

IT Performance Management: The Framework Developing an IT Performance Management Program

February 2007





Executive Summary

In our *IT Performance Management: The Framework – Initiating an IT Performance Management Program* we described some of the ways to determining your organization's "readiness" to adopt a performance management program for IT. We also discussed the taxonomy from both the standpoint of the linkage between IT and the enterprise it supports and the structure of the IT impact areas, the measurement dimensions and what can be measured.

In *IT Performance Management: The Framework-Developing an IT Performance Management Program* we focus on the five (5) phases of the programs development including the building of your model, the KPIs and the use of Critical Success Factors as a guide to development of your program.

Part 2 ends with a description of the pitfalls that others have fallen into in their attempts at putting a program in place. While there is no way to guarantee that you can avoid all of these, it is easier to step around or over them if you know they are there.

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ITPMG Opinion

It is unfortunate that so many difficulties and so many problems exist or arise when attempting to institute the use of measurement as a means of improving organizational performance. So said, it is better to be aware of these than to blithely proceed based on the notion that everyone will readily accept the idea and assist in its implementation. To repeat from our prior Research Note, two of the most important things to recognize are, the level of senior management support, a most necessary ingredient for success, and the willingness of the organization's culture to use measurement as a management tool.

It is critical to attack the development and implementation of your performance improvement program with a simple, logical and repeatable model (See figure 1 below). As discussed in other Notes, the program should be as dynamic as the organization itself. This is necessary in order to sustain its value and that means being able to reassess old measures and develop new ones. A repeatable process is necessary to get this done.

Taking a minimalist approach to getting your program started will allow you to take a small bite of the elephant providing the best chance of having a short term success. This initial success will allow you to demonstrate measurable improvement at the selected point of attack and make the case for your next program step. To accomplish this success, carefully, and objectively, review your organization's performance from the standpoint of your stakeholders. Perhaps there is a user satisfaction study to refer to or direct feedback from your help desk manager to give you an idea of how users view IT's performance. From this information, or other sources, you will discover a particular area that is under performing. If this is an area that is under the control of those that you can enlist in the program, make it your focus. If it is not, look for another opportunity. The key is to find a manageable area of focus that is under the control of those that want to improve and will gain benefit from that improvement.

Once you have found the area of focus, ask one simple question, "If this area improves what will happen?" That sounds simple enough, and if you are thinking in terms of "outcomes", it is. With an understanding of what improvement looks like and what will result from the improvement, you will be able to determine the measures necessary to determine performance and success.



Begin with a Simple Model

Along with the established of your measurement framework you also want to have a simple and logical model to work from. The model should be obvious and easy to communicate without having to provide a great deal of explanation. Such a model is show in figure 1.

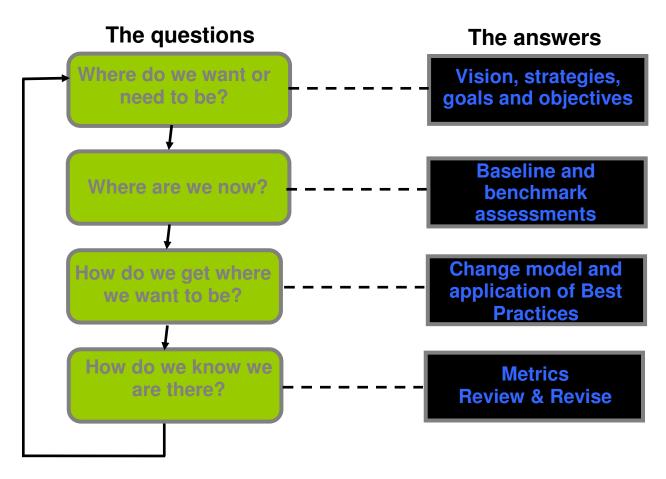


Figure 1: Common Continuous Improvement Model

The Five Steps/Phases of the Performance Management Program

The need to develop a programmatic approach to your development and implementation of the program cannot be stressed enough. A consistent approach will assure that you touch all the necessary bases and that you will be able to reuse the approach and train others on it.

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Our approach has been developed over the past 10 years and is based on input from leading practitioners in the field.

