



cutting through complexity

INFORMATION TECHNOLOGY SERVICES

Running the business of IT – metrics that matter

November 2014

kpmg.com



Contents





Introduction 2

Do you have the right KPIs to run IT as a business? 4

 Data is not the challenge, making sense of it is 5

 It's about the metrics, not technology 6

 Getting started 7

Next steps 8

 How KPMG can help 9

Introduction



For years the IT function has been capturing, organizing, and delivering information for everyone in the company except itself. IT has a critical role supporting the CEO, COO, and other business leaders in exploiting information and business intelligence for competitive advantage through platforms such as ERP, CRM, DCM, etc. Today, as many organizations undergo a transformation to become digital businesses, they depend even more on IT to proactively enable innovative products and services. Increasingly, CIOs find that their IT organizations are expected to add value by helping the business improve performance, accelerate time to market, open new markets, and facilitate mergers and acquisitions—all while keeping a sharp eye on IT costs and quality.

Exacerbating all of this is the rapidly increasing complexity of the IT ecosystem as disruptive technologies proliferate, business users and customers grow more tech savvy, and the availability of low-cost, easy-to-provision Everything as a Service (EaaS) solutions threaten to marginalize the IT organization. CIOs faced with seemingly endless demand but finite resources require a better way to manage the business of IT and focus their energy and resources in a way that is much more efficient in serving their business customers, while at the same time increasing the value of their contributions.

As CIOs consider how best to transform IT capabilities while helping to drive business value, they need to be able to identify, measure, and analyze how the business gauges IT's success, both in terms of delivering core IT services and contributing to business value. What is needed is a set of good IT metrics that reveal how to “move the needle” on IT performance around these outcomes. Understanding the linkages between the outcomes the business values and the specific IT contributions that produce these outcomes will help CIOs focus on those areas for improvement, and lay the groundwork for eventually using predictive analytics to model various scenarios, perform what-if analysis, and improve overall decision-making just as their business counterparts do today. Armed with these insights, IT can be a better partner in advancing the business agenda, specifically by ensuring flexibility and agility in everything from implementing new systems to penetrating new markets.

By running IT like a business, CIOs and their teams have the opportunity to:

- Lead the business in using technology to enable innovation and advance the agenda
- Help business achieve the desired benefits of major business changes by aligning the portfolio with current and future demand
- Align costs and performance of IT services with business priorities in order to maximize return on investments
- Provide a flexible and efficient IT delivery model that deploys business-enabling solutions and meets evolving expectations
- Provide, operate, and assure quality, business-aligned IT services with the right balance of quality, performance, and cost.

Do you have the right KPIs to run IT as a business?

Do you have the right KPIs to run IT as a business?



Today's IT organization is increasingly faced with myriad external suppliers ranging from cloud-based solutions providers to Software as a Service companies to full business process outsourcers (BPO) who are often selling directly to their business stakeholders. To maintain control of the technology conversation, CIOs must now assume the role as the leader of a business that just happens to be IT and begin to leverage the same practices and measurements that IT customers have been using for years. The right metrics can enable CIOs to gain the insight they need to optimize value by:

- Answering questions around how to exploit information to make the most effective decisions in terms of running the business of IT (efficiency)
- Answering questions to ensure they are delivering the right services and solutions for their customers (effectiveness).

Organizations are fundamentally dependent upon IT for many things, not just providing the utility services such as making sure that everybody has a laptop and the core ERP and infrastructure run smoothly. IT is also expected to be a partner that is able to work with the business to understand and shape demand, and then effectively and predictably deliver new services and solutions around the demand. Increasingly, advanced IT capabilities actually deliver potential competitive advantage for businesses. In the same way, IT leadership also needs a strong focus on IT demand, with an end-to-end view across the entire IT value chain, rather than the typical siloed approach. This means that CIOs need to develop a balanced perspective around their investment and service delivery portfolio, retain a strong sense of governance, risk, and control, and bring that entire package together to create the right value both for the IT function and for the customers they serve.

Data is not the challenge, making sense of it is

The real challenge to develop meaningful metrics for the IT organization is not a lack of data. Over the past few years, IT organizations have deployed a lot of operationally focused solutions including systems and network management, IT service management (ITSM), application and portfolio management, and more recently IT financial management and Technology Business Management (TBM). Each of these systems is capable of producing a prodigious amount of data, but they tend to all be point solutions aligned with the traditional IT silos. This is further exacerbated in

many organizations by outsourced “towers” or “bundles” of IT services that typically result in a whole bunch of data/metrics and analytics being applied outside of the purview of the IT organization by the ITO provider—data that isn't always accessible and, when it is, may or may not be accurate. Instead, the real challenge is how to aggregate and normalize this data and convert it into information that reveals the key management “levers” that IT leaders can use to make the best changes, interventions, and decisions for their IT organization.

