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Helping Companies Improve Their Performance

IT Performance Management

The Basics

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"Major failures in business come not so much from unmet goals, as from lack of response to unforeseen changes." — O.L. Duff

We recognize that there are four primary imperatives that CIOs are focused on today: 1) increased agility, 2) increased quality, 3) knowledge management, and 4) reduced cost. These imperatives are not new, and the emphasis on any particular one changes based on economic and business conditions. What is new is the increased focus on the investments made in IT and the concomitant value that these investments were purported to generate.

The CIO is now faced with the contradictory notions of having to provide IT services "better, faster and cheaper" and at the same time provide more or additional services that will positively impact the business through increased productivity, faster time to market and increased market share.

These imperatives and demands have given rise to the increased need to measure the performance and outcomes of the IS organization and the services it provides. Performance management is no longer optional. It has become a new discipline that leaders at all levels in the organization need to embrace. Those that do will gain significant leverage in aligning their efforts with their stakeholders and in implementing strategies that result in transformational and sustainable improvements in performance.

"You may be on the right road, but if you're not moving fast enough, you'll get run over!"— B. Baker

The investment in IT continues to increase dramatically, driven by the rapidity of business change necessary to remain competitive.
Where once IS management drove the pace of change, today the customer is in control and will seek alternative sources of supply if the IS organization fails to respond or does not respond well enough.
In the face of this change, the command and control measurements used by most IS organizations do not communicate information that is understood by, or of great value to, the IS customer.
Performance management systems must provide measurements that communicate the value and effectiveness of the services being provided. In addition, they must also allow the IS organization to predict, prepare for and prescribe the next challenges and opportunities that will face the enterprise.

"One thing is crucial to success in service, finding out who your customers are and what they expect."— O. Bjellandin

Why has it been so difficult to measure and express the value that IT brings to the business? Principally because, in most instances, IT is an enabler of business processes, not the outcome of the process nor the product or service being delivered.

A beginning step in the development of the IT performance management program is the identification of IT's role as an enabler of both the strategic and operational requirements of the business. This role can be different across multiple business units, making the CIO's job even more difficult and establishment of the "right measurements" even more confusing.

The IS organization's historical reaction to this problem has been to focus on operational metrics or not to use measurement at all. Both of these responses are no longer adequate, and as the investment and dependence on IT continues to grow, there will be increasing pressure to demonstrate both the competence of the IS operation and the value that IT investments bring to the business.

"The conversation taking place between the average business manager and the IT professional is often two independent monologues.."— P. Keen

A second and equally important step in developing a performance management program is to recognize what is getting in the way of effective communications with the business partners.

Peter Keen has described the conversation between the average business manager and the IT strategist as consisting of two independent monologues. This lack of clear communications makes it difficult for the IS organization to determine what measurements are important to the business. The typical outcome of this problem is the IS organization's continued use of measurements that are expressions of failure rather than those that communicate the contribution being made. This also occurs because the job of establishing measurements often falls to a surrogate of the CIO whose frame of reference is the IS operation. This may satisfy internal IS organization needs, but these measurements communicate neither efficiency, effectiveness, quality nor value to the stakeholders. All other operations within the enterprise communicate in the language of the business. Their measurements are understood by all and communicate the performance of that organization in relation to the overall performance of the enterprise. New performance management programs will create measurements based on consensus within the work group and the value they impart to the customer. These measurements link IT outcomes to enterprise objectives.

"The measure of success is not whether you have a problem to deal with, but whether it's the same problem you had last year."— J. F. Dulles

Among the most salient differences between performance measurement and integrated performance management is the ability to develop and apply measurements to determine the "causal factors" of performance. Current operational performance measurements need to be included within the integrated performance management systems, as they provide the diagnostic baseline that is the underpinning to the IS organization's key performance indicators. These diagnostics often provide the internal and external benchmarks for comparison to targets and best-in-class performance.

The second major difference is in the linkage between measurements and the stated objectives, strategies and goals of the enterprise. Measures that provide these links must be "derived" through a collaborative process between the IS organization and the IS organization's customers. The derived measurements must also be able to connect vertically within the IS organization and horizontally across other parts of the enterprise.

"An executive is by profession a decision-maker. Uncertainty is the opponent. Overcoming it is the objective."— J. McDonald

There are four reasons for measuring processes, products or services and resources:

To characterize is to describe, to gain understanding and to establish baselines for future comparison. This is measurement in its purest sense.
To evaluate is to determine status with respect to plans. Measurements are the observations that reduce uncertainty and that let us know when projects and processes are not meeting targets, so that we can bring them back under control. We also evaluate to assess achievement of quality goals and to assess the impact of improvements.
To predict and prepare: to predict so that we can plan and prepare. Measuring for prediction involves gaining understanding of relationships and building models of these relationships, so that the values we observe for some attributes can be used to predict others. We do this because we want to establish achievable goals so that appropriate resources can be applied. Predictive measurements are also used to extrapolate to reveal trends.
To improve: to identify roadblocks, root causes, inefficiencies and other opportunities for improvement. Measurements help plan and track improvement efforts. Measurements of current performance provide baselines to compare against, so that we can judge whether our improvement actions are working as intended and what the side effects may be.

