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Why CIOs should be business-strategy partners

Our latest survey of business and IT executives finds that IT performance increases across the board when CIOs are involved in shaping business strategy.

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[1]The online survey was in the field from October 7 to October 17, 2014, and garnered responses from 713 executives. Of these respondents, 363 have a technology focus, and the remaining 350 are C-level executives representing 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.

When CIOs play an active role in business strategy, IT performance on a wide range of functional and business tasks improves. But in McKinsey's latest survey on business technology,[1] few executives say their IT leaders are closely involved in helping shape the strategic agenda, and confidence in IT's ability to support growth and other business goals is waning. Moreover, IT and business executives disagree strongly on the function's overall priorities—though both sides agree on the need for better data and analytics talent, a challenge that has grown in importance since the previous survey. The results suggest that closing the gap to engage more CIOs in strategy discussions could deliver business benefits and address widespread concerns over IT effectiveness.

Performance issues and misaligned priorities

On the whole, executives' current perceptions of IT performance are decidedly negative. Beyond providing basic services and managing infrastructure, just one-third or less of respondents say their IT functions are very or extremely effective at a wide range of tasks. Even within IT, the shares reporting effective performance are small (Exhibit 1). The results also indicate fading confidence in IT's ability to support key business activities, such as driving growth. In the 2012 survey on business and technology, 57 percent of executives said IT facilitated their companies' ability to enter new markets. Now only 35 percent say IT facilitates market entry, and 41 percent report no effect.

Takeaways

When CIOs are actively involved in business strategy, IT performance improves—but a McKinsey survey shows many today are missing the mark.

To address performance and organizational-health issues, among other challenges, companies can recast the role of the CIO, make IT more business savvy, and up their game on recruiting.
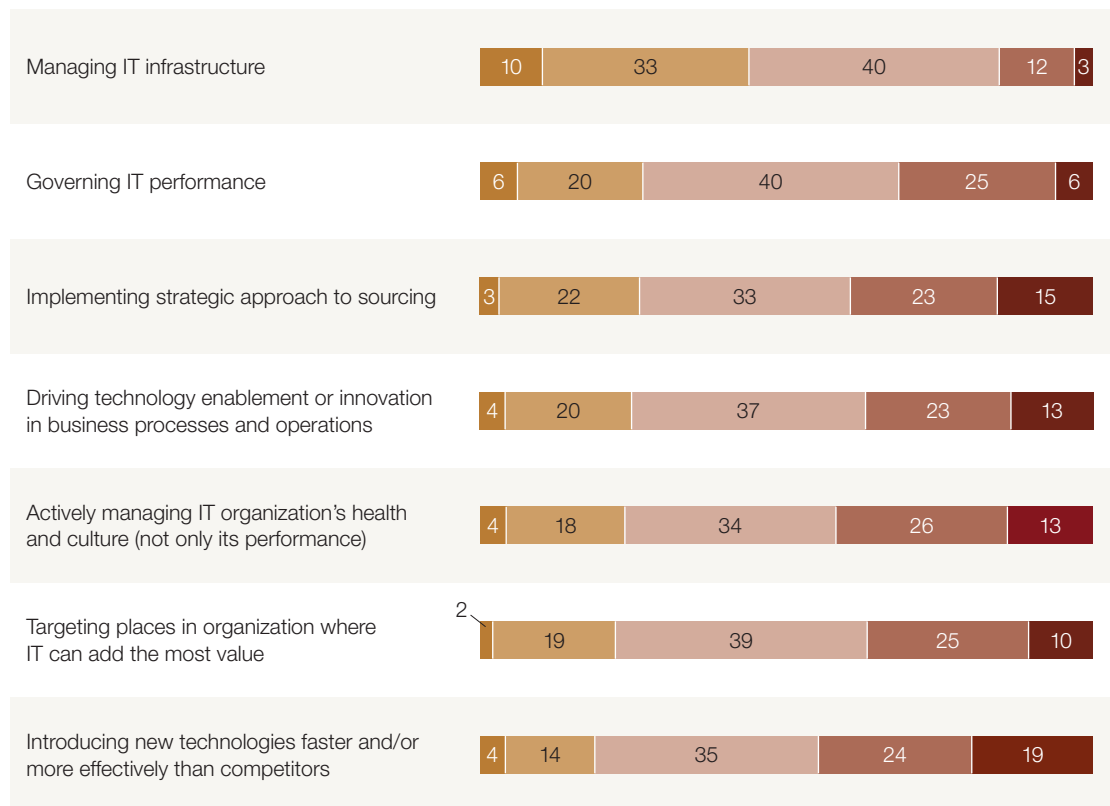
Exhibit 1
Within IT itself, few executives report effective performance.

