



Helping Companies Improve Their Performance

**IT Performance Management: The Framework**  
**Initiating an IT Performance**  
**Management Program**

**February 2007**

## Executive Summary

This Insights Note will provide you with instruction in initiating an IT Performance Management Program by guiding you through a number of steps necessary to determine what type of program is suitable to your organization. This note will also explain where the pitfalls are and give you a number of “tests” that will help you to determine your groups “readiness” for an IT Performance Management Program. This Note provides an introduction, an overview and the taxonomy that we have developed through many years of experience. The second part will explain the program’s five phases, the program model and more about Critical Success Factors and Key Performance Indicators.

## ITPMG Opinion

Your intent to develop, implement and operate an IT Performance Management Program for your organization is founded on the best of intentions and the notion that performance must be measured in order to improve. It is the same intent that many others have had, but for one reason or another, have not been able to accomplish. Why is that?

There are two primary reasons why performance programs fail, and this is true for all parts of the enterprise, be it Sales, Operations or IT. First, when senior management is not fully behind the program it is almost doomed to failure or at best, it becomes a “reporting” mechanism for some form of “past performance” information. Management must be prepared to “invest” in the program both in terms of resources and personal involvement. If each time a meeting regarding the program is held, senior management sends their proxy, you can almost be certain that they are like the chicken rather than the pig in ham and eggs. The chicken is “involved” the pig is “committed”.

Second, the culture of the organization must be at least understood, if not prepared, for the use of the system in the real life of the organization. If prior experience with the use of measurement has failed or been mis-applied, there will be increased cultural resistance to its use today. If measures are dictated from the top down, there will be little “buy-in” on the part of the staff as to the relevance, use and importance of the measures. While many will smile and agree, they will also ignore the program as one more administrative burden that will “go away” when the next winds of change blow through the organization. This is particularly true of government IT organizations which have learned from experience that waiting for the next election cycle will take care of the problem. The most insidious of all cultural challenges is the “passive resistance” encountered and the inability to recognize and remedy it has proven the downfall of even the most energetic practitioner.

We cannot address nor solve all these issues here; however, we can make you aware of them and provide the means by which you can recognize them. To be forewarned is to be forearmed.

## A Further Introduction

The framework document for IT Performance Management is written to facilitate the process of designing and implementing an integrated IT Performance Management Program. ITPMG’s structured approach is based on the principles of participatory management and as such strongly recommends the involvement of decision makers at all levels of the IT organization and when appropriate, business unit management and stakeholders as well.

The objective of this framework is to establish the key phases in implementing an integrated performance management program. The framework includes tools and techniques that will facilitate these efforts. The framework also cites the common success factors that guide the process, and the common pitfalls.

Contained in the following are also a number of “tests” that you can take or administer in order to inform yourself of many of the management, organizational and cultural hurdles that may be in your way. While not professing to solve these issues, we feel that your being aware of them will better prepare you for dealing with them as they arise.

There are a number of external drivers that have given rise to the increased need to measure the performance and outcomes of the IT organization and the services and value it delivers. Performance management for IT is no longer optional. It has become a new discipline that leaders at all levels in the organization need to embrace.

The most basic benefits derived from *measurement* are the opportunities to increase one's knowledge and at the same time to reduce uncertainty thereby increasing the accuracy of your decision-making and thus, reducing risk. This is accomplished through the process of making *observations (viz.measurement data)* made in measurement and processing these observations into information. As discussed in early Notes, there are four forms of observations that result from the measurement of your IT organization's performance, processes, products/services, resources and value:

**Characterization:** is to describe, to gain understanding and to establish baselines for future comparison. This is measurement in its purest sense.

**Evaluation:** is to determine status with respect to plans. Measurements are the sensors that provide the signals when projects and processes are not meeting targets, so that they can be brought back under control. We also evaluate to assess achievement of quality goals and to assess the impact of improvement.