"Everything should be made as simple as possible, but no simpler."— A. Einstein

What is performance management?
By Definition: Performance management is an ongoing process focused on the priorities of the enterprise and on improving results through a management system linking strategic objectives, core enterprise strategies, critical success factors (CSF) and key performance indicators (KPI).
In Principle: Performance management is a management tool. The focus of management is directly related to the priorities of the enterprise, and the enterprise is constantly changing. A functional performance management system must be able to change and evolve.
Performance management is focused on the requirements of the key stakeholder. Today, the key stakeholder is the customer; therefore, performance management must be focused on meeting the needs and expectations of the customer.
Performance management makes strategic objectives clear, focuses on core processes and critical variables and signals where performance is headed, providing an unambiguous basis for assessing and rewarding behavior.

"The great thing in this world is not so much where we stand, as in what direction we are moving." — O.W. Holmes

What is performance management?

In operation: a consistent, structured approach and methodology used to evaluate the outcomes of IT activities, practices and processes at all levels of the IS organization.

Results provide insight into the actions taken by management that both positively and negatively affect the performance of the organization, thereby enabling the continuous improvement process.

Performance management provides the capability to identify critical areas of need, develop the actions necessary to address those needs and assess the results of those actions in the pursuit of continuous improvement and world-class performance.

"It ain't so much the things we don't know that get us in trouble. It's the things we know that ain't so."— A. Ward

IS organizations wanting to create a performance management program that is both inward and outward facing (measurements used to communicate to business partners and those used within the IS organization) must include a view of business goals and objectives.

The most effective manner to determine the business unit CSFs is to engage business management through the use of facilitated workshops. The workshop is not focused on IT, but rather, it is an opportunity for IS management to listen to their business partners discuss what is most important to them to attain their business goals and objectives.

The information gathered at the business workshop is later brought into a second workshop for the IS management team. Business CSFs are revealed here and the group then reviews the areas that the IS organization is focused on to determine if the IS organization and the business unit are in alignment.

The workshop leads to the prioritization of IS organization activities and to the eventual development of the core set of measurements that are going to be tracked at all levels of the IS organization. Business-facing measurements will also be developed.

It is extremely important to develop these measurements through consensus to get "buy-in" from the entire organization.

"There are three kinds of lies: lies, damned lies and statistics."— B. Disraeli

Within the enterprise, there are three traditional categories of measurement: efficiency, effectiveness and quality. These same measurements apply to the provisioning of IT services and need to be expressed in terms that the enterprise can relate to and that can communicate the fourth measurement category, value.
To accomplish this, we build the measurement pyramid from the top down.
First, we establish the enterprise's CSFs. These are the primary performance objectives at which the organization must excel to achieve its goals and meet customer requirements.
Once the CSFs are understood, we build a comparable set for the IS organization that support those of the enterprise.
Next, we determine what the KPIs are that allow us to measure the results of actions taken in support of the CSFs. KPIs are quantifiable performance measurements, linked to key strategies and objectives, that assist the organization in monitoring and communicating performance against targeted or desired results.

"There is nothing so useless as doing efficiently that which should not be done at all."— P. Drucker

Every organization is different, depending on the priorities of the enterprise and the state of the organization. Because of this, no single set of CSFs or KPIs is right for all organizations. Rather, look at these as categories with the idea of a balanced approach to selecting those specific measurements that meet the current set of needs.

Borrowing from the Kaplan and Norton Balanced Scorecard, develop a small number of CSFs within the four perspectives. CSFs should be limited in number and focused on those activities and processes that have the greatest impact on performance and that will drive accomplishment in the supported areas.

KPIs are the quantifiable performance measurements that make the CSFs action-oriented and understandable. A number of characteristics differentiate KPIs from the other measurements and metrics used by the IS organization. KPIs should be: 1) linked to strategic objectives, 2) controllable measurements, 3) measured results that can be acted on, 4) accurate, 5) understandable by employees, 6) focusing attention on key areas, 7) resistant to manipulation, and 8) able to cascade up and down within the IS organization and horizontally to other areas of the enterprise.

Like CSFs, KPIs should be balanced to ensure against dysfunctional behavior.

"Measurement without the opportunity to improve is harassment."— E. Deming

Measurement systems fail because they try to measure too many things at the wrong levels in the organization. Performance management programs will fail for the same reasons.

As organizations have discovered, the need to measure performance is relative to meeting customer needs and expectations, so too have they realized that improving the performance of a work team has more impact than any individual's improvement. In an older paradigm, the individual might improve his or her part of a process without understanding the impact on other aspects of the process. In the new model, work teams own a process from end-to-end and take responsibility for overall improvement.

The work-team level is the best point of entry for a new system. An empowered work team knows the process best, and given the correct focus by management (CSFs), can have the greatest impact on performance improvement in the shortest time.

