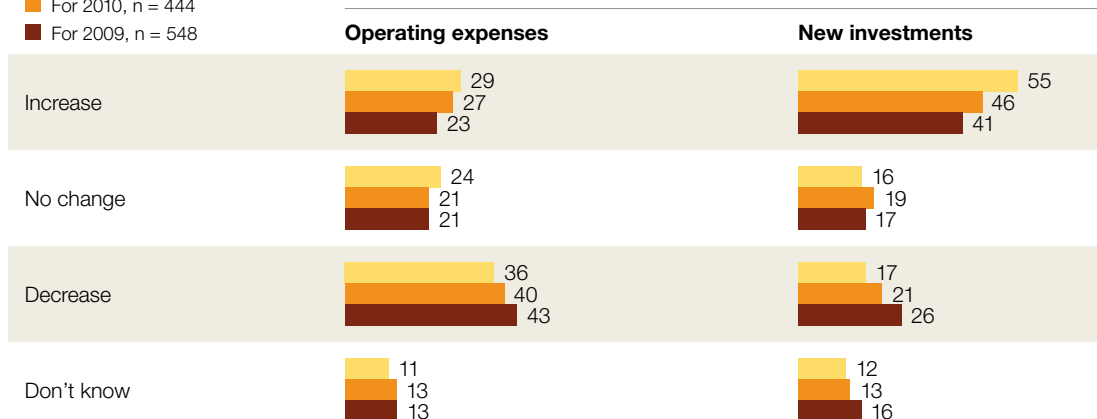[1] Respondents who answered "other" and "don't know" are not shown.

Exhibit 3

The IT budget cycle

% of respondents[1]

■ For 2011, n = 864
■ For 2010, n = 444
■ For 2009, n = 548

By how much, if at all, do you expect your organization's IT budget for operating expenses and new investments to change?

	Operating expenses	New investments
Increase	29 / 27 / 23	55 / 46 / 41
No change	24 / 21 / 21	16 / 19 / 17
Decrease	36 / 40 / 43	17 / 21 / 26
Don't know	11 / 13 / 13	12 / 13 / 16

[1] Figures do not sum to 100%, because of rounding.

Faced with demands on several fronts, IT leaders are responding with something of a juggling act. Similar to responses from last year, executives continue to hammer down IT operating costs for 2011 (Exhibit 3). The primary tactic in this battle is reduction of structural costs within IT and across the organization, and executives expect to keep at it in the near future

(Exhibit 4). However, more drastic short-term demand reductions, such as deferring or scaling back projects, fell to the bottom of rankings since last year, when they were higher priorities.

The silver lining to all of this discipline is that companies remain committed to investing in new IT capabilities. To grow the business and counter technology-based threats, 55 percent of executives indicate that their companies will be increasing new IT investments in 2011. Eighteen percent expect an increase of more than 10 percent, while fully a third of respondents expect these investments to increase by 6 percent or more.

Importantly, though, IT will have to overcome concerns about its ability to deliver on these new investments. Between 20 and 25 percent of IT and non-IT executives alike say they are very or extremely satisfied with IT's ability to engage with business partners on tech-driven ideas or projects, but fully 40 percent of executives from both groups say they are not at all or only slightly satisfied with IT's effectiveness in this area.

Exhibit 4

Responding to the downturn

% of respondents,[1] n = 724

As your company responds to continuing economic uncertainty, what are the 3 most important actions your company's IT function has already taken or plans to take?

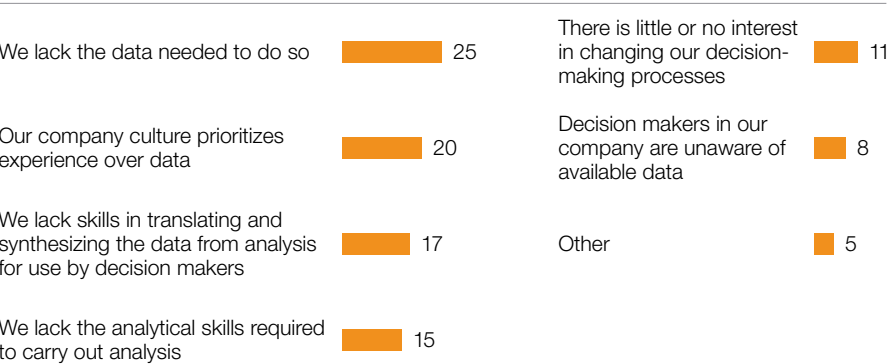|	Actions taken in the past year	Actions planned for the next 12–18 months
Increasing infrastructure consolidation or virtualization	22	21
Looking to IT as a lever to reduce costs in other areas of the business	18	21
Focusing on efficiency improvements in application development, maintenance (eg, lean IT, process streamlining)	14	21
Renegotiating existing vendor contracts	12	7
Increasing outsourcing and/or offshoring	11	9
Reducing demand by cancelling or deferring projects/activities	9	8
Rationalizing or eliminating services or offerings, reducing service levels	6	4
Changing the scope of projects to reduce costs	6	8

[1] Respondents who answered "other" are not shown.