**Prediction and preparation:** to predict so that you can plan and prepare. Measuring for prediction involves gaining understanding of relationships and building models of these relationships, so that the values observed for some attributes can be used to predict others. This is done because you want to establish achievable goals so that appropriate resources can be applied. Predictive measures are also used to extrapolate to reveal trends.

**Improvement:** 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 improvement actions are working as intended and what the side effects might be.

A primary goal of the performance program is allow for observations to be made, causal relationships between results and their concomitant activities established and improvement to take place.

Performance management provides a systematic link between organizational strategy, resources and processes. It is a comprehensive management process framing the continuous improvement journey, by ensuring that everyone understands where the organization is and where it needs to get to to meet stakeholder needs. Performance measurement is an integral part of performance management, but it is not enough simply to measure. Performance measurement in isolation is incomplete.

Traditional approaches to performance measurement for IT have not provided significant value for several reasons:

1. Traditional IT measures of performance usually do not help to identify or increase understanding of the core issues driving current performance

2. Traditional IT output measures alone are incomplete as management tools because they fail to tell managers *how to improve*
3. In almost all cases measures are *retrospective* rather than *prospective* and while knowing the score is extremely important, being able to impact the outcome is even more so
4. Stakeholders do not find IT measures to be informative and because senior IT management is trying to relate to stakeholders, they do not hold these metrics in high regard
5. Traditional methods of performance measurement report *results*, but are rarely linked to *cause*

These weaknesses in traditional IT performance measurement have driven IT organizations to implement an integrated performance management framework that, when implemented, brings a number of major benefits:

1. Integrated performance management assists in the deployment and institutionalization of the IT strategy
2. A performance management program provides the focus for and measures the success of a continuous improvement program and/or improvement efforts
3. A well designed and implemented program can coordinate efforts across key management processes by providing a well defined set of objectives and/or targets that *empower* work teams
4. The integrated performance management program creates the links between the efforts it measures and the achievements it rewards
5. An effective performance management program helps the IT organization gain and sustain a competitive advantage by keeping everyone, at any level or in any job, focused on the organization's goals and objectives

The framework for your company's IT performance management program will encompass all of IT, linking strategic objectives, core business strategies, critical success factors and KPIs. The IT performance management program is an ongoing process that focuses priorities on results, integrates measurement with performance, facilitates analysis, rewards improvement and defines and reinforces what is most important to the enterprise.

## The Initial Decisions and First Steps

Measurement is at the heart of the organizational process. What is measured becomes visible, what is rewarded gets done. Measurement can define the playing field for the IT organization indicating how well the organization is playing the competitive game and linking past, present and future actions into a cohesive whole. The organization's values, strategies and progress are reflected in what it chooses to measure and how those measures are employed to influence behavior.

It is necessary in establishing the organization's measurement model to make a number of definitive choices regarding the use of measurement. Historically IT has used measurement for command and control purposes. This has translated as a ubiquitous *performance measurement program* that is focused on past performance and results of internal IT operations. The companion to performance measurement is *performance management*. In performance management the focus

is placed on using measurement as a management tool empowering staff to plan and predict outcomes rather than view outcomes in the past. In performance management performance is measured against key customer requirements, is focused on core processes and services, and a set of critical variables. Performance management signals where performance is headed, identifying which critical factors require attention.

A necessary first step in developing the measurement delivery framework is to decide whether performance measurement or performance management is to be established. This is not to say that, depending on your organization’s current state and objectives, either approach is correct or incorrect.

***Determine What is Important for you Organization***

In the table below are qualities associated with the outcomes of the measurement process. Determine which of these is important to your organization and whether current measures deliver the desired value and information.