Planting in the living.				
Phase1	Phase 2	Phase 3	Phase 4	Phase 5
Specify / Clarify	\\Test / Develop	\\\ Automation	\\ Cascade	Embed / Renew
		>>		
	/ <u> </u>			
Tollgates	Tollgates	Tollgates	Tollgates	Tollgates
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- Establish clear	To at the Calcange	Data was a situation	0	II., I
	- Test the "change model"	 Data repositories identified 	- Cascading	- Measurement
program objectives	model	identified	structure determined	processes
Objectives			determined	integrated
	 Valid and reliable 	- IT systems		
- Articulate the	measures identified	aligned	- Strategy	- HR systems
strategy			communicated	aligned
	- Performance and	 Data extraction 		
- Establish the	results targets	tool selected and	 Cascade leaders 	- Objectives
"change model"	established	implemented	trained	reviewed/refined
- Secure Senior	- Measurement	 Scorecard tool 	- System of	- Strategies
Management	program leaders	selected and	measures linked	reviewed/refined
commitment	developed	implemented		
			- Measurement	- Models reviewed
		- Scorecard	behavior linked	and refined
		nonulated		

More often then not, people start with some form of Phase 2. While this can be done, it is necessary to return to Phase 1 in order to assure that the program will succeed. Phase 3 of the program is optional, however, as the program grows you will want to automate as much of the data collection and scorecard production as possible.

Questions to ask and answer about each program phase

Similar to the questions about the organization's readiness to adopt performance management, we have also developed a set of questions to ask and answer as you progress through the five phases of development and implementation. These questions are designed to help you understand what pieces might be missing from the completion of one phase before moving on to the next. Score the answers as follows:

No = 0Somewhat = 1 Yes = 2.

The probability of success based on the sum of the answers is:

High >49 Medium 25 – 49 Low < 25

Phase 1 Questions

1. If asked individually, would each member of the IT leadership team articulate the same objectives for the performance management program?

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- 2. If asked individually, would each member of the IT leadership team identify the same limited set of key drivers and expected outcomes underlying the business and change models being employed?
- 3. Are the concepts in the business and change models well balanced between results and drivers, between short and long-term objectives and across various stakeholder perspectives?
- 4. Have members of the leadership team defined the key concepts in the change models in terms of desired behavioral change?
- 5. Have members of the IT leadership team put their personal time and energy into the process?
- 6. Has a plan been developed for executing Phase 2 of the performance management program?

Phase 2 Questions

- 1. Has the change model been discussed and validated by a representative sample of employees outside of the executive suite?
- 2. Is there a measure associated with each of the key concepts of the change model that is:
 - a. valid
 - b. reliable
 - c. responsive to change
 - d. easy to understand
- 3. Does the final set of measures find a way to balance:
 - a. short- versus long-term results
 - b. leading indicators of success versus lagging outcome measures
 - c. the perspective of multiple stakeholders in the organization
- 4. Have clear performance targets been established for each KPI and measure, based on current performance and, when applicable, external benchmarks?
- 5. Are the organization's major "influencers" involved and committed to seeing performance management implemented successfully?

Phase 3 Questions

- 1. What percent of the raw data needed for measures is available electronically?
 - a. spreadsheets
 - b. local databases
 - c. corporate systems
 - d. business unit systems
- 2. Is the location of all raw data known?
- 3. Have the "owners" of the various raw data elements been identified?
- 4. Have persons been identified as being responsible for updating measurement data?
- 5. Does an extract, transform and load (ETL) tool standard exist?
- 6. Are there Business Intelligence tools already in place elsewhere in the organization?
- 7. Do scorecards exist in other parts of the organization?
- 8. Have IT's scorecard presentation formats been developed and agreed upon?
- 9. Has the scorecard distribution method been developed?
- 10. Has the scorecard distribution hierarchy been established?

Phase 4 Questions

1. Does IT management and staff understand IT's high level strategy and performance measures, and the relationship between the two?

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- 2. Is the IT leadership team directly involved in communicating the strategy?
- 3. Are senior leaders involved in reviewing both the supporting department's or group's scorecard measures and the rationale for how their managers will support the strategy?
- 4. Do functional and department leaders have a clear understanding of the role their group plays in supporting the organizational strategy?
- 5. Do middle managers have the tools, knowledge and skills to develop and implement the KPIs and measures for their organization?
- 6. Is a process in place for linking KPIs and other strategic measures, to department and group objectives and the workgroup, team or individual accountabilities?

