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Trends In IT Performance Management

In Today's IT Context, Strategic Measurement Is Not Optional

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EXECUTIVE SUMMARY

An increasing focus on IT governance by boards of directors and executive management puts IT management and the performance of the IT organization under a magnifying glass. IT organizations are increasingly asked to demonstrate the value of IT, vouch for the integrity of the systems and data under their control, simultaneously improve the quality of existing services while reducing their cost, and become a source of enterprise innovation. It is virtually impossible today to meet one of these objectives, let alone all of them, without an effective IT performance measurement and management system in place. Yet many continue to try. In 2006, we will see an increasing number of IT organizations adopt strategic IT performance management frameworks; there really is no other choice.

THE CURRENT STATE OF IT MEASUREMENT — WEAK AND TOO TACTICAL

Most IT organizations remain focused on the tactical as opposed to the strategic, especially when it comes to measurement. This was borne out in our IT measurement and management survey in which only one-third of respondents had an IT measurement framework in place.[1] Despite all of the pressures on IT to align itself with the business, demonstrate value, improve quality of services, reduce costs, and ensure compliance (e.g., SOX, etc.); only one out of three IT organizations are rigorously measuring performance. The good news is that an additional 39% said that they were working on an IT measurement framework and in our conversations with clients at conferences and through inquiries, the anecdotal evidence confirms this.

But today's business environment has created a perfect storm around IT, requiring more accountability and transparency on the part of IT's decision-making and operations, because:

- **Effective IT governance is no longer optional.** Boards of directors and executive management are under intense pressure to improve enterprise governance, and they are quickly recognizing that IT governance is a subset of enterprise governance — and in fact mirrors a firm's management rigor. Furthermore, research demonstrates that organizations with good IT governance get more value from their IT investments.[2]

- **IT is critical to most business processes.** Regardless of the size of the business or the industry, IT systems are embedded in many business processes. Any failure in IT can have disruptive effects on the business, whether they are internal systems (order fulfillment) or external (eCommerce Web site). Furthermore, damage to a company's brand can occur as a result of an IT problem.

- **IT spending is a huge capital and operating expense.** Depending on the organization and the industry it competes in, operational IT expense can range from 1% to more than 12% of total revenues, and IT capital expense accounts for more than 50% of total capital expense in many companies, yet there is little rigor in measuring and understanding the aggregate return on this investment.[3]

- **Regulatory and compliance issues mount.** While Sarbanes-Oxley does not target IT explicitly, it impacts IT because almost all financial and accounting is performed via information systems that must be documented and verified. Additional regulatory requirements apply depending on the industry. For example, healthcare providers must comply with Health Insurance Portability and Accountability Act (HIPAA).

PERFORMANCE MANAGEMENT FRAMEWORKS OFFER A WAY OUT

The Research Board, an exclusive think tank open to CIOs of the largest corporations, outlined four dimensions of world-class IT. One of the four was that, "the IT organization is engaged in performance management." Performance management consists of developing a set of objectives, ensuring that those objectives are aligned with strategy, setting goals or targets for each objective, and measuring performance against the goal or target.

You Can't Manage What You Don't Measure

There is an old management cliché that says you can't manage what you don't measure — simple and old but as true today as ever. The problem with many IT organizations today is not that they are not measuring things, but that they aren't measuring the right things. IT is too busy measuring the low-level technical and tactical things and not measuring the right things like value creation, strategic alignment, human capital readiness, and other important measures of successful strategy execution. Forrester predicts the trend in 2006 will be to use strategic measurement frameworks to drive breakthrough performance. A strategic performance measurement and management framework consists of the following principles:

- **Aligns with strategy.** For a strategic measurement and management system to be effective, the measures must be aligned with the strategic objectives off the organization. Too often, measures are chosen because they are easily understood or the data to produce them is readily available or because they have always been measured in the past. If a strategic objective is to improve customer satisfaction, then measures must be chosen that can drive improved customer satisfaction such as performance on service-level agreements (SLAs) or first-call resolution rates.

- **Set stretch targets.** Creating breakthrough performance requires that targets be set that will cause the organization to reach higher, but they must not be set so high that they are not attainable and only serve to de-motivate people.