Work team KPIs should be linked to the performance review process. This linkage provides "line of sight" for the individual in understanding his or her own performance relative to his or her growth and compensation. Performance management programs should provide everyone with the best opportunity to succeed. With that success, the enterprise also succeeds. There is usually a good correlation between employee satisfaction and customer satisfaction.

"A strategy without metrics is just a wish. And metrics that are not aligned with strategy are a waste of time."— E. Powell

KPIs are a unique form of measurement in that they need to provide insight into results, as well as direct the actions of the organization, up and down the management chain. Additionally, KPIs are able to move horizontally within the enterprise which helps coalesce the work force around a common set of goals that lead to excelling at the CSFs previously defined.
Because KPIs are linked to objectives and strategies, there are necessarily far fewer than the sum total of all IT performance measurements. Ideally, you should track between eight and 15 KPIs. Never try to track more than 20 KPIs on any one IT scorecard.
As strategies and objectives change, your KPIs will also change. Because of this, there needs to be a methodology behind selecting KPIs to ensure that they remain relevant and useful to the organization. The methodology must include a means to assess where the data comes from, its availability, how long it will take to collect and how often it must be collected. Finally, the methodology should assess the accuracy of the data, how often it needs to be reviewed and how it will be displayed.

"Human nature causes us to respond to that which we are measured by."— M. Bitterman

Once your team has selected their candidate KPIs, they need to be scored to confirm their viability, practicality and usefulness. The initial scoring should eliminate candidates that fail for practical reasons. This is only the first set of questions to be asked. After this first round of "confirming" the KPIs, your candidate list should begin to be reduced so that only those measurements that will have the greatest impact begin to emerge.

A second round of scoring determines the KPIs' alignment with strategies and objectives.

Round three focuses on the KPIs' capability to measure the processes and/or services that are under scrutiny, and round four rates the KPIs relative to their content.

Completing the scoring process will meet two major objectives. First, the list of KPIs will have been winnowed down to those that are most appropriate.

Second, the KPIs will have been prioritized by virtue of each KPI's aggregate score.

Each organization should establish its own list of questions for scoring, but must go through this process to ensure that the best set of KPIs is established for the enterprise.

"That which is measured becomes visible." — Anonymous

A system for tracking your measurements needs to be established. A review of an existing measurement tracking system may suffice with some minor changes, or a new system may be put in place. In either case, the system needs to allow for setting targets and tracking progress toward goals. The system can also provide for "output" to represent measurements graphically.

To get going on your KPI development and KPI scorecard, identify the areas of focus and improvement (CSFs).

Select KPIs that will improve financial, operational or service performance.

Establish the current baseline and establish the target ranges and performance periods. Caution: Never put the baseline at zero, since it is possible for performance to get worse before it gets better.

Implement a tracking system and the set of graphical outputs that will best communicate results.

Periodically, assess the internal metrics against a broader (external) population.

Identify best practices/processes for leaders and process improvement programs for laggards.

“If you don’t measure it, you can’t manage it.”— L. Bergstrom

The IT scorecard becomes the communications vehicle for the organization. Results are posted or fed from the tracking system and displayed in the most appropriate forms.

An understanding of the CSFs that support improved performance allows for the development of the right set of KPIs, and subsequently, the right set of measurements and metrics. “Cause-and-effect” linkage between the KPIs and objectives can be formed to ensure that results can be tracked back to their causal factors. This turns your measurements from being reactive and postscriptive to predictive and prescriptive.

The guiding principal behind the use of the IT scorecard and the integrated performance management system is to establish and maintain a continuous-improvement approach to the provisioning of IT and ensure it is used to best accomplish the goals and objectives of the enterprise. Scorecards must focus on what is driving results and provide people with the ability to quickly take action to improve performance. This becomes the basis for making fact-based decisions. Integrated performance management provides the ability for every employee to understand how his or her job impacts the goals and performance of the organization.

"If you're not keeping score, then you're just practicing." — V. Lombardi

Rapidly changing technology, coupled with increased levels of investment, greater customer demand and higher customer expectation, drive the need for continuous improvement, and thus the need for an integrated performance management system. Enterprise management has a need to obtain key indicators of performance, methods to impact results and a means to communicate efficiency and effectiveness to the balance of the organization.
Performance management done well and integrated across processes can support the attainment of the organization's and the enterprise's strategic and operation goals. Measurement done poorly can be a disincentive and can stimulate or even create the wrong behavior.
Linking performance measurements to strategic goals (top-down) and to the realities of the operation (bottom-up) invests everyone in achieving better outcomes. An integrated performance management system acts as a communications conduit between individuals, work teams and management at all levels of the enterprise, providing the best opportunity to increase customer satisfaction and meet customers' expectations.
Markets will become more competitive and customers will become more demanding. The importance of performance measurements will increase as a means of response.

Contact ITPMG today to get a better understanding of how your organization can benefit from implementing or upgrading an IT performance management program:

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