% of IT respondents,[1] n = 363

■ Completely effective　■ Very effective　■ Somewhat effective　■ Slightly effective　■ Not at all effective

IT organizations' effectiveness at functional processes

Managing IT infrastructure	10	33	40	12	3
Governing IT performance	6	20	40	25	6
Implementing strategic approach to sourcing	3	22	33	23	15
Driving technology enablement or innovation in business processes and operations	4	20	37	23	13
Actively managing IT organization's health and culture (not only its performance)	4	18	34	26	13
Targeting places in organization where IT can add the most value	2	19	39	25	10
Introducing new technologies faster and/or more effectively than competitors	4	14	35	24	19

[1] Respondents who answered "don't know" are not shown, so figures may not sum to 100%.

As digitization spreads, executives say their companies have dramatically expanded their use of IT to improve the effectiveness of business processes since 2012. Yet survey results indicate that there is little awareness of or agreement on how IT can meaningfully shape a business's future. IT and business executives still differ in their understanding of the function's priorities and budgets. Nearly half of techn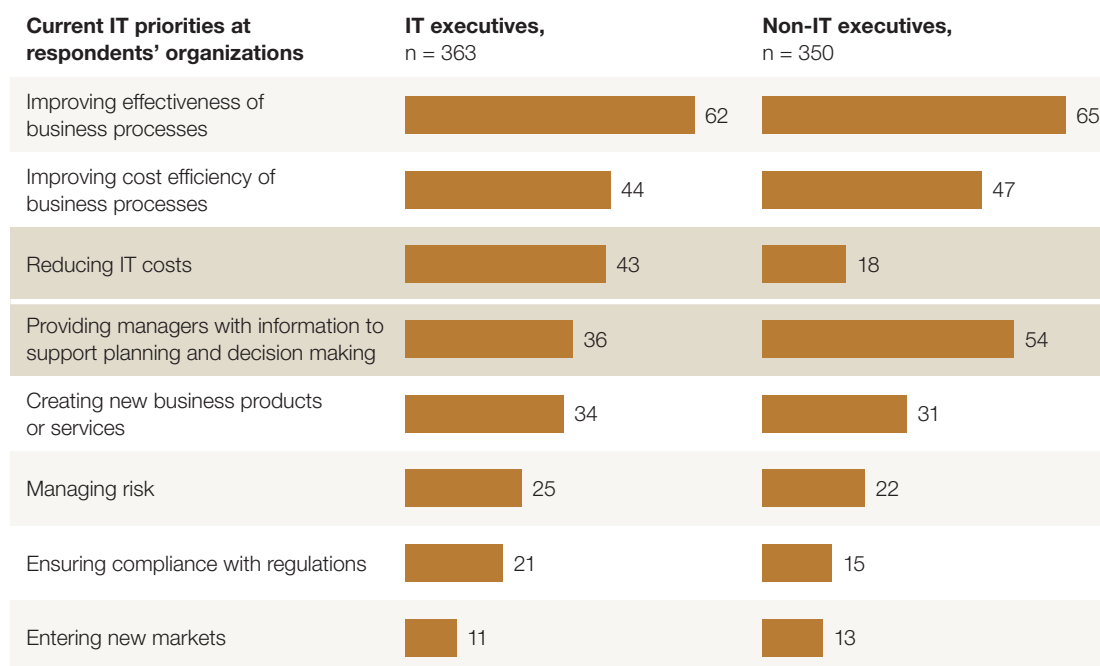ology respondents see cost cutting as a top priority—in stark contrast to the business side, where respondents say that supporting managerial decision making is one of IT's top priorities (Exhibit 2).