Exhibit 5

Data and decision making

% of respondents,[1] n = 739

What are the most critical barriers, if any, to increasing the use of data-driven decision making in your company?

We lack the data needed to do so	25	There is little or no interest in changing our decision-making processes	11
Our company culture prioritizes experience over data	20	Decision makers in our company are unaware of available data	8
We lack skills in translating and synthesizing the data from analysis for use by decision makers	17	Other	5
We lack the analytical skills required to carry out analysis	15		

[1] Figures do not sum to 100%, because of rounding.

Managing the future

IT leaders cite new demands and expanded mandates related to two increasingly important technology-based innovations: integrating data and analytics more completely into business decisions, and taking greater advantage of emerging cloud computing platforms.

Business intelligence and analytics are changing the way executives make decisions. Two-thirds of respondents say the business processes and decisions within their spheres of influence are becoming more data driven. They also believe this trend is spreading more broadly throughout their organizations, though just under half say their companies are steadily increasing their use of data across all functions. The other half cite specific functions that are leading the charge, most often marketing and product development.

Respondents who have incorporated data and analytics into their decision making say the most significant benefits are the discovery of new insights (39 percent), significantly improved projections of future performance (34 percent), and faster decision making (29 percent). Despite optimism about the rising use of data in decision making, respondents also highlight a number of barriers to expanding adoption (Exhibit 5).

In recent years, IT executives have also focused more attention on cloud computing.[2] Our results show that this interest in potential benefits is spreading to business leaders, with the cloud's promise of increased agility a particularly attractive feature (Exhibit 6).

More than 80 percent of IT respondents say their companies are using or experimenting with cloud technology. Some 63 percent say their companies are using cloud-based applications
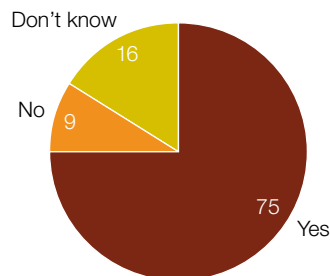
Exhibit 6

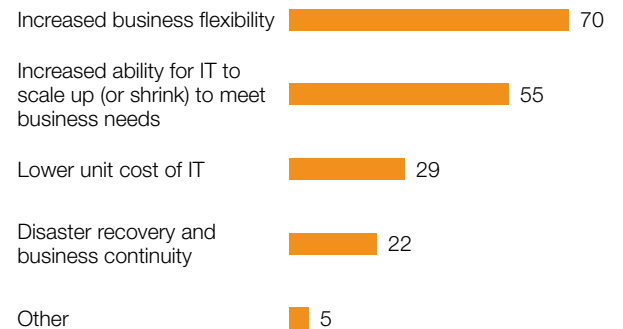**The value of cloud computing**

% of respondents[1]

Do you believe that use of cloud computing could drive value at your company?

n = 332

Don't know
16
No
9
75
Yes

What are the most significant ways you expect your company to realize value?

