ITPMG

Helping Companies Improve Their Performance

The Measurement-Managed Organization
How IT Benefits From Adopting Measurement-Management Techniques

August 2006

The Beginnings of Organizational Measurement

In some fashion we can see the use of organizational measurement as far back as 350 BC. In Sun Tzu's *The Art of War* he writes:

> "The general who wins the battle does many calculations in his temple before the battle is fought. The general who loses makes but few calculations."

Today, CIOs are doing battle on a regular basis with users, vendors, suppliers and sometimes even the CFO and CEO. We can't be certain of what calculations they are doing in their "temple", but we are certain that if they were using measurement as an organizational and management tool, they would be going into battle better armed, prepared and informed.

To quote another from ages ago:

> "..when you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meager and unsatisfactory kind. It may be the beginning of knowledge, but you have scarcely, in your thoughts, advanced to the stage of science, whatever the matter may be." Lord Kelvin

Most IT managers I have met over the years would rather be working from the "stage of science" than from the "gut feel" or "squeaky wheel" form of knowledge usually in use. Yet, throughout the decades of the 70s-90s most IT organizations had not adopted the strategic use of measurement in their decision making and planning processes. To this day, the number of IT organizations using measurement-management techniques in still in the large minority. This fact has given rise to the *measurement paradox* which shows the majority of managers extolling the use of measurement while only a minority actually implement strategic measurement or performance management programs. This is even more the case for IT where measurement is almost solely focused on financial and operational areas.

So why does this paradox exist? There are a number of very specific and powerful forces that all converge and prevent most organizations from adopting measurement-management techniques. We will discuss these in some detail in future articles. For now, suffice it to say that organizations require systematic change processes to overcome the forces, both historically and contemporaneously that prevent the organization from changing. It is this resistance or refusal to change that created and maintains the *measurement paradox*. In the words of the great thinker, Anonymous, "Silence is resistance carried out by other means." Here we try to break the "silence" by offering incontrovertible evidence of the benefits to IT of adopting the techniques of a Measurement-Management Organization.

The Idea of the Measurement-Managed Organization

Measurement-managed organizations have been described as those organizations that have adopted a strategic and balanced set of Key Performance Indicators (KPIs) with which they plan, implement, operate and monitor the strategies, functions and processes of their organization. Various studies on the use of measurement as a management tool have shown

positive results in most areas of concern to senior management. The table below depicts some of these findings.

Table 1. Relating Measurement-Managed Organizations to Performance

Measure of Success	Measurement Managed Organizations	Non-Measurement Managed Organizations
Perceived as an industry leader over the past three years (1999-2002	74%	44%
Reported to be financially ranked in the top third of their industry	83%	52%
Three year Return on Investment (ROI)	80%	43%
Last major cultural or operational change judged to be very or moderately successful	97%	55%

John H. Lingle and William A. Schiemann, "Is Measurement Worth It?"

There are a number of characteristics that help to define measurement-managed organizations. These have been identified in a number of studies including one by Lingle and Schiemann in their book "Bullseye, Hitting Your Strategic Targets Through High-Impact Measurement." The following table describes their findings regarding measurement-managed organizational characteristics.

Table 2. Measurement-Managed Organizations Exhibit Different Cultural Characteristics

Reported	Measurement Managed Organizations	Non-Measurement Managed Organizations
Clear agreement on strategy among senior management	93%	37%
Good cooperation and teamwork among management	85%	38%
Unit performance measures are linked to strategic company measures	74%	16%
Information within the organization is shared openly and candidly	71%	30%
Effective communication of strategy throughout the organization	60%	8%
Willingness of employees to take risk	52%	22%
Individual performance measures are linked to unit measures	52%	11%
High levels of self-monitoring by employees	42%	16%

John H. Lingle and William A. Schiemann, "Bullseye?"

Why does Measurement-Management Work?

Measurement-managed organizations operate in a number of fundamentally different ways than their non measurement-managed counterparts. The outcome is superior financial performance, and sustainable results that enable organizations to excel over the long term. Executives interviewed point to a number of reasons why they believe effective use of measurement is so powerful in enhancing their organization's performance.

Can IT Benefit?

There is no question that IT will benefit significantly through the adoption of measurement-management techniques. CIO objectives are identical to those of their business peers: superior financial performance, the delivery of high valued services that meet the current and future needs of their customer communities, the achievement of a *best-in-class* organization. While every CIO seeks to achieve these objectives, in today's tight economy they may not be seen as doing so. There are a number of reasons for this, which can be overcome through the aggressive use of measurement-management techniques.

Measurement Rapidly Forges Increased Strategic Agreement

In the absence of measurable objectives, it has been learned not to assume that a senior management team agrees on the strategy. In a study that was published in *Across the Board* magazine, it was found that nearly 40 percent of the executives surveyed reported a lack of fundamental agreement on business strategy. If it is assumed that not all senior executives were aware of disagreement within their own firm, or were, at least, unwilling to acknowledge such disagreement publicly, the real numbers may be far greater. And without agreement on the business strategy at the top, it is difficult to secure commitment, agree on resources, set priorities on major initiatives, or create integrated operational plans. Measurement helps remove the ambiguity and disagreement that surround high-level strategic concepts.

Development of IT Strategies

A basic requirement for the success of any IT organization is to have agreement between the senior leadership team and the IT staff as to their goals and objectives and the strategies being employed to meet them. Few if any, CIOs will admit that their organization is not in lock step with the stated mission, objectives and strategies. Yet, if you ask the IT staff, including it's management, what their priorities are and what they are measured against, more often than not, there will be minimal, direct linkage between the things mentioned and the stated objectives and strategies. Measurement-managed organizations utilize techniques that assess the level of strategic agreement with the senior leadership team and link it to the appropriate level within the IT organization.