When asked about IT spending for 2015, IT executives are more likely than their business peers to expect that their budgets for both operating expenses and new investments will shrink (Exhibit 3).

Exhibit 2
Across functions, views diverge on IT's top priorities—particularly on costs and information.

% of respondents,[1] by function

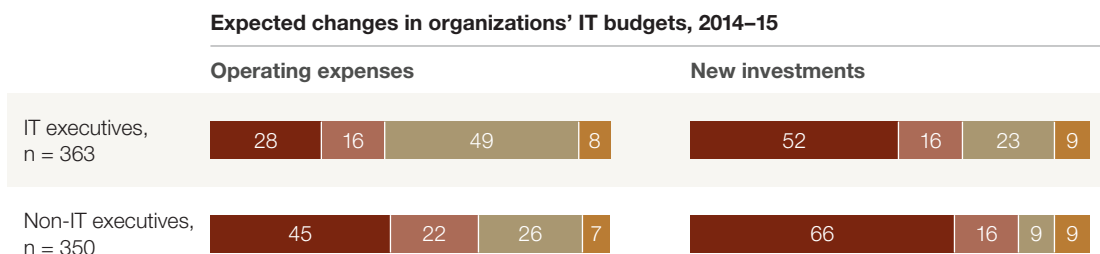| Current IT priorities at respondents' organizations	IT executives, n = 363	Non-IT executives, n = 350
Improving effectiveness of business processes	62	65
Improving cost efficiency of business processes	44	47
Reducing IT costs	43	18
Providing managers with information to support planning and decision making	36	54
Creating new business products or services	34	31
Managing risk	25	22
Ensuring compliance with regulations	21	15
Entering new markets	11	13

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

Exhibit 3
Business executives are more bullish than their peers on increased IT spending.

% of respondents,[1] by function

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

Expected changes in organizations' IT budgets, 2014–15

	Operating expenses				New investments			
IT executives, n = 363	28	16	49	8	52	16	23	9
Non-IT executives, n = 350	45	22	26	7	66	16	9	9

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

Hail to the chief

Despite downbeat assessments of IT effectiveness, the results suggest one clear element of high-performing IT organizations: active CIO involvement in the business. Where respondents say their CIOs are very or extremely involved in shaping enterprise-wide strategy, they report much higher IT effectiveness than their peers whose CIOs are less involved.

What's more, both IT and non-IT executives recognize a link between CIO involvement and performance. The survey asked each group to rate IT's effectiveness on separate dimensions.[2] The differences are especially stark regarding IT's ability to manage its organizational health, according to IT executives, and to partner with the business to develop new capabilities, according to business respondents (Exhibit 4). At companies with the most involved CIOs, executives are also much likelier than others to say IT facilitates business activities, including new-market entry and the creation of new products.

We know from experience that CIOs with a seat at the strategy table have a better understanding of their businesses' near- and longer-term technology needs. They are also more effective at driving partnerships and shared accountability with the business side. Unfortunately, CIOs don't play this role of influential business executive at many organizations. The results show that just over half of all respondents say their CIOs are on their organizations' most senior teams, and only one-third say their CIOs are very or extremely involved in shaping the overall business strategy and agenda.

