Effectiveness vs. Efficiency: Getting True Business Impact from IT

Learning Session  376
Rationale for IT Effectiveness

- There is significant cost pressure across all industries:
  - The Affordable Care Act (ACA)
  - High Unemployment
  - Global Competition
  - Increased Regulation (Dodd-Frank, IFRS, etc.)
  - Rate pressures in government programs (i.e. Medicare, Medicaid)

- As revenue and profits are being squeezed, administrative expense reduction is a consistent theme. On the other hand, there is a continued backlog of work that must be done to address new products, regulations, efficiencies, and competitive issues. Essentially every organization is working to ensure expenses are being spent judiciously. Every organization is asking, “What am I getting for the dollars?”
IT under pressure:

*McKinsey Global Survey results*

“Recognition of IT’s strategic importance is growing, but so is dissatisfaction with its effectiveness, according to our eighth annual survey on business and technology strategy:

- Respondents are more negative about IT performance than 2012
- IT executives judge their own effectiveness more harshly than their business peers”
IT has become less effective at enabling business goals.

% of respondents who say IT facilitates abilities somewhat or significantly\(^1\)

**Areas where IT facilitates organizations’ ability to meet objectives**

- **Share knowledge**
  - 2013: 71%
  - 2012: 78%
  - 2011: 77%

- **Create new products**
  - 2013: 49%
  - 2012: 62%
  - 2011: 59%

- **Deliver year-over-year productivity gains**
  - 2013: 65%
  - 2012: 71%
  - 2011: 72%

- **Enter new markets**
  - 2013: 37%
  - 2012: 57%
  - 2011: 57%

- **Track customer- or segment-level profitability**
  - 2013: 62%
  - 2012: 71%
  - 2011: 67%

\(^1\)Respondents who answered “no effect,” “inhibits,” or “don’t know” are not shown.
Survey – Roles

Greater than 70% IT background

73.1%

26.9%
Does your IT department have Service Level Agreements in place?

Almost 80% have some SLA’s
Is IT included in the business strategy sessions?

Majority of IT is engaged in the business strategy
Is your 2014 IT budget higher or lower than 2013?

Majority saw Budget increases

- Lower: 18.2%
- 0-2% increase: 27.3%
- 3-4% increase: 27.3%
- 5-6% increase: 18.2%
- > 6% increase: 9.1%
Does your IT Department have Key Performance Metrics (KPI's) that you report on?

Almost 80% have some KPI's
Do your business units/executives believe that your IT function is cost conscious?

37% believe the business areas believe IT is cost conscious.
How does your IT organization define IT effectiveness?

38% have a somewhat formal definition of Effectiveness.
Does your IT organization have an approach or method to evaluate and report IT effectiveness?

47% have a somewhat formal method to report IT Effectiveness.
How does the business define IT effectiveness?

30% have formal understanding of how business defines Effectiveness.

- 1 - No definition
- 2
- 3 - Informal definition
- 4
- 5 - Documented definition and goals
How does the business rate IT effectiveness in adding business value?

- 50% rate
- Somewhat Effective in providing value
- 10.0%
- 10.0%
- 15.0%
- 25.0%
- 40.0%

1 - Not very effective
2 - 3 - Somewhat effective
4 - 5 - Very effective in helping the business be successful
Conflicting Results

More have a defined reporting process than a definition of Effectiveness

47% have somewhat formal method to report IT Effectiveness

38% - somewhat formal definition of Effectiveness

More believe business has high rating of Effectiveness than have Business definition of Effectiveness

50% rate Somewhat Effective in providing value

30% have formal understanding of how business defines Effectiveness
Many organizations focus on measuring and monitoring “efficiency.” Organizations that focus solely on costs and other “efficiency” measures will likely struggle to meet all of the challenges facing their industry.

We believe that significant focus should also be placed on “effectiveness.” It is likely that investments in IT and service will need to increase over the next several years...most organizations will find this acceptable ONLY if they clearly understand the value from their investments.

