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Information technology is now more important—and more expensive—than ever. It desperately needs real leaders.

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What **global executives** think about technology and innovation

A survey uncovers shared perspectives on the challenges now facing companies, but IT execs must still sell tech innovation to business leaders.

Sam Marwaha, Parul Seth, and David W. Tanner

A recent McKinsey Global Survey of Business Executives¹ suggests that technology executives are more bullish about innovation and automation than are their business counterparts and see managing global scale and finding skilled people as two of their biggest challenges.

Our survey polled some 9,300 business and technology leaders around the world (Exhibit 1) on the most important trends affecting the global economy during

the next five years, particularly factors that could promote or constrain growth. Overall, business and technology executives see eye to eye: both identify the increasing pace of technological innovation, the growing affluence of emerging economies, and low-cost offshore manufacturing as the most important trends for global business. But opinions diverge when it comes to the importance of innovation as well as certain key management issues.

The importance of innovation

Eighty-one percent of the executives surveyed see technological innovation as a critical global trend. Not everyone sees it as a profit driver, however: 79 percent of CIOs and CTOs, but only 71 percent of their business counterparts, believe that innovation makes their companies more profitable.

This finding appears to reflect frustration among nontech executives about the IT organization's perceived inability to deliver tangible value to business. Most of the typical IT budget pays for IT operations and maintenance, with only about 10 to 20 percent allocated to initiatives that improve overall business performance. Since business executives tend not to see the overall results and impact of IT spending, CIOs must make information technology's business value more visible—and the costs much more controllable—so that IT isn't seen as a black box. Some tech executives are addressing these issues by creating standard IT "products" with clear price-performance options for business users and by establishing cost transparency programs (see "Unraveling the mystery of IT costs," in the current issue).

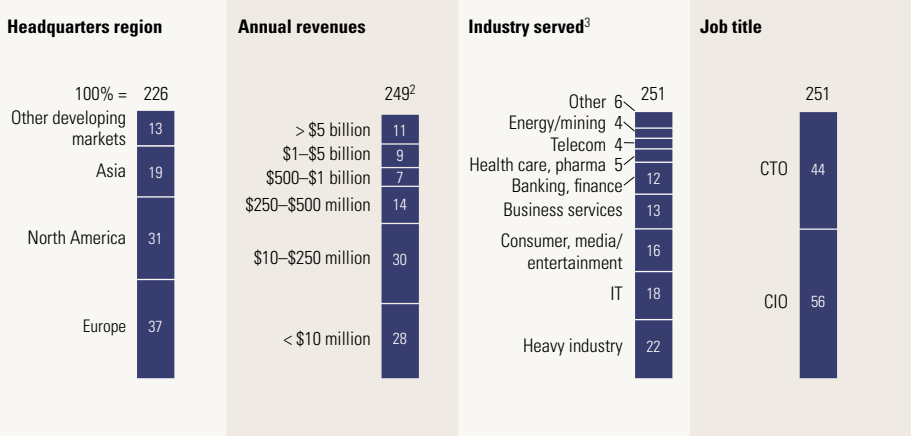
Technology executives in some regions and industries are more bullish on innovation than are their counterparts elsewhere.

¹Steven D. Carden, Lenny T. Mendonca, and Tim Shavers, "What global executives think about growth and risk," *The McKinsey Quarterly*, 2005 Number 2, pp. 16–25 (www.mckinseyquarterly.com/links/18113).

