

Linking IT to Business Metrics

IT Metrics Goal

The Goal of IT Metrics are to demonstrate that what a company spends on IT has a **DIRECT IMPACT** on the performance of the firm.

IT Measurement Approaches

- **“Peel the Onion”** – attempt to show how IT adds value on a project-by-project basis.
- **“Put the Onion Back Together”** – employees who truly understand what their business is trying to achieve can sense the right ways to personally improve performance that will show up at a business unit and organizational level.

Why Measure IT Results?

“Measurement Counts.

What a company measures and the way it measures influence both the mindsets of managers and the way people behave.” (Marchand et al. 2000)

IT Measurement Goals

The key to linking IT to business performance is to create an environment where *everyone understands what measures are important* to the business and are accountable for them.

IT Measurement Levels

- **Enterprise Measures** – Tie the work of IT directly to the performance of the organization (e.g., external customer satisfaction, corporate financial performance).

IT Measurement Levels (continued)

- **Functional Measures** – Assess the internal work of the IT organization as a whole (e.g., IT employee satisfaction, internal customer satisfaction, operational performance, development productivity).

IT Measurement Levels (continued)

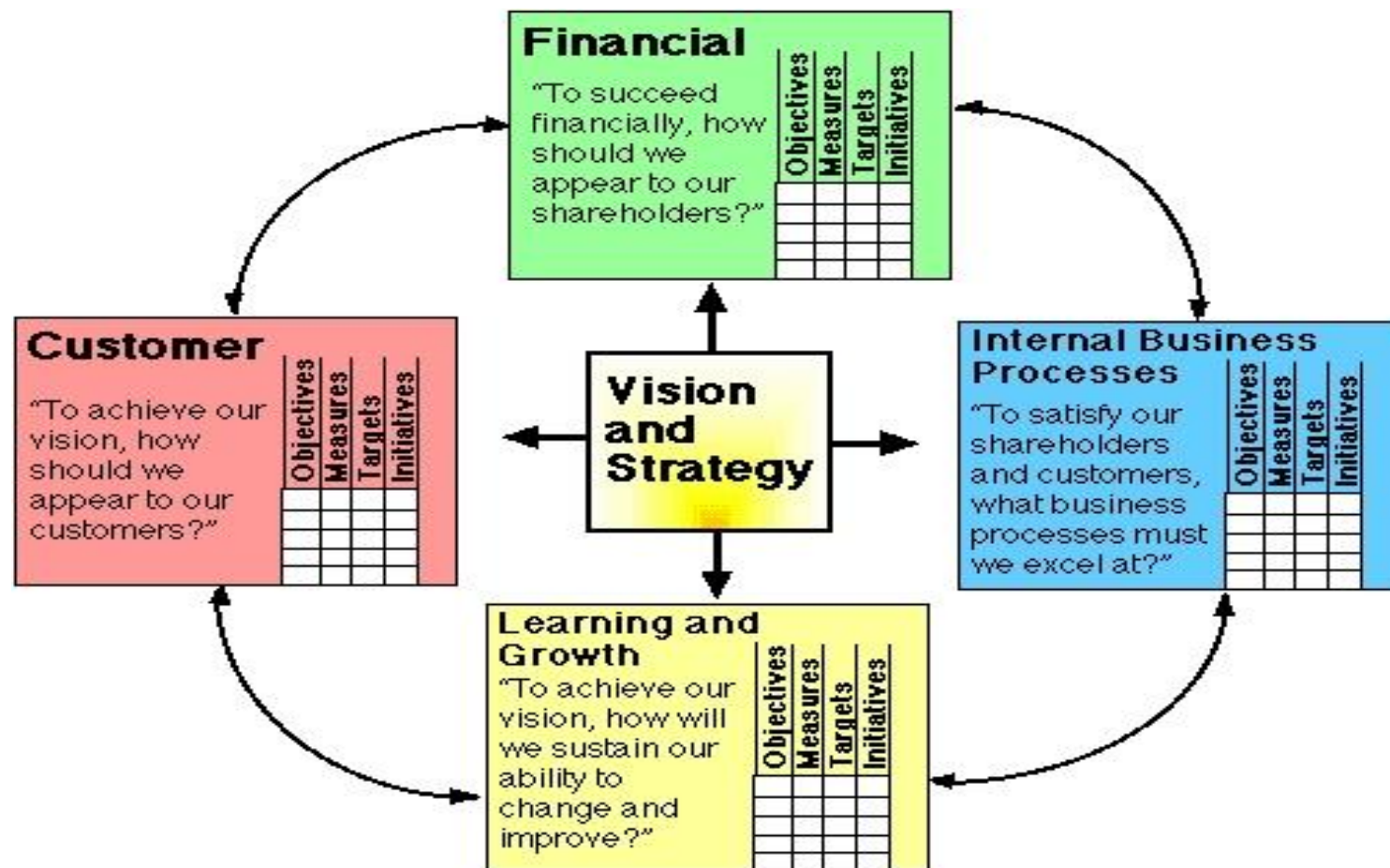
- **Project Measures** – Assess the performance of a particular project team in delivering specific value to the organization (e.g., business case benefits, delivery on time).

Enterprise – External user satisfaction
Functional – Internal IT team satisfaction
Project – Particular team in delivering specific value

Designing Business Metrics for IT

- **Balanced Scorecard** – Uses measures from four dimensions (Customer perspective, Financial perspective, Internal Operations perspective, and Learning & Growth perspective).
- Each metric measures progress against the enterprise business plan. IT is treated as a separate business unit with its own scorecard.

Balanced Scorecard



Source: Balanced Scorecard Institute, www.balancedscorecard.org

Designing Business Metrics for IT (continued)

- **Modified Scorecard** – Five key metrics that are linked to the company's vision statement. Complimented by IT specific metrics. Results are communicated on a quarterly basis. This approach orients the employees to the company mission and vision.