These levers can then be used to identify KPIs that measure the outcomes of the decisions and the overall performance of IT. Having KPIs that are reviewed from an IT leadership perspective that directly impact performance, whether quite hard financial KPIs such as return on capital employed or IT spend per employee, or softer metrics such as amount of business value delivered annually, is an important opportunity and enabler for the next generation of IT leaders to have as they formulate their strategies and their priorities, and they govern their IT organizations.

These KPIs should go beyond traditional IT metrics involving SLAs, scalability, reliability, and all of the operational excellence improvements that IT worked hard to deliver. They need to be KPIs that enable CIOs to answer fundamental questions about their organization such as, “How well are the IT projects aligned to the business priorities?” and “How well is the IT organization positioned to enable rapid entry into new markets?” This is a new level of insight around the value of IT. Relevant KPIs will fall into two major categories that are strategically significant:

- **KPIs based on effective delivery of core IT services:**
The IT organization must continue to fulfill its mission of keeping the business running while increasing efficiency to lower costs.
- **KPIs aligned to the value IT provides to the business:**
IT must ensure it has the information to help drive the right business outcomes at the right time for its partners.

Since information gathering takes time and resources away from other tasks, CIOs really need to focus on just those five or 10 KPIs that actually make a difference. Using a top-down approach, CIOs can build dashboards that provide a narrative and valuable business intelligence to support decision making without inflicting unnecessary overhead on the IT organization.

It's about the metrics, not technology

If we look back at the work that has been done within the business realm – deriving effective management information and achieving true insight around business intelligence do not typically come from off the shelf technology solutions. Sure, there are analytical engines out there, data warehouses, and a whole host of very clever platforms that are used to facilitate the process. But if you are unclear about what KPIs truly drive value, then all of that technology is largely misguided; the same rings true within the IT realm.

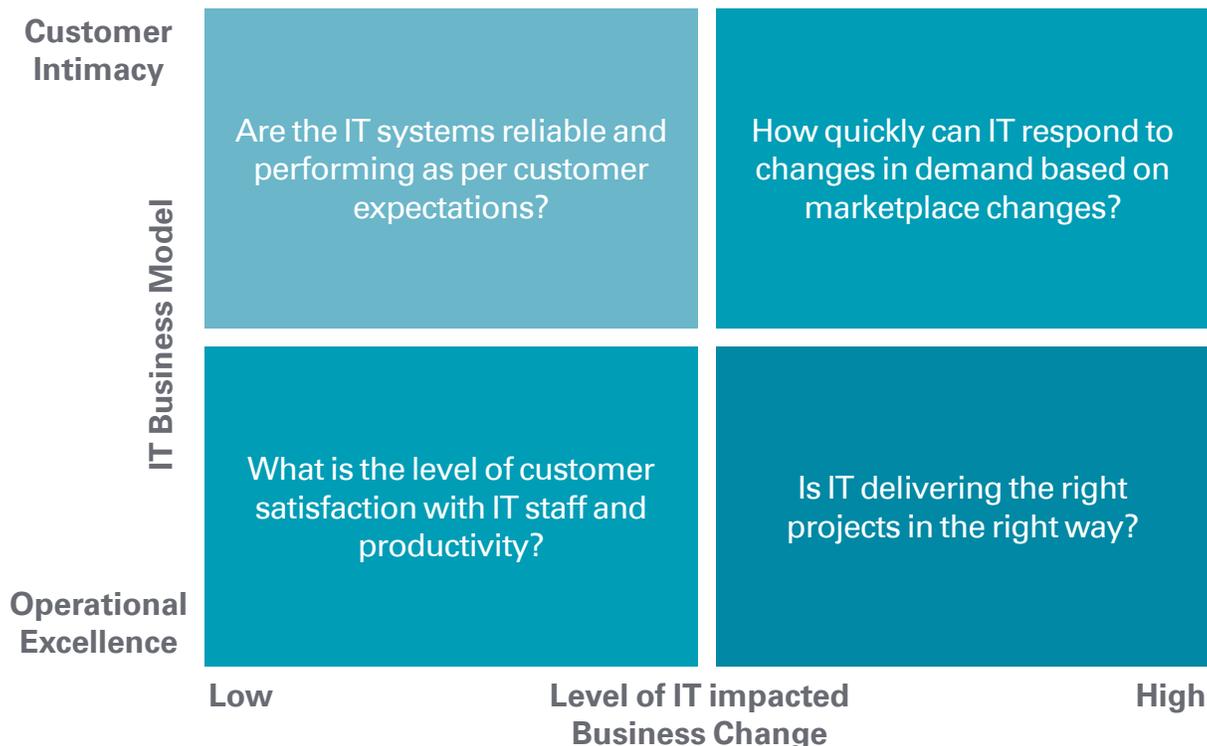
The danger is thinking that if some information is good, more information is better, which leads to information overload that can actually paralyze the decision-making process (i.e., paralysis through analysis). Our experience shows that there are plenty of systems out there that can be used to hone in on patterns, trends, and opportunities within the IT environment, but being able to actually construct an effective dashboard for an IT leadership team is not something that inherently comes from a technical platform. It comes from looking at the key characteristics that we want to measure, defining the appropriate metric(s), locating the source of the relevant data within the organization, determining the most efficient means