Phase 5 Questions

- 1. Is there an established management process for reviewing, analyzing and acting on strategic information?
- 2. Do employees or teams have a set of accountabilities that are linked to their performance measures, which are then linked to the KPIs and other strategic performance measures?
- 3. Is there help for individuals to understand how their personal performance objectives relate to the KPIs and other strategic performance measures?
- 4. Is there a process that links the development, training and advancement of the IT staff's capabilities, to the strategic performance measures and strategic performance gaps?
- 5. Do managers have access to KPI results when they want and require them?
- 6. Are summary reports accurate, friendly, and structured to communicate results?
- 7. Are compensation systems and the measurement program aligned to "pay for performance" when performance results exceed expectation?
- 8. Are the change model, IT strategies and KPIs reviewed on a regular basis?

IT performance management model

As stated previously, there is a significant difference between IT performance measurement and IT performance management. The primary difference is the use of business strategies and business critical success factors to drive the development of KPIs. In order to accomplish this it is necessary to understand both the IT performance management model and the business performance management model.

The business performance management model requires a clear definition of the enterprise's *strategic intent*. The *strategic intent* is the enterprise's long term strategy for achieving its mission, goals and objectives. This strategy is communicated to all business units and should form the basis upon which the business unit develops its own near term strategy. By using this technique, each business unit will be aligned with the enterprise strategy.

From this intent, the core business processes will be identified in order to establish the business critical success factors which are then linked to IT strategies, initiatives, services, processes and operations. KPIs can then be established that reflect the performance of IT in each of these areas. An example of a business performance management model is shown in Exhibit 3.



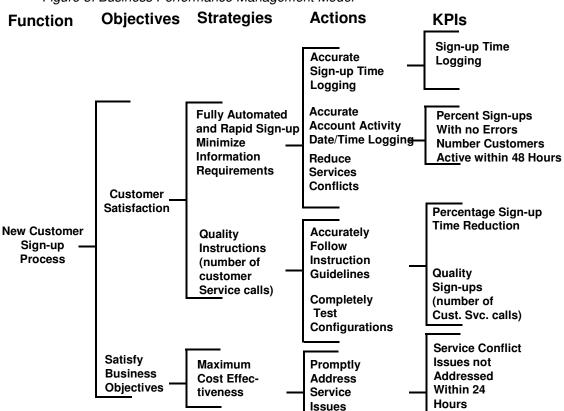


Figure 3: Business Performance Management Model

The IT performance management model is similar in form to the business model. Here, however, the focus is on IT's strategies and the means by which IT carries out those strategies. In this model the *function* is the area of measurement for which KPIs are developed. The *objectives* are the intended goals or results of the *function* and the *strategies* are the means of attaining the *objectives*. *Actions* represent specific projects, services, processes, etc. that will allow IT to carry out the strategy and attain the goal. Finally, the *KPIs* are the measures put in place to track results. *KPIs* represent a combination of financial and non-financial measures that provide both a retrospective and prospective view of performance and/or results. Figure 4 is illustrative of an IT Performance Management Model.

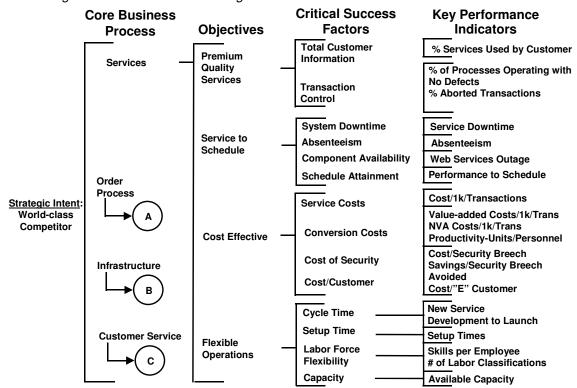


Figure 4: IT Performance Management Model

Critical Success Factors

Critical success factors (CSFs) focus attention on the key dimensions of performance that the enterprise must excel at if it is going to achieve its goals and meet customer requirements. Limited in numbers, CSFs emphasize the activities and processes that will have the most impact on performance and that will drive accomplishment in supporting areas.

