

The next frontier in IT strategy: A McKinsey Survey

IT executives say that they are now helping to shape business strategy but need to improve their ability to tap innovation.

**David Craig,
Kishore Kanakamedala,
and Ranjit Tinaikar**

¹ The McKinsey Quarterly conducted the survey in late September and early October 2006 and received 72 responses from a panel of North American executives. IT is the primary responsibility of all the respondents, who work in a wide range of industries, at organizations with revenues of at least \$500 million.

Senior IT executives in North America believe they are successfully aligning IT strategy with the needs of the businesses they serve, according to McKinsey's recent survey of chief information officers and other senior IT executives.¹ Such an alignment, in our experience, typically means CIOs are collaborating with the business in ways that add significant value, rather than just reacting to the demands of the business. Within our framework for maturity of IT strategy (Exhibit 1), we consider this to be a more advanced stage of IT strategy. IT organizations that have mastered the art of business collaboration may be poised to move to a more advanced form of strategic planning, a level at which they can truly show the business how, where, and when to use IT as a competitive weapon.

Eighty-three percent of the respondents agree that their company's IT strategy is developed collaboratively between IT and business operations, while 79 percent say that their IT plans are shaped by the close integration of IT strategy and business strategy (Exhibit 2). Further evidence of IT's collaborative role in shaping business strategy is the fact that so many CIOs now have a seat at the table with senior management. They report to the CEO in 44 percent of all cases; an additional 42 percent report to either the chief operating officer or the chief financial officer.

Even so, IT strategy in most companies has not yet reached its full potential, which in our experience involves exploiting innovation to drive constant improvement in

Exhibit 1

IT strategy maturity

Survey results showed more CIOs are working closely with the business than are engaged in multiyear planning. IT departments should aim to do both.

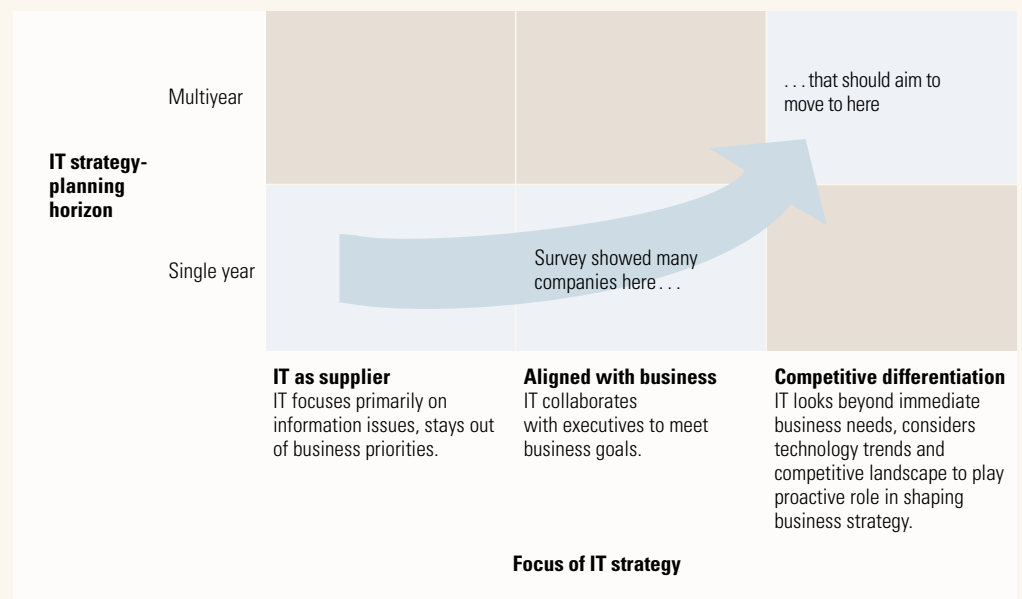
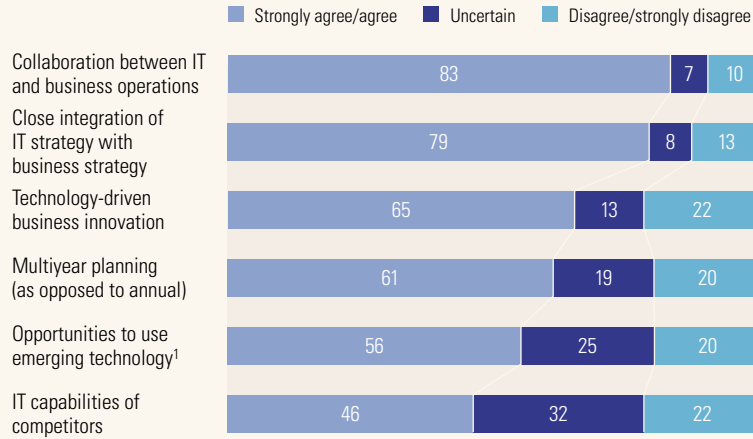