The CIO's impact on functional performance is underscored further by the fact that roughly one-fifth of respondents (23 percent of IT respondents and 18 percent of all executives) believe a change at the top of IT management is one of the most significant initiatives that could fix IT's shortcomings.
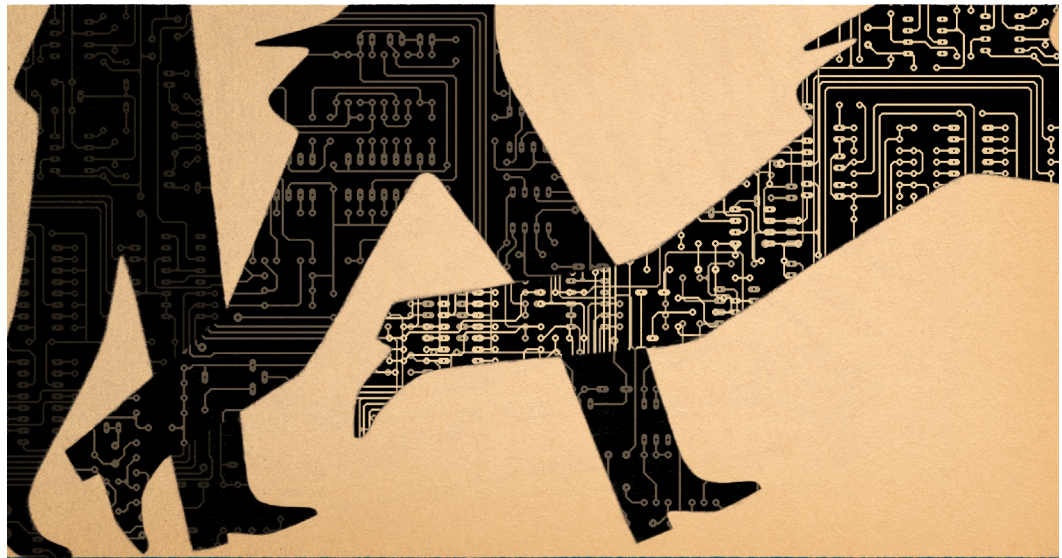
[2] We asked IT executives and non-IT executives to rate their IT function's current effectiveness on two different sets of IT tasks and processes; there were 7 tasks presented in each set and 14 tasks in all.

Continuing talent and organizational-health challenges

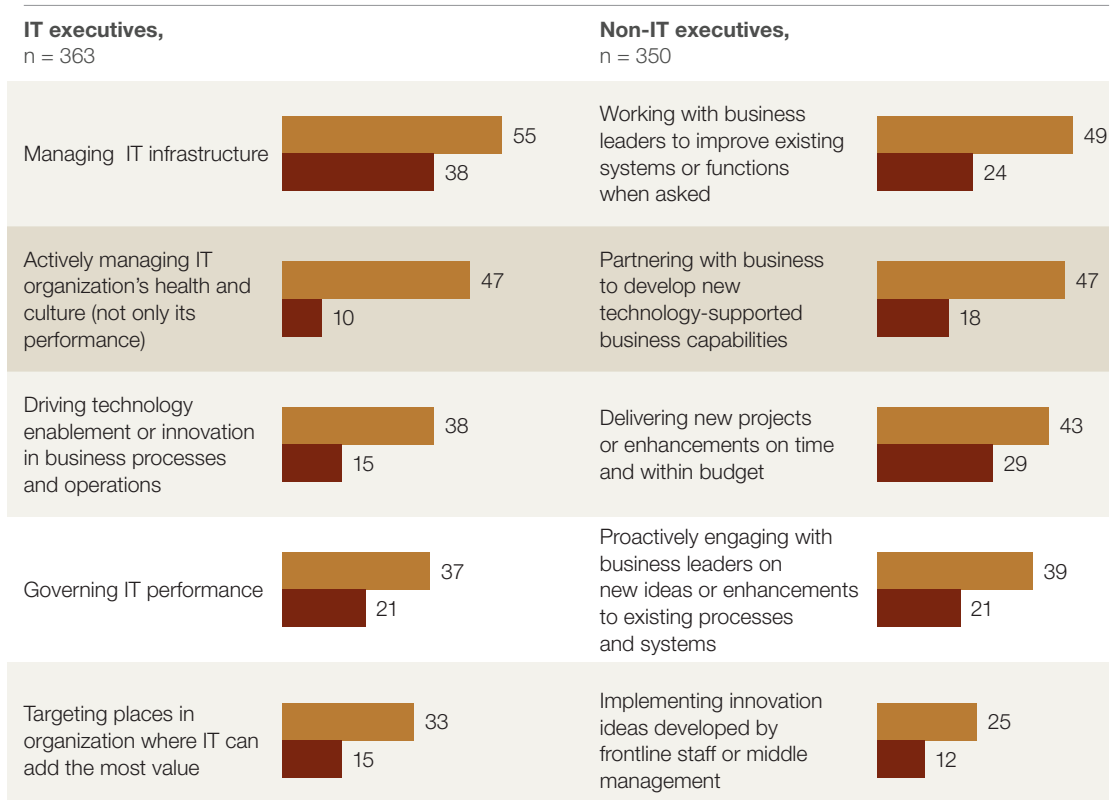Executives continue to cite the overall quality of IT talent as another key to improving the function's performance. Better talent is cited second, just behind better business account-ability for IT-related projects and more often than in the 2013 survey (Exhibit 5). But talent acquisition remains difficult: roughly two-thirds of executives still say attracting IT talent is a significant challenge for their organizations, similar to what respondents reported previously.