Measurement Provides a Common Language to Communicate Strategy and Key Values

Understanding of the business strategy tends to dissipate rapidly as it filters down from the senior team. In surveys conducted in numerous organizations, on average 40 percent of employees indicate they do not feel that they understand their company's strategy. The

research shows measurement-managed companies do a better job at communicating their strategy. Measurement provides a precise language for describing the values or beliefs of an organization, what that organization wants to accomplish, and how it intends to accomplish it.

IT Must Communicate Internally Within IT and Externally to Business Stakeholders

The IT organization must deal with communications from multiple perspectives. The IT staff suffers from the same problem as the rest of the enterprise in not understanding or even knowing the enterprise strategy. It has the added burden of having to understand and execute its own strategy which, more often then not, does not link to the enterprise strategy. Here to, measurement-managed organizations are using specific means to enunciate the expectations and outcomes of strategies. This is done in terms that are understood by those either impacting or being impacted by the strategy therefore making the strategy known to all and keeping it at the forefront. These measures communicate progress, value, success, failure and performance in a language that is understood by all involved.

Measurement Helps to Forge Alignment Throughout the Organization

How can executives know if the actions of widely dispersed divisions and departments are supportive of the overall strategy? Maintaining alignment represents one of the greatest challenges for companies in today's rapidly changing business environment. Achieving perfect alignment is unrealistic. Because today's organizations are continually changing in response to markets, M&A activity, economic conditions, et al, there is a need to manage change on a continual basis. As the organization changes, some areas are aligned, others are not. How can organizations know if they are properly aligned? One answer is strategic measurement. Once having defined the important, critical few measures that indicate overall alignment, executives can more confidently manage the dynamics of their markets and their workplace. How frequently must a measurement system be updated? As often as the business, the industry, and the strategy changes.

Alignment Between IT and The Business is a Critical Success Factor

In terms of alignment, CIOs using measurement-management techniques indicate that measurement helps raise the commitment to higher-level strategic objectives. This is accomplished by having established the Critical Success Factors (CSF) for stakeholders and making certain that IT's CSFs are linking to them. Through the use of "cascading" measures associated with the CSFs, throughout the organization, strategic objectives become relevant to "my department" and "my job". It puts the business and/or IT strategy close to the heads and hands of every member of the staff.

Measurement Increases a Company's Predictive Powers and Early Warning Capability

Strategic measures improve the ability of managers to anticipate future outcomes. This ability has been greatly facilitated by information technology. Senior executives are now able to set up an integrated relational database of key measures, allowing them to predict the effect of employee, supplier, and work flows on customer, market, and financial outcomes.

Studies by Ulrich, Wiley and Scheimann illustrate the vast array of employee measures that have been used effectively to predict important customer outcomes, such as customer satisfaction and retention, perceived service quality, share of wallet, and market share.

Recent research emphasizes the tendency of measurement-managed companies to anticipate the future. In this regard the advice of J. Walter Kisling, chairman and CEO of the Multiplex Co. is instructive. "Don't spend your energy measuring what you can't change. Spend your energy keeping up with and staying ahead of change.

IT Measures are Usually Looking in the Rear View Mirror

Today, more than ever, IT is focused on financial measures. This is understandable given the current economic environment. Operational measures are also a hallmark of most IT organizations. These two types of measure share the characteristic of being retrospective. Measurement-managed IT organizations are employing prospective and predictive measures which allow them to take preventative actions rather then react or respond to circumstances IT's responsiveness to stakeholder requirements in a timely, efficient and effective manner are one of the means of communicating the value of IT investments. A CIO's ability to measure the "reach and range" of the infrastructure, the scalability of applications and the proficiency of the staff, can provide predictive tools in a rapidly changing world.

Measurement Helps Provide Managers with a Holistic Perspective

Effective measurement systems enable executives to take a comprehensive view of their entire landscape. With the integrated perspective strategic measurement provides, executives are positioned to see how actions taken in one area of the terrain can affect performance elsewhere.

For example, in one financial services company, the organization discovered the power of bringing together and making available to everyone information from the credit, collections, and account management functions. The organization learned that a customer might leave based on gaps in any of these three functions and that a balanced combination of speed and accuracy is essential to high customer retention. Account managers want to extend more credit quickly, while credit officers want to ensure a capability to repay loans, and collectors must balance this with actions that can chase a customer away forever. Measures that span key performance areas help a management team consider and weigh the several critical forces that determine if the customer base will grow or shrink.

IT Measures Suffer from the Law of Unintended Consequences

There are few departments within any organization that are more complex and multifaceted than IT. In today's Information Age enterprise IT must evolve from its Industrial Age metrics to ones more suitable to the Age they function within. Using measurement-management techniques, IT can establish the appropriate set of Key Performance Indicators that will allow for better decision making, increases in performance levels, greater customer satisfaction and support to a continuous improvement program.

The Future for the IT Measurement-Managed Organizations

Research indicates that measurement-managed organizations have enjoyed a competitive advantage in the past. ITPMG has seen IT organizations that implement IT Performance

Management programs and evolve to a measurement-managed culture, enjoy significant benefits including:

- Improved financial performance
- Better decision making
- Increase levels of effectiveness

- Higher stakeholder value
- Greater employee satisfaction
- *Best-in-class* performance.

In order to gain these benefits most IT organizations will need to make changes to their culture and gain the commitment of senior IT leadership. ITPMG's measurement-management methodology can assist you in gaining these benefits using our proven techniques.

To start on the road to benefiting from becoming a measurement-managed organization, contact ITPMG and we will send you our *Measurement Culture Assessment* evaluation.

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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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