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- **Implement performance initiatives.** It's not enough to set targets — you must also develop initiatives that are going to help people reach those targets. For example, an IT organization that sets the goal to improve customer satisfaction by improving first-call resolution rates by 10% must then implement initiatives that will help meet this target. This could include enhanced training for the call center staff to enable them to solve more complex problems, improving access to information and knowledge about past problems, or perhaps even implementing an automated solution to some problems (like automated password resets). The bottom line is that targets by themselves do not necessarily improve performance.

- **Make individuals accountable.** For every measure/target pair, there must be someone accountable for its performance. This person owns the measure and is responsible for the initiatives designed to drive performance against the metric. Ultimately, part of their compensation must be linked to performance against the metric. It is accountability that gives performance management systems the power to transform.

The Balanced Scorecard Gains Traction

When it comes to strategic performance measurement and management frameworks, the Balanced Scorecard remains the most complete solution. A Forrester research survey on IT measurement found that of those IT organizations with a measurement framework in place, 25% were using the Balanced Scorecard.[4] Since the survey was conducted in March, anecdotal evidence suggests that more IT organizations are adopting this approach.

The imperative for IT organizations to demonstrate return on their IT investments and improve the transparency of their decision-making and operations will increasingly move toward implementing strategic performance measurement and management systems like the Balanced Scorecard in 2006. Firms will implement Balanced Scorecards for:

- **The IT organization as a whole.** The IT organization of a large insurance company is using the IT Balanced Scorecard to ensure that its strategy is aligned with the business strategy. The high-level scorecard is used by the CIO and his direct reports to measure and communicate the performance of the IT organization to the executive team.

- **IT operations.** The infrastructure group of a large retailer is using the Balanced Scorecard framework to construct an operations scorecard to manage the performance of the unit. The scorecard will also be used to communicate performance to the development group that it supports.

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RECOMMENDATIONS

IT PERFORMANCE MANAGEMENT DRIVES IT VALUE

An IT performance management framework assists IT management focuses the entire organization on improving strategy execution, which leads to increased business value.

- **It all starts with strategy.** The first step in a performance management initiative is to have a complete understanding of the strategy and the strategic objectives required to successfully execute the strategy. Often there is no clear consensus on what the strategic objectives are.
- **Involve all stakeholders.** It is important to get multiple perspectives when developing a performance management initiative. What do your stakeholders expect? How will they measure your performance?
- **Enlist champions.** Implementing a performance management initiative requires cultural change, the most difficult of all change activities. Cultural change must come from within.

WHAT IT MEANS

ORGANIZATIONS WITHOUT EFFECTIVE PERFORMANCE MANAGEMENT ARE AT RISK

Those organizations that finish 2006 without a structured way to measure and communicate their performance may find their CIOs finished. Especially in publicly traded firms, the lack of performance management rigor will begin to look like a liability at best, a compliance issue at worst.

ENDNOTES

[1] In April 2005, Forrester Research surveyed IT decision-makers in North America about their IT measurement practices. See the April 21, 2005, Best Practices "IT Measurement Survey Results."

[2] Research conducted at the Center for Information Systems Research (CISR) by Peter Weill at MIT and published in "Don't Just Lead, Govern: How Top Performing Firms Govern IT" correlated firm performance and IT governance. It found that firms in their study with above-average IT governance performance had more than 20% higher profitability than firms with poor governance when companies followed the same strategy. See http://mitsloan.mit.edu/cisr/r-papers.php.

[3] In March 2005, Forrester published data on US spending by small and medium-size businesses (SMBs) and enterprises in 2004. In this report, we extend our analysis to 2005. We are also updating our 2004 data to correct for: 1) a slight overstatement of IT spending by enterprises and by professional services firms of all sizes, and 2) a comparable understatement of IT spending by SMBs and by financial services firms of all sizes. The major result of these changes is to increase for 2005 the share of IT spending by SMBs to 48% of all US IT spending — up from 44% in our earlier report. The secondary effect is to raise the share of US

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IT spending by financial services firms to 15% from 12% and to lower the share of professional services firms from 23% to 22%. See the June 30, 2005, Market Overview "2005 Update: US Enterprise And SMB IT Spending."

[4] In April 2005, Forrester Research surveyed IT decision-makers in North America about their IT measurement practices. See the April 21, 2005, Best Practices "IT Measurement Survey Results."

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