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A strategic role for China's CIOs

CIOs have a key part to play as Chinese enterprises start looking to IT for business growth and global competitiveness.

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As Chinese organizations move from early-stage businesses to large global players, IT will need to play an increasingly important and strategic role. However, a 2012 McKinsey survey on business technology in China, undertaken in collaboration with Peking University, finds that Chinese enterprises continue to spend less than their global counterparts when it comes to IT investment. What's more, many Chinese CEOs and business leaders view their IT function as good at helping to *run* the business but not strong at helping to *grow* it.

Indeed, the results of the survey show the majority of corporate IT investment in China remains skewed toward improving operational efficiency. Comparatively little investment is directed to delivering customer-facing, top-line pursuits. Such pursuits could include digital-sales channels tapping big-data analytics to improve the customer experience (Exhibit 1) or leveraging social media for marketing of products and services.

This will need to change as Chinese businesses expand globally and as pressure for innovation and fully enabled digital enterprises grows. Our analysis of the survey data and discussions with Chinese CIOs and other business executives reveal four ways that Chinese organizations can raise their technology game and maximize the value and performance of their IT investments.

Align IT investment with business strategy

Among Chinese companies, IT has historically been seen as a support function that helps run the day-to-day business by operating, for example, basic domestic enterprise-resource-planning (ERP) and core-banking systems. IT has generally not been viewed as an enabler of strategic growth. Indeed, two-thirds of respondents say IT strategy is developed only after the business strategy has been agreed upon. This is

Takeaways

A McKinsey survey of Chinese CIOs and business leaders finds IT organizations struggling to break free from their traditional role as back-office support. It also shows IT investment remains skewed toward improving operational efficiency.

Comparatively little investment goes to delivering the customer-facing, top-line pursuits that can help Chinese organizations compete on the global stage.

Increased competition has made plain the need for business transformation, and CIOs are well positioned to lead that effort.

To succeed, they should align IT investment with business strategy, collaborate more effectively, strengthen their delivery capability, and become more nimble in exploiting emerging technologies.

partly because of how fast Chinese companies have grown over the past 20 years, prompting them to focus on providing basic IT functionality just to keep the business running smoothly.

Today, however, IT can no longer take a back seat, given the growing maturity and global appetite of Chinese businesses and increasing local competition. Expanding sales overseas, for example, typically requires a company to turn its domestic ERP system into a complex multicountry system that supports both unique local-market requirements and value-chain collaborations across borders. More than three-quarters of CIOs say they want to integrate business and IT strategy better. As one insurance-industry CIO said, “The role of IT is starting to shift from supplier and execution support to shaper of business.”

To get there, organizations must establish much closer collaboration among IT, other functions, and business units at all levels of the enterprise.

CIOs should engage early and often with senior leaders to understand how best to direct resources and development efforts to meet their companies’ business objectives. Involving IT in business planning can help organizations achieve greater operational efficiency and promote continued expansion.

Rather than simply funding isolated projects, the business side and IT must agree on a road map to direct spending toward initiatives that support overall growth. Buy-in is also important. Some organizations have found it helpful to implement a chargeback to hold business units responsible for their IT requests. A handful of survey respondents, 5 percent, say they have taken collaboration further by establishing a joint IT and business investment committee. More than half of those surveyed also believe such committees can help ensure effective and efficient IT spending. Indeed, better collaboration between IT and business leaders when setting strategy and

Key survey findings

This effort consisted of a survey of more than 80 Chinese CIOs and IT executives across industries, as well as interviews and round-table discussions, on the subject of business technology. Those surveyed say their companies increased overall annual IT spending as a percentage of revenue to 2 percent from 1.4 percent over the past three years (2010–12), well below the 3.5 to 4 percent average spending of their global counterparts.