Exhibit 2
How IT strategy is formed

Most senior IT executives agree that IT strategy is shaped through cooperation with their business counterparts.

% of respondents

How strongly do you agree or disagree that each of the following issues are now taken into account when your organization develops its IT strategy?



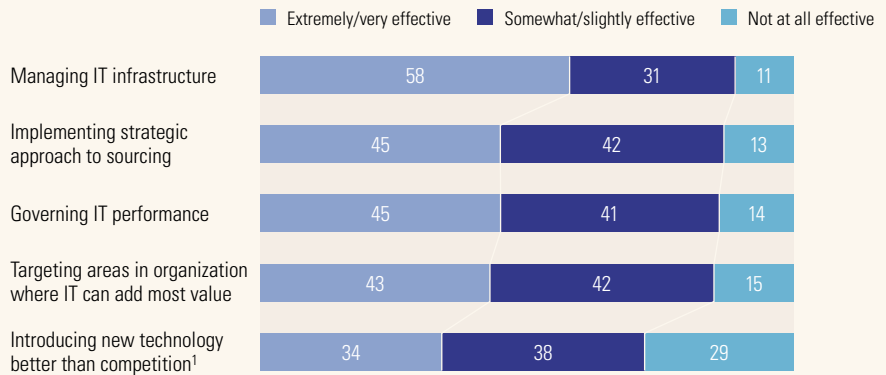
¹Figures do not sum to 100%, because of rounding.
 Source: 2006 McKinsey survey of 72 senior IT executives

Exhibit 3
How they rate themselves

Not many IT executives believe they are doing a good job targeting areas where IT can add the most value.

% of respondents

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



¹Figures do not sum to 100%, because of rounding.
 Source: 2006 McKinsey survey of 72 senior IT executives

David Craig is an alumnus of McKinsey's London office.

Kishore Kanakamedala (Kishore_Kanakamedala@McKinsey.com), based in Silicon Valley, is practice manager for McKinsey's technology infrastructure practice.

Ranjit Tinaikar (Ranjit_Tinaikar@McKinsey.com) is a partner based in New York who leads McKinsey's North American IT strategy practice.

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² For details on how companies should organize IT to work at multiple levels—supporting, collaborating, and innovating—see David Craig and Ranjit Tinaikar, “Divide and conquer: Rethinking IT strategy,” *McKinsey on IT*, Number 9, Fall 2006, pp. 4–13.

the operations of a business and to give it a real advantage over competitors with new products and capabilities.² Fewer than two-thirds of the survey respondents say that technological innovation shapes their strategy. Only 43 percent say they are either very or extremely effective at identifying areas where IT can add the most value (Exhibit 3).

The difficulty IT executives have in capitalizing on innovation shows up in another finding: only 34 percent say that they are more effective at introducing new technologies than their competitors are, and only 46 percent consider the IT capabilities of their competitors when shaping their own strategies. CIOs must be more attuned to the way technology is being applied throughout their industry and related markets if their companies are to use innovation to create a competitive edge. In addition, IT executives should take advantage of their vendors' investment in innovation, looking for early opportunities to add more value by incorporating innovative products and services into their strategies faster and better than competitors do.

This shift to the next level of IT strategy will require changes in management and budget priorities, as well as multiyear planning, which less than two-thirds of our survey respondents acknowledge doing. Our experience shows that to use IT as a competitive weapon, a company must look beyond the annual planning cycle and take an integrated, midrange view of technology, competitive developments, and the strategic actions required to address them.

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