Quality of Measures	Current Measures Provide ✓ or X	Desired Measures to Provide ✓ or X
<b>1. Measures communicate how to improve?</b>		
<b>2. Measures identify core issue driving performance?</b>		
<b>3. Measures are retrospective?</b>		
<b>4. Measures are prospective and/or predictive?</b>		
<b>5. Measures provide information about results?</b>		
<b>6. Measures provide information about the causal factors associated with results?</b>		

If the only “✓” is in row three for your current measures, you are probably employing a performance measurement approach. If in the second column you did not “✓” all the rows, then a performance measurement approach is probably sufficient for your organization’s requirements.

***Measurement Direction and Support***

Another decision that needs to be made prior to establishing the measurement program is who the targeted audience will be. IT measures directed at internal IT staff differ significantly from those measures implemented for purposes of communicating IT performance, IT value or IT impact to customers. Most performance measurement and performance management programs begin with an internal, IT focus and evolve to a more customer-oriented focus as the IT staff becomes adept at running the program.

It is also important to understand where the support for the measurement program resides. If support is only from within the IT organization it becomes more difficult to implement measures that relate to and have value for business partners and customers. If support within IT is not coming from the most senior levels, it is also difficult, and sometimes impossible, to establish and sustain either a performance measurement and/or performance management program.

***Additional Questions to Ask and Answer***

1. What is the scope of the program?  
Enterprise, business unit, corporate IT, infrastructure, development, all services, all processes, etc.
2. Is the program being established in isolation or is it a part of a broader initiative?
3. Who is the audience for the program?  
All IT staff, IT senior management, business unit management, enterprise, etc.
4. What are the goals and objectives of the program?
5. What is your vision of outcomes of the program over the next 6 and 12 months?
6. What resources are being offered for developing, implementing and sustaining the program?

Questions four (4) and five (5) above are two of the most important and should be given considerable thought and reflection. Gaining a common understanding of the program's goals and objectives is critical for you to know and even more important for you to communicate to those that will be effected by the program. Everyone needs to understand why this is being done and that understanding should be based on the concept of *continuous improvement*. We have never met an IT professional that has said that their IT organization is as good as it can ever be nor one that has gotten up in the morning and told themselves that they were going to work today and try to do the *worst* job possible. Most everyone agrees that improvement can always be made and most want to be a part of that improvement.

The second of these two questions really is the first of your opportunities to begin thinking about predictive measures. The development and implementation of performance management should manifest itself in some measurable change within IT. These changes could be in quality of service, process improvement, reductions in development time and increase in applications quality, et al. The point is that change should occur and you need to begin thinking about what that change will look like. Once you determine what that change will be, it is necessary to understand what the drivers of the change should be. Those drivers can be measured and once their baseline is known, a target can be set and progress toward the target can be measured.

With the above questions answered and the above decisions made, it becomes clearer as to what direction your performance measurement or performance management program will take. This clarity is necessary to avoid missteps so often taken when establishing metrics and measures for the IT organization.

In order to effectively and efficiently build an IT performance management program, the IT organization must have an overall *measurement framework*. This framework defines the scope and focus of measurement for the organization. Most IT organizations begin with a scope and focus that is directed internally. This is due, in part, to their familiarity with internal, operational IT measures and a lack of familiarity with the types of measures or key performance indicators (KPIs), their business partners will value. At your company, the initial IT measurement focus may be on financial measures, however, the scope will rapidly progress to encompass measures communicating IT's performance in all areas. Further, your company's IT performance management program will advance beyond an internal view of performance to a view that communicates the value and impact of IT on your company stakeholders.