n = 252

Increased business flexibility — 70

Increased ability for IT to scale up (or shrink) to meet business needs — 55

Lower unit cost of IT — 29

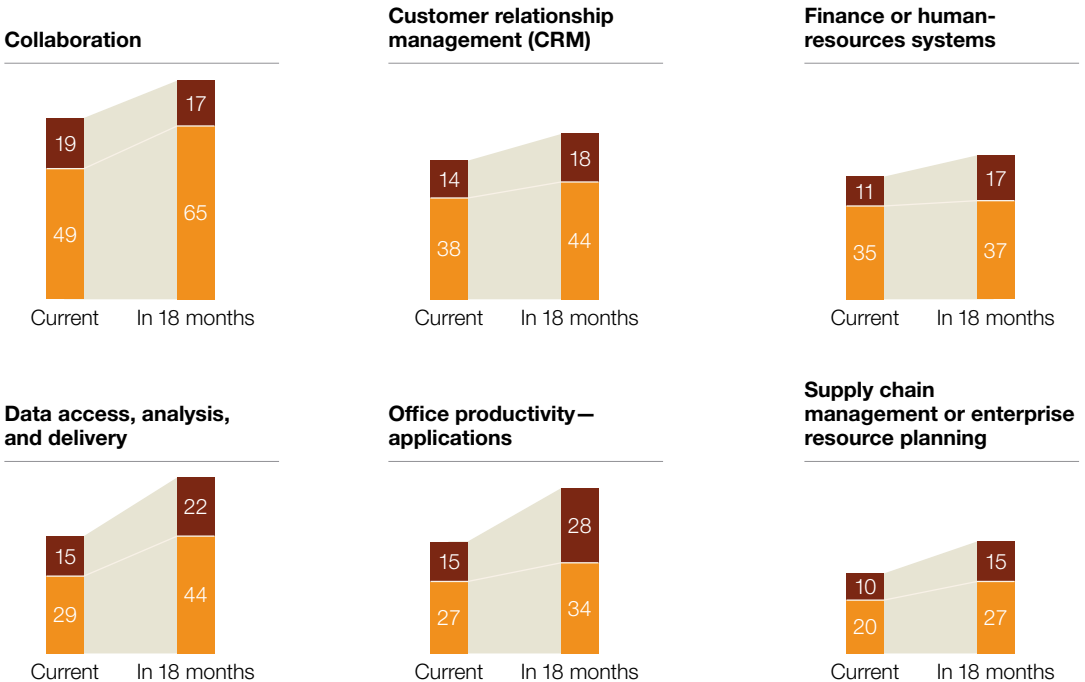Disaster recovery and business continuity — 22

Other — 5

[1] Respondents shown are all non-IT executives.

Exhibit 7

Adopting the cloud

% of respondents,[1] n = 469

■ Piloting
■ Deployed at some level

What is your company's current level of cloud deployment for each of the following applications? What do you expect it to be in 18 months?

Collaboration

	Current	In 18 months
Piloting	19	17
Deployed at some level	49	65

Customer relationship management (CRM)

	Current	In 18 months
Piloting	14	18
Deployed at some level	38	44

Finance or human-resources systems

	Current	In 18 months
Piloting	11	17
Deployed at some level	35	37

Data access, analysis, and delivery

	Current	In 18 months
Piloting	15	22
Deployed at some level	29	44

Office productivity—applications

	Current	In 18 months
Piloting	15	28
Deployed at some level	27	34

Supply chain management or enterprise resource planning

	Current	In 18 months
Piloting	10	15
Deployed at some level	20	27

[1] Respondents who selected "none" and "don't know" are not shown.

in some aspect of day-to-day operations, and over the next 12 to 18 months, deployment and piloting is expected to increase across all application types explored in the survey (Exhibit 7).

Yet that anticipated expansion faces a few hurdles, and the responsibility falls upon IT leaders to surmount them. When we asked about barriers to cloud adoption, IT and non-IT executives raise a number of significant issues (Exhibit 8). Non-IT executives are most concerned about a lack of organizational awareness, a barrier that ranks higher than security concerns. This underscores leaders' belief that the cloud can drive substantial value and that the potential risks are manageable.

Exhibit 8

Barriers to cloud technology

% of respondents

Rank the top 3 barriers, if any, your company has overcome or still faces in realizing value from the cloud.

	IT executives, n = 462	Non-IT executives, n = 264
Evaluating and managing security or business continuity risks	25	14
Managing regulatory risks or exposure	14	11
Developing a compelling business case for using cloud systems	12	14
Adapting existing business processes to cloud systems	11	12
Addressing issues with migration or interoperability with our company's current systems or data architecture	10	8
Lack of awareness or interest in cloud systems in our company	10	21
Adjusting technology governance processes for cloud systems (eg, policies for control, monitoring)	9	4
Developing the right set of skills to build, manage, and support cloud systems	7	13

Looking ahead

- Business leaders are looking to IT to drive value across the enterprise, which is understandable, given the centrality of IT systems to operations these days. However, this effort will tax IT executives, with whom satisfaction is currently fairly low. Company leadership needs to create cross-functional teams and build strong working relationships with executives across business units to deliver on this aspiration.

- IT users throughout the business are becoming more sophisticated, due to the proliferation of IT and a range of innovative applications, and new cloud applications are relatively simple for even moderately savvy users to set up. This creates an easy end run around corporate IT unless IT executives continue experimenting with new platforms and capabilities and

embrace new technologies while establishing clear ground rules and guidelines (for example, policies on data protection/storage or security reviews for cloud providers) to protect corporate interests.

- Companies should promote key roles for non-IT executives; these leaders must continue to champion IT across the enterprise. The next wave of innovation will flow from joint efforts between business users and IT, a partnership that will demand top-down help to break down silos and foster cooperation. ◻