EXHIBIT 1

About the survey's technology leaders

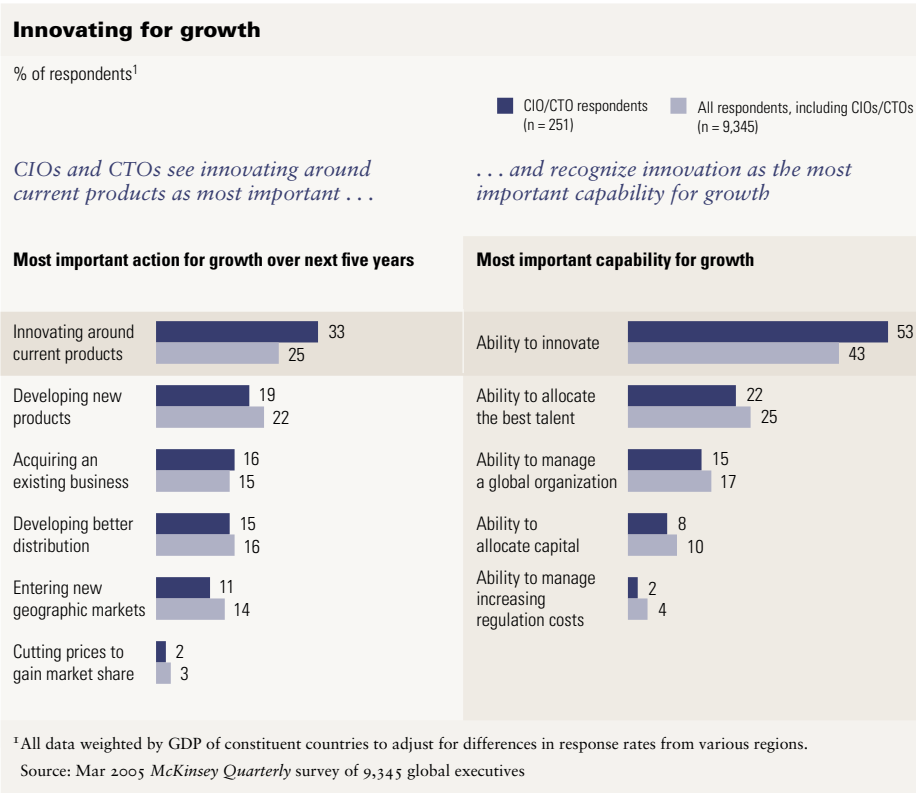
% of CIO and CTO respondents¹



¹Excludes respondents who did not answer, or for whom question was not applicable.
²Figures do not sum to 100%, because of rounding.
³**Banking, finance:** asset management, banking, financial services, insurance, private equity; **business services:** consultancy, legal; **energy, mining:** electric power/natural gas, metals/mining, petroleum; **heavy industry:** automotive, chemicals, construction/real-estate management, engineering, manufacturing, paper and pulp; **IT:** computers and technology, IT services, software; **consumer:** agriculture, retail/packaged goods, travel/logistics; and **other:** academia, nonprofits, public sector, among others.

Source: Mar 2005 McKinsey Quarterly survey of 9,345 global executives

EXHIBIT 2



executives—cite the ability to innovate as the most important capability for growth. It is interesting that 33 percent of technology executives see improving their companies’ current products as the key driver of growth—a significantly higher proportion than the 19 percent who favor developing new products. Among business executives, improving current products and developing new ones were rated as the most important way to grow by 25 percent and 22 percent, respectively (Exhibit 2). What’s the reason for these differences? Our hypothesis is that CIOs tend to be less involved with new-product innovation, in part because the traditional IT organization is seen as not moving fast enough to keep up with the iterative new-product-innovation cycle. CIOs have an opportunity to support innovation with a faster “try it, do it, fix it” approach, in addition to supporting incremental improvements to existing products.

Operational and managerial challenges

The best route to improving operating efficiencies, say 43 percent of technology executives, is to automate business processes. Only 29 percent of business executives share this judgment, while 30 percent instead give top marks to improving economies of scale (Exhibit 3). What lies behind this difference? Business leaders clearly have unpleasant memories of large IT-led automation projects, such as enterprise resource planning (ERP), that were long on costs but short on results, often because of a failure to address the necessary process changes fully and to develop the necessary skills. It is just as likely, however, that tech executives are biased toward IT-driven projects, while business executives are inclined to improve efficiency in other ways, including

In North America, 87 percent of CIOs and CTOs see it as a significant driver of profitability. A smaller proportion of Asian (77 percent) and European (74 percent) executives see a strong link between innovation and profits, perhaps because technological innovation tends to reduce the labor content of work, and labor regulations are tighter in Western Europe and Japan. And there is less pressure in the rest of Asia to optimize labor, since it is relatively cheap in that region.

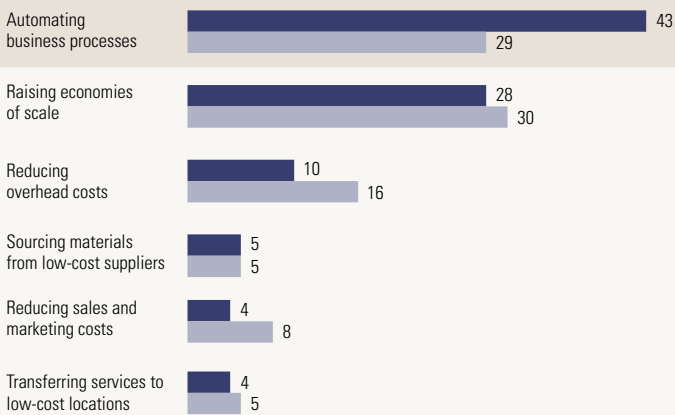
Fifty-three percent of CIOs and CTOs—compared with 45 percent of business

EXHIBIT 3

Efficiency rules% of respondents¹

■ CIO/CTO respondents (n = 251) ■ All respondents, including CIOs/CTOs (n = 9,345)

Which 1 of the following actions will allow your company to achieve the largest operating efficiencies during the next 5 years?