Exhibit 4
Where CIOs are more involved in business strategy, respondents report more effective IT performance.

% of respondents,[1] by function

■ CIO is very or extremely involved in shaping business strategy
■ CIO is somewhat or not at all involved in shaping business strategy

Processes where IT organizations are completely effective or very effective[2]

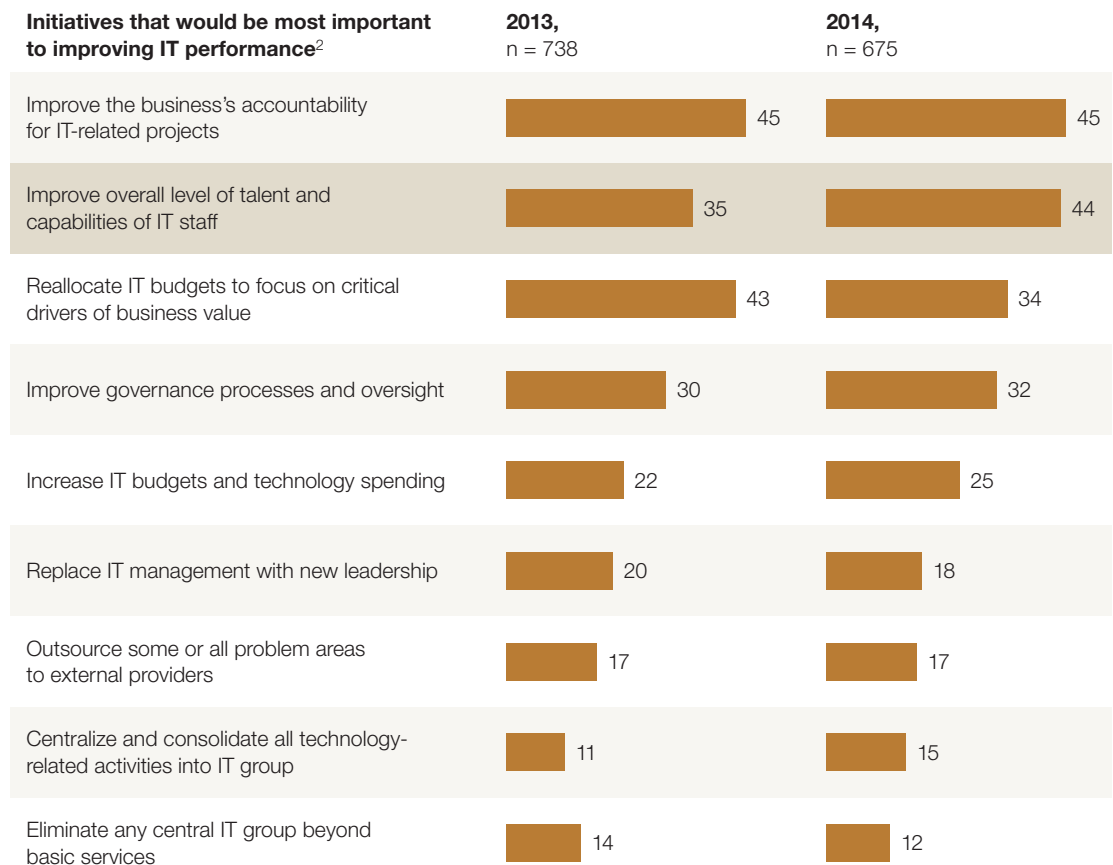| IT executives, n = 363		Non-IT executives, n = 350	
Managing IT infrastructure	55 / 38	Working with business leaders to improve existing systems or functions when asked	49 / 24
Actively managing IT organization's health and culture (not only its performance)	47 / 10	Partnering with business to develop new technology-supported business capabilities	47 / 18
Driving technology enablement or innovation in business processes and operations	38 / 15	Delivering new projects or enhancements on time and within budget	43 / 29
Governing IT performance	37 / 21	Proactively engaging with business leaders on new ideas or enhancements to existing processes and systems	39 / 21
Targeting places in organization where IT can add the most value	33 / 15	Implementing innovation ideas developed by frontline staff or middle management	25 / 12