Efficiency means “doing the thing right” Effectiveness means “doing the right thing” Balance is the key!

Efficiency: The ability to do something or produce something without wasting materials, time or energy; the quality or degree of being efficient.

Effectiveness: The degree to which objectives are achieved and the extent to which targeted problems are solved in contrast to efficiency, effectiveness is determined without reference to costs.
Effectiveness Results

**Improve Operational Efficiency: “Do Things Right”**

- Increase resource capacity
- Improve processes
- Improve productivity, quality, and cycle time
- Reduce unit and process costs
- Increase revenues

**Improve Strategic Effectiveness: “Do The Right Things”**

- Reduce / eliminate unprofitable / low value activities
- Shift customer demand to more profitable activity
- Improve customer experiences and retention
- Improve product design
Are you convinced you are “doing it right”? 

How do you determine:

- Evaluate yourself
- Get help from a benchmark service
- Engage a knowledgeable consultant

Evaluate:

- Are all the teams following the same procedures?
- Are costs under control? Are you staying under budget?
- Are system availability and performance adequate?
- Are the proper controls in place?

Effectiveness must be evaluated through the eyes of the consumers of IT service
Self Assessment

- Are business processes being made more efficient thru technology deployment?
- Are complaint calls reducing over time?
- Is every new employee that is brought “on-board” done in a timely fashion?
- Is there a formal process for project prioritization?
- Does every project have a business sponsor?
- Is there a cost benefit analysis performed to assist in project prioritization?
- Are you viewed as cost center or as a value add?
Effect IT Tool

- Examines how the effectiveness of services are perceived surrounding five key components of IT delivery:
  - Governance
  - Project Delivery
  - Support and Maintenance
  - Availability
  - Innovation

- Each component is examined using a RATER Tool to identify gaps in:
  - User Perceptions
  - Capabilities
  - Areas of Focus
  - Disconnects
    - Business
    - IT
The RATER* Model:

1. Reliability – the ability to provide the service you have promised consistently, accurately, and on time
2. Assurance – the knowledge, skills, and credibility of staff; and their ability to use this expertise to inspire trust and confidence
3. Tangible – high quality, or appearance of high quality in the physical aspects of service delivery. Can include documents, presentation, facilities and packaging
4. Empathy – the extent to which IT displays concern and values employees and customers
5. Responsiveness – the ability to provide effective answers and solutions quickly or within needed expectations

*Source: Delivering Quality Service…, Zeithaml et al, 1990
Service Metrics

- Establish a set of baseline service metrics that will be used for trending and analysis
  - Efficiency metrics (i.e. support cost per PC, data center benchmarks)
  - Effectiveness metrics (i.e. cost savings for the business area, reduction in claims backlog, reduced hold time in the call queue)
- Utilize the metrics to manage the business, not shelf ware
  - Internal IT only due to their technical nature
  - External to demonstrate business relevance and value
- Key performance indicators (KPI’s)
  - These should matter by business and shared with the business on periodic basis
  - Look for ways to view things from IT consumer view
Communications

- Utilizing the R.A.T.E.R data, establish a periodic meeting with business units
- Utilize Service metrics to demonstrate how IT empowers the business
- Utilize Service metrics and KPIs to support how IT protected the business (i.e. controls, security, etc.)
- Discuss business vision, assess the business benefit (tie IT activity to supporting the business vision)
- Discuss issues, successes and projects
- Discuss key projects in other areas even if there is no direct impact

*Early to rise, work like heck and advertise….orem ipsum dolor*
General Thoughts

- The business needs to own the scorecard as to whether the right things are being done
- IT can be an enabler
- The business must be kept in the loop
- Keep asking the question “Are we doing the right things?”
- Are new KPI’s warranted?
- What else is occurring in the industry?

Focus on what matters to the business unit
Effectiveness:

Discussion
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