A performance management program should satisfy the following important objectives:

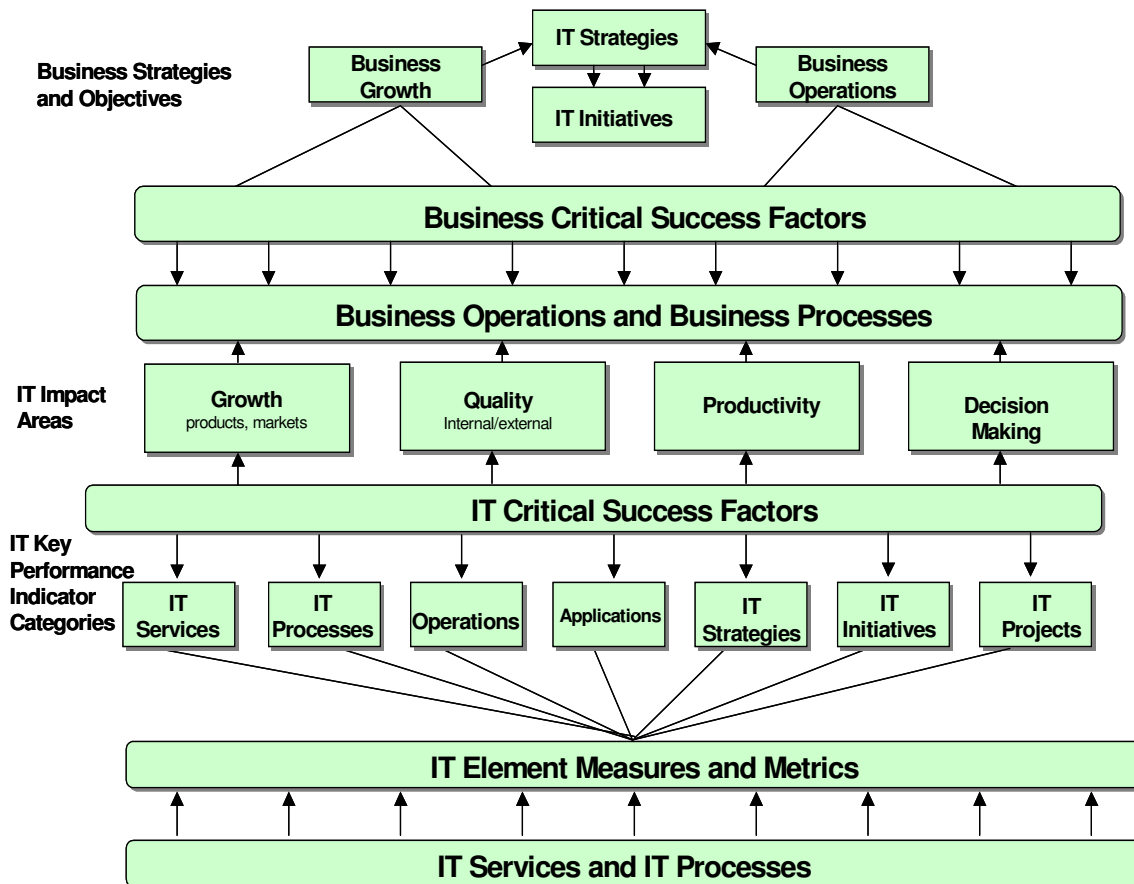
1. Measure performance against key customer requirements

2. Make strategic objectives clear
3. Focus on core processes
4. Focus on critical variables
5. Signal where performance is headed
6. Identify which critical factors require attention
7. Provide an unambiguous basis for assessing and rewarding performance

## The IT Performance Management Taxonomy

ITPMG's Integrated Performance Management Program relies on a comprehensive, integrated set of KPIs that report and manage performance at all levels of the IT organization. In the initial development of the program, KPIs are usually focused internally to IT. This provides a vertical view of performance such that both management and staff can have a common set of goals and targets, which emanate from the organization's strategy. Some internal IT KPIs may be focused on stakeholders, but the initial set is not typically communicated in terms that resonate with the customer. Once the process for developing KPIs is understood and the organization has begun a shift toward a *measurement culture*, customer or stakeholder KPIs are more easily developed and will have more relevance to the targeted audience.

Exhibit 1: Integrated Performance Management Program Layers





While initial development may be focused internally, an integrated set of financial and non-financial performance measures provides management with the leading indicators and timely feedback required to identify opportunities, as well as to take corrective action when problems arise. This technique also provides an unambiguous communications channel within the organization that facilitates effective action at all levels and for all functions. Exhibit 1 provides the connected and layered view of the taxonomy for the integrated performance management program.