[1] Respondents who answered that their IT organizations are "not at all effective," "slightly effective," "somewhat effective," or "don't know" with respect to each process are not shown.
[2] Out of 14 processes the survey asked about. The processes shown here reflect the largest percentage-point differences between respondents who say their CIOs are very or extremely involved in shaping their organizations' business strategies and those who say their CIOs are somewhat or not at all involved.

Exhibit 5
Better talent rises as a potential solution to lagging IT performance.

% of respondents[1]

Initiatives that would be most important to improving IT performance[2]	2013, n = 738	2014, n = 675
Improve the business's accountability for IT-related projects	45	45
Improve overall level of talent and capabilities of IT staff	35	44
Reallocate IT budgets to focus on critical drivers of business value	43	34
Improve governance processes and oversight	30	32
Increase IT budgets and technology spending	22	25
Replace IT management with new leadership	20	18
Outsource some or all problem areas to external providers	17	17
Centralize and consolidate all technology-related activities into IT group	11	15
Eliminate any central IT group beyond basic services	14	12

[1] Respondents who answered "other," "nothing," or "don't know" are not shown.
[2] This question was asked only of respondents who rated their IT organization's effectiveness on 1 or more functional processes as "not at all effective," "slightly effective," or somewhat effective."

Not surprisingly, the most recent results suggest a notable rise in the need for data- and analytics-related talent since the previous survey (Exhibit 6). With respect to acquiring the best talent, some of the levers (and the challenges) have also changed in the past year. The frustration with talent acquisition is clear, with nearly twice the share of respondents as in 2013 now saying their organizations need better-trained or better-funded recruiting organizations. Among IT respondents, 27 percent cite a better recruiting organization as a way to improve talent acquisition, up from 12 percent the year before.

