Projecting, Monitoring and Measuring Business Value

Enterprises perennially search for reliable methods to project, monitor and measure the performance of IT and other business initiatives. Gartner defines a straightforward process model and techniques to operationalize it.

Management Summary

Most enterprises have a fragmented approach to assess and track the performance of their business initiatives. Their processes have been designed for individual tasks — assessing benefits, monitoring progress or measuring results — and there is little or no integration across these processes. Similarly, a plethora of tools and frameworks have been built to analyze or measure the inputs and outputs of each process. These tools and frameworks also lack integration on many levels, including their terminology and technologies. The end result is that overall performance monitoring of IT and business initiatives is not usually credible or actionable. The performance indicators are unreliable and difficult to interpret; thus, the visibility into the performance of individual initiatives is low and visibility across multiple initiatives is often nonexistent.

At its heart, monitoring the performance of business and IT initiatives requires two essential elements:

- **A Process Model:** Enterprises need a coherent model of the processes required to assess, measure and monitor how business initiatives create and leverage value. The model should represent the individual processes and the relationships among them. The model should be linked to and supportive of the enterprise's strategic direction.

- **Operational Support for the Process Model:** Enterprises also need robust frameworks and tools that operationalize each process and the overall model. This operational support provides credible visibility into the business performance of individual initiatives and across multiple initiatives.

Gartner defines the process model for business value creation to include five individual processes (see Figure 1).
1. Define Value Objectives
2. Establish Business Performance Goals
3. Measure TVO of Individual Initiatives
4. Develop Performance Scorecards
5. Assess Scorecard Results and Adjust the Process Model

**Enterprise Strategy:** Strategy drives the model and the model supports the strategy.

Source: Gartner Research

**Figure 1. Gartner’s Process Model for Business Value Creation**

Each of the five processes has a distinct role in supporting the analysis of and visibility into the performance of business initiatives. Each of the processes also requires operational support in the form of frameworks or analytical tools — these may come from multiple sources, including Gartner (for example, TCO models), other business experts (for example, Norton and Kaplan's Balanced Scorecard) and the enterprise (for example, self-developed tools and frameworks).
CONTENTS

1.0 Overview and Definition of the Five Processes .................................................................5
1.1 Process 1: Define Value Objectives ..................................................................................5
1.2 Process 2: Establish Business Performance Goals .........................................................6
1.3 Process 3: Measure TVO of Individual Initiatives .............................................................8
1.4 Process 4: Develop Performance Scorecards .................................................................9
1.5 Process 5: Assess Results and Adjust the Process Model ...............................................9

2.0 Conclusions ......................................................................................................................10

Appendix A: Acronym Key .....................................................................................................11
FIGURES

Figure 1. Gartner’s Process Model for Business Value Creation .......................................................... 2
Figure 2. Defining Value Objectives ..................................................................................................... 6
Figure 3. Holistic Business Performance Measurement ......................................................................... 7
1.0 Overview and Definition of the Five Processes

1.1 Process 1: Define Value Objectives

Value objectives are derived from the enterprise's strategic goals for the markets, products, operations, workforce and business models they will pursue. Value objectives are defined on an enterprise level to address two concerns:

- What current value assets are available that can be invested to accomplish strategic goals? Value assets go beyond the traditional view of the enterprise's assets (financial and physical assets) to include many intangible or intellectual assets — including employee knowledge, delivery channels and networks, and customer intelligence (for more information, see "A Taxonomy of Intellectual Capital," COM-17-1985). To respond to this concern, the enterprise must perform an inventory of the value assets that it can "invest" toward strategic goals.

- Which value assets are required but not available? These gaps in enterprise competencies, delivery channels, customer intelligence, market intelligence, higher financial returns and other factors must be filled to accomplish the strategic goals.

Thus, an enterprise's value objectives extend beyond simple financial returns to include and overtly emphasize nonfinancial and synergistic forms of value — knowledge capital, business models, critical business processes, and sophisticated technical and human networks. This expands and extends the vision of value creation and improves the justification for investments in IT or other business initiatives (see "Where Is the Value on Investments in IT?" SPA-17-2345, and "Changing the View of ROI to VOI — Value on Investment," SPA-14-7250).

The example in Figure 2 illustrates the process of defining value objectives and how they are linked to strategic objectives, value assets and individual business initiatives.
A U.S. enterprise’s business strategy includes establishing a new market presence in Japan.

For this undertaking, the firm’s value objectives include:
1. In-depth knowledge of the new market and its customers
2. Delivery channels for sales, product distribution and service
3. Market-specific competencies in all their business units
4. Business processes that are uniquely configured for the new markets, products and support

The enterprise inventories its value assets:

1. It identifies the following current value assets that can be applied to the strategic goal:
   - Five percent of key managers have in-depth knowledge of and experience in Japanese markets
   - One of the firm's five current products is considered attractive to the Japanese market
   - One current Japanese-market-focused supply chain relationship is in place
   - Money has been designated to develop the market

2. The firm also identifies the following gaps in the value assets required for this strategy:
   - Fifty percent of managers across all business units will be required to have expertise in the new market
   - Three additional products need to be enhanced to meet the market requirements
   - One product can be fully supported by the current supply chain relationship; the other three will require new or substantially upgraded relationships

The firm then defines a series of business initiatives to accomplish the strategy by leveraging the current value assets and filling the asset gaps.

- Some initiatives are direct — For example, buy a firm with an established market presence, including product delivery channels, service support and a sales force.
- Other initiatives are indirect — For example: 1) Build a business intelligence program to discover customer wants and needs; use this intelligence to adapt current products. 2) Build a competency development program to fit the new market; use this program to develop manager expertise.

Source: Gartner Research

**Figure 2. Defining Value Objectives**

Value objectives define the enterprise-level goals for the physical, financial and intangible assets required to accomplish the firm's strategy. Value objectives are fulfilled through multiple individual business initiatives that are designed to leverage current value assets or to build capabilities that fill gaps in value assets.

1.2 Process 2: Establish Business Performance Goals

The second process in our model bridges the gap between enterprise-level methodologies (for example, setting strategic goals or defining value objectives) and the methodologies to manage the performance of individual projects or initiatives. Establishing business performance goals provides the structure for an enterprise to accomplish three activities:

- Set performance objectives on an enterprisewide or individual initiative level
- Choose the relevant and appropriate metrics for these objectives
Continuously measure the overall effectiveness of the selected business activities

As such, business performance goals include a set of precisely defined performance metrics. As with value objectives, the metrics must extend beyond financial reporting measurements to include nonfinancial asset creation or leverage. Thus, these business performance goals represent a complete and holistic view of the performance and effectiveness of an enterprise's business operations (see "Focusing Purely on Finance Is Bad for Your Financials," http://www.gartnerg2.com/rpt/rpt-0902-0157.asp).

Most business performance measurements focus on