As shown in the exhibit, IT strategies and initiatives are driven by the business with everything else flowing from this simply concept. The business' critical success factors, those things that must be done well in order to succeed, are established by the growth and operational objectives set forth in the business' vision and mission statements along with the long term strategic direction and annual strategic plan of the organization. Business operations and processes are the actual means by which the critical success factors are met and the strategies and objectives of the enterprise are accomplished.

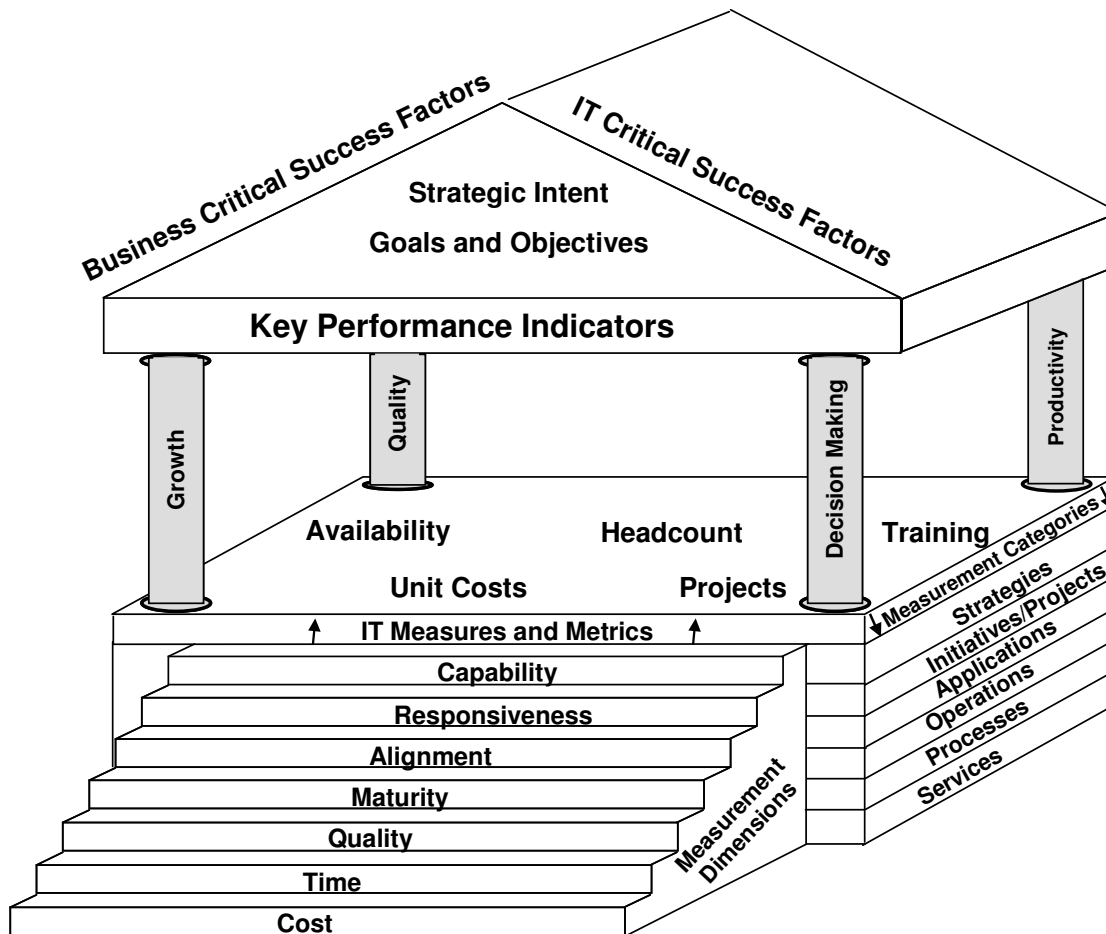
IT's role in the organization is to facilitate, support and enable the business processes and operations to take place. IT's ability to positively impact business operations and processes are the means by which IT delivers *value* to the organization. There are four areas of direct IT impact on these operations and processes.