More than 75 percent of respondents believe their company’s IT investment is well aligned with the three top priorities of improving process efficiency, creating new products

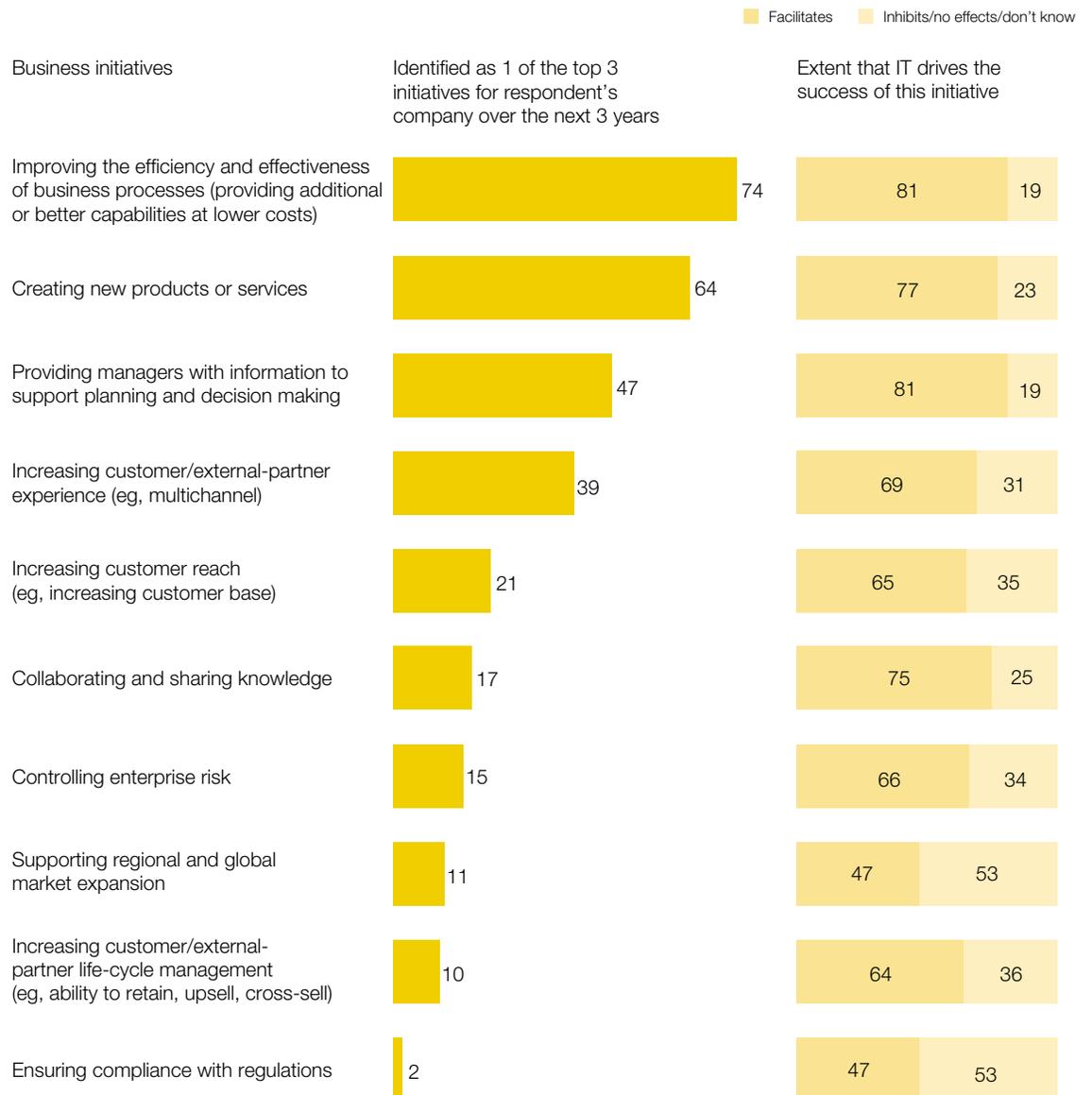
and services, and providing more information to support decision making. Yet there is still opportunity to focus more IT investment on building external customer-facing capabilities.

More than half of all CIOs surveyed indicate that IT is not supporting the global expansion of their company and, in some cases, may be inhibiting it. Many CIOs are also unsatisfied with their IT function’s ability to deliver on time and on budget—a little more than a third report their companies can do so. Some 40 percent say that even those projects that are developed often fail to fully meet business requirements.

Exhibit 1

The IT function excels at internal business-process improvement but not at supporting external customer- and market-facing initiatives.

% of respondents, n = 83



allocating investments has helped several leading Chinese companies that are global players successfully drive their business-transformation programs forward and bring tangible business value.