For business CSFs there should be an emphasis on the reporting system at the organization's highest levels. This system needs to reflect the relative importance of the different aspects of performance, identified by the CSFs.

Typical enterprise critical success factors include:

- Producing products/services that customers perceive to be of the highest quality
- Designing new products/services quickly
- Keeping the cost of products/services low
- Responding quickly and fully to customer requests

Within the IT performance management framework it is necessary to develop IT's critical success factors based on those of IT's stakeholders. While IT's CSFs will be different than those of the stakeholders, they should be developed in support of stakeholder CSFs in order to assure alignment between IT strategies and initiatives and the goals and objectives of the constituencies they serve. When IT either does not develop CSFs or develops them without understanding stakeholder CSFs, there will be a misalignment between IT investments and activities and the needs of the business.

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Typical IT critical success factors include:

- Ensuring that core business processes operate with minimal disruption
- Providing a software development life cycle that provides for rapid service development with the highest quality of deliverables
- Optimizing IT service delivery
- Responding quickly and fully to customer requests

Key Performance Indicators

KPIs differ from other IT measures in that they are driven "top down", are few in number and direct attention to what and how improvement needs to be accomplished. KPIs are often aggregate measures composed of underlying operational, financial and quality metrics. They are the quantifiable performance measures that make the critical success factors actionable and understandable. They allow the organization to monitor and communicate performance continuously against desired results. Essential characteristics of KPIs and the questions they suggest include:

Characteristics

- They are linked to strategic objectives
- The measured results are controllable
- The measures can be acted on
- The KPI can be accurately measured
- They are simple and few in numbers
- The measures are credible
- The measures are integrated

Related Questions

- Can the measure be aligned with an objective or specific customer value?
- Can results be controlled or significantly influenced under a specific span of control?
- Can action be taken to improve performance on the measured dimension?
- Can the desired performance measures be quantified in a meaningful, realistic way?
- Can employees explain the desired performance measures easily and clearly?
- Do the measures focus employee attention on key areas?
- Are the measures resistant to manipulation?
- Can the measures be cascaded or linked down through the organization?
- Are they compatible with related processes/functions?

To be effective in coordinating and directing action within the IT organization, KPIs must reflect a balance between cost, quality, time and the other measurement dimensions previously discussed. Balanced measures provide insurance against dysfunctional behavior by visibly tracking relationships that could be manipulated to reach desired ends. For example, achieving a cost objective can result in impaired quality or service delivery unless cost improvements can be compared to their impact on other critical strategic imperatives. An IT organization's desk side support operation shows how these issues are played out through a well-balanced set of KPIs. Key dimensions of performance and related measures for this type of operation might be:



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KPI

- Timeliness
- Quality
- Cost

Related Measures

- Percent repairs completed in < one hour
- Number of hardware troubles
- Support cost per desktop

If only one of these dimensions were measured it could result in some very undesirable consequences. For instance, an overemphasis on timely repair might cause support personnel to rush and ultimately fix one problem, but leave another untouched. Unintentionally, it might mean users with other issues or problems don't get their questions answered because the technician is responding to another trouble. In both cases, it is likely that costs would ultimately be driven up. If, instead the measures placed an overemphasis on eliminating hardware problems, it is quite likely costs would increase and the probability of users being inconvenienced would increase as hardware is taken out of service. Only by keeping all three measures clearly in sight (visibly linking the interrelationships among the CSFs) can an IT organization reduce or eliminate undesirable consequences.

Balance is not the only issue that is addressed in the development of the IT performance management framework. To achieve the strategic objectives, an organization must focus on identifying the right KPIs as well as on placing the proper amount of emphasis on each measure. Within the framework the areas to focus on when defining critical success factors and their corresponding KPIs include:

- What are the cost drivers in today's business and where are they controlled? If your company does a poor job identifying actual cost drivers, then it will be very difficult to develop effective KPIs.
- Which factors have the biggest impact on cost? KPIs target those areas where improvement is needed the most and the resulting impact will be greatest. Some areas that might be explored would be service development, IT infrastructure and labor.
- What are the major problems in the process or organization that act as barriers to meeting performance objectives? Problems such as excessive or unplanned downtime, absenteeism, and employee retention or over time and over budget projects can inhibit or prevent the attainment of strategic objectives.
- What things must be done correctly in order to maintain current levels of customer satisfaction? Specifically, the organization needs to understand what its customers like best about its services and what they like least. This provides the ability to focus attention on the areas of importance and not expend resources on those areas, which will not result in an increase in customer satisfaction to the largest constituency. This is particularly true when considering the outsourcing of any services.