for aggregating, correlating, and understanding the trends and implications, and finally designing a compelling format in which to present it.

A KPMG-developed framework, called the Intelligent Enterprise, helps business leaders get the right information at the right time from the right sources. This framework can also be applied to the IT organization. In a nutshell, it can define the right KPIs and strategic measures as a function of your business and IT strategy. These KPIs may not necessarily be discrete data points. What they should be are strategic indicators of performance.

KPIs for the IT organization are all about getting the basics right and establishing an environment that has a data hierarchy aligned around the IT organization's goals and objectives. Today, the big opportunity for IT is about finding the most efficient and effective way to deploy the resources of the IT organization as a whole to deliver the best results for their business customers. And that's not a challenge that requires the most sophisticated big data analysis techniques; it's organizational, using the right KPIs to track the things that truly move the needle for the IT function (see figure 1).

Figure 1: Organizational factors require answers to different questions



Thus, asking the right questions is vital to identifying the right KPIs. For example, in the simplest sense, an effective IT organization should be doing the right projects and should be doing them well. That's a simplistic strategic indicator, but it can be quite profound in terms of asking, "What do you mean by the right projects?" "How do we go about portfolio selection?" "What percentage of projects in the portfolio get cancelled in their evaluation phase, versus those that actually get stopped later in the execution phase?" Those types of relationships begin to indicate that the IT organization is simply chasing too many requests and failing to focus in on the things that deliver the most value.

Another example is about project execution. "Are we doing projects well?" What does that actually mean? Is it a question of budget, timeliness, quality, expertise, or determining what the right balance is among those things, and then looking for the available data points within the IT organization's various systems in order to create those rollups?

And what about the balance between how much you are spending on projects versus how much you are spending to do projects well? In a recent client example, a CIO under pressure to make significant reductions in a multibillion-dollar federated IT organization was able to demonstrate the direct impact that the increased expenditures in program management and PMO capabilities had on the health of the project portfolio over three years. The net result was that the conversation shifted from, "Why are we spending so much money on non-line-of-business IT services?" to "How much additional risk are you willing to accommodate in your project portfolio?"

Ultimately, the goal is to hone in on those five to 10 truly strategic indicators that then create the underlying mechanism that can aggregate the 50 data points or specific measures that inform those indicators. This relatively short list of metrics could be automated or could be a manual exercise presented in an Excel spreadsheet or PowerPoint slide deck. The technical component is less important than truly honing in on those things you need to keep track of in order to make sure you are making the right choices as an IT leader.

Getting started

Identifying the right metrics for the dashboard begins by asking the right strategic questions. For example, a major oil and gas company was facing continued cost optimization pressures in its upstream business, causing leaders to question whether capital expenditures were being maximized across the organization. The question the CIO asked was, "Is the IT organization delivering the right projects in the right way?" In other words, are the projects that IT is working on the ones

most closely aligned with the business strategy to produce the best outcomes, and is IT executing those projects on time, on budget, and with a high degree of quality? The KPI is "Project Performance," measured across two dimensions:

1. Right projects (alignment and value)
 - a. Metric: percent of projects aligned with the organization's strategic plan/initiatives
 - b. Metric: percent of projects stopped in the evaluation phase versus the execution phase
 - c. Metric: percent of project that meet or exceed the business case value expectation
2. Right way (budget, schedule, quality)
 - a. Metric: percent of project phases completed on time
 - b. Metric: percent of projects achieving quality targets
 - c. Metric: percent of projects at or under budget

A major online retail organization had a strategic growth initiative to expand into new markets. Because new markets would add pressure to the IT organization and systems, business leaders and the CIO looked at how well the IT organization was performing and how well current systems were running to determine whether the expansion could be handled, and take appropriate steps as necessary. The question they asked was "Are the IT systems reliable and performing as per customer expectations?" In this case, the KPI is "Systems Performance." And again, performance is measured across two dimensions:

1. Reliable systems
 - a. Metric: percent of applications not covered by external vendor support agreements
 - b. Metric: percent of hardware units not easily procured/replaced through strategic vendors
 - c. Metric: number and duration on unplanned outages
2. Customer expectations
 - a. Metric: percent of SLAs met or exceeded
 - b. Metric: number of complaints logged related to system issues

A good CIO dashboard will contain high-level metrics linked to IT's strategic objectives, and should include financial, operational, customer, and IT organizational categories and a mix of leading and lagging indicators that provide insights to both past and future performance.

Next steps



Once the basic KPIs and metrics are identified, focus can turn to the next steps in developing the management process for Intelligent IT.

- **Start with the requirements.** What questions do you need to ask, and what actions will you take with the answers? This will frame the information requirements, the level of aggregation required, the type of supporting narrative needed, and the timeliness/quality of components.
- **Source and cleanse the data that will form the basis of the metrics.** While IT may have access to large amounts of data, it most often is contained in a range of disparate functional data silos such as CMDBs, service desk tickets, systems and network management applications, budget and financial systems, ad hoc spreadsheets, etc. Source data required for the metrics will have to be identified, extracted, and verified before it can be used in a dashboard. and don't forget to ensure your third parties are appropriately contracted and incentivized to provide quality data as well.
- **Define an efficient means of aggregating it.** Once the data has been sourced and verified, a process needs to be developed to extract the data and produce the metrics. In some cases there may be a direct relationship between the data and the metrics, but in other cases producing the metrics may require calculations or other forms of manipulation.
- **Determine an ongoing process for ensuring its meaningful use over time.** Once produced, use of the dashboard must be embedded in the ongoing management of the IT organization. Review of the dashboard should become a standard agenda item for IT leadership meetings, accountability for performance against the metrics should be distributed among the executive team, and executives' individual performance and compensation should be at least partially linked to the dashboard metrics. Eventually, the dashboard should become an integral part of the organizational culture.
- **Analyze and present the information in a form that is useful for identified stakeholders.** The performance of the IT organization as measured by the dashboard has usefulness beyond IT leadership. The dashboard (or derivations from it) should be shared regularly with the entire IT organization. It can also be used to communicate IT performance to business leaders, the CxO suite, and the board of directors. Thought should be given to developing a range of formats matched to the intended audience.
- **Decide which analytical method and tools are most appropriate.** The dashboard may be produced entirely via a manual effort using a combination of Excel spreadsheets and PowerPoint slides. Over time, as metrics are refined, the audience grows, and their use becomes ingrained in the culture, it might prove to be more efficient to make the investment in technology to automate the entire process.

How KPMG can help

KPMG's Intelligent Enterprise methodology helps us work with business leaders who need to determine what information is critical to running their operations. We use our IT analytics capabilities to work on the same questions with CIOs. In both cases, we leverage our industry experience and knowledge, our KPI libraries and methodologies, and our IT capabilities to help leaders determine what data is truly valuable, and then develop effective dashboards that produce meaningful results without straining available resources.

To help their IT organizations evolve as true business partners, CIOs need a process for aligning IT strategies with corporate strategies, defining appropriate KPIs, and establishing pragmatic reporting and governance frameworks. KPMG has helped many CIOs and their IT organizations enhance their business value. Contact us to discuss how we can help you.

Contact us

Matt Bishop

KPMG LLP, CIO Advisory

Principal

T: 214-840-2749

E: mbishop@kpmg.com

Marc Snyder

KPMG LLP, CIO Advisory

Managing Director

T: 978-807-0522

E: msnyder@kpmg.com

David J. Conroy

KPMG LLP, CIO Advisory

Managing Director

T: 713-319-2011

E: dconroy@kpmg.com

www.kpmg.com/us/IT



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2014 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International. NDPPS 317334