Elevate the CIO's role in business transformation

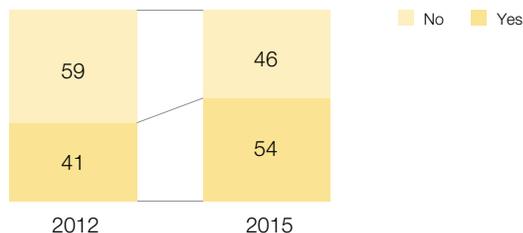
Those surveyed agreed that CIOs empowered by their CEO or other senior leaders are in a unique position to drive cross-functional business

transformation and should shift their own roles from supply-focused IT providers to business-focused leaders of IT-enabled innovation. In that role they could help spur revenue growth, get products to market faster, and sometimes generate new business models. Nonetheless, few are actively doing so. While about 40 percent of CIOs say they have begun to move beyond traditional, narrow IT roles, less than a third of those in this group currently lead business-transformation programs (Exhibit 2). There is an opportunity for CIOs to elevate their positions

Exhibit 2 Approximately 40 percent of surveyed CIOs take on business roles beyond IT, and that number is expected to grow.

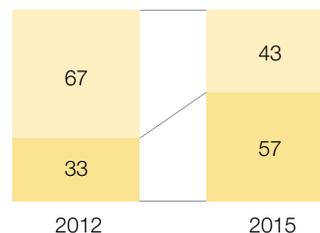
Does the CIO in your organization serve in other roles in your organization? If not, what do you think the situation will be in 2015?

% of respondents, n = 83



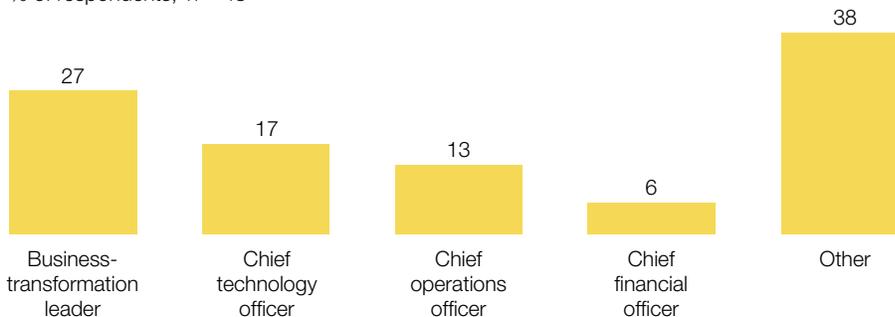
Is the CIO a member of the highest executive committee? Do you foresee CIO representation on the highest executive-management committee?

% of respondents, n = 48



If the CIO in your organization also serves in other roles, what are the other roles?

% of respondents,¹ n = 48



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

Some leading Chinese companies have successfully improved business performance by adopting a model where the CIO not only leads IT delivery but also actively drives business-process transformation.

and add greater value. The CIO's role, for instance, is one of the few leadership positions able to look across different business functions and elements such as R&D, marketing, finance, and the supply chain. CIOs that couple technology expertise with an understanding of business processes can offer value-adding insight and solutions. That operational view should allow them to fill a void as well, since unlike Western enterprises, many Chinese companies still do not have a role equivalent to the COO. Alternatively, some organizations appoint a business leader to run the IT organization with the help of IT-savvy managers in order to ensure better alignment and collaboration.

CEO or other senior-level sponsorship is critical to help CIOs manage the inevitable trade-offs between business and IT, for example, when



weighing business-unit needs for localized business processes against the benefits of centralizing these processes and thus reducing IT complexity.

Such decisions require changes in business behavior and ways of working, and they cannot be achieved without top-management backing. One successful CIO said, “The reason I can drive business change is that I’m fully supported by the CEO.”

In addition, because many CIOs do not have experience in frontline business management, such as business-unit P&L responsibilities, they need to strengthen their knowledge of business strategy and better understand the key elements of their company’s operating model.

Finally, they must earn their spot at the strategy table by bringing value from technology-enabled business solutions. Some leading Chinese companies have already successfully improved business performance by adopting a model where the CIO not only leads IT delivery work but also actively drives business-process transformation. This transformation may include supporting international expansion by designing and facilitating a multicountry operating model and establishing a global process template. It may also involve initiating coinnovation with business units in fields such as big-data customer analytics.

Strengthen IT capabilities for large transformation projects

Less than half of the CIOs and IT executives surveyed say they are satisfied with their IT team's capabilities, with the result that many have turned to outsourcing. According to the survey, two to three times as many Chinese companies outsource architecture design as do their global peers. Such heavy reliance on vendors reduces control over projects and may make companies too dependent on external parties, all of which can erode the business team's confidence in IT.