1. Growth: the ability for IT to assist in efficient and effective product development and deployment, expansion of markets, customer growth and retention, et al
2. Quality: applies to internal and external functions
3. Productivity: IT's ability to reduce resource consumption while either maintaining or increasing output
4. Decision Making: IT provides and makes available the data and information required by all levels of the organization to make the appropriate decisions

As with the rest of the business, IT has a set of critical success factors which must be executed well in order for IT to succeed and by extension, for the business to meet its objectives. These critical success factors are accomplished through the functions of the IT organization. At a macro level ITPMG has targeted seven specific categories of IT measurement; services, processes, operations, applications, strategies, initiatives and projects. One or more of the measurement dimensions: cost, time, quality, maturity, alignment, responsiveness and capability assess these seven categories:

Though the development and implementation of this measurement structure, the IT organization is able to develop a hierarchical set of measures that give rise to a limited set of *linked* KPIs at multiple organizational levels. The KPIs are fed by underlying element measures and metrics that are typically a part of existing IT measurement programs.

Exhibit 2: ITPMG Performance Management Structure



Historically IT has taken a retrospective view of performance. The first three measurement dimensions, cost, quality and time, maintain that historical perspective. The remaining four measurement dimensions, maturity, alignment, responsiveness, capability, are able to provide prospective or predictive views of IT performance. It is important for IT to begin to take this prospective view in order to better meet the demands of the business and project a high degree of value for the investment being made.

Performance measures should be accessible to all members of the organization thereby promoting ownership, accountability and improving motivation. It is necessary to produce a balanced set of measures in order to avoid organizational myopia and skewed behavior due to an over emphasis in any one area. Through the inclusion of all areas of IT and the entire IT staff, the focus will be directed toward continuous improvement rather than scapegoating and gamesmanship.

Each organization will develop its own set of KPIs based on the strategy, structure and needs of the organization at the time of development. The linkage of these KPIs should be the natural consequence of an *aligned* organization. As strategies, structures and needs change, so to do the

KPIs. Most IT organizations will have many of the same underlying element measures and metrics due to the great similarity of services and processes.

The overall integrated performance management framework should be simple in design and only KPIs containing measures that direct attention and determine action should be posted to the IT scorecard. An effective IT scorecard will make visible the primary drivers of superior performance. The integrated performance management program should focus attention on those critical activities that, if done well, will lead to a sustainable competitive advantage and best in class performance.

ITPMG's unique approach to IT performance management has led to the development of a simplified and structured framework that connects IT's traditional, internally focused measures from the bottom, to KPIs driven by an IT strategy which in turn is responding to business drivers. The connection between IT measures and IT KPIs are IT's *impact areas*: growth, quality, productivity and decision making. An added benefit of this framework will be the ability to establish measures that can communicate the *value of IT* in terms that relate to IT stakeholders.

## Summary

Much thought should be given to why an IT Performance Management Program is to be developed, prior to beginning its actual development. Too many organizations, encouraged by software vendors, rush out to purchase "tools" for scorecard or dashboard development, well in advance of having determined the rationale, objectives and goals for the program. The net result of this is all too often, more shelf ware and a failed program.

The time invested in establishing the programs goals and objectives as well as anticipated outcomes, will provide the foundation for the program. Taking this foundational approach and getting senior management agreement to it, will allow you to communicate the program and its benefits to the rest of the organization which is another critical success factor. It is also much easier to build a *framework* on top of a sound foundation.

## 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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[information@itpmg.com](mailto:information@itpmg.com) or

Call +1 203.733.9969