There is no shortages of pitfalls to watch our for

There can numerous hurdles and stumbling blocks on the path to the development and implementation of your IT performance management program. In all likelihood you will trip over a few of these. Hopefully being forewarned will equate to being forearmed.

When developing KPIs

1. Measures Not Linked to Strategy from Above - Critical to do initially, but also revisit when either the organizational strategy or structure changes

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- 2. Measures Not Driven into Organization from Below Breaks the linkage with overall strategy. Should be driven into staff performance agreements at all appropriate levels.
- 3. Too Many Measures Creates lack of focus on what is really critical to managing the business (includes compliance-related measures.)
- 4. Not Enough *Critical* Measures You could be missing information vital to operations 5. Focusing only on the Short-term A cross-section of past (lagging), present and future measures is critical.
- 5. Conflicting Measures Sub-optimizes staff or organizational performance. Example: Measuring reduction of office space per staff member while also measuring staff satisfaction with facilities.

When monitoring progress

- 1. Measuring Progress Too Often Could result in unnecessary effort and excessive costs, resulting in little or no added value
- 2. Not Measuring Progress Often Enough May not know about potential problems until it is too late to resolve easily.
- 3. Collecting Too Much Data Could result in a mountain of data that really doesn't tell us anything more than a lesser amount of the same data.
- 4. Collecting Inconsistent, Unrepresentative or Unnecessary Data Critical to understand what the data will look like, when it will be collected, at what frequency, by whom and what it means, *up front*.

When evaluating data

1. "Dumbing the Data" (i.e., reducing the value of impactful data) - Too much data roll-up (summary) can mask the impact of potentially significant events or trends

When determining improvements

- 1. Driving the wrong performance Be careful that the measure(s) you select will result in the desired result. Remember the "law of unintended consequences".
- 2. Encouraging competition and discouraging teamwork Measuring vertically (stove piping) frequently pits one internal organization against the others. Try to measure horizontally.
- 3. Failure to base business decisions on data Developing performance measures or collecting data only to comply with a requirement does nothing to improve the position of the department, organization or enterprise

There are a few things that will help to make you successful

- 1. View value through the eyes of the customers and measure IT in terms that are meaningful to them
- 2. Use organizational critical success factors to focus the measurement process
- 3. Establish clear linkages to provide a visible chain of evidence to current agency value
- 4. Measure IT capability and agility to add future value
- 5. Communicate the results to all stakeholders





Summary

There is much to be gained from the use of measurement as a management tool. The application of measurement within the context of a continuous improvement program replaces "gut feel" with fact based information. The use of KPIs provides a focus on what is most important to the organization and allows everyone to view performance from an objective and positive point of view.

The mere exercise of thinking through the various elements of the program will result in the development of a new perspective on how performance is viewed and what "results" really represent to the various constituencies of IT. Thinking in terms of "outcomes" rather than "operations" will cause you to see things more as your user sees them. The concept of the "value of IT" becomes clearer and more definable when measurement can be applied.

This is a journey worth taking, but it is critical to begin the journey with the understanding that everyone in the organization has a stake in the outcome and that most everyone wants to improve. In the words of Dr. W.Edwards Deming, "Measurement without the opportunity to improve is harassment!"



What can ITPMG do for you?

At ITPMG we are fully focused on working with organizations in their pursuit of continuous improvement and best-in-class performance. The known benefits gained by *Measurement-Managed Organizations* are available to you and your IT organization.

ITPMG's techniques provide CIOs with the assessment and communications tools needed to "talk" to the CEO, CFO and business partners in terms that relate to their business. The illusive "value of IT" becomes clear to both the IT organization and IT's stakeholders. Decision-making evolves from "gut feel" and "squeaky wheel" reactions, to an objective and quantifiable process. When IT applies the right set of Key Performance Indicators positive things happen:

- Management attention becomes focused on those areas where IT has significant impact
- IT value is seen from a business perspective making it easy for business managers to understand
- A forward-looking perspective comes into focus through the use of IT readiness indicators

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