Instead, Chinese enterprises should consider building and retaining a core IT team with strong capabilities in architecture design, project management, and the analysis of business requirements. But given the shortage of IT talent in China, building that team must be part of a larger effort to develop scalable IT capabilities to deliver value.

To institutionalize those capabilities, companies should improve their training and vendor-management processes and put continuous-improvement opportunities high on their agenda. As one banking CIO said, "We have over 10,000 good-quality IT employees, but we lack a mechanism to make sure they can work together efficiently." For instance, many Chinese enterprises still lack mature processes for application



development and maintenance (ADM) such as demand management and early identification of development defects. Only a quarter of surveyed executives rate their ADM capability as medium to high, but these processes are essential for supporting large transformation projects.

Employee training and development is also key. Chinese organizations should establish formal capability-building programs that focus on cultivating seasoned managers with strong project-management skills. The goal is a virtuous cycle that will raise the status of IT in the organization. The more IT helps solve real business problems, the more respect and support it will receive from the business, and the more inclined its top talent will be to stay and build careers.

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Speed up the adoption of new technology to support business innovation

Although the majority of companies we surveyed have deployed basic emerging technologies, many are struggling to use them in creating customer-facing innovation. Nearly 90 percent of those surveyed say their companies have basic IT technologies in place, such as core transaction applications and security systems, and 50 to 60 percent have deployed emerging technologies such as mobility devices

like smartphones and tablets to support remote operations and collaboration. But they are not yet adopting technologies that require them to develop new business models (Exhibit 3). Less than 15 percent of survey respondents, for instance, report having selectively or meaningfully adopted big data-based analytics applications.

Furthermore, a quarter of the surveyed CIOs say they cannot convince senior leaders to allocate sufficient budget and business support to expand teams and applications. As one CIO

Exhibit 3 Adoption of emerging technologies varies widely.

Which innovative technologies has your organization deployed or is it planning to deploy?

% of respondents,¹ n = 83

■ Deployed ■ Selectively deployed ■ Planned ■ Piloted ■ Not considered

Mobility: new business or operations enabled by mobile devices and applications



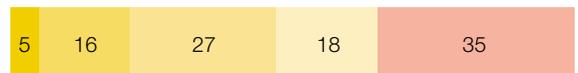
E-commerce: online business-to-business or business to-consumer e-commerce to increase sales, customer engagement, branding, or marketing



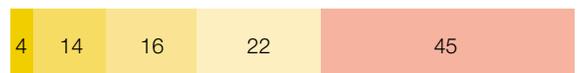
Natural user interaction: product or service using human-computer interaction systems



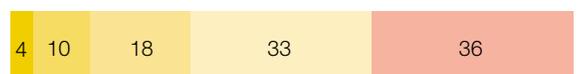
Cloud computing: products, services, or business models that are dependent on cloud solutions



Digital marketing: leveraging external digital media (eg, social media) for marketing of company, products, and services



Big data: large-scale, close-to-real-time, distributed, and diversified data mining and analytics to improve business processes or customer engagement



Internet of Things: embedded computing to automate or control internal processes or systems



¹Numbers may not sum to 100%, because of rounding.



from a leading Internet player noted, “Technology is available; [the key question] is how you position yourself to use the technology to build a business model. We have the customer data, but we have not figured out how to use the data yet.”

Pilots are one way to bring business along. To speed up buy-in and results, Chinese organizations can adopt a faster experimental approach that identifies innovative use cases and pilots IT solutions. Taking this approach, one Chinese construction company successfully deployed a custom-made field-crew handset that significantly reduced response time and improved customer satisfaction. In another case, a leading Internet company in China realized 10 million renminbi in revenue after a 12-week, small-scale pilot using big-data analytics. To

obtain such quick results, the business team worked hand in hand with the data-analytics team to identify opportunities and develop a prototype for a predictive customer-segmentation model to be used in tailored campaign promotions; the prototype was then tested and refined every one to two weeks.



Chinese organizations invest relatively little in delivering top-line pursuits such as digital-sales channels tapping big-data analytics to improve the customer experience. Chinese CIOs and their teams must act as stewards in building digital enterprises that enable business growth and allow companies to compete successfully against global rivals. ○

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