As in 2013, executives cite improved culture, energy, and morale among the top-three ways to improve talent acquisition. But building a healthy IT organization remains
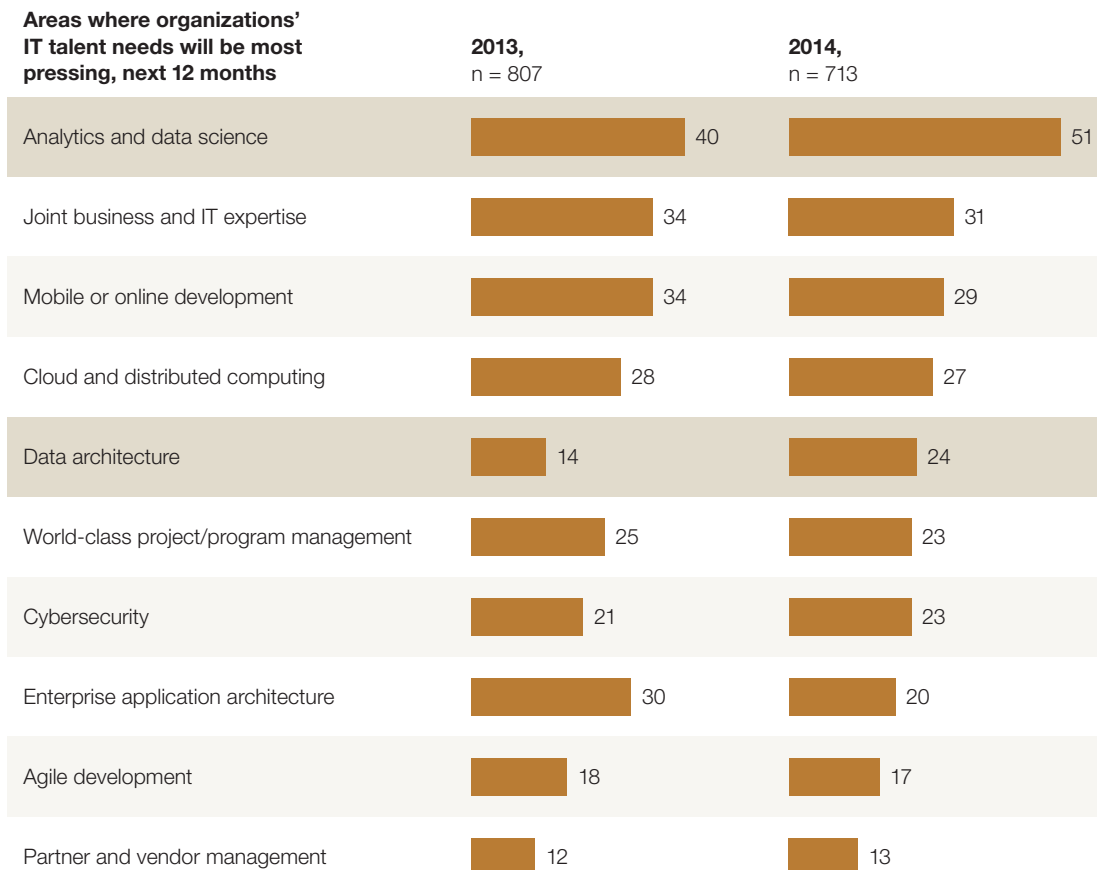
an elusive goal. Nearly three-quarters of IT respondents rate their functions as slightly or not at all effective at actively managing organizational health and culture. At companies with the most involved CIOs, though, nearly 50 percent of respondents report effective management of the IT organization's health and culture; only 10 percent of all others say the same.

Looking ahead

- Reimagine the CIO's role. The survey results suggest that companies would do well to empower and require their CIOs and other technology leaders to play a more meaningful role in shaping business strategy. This means shifting away from a CIO with a supplier mind-set who provides

Exhibit 6

The need for analytics- and data-related talent has grown more pressing since 2013.

% of respondents[1]

Areas where organizations' IT talent needs will be most pressing, next 12 months	2013, n = 807	2014, n = 713
Analytics and data science	40	51
Joint business and IT expertise	34	31
Mobile or online development	34	29
Cloud and distributed computing	28	27
Data architecture	14	24
World-class project/program management	25	23
Cybersecurity	21	23
Enterprise application architecture	30	20
Agile development	18	17
Partner and vendor management	12	13

[1] Respondents who answered "other," "we do not expect to have any pressing needs for talent," or "don't know" are not shown.

a cost-effective utility and toward IT leadership that is integrated into discussions of overall business strategy and contributes positively to innovating and building the business. Some ways to encourage such changes include modifying reporting lines (so the CIO reports to the CEO, for example, rather than to leaders of other support functions), establishing clear partnerships between the IT and corporate-strategy functions, and holding both business and IT leaders accountable for big business bets.

- Develop IT's business savvy. Before they can contribute to overall business strategy, many CIOs and IT leaders may need to improve their understanding of the business. To cultivate IT leaders who have both business and technology know-how, companies can rotate executives into different roles, foster partnerships and knowledge exchange among strong business leaders and strong IT leaders, and recruit business executives with strong technology backgrounds into IT.

- Build a distinctive recruiting engine. Respondents note the growing importance of the recruiting machine as a driver of better IT talent. In our experience, hiring new talent is often left to the IT function's HR team. But the real work and ownership should lie with IT leadership. Leaders must provide HR with input on the most relevant elements of a role's requirements, the necessary capabilities, the criteria for evaluating candidates, the best sources of talent, and—most important—a forecast of their talent needs over the next 18 to 24 months. Their systematic, hands-on partnership with HR is the linchpin to a distinctive and productive hiring capability. ○