¹ All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions.

Source: Mar 2005 McKinsey Quarterly survey of 9,345 global executives

offshoring to lower-cost locations and driving scale through acquisitions.

CIOs must take a more integrated view of the sources of business value, addressing not just labor-saving automation but also the optimization of capital through practices such as outsourcing or offshoring. The IT organization as a whole should build stronger change-management skills.

All executives consider the cost and availability of talent to be major issues (Exhibit 4). Tech executives say it's their biggest managerial challenge. A higher proportion (44 percent) of Asian CIOs and CTOs than of their counterparts in North America (26 percent) and Europe (20 percent) rank this concern as a pressing one—no doubt because of growing demand for IT services in China, India, and other parts of Asia. Seventy-five percent of tech executives see the cost of talent as the most important constraint on growth, though Asian CIOs and CTOs also see increasingly sophisticated consumers as a major obstacle to it.

After talent, the issue most commonly chosen by tech executives as their biggest challenge was increasing the size and scale of their companies (25 percent); only 19 percent of business executives agreed with them. (CIOs and CTOs in smaller companies saw increasing scale as the biggest challenge overall.) Given the infrastructure challenges (such as managing e-mail across geographies) that IT executives face as their companies grow in size and global reach, this finding is hardly a surprise. As globalization intensifies, executives responsible for IT must not only manage different standards and tools across countries but also cooperate with

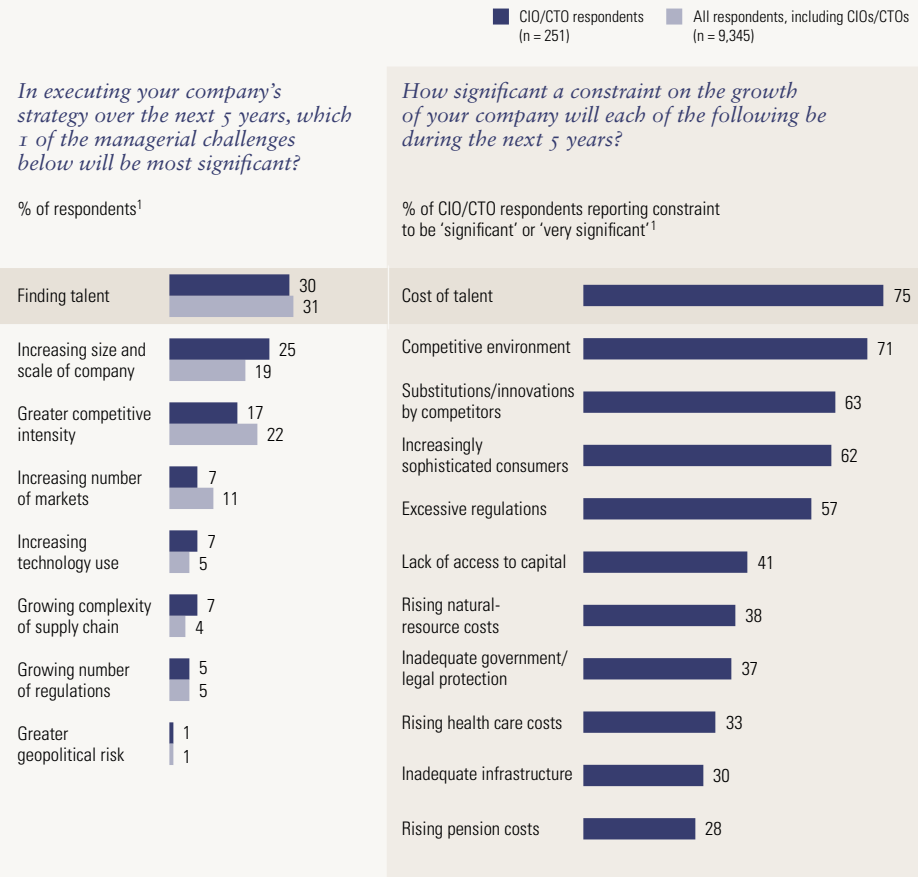
human resources and other functions so that companies can handle issues such as security and data access control.

The pace of technological innovation, an increasingly global economy, and the emergence of developing nations such as China and India are transforming the business landscape. Business and technology executives will better prepare themselves to capitalize on the new opportunities these changes present if they work closely together and leverage their different perspectives. **MolT**

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EXHIBIT 4

IT’s talent challenge



¹All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions.
Source: Mar 2005 McKinsey Quarterly survey of 9,345 global executives