Modified Scorecard Business Metrics

- **Customer Loyalty Index** – the percentage of customers who said they were very satisfied with the company and would recommend it to others.
- **Associate Loyalty Index** – employees' perception of the company as a great place to work.

Modified Scorecard Business Metrics (continued)

- **Revenue Growth** – the percentage of this year's total revenues with last year's total revenues.
- **Operating Margin** – the operating income earned before interest and taxes for every shilling/dollar of revenue.
- **Return on Capital Employed** – earnings before interest and tax divided by the capital used to generate the earnings.

Designing Business Metrics for IT (continued)

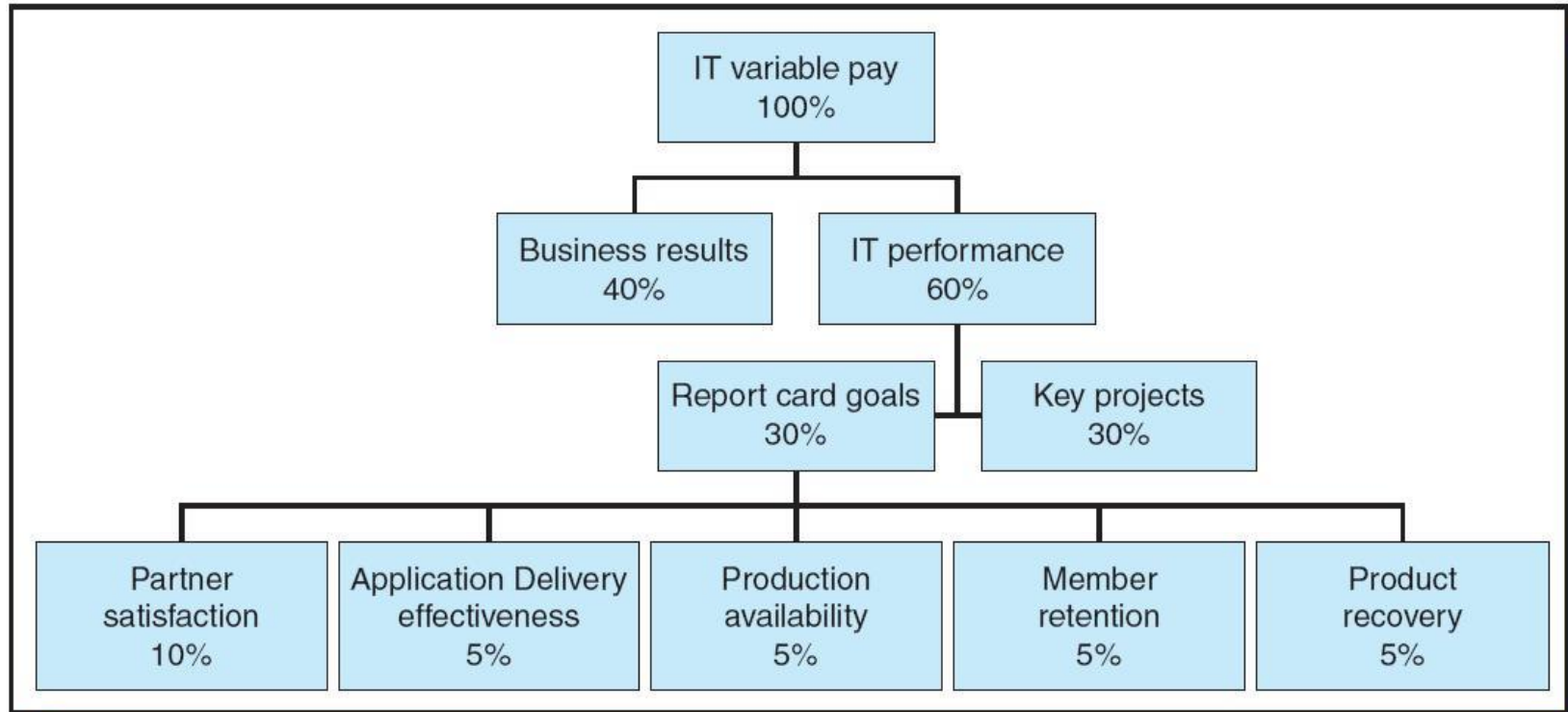
- **Strategic Imperatives** – company identifies a number of strategic imperatives/obligations each year.
- Each area of the business identifies initiatives that support these imperatives and determines which metrics to use.
- IT identifies key projects and measures that will help the business achieve these imperatives.

Designing Business Metrics for IT (continued)

Strategic imperatives -

- Initiatives are integrated into Variable Pay Program.
- Variable Pay Program links a percentage of an individual's pay to business results and overall business unit performance.
- Metrics can change from year to year.

Strategic Imperatives Example



Percentage weightings assigned to IT Variable Pay Components for a Particular Year

Principles of a Business Metric Program for IT

- **Focus on Overall Business Performance** – focus employees on financial and nonfinancial enterprise performance.
- **Understanding is a Critical Success Factor** – ensure employees understand their objectives and how they tie to company performance.

Principles of a Business Metric Program for IT (continued)

- **Simplicity** – metrics should be simple and easy to use.
- **Visibility** – encourages employee buy-in and accountability.
- **Links to Incentive Systems** – distinguish between fair compensation for the individual and reward for successfully achieving corporate goals.

Advice to Managers

- Results will take time.
- Have common goals.
- Follow-up on problem areas.
- Be careful what you measure.
- Don't use measurement as a method of control.

Conclusion

- There are significant benefits to be realized by holding IT accountable for key business metrics.
- Business performance will become part of the mindset of IT staff if the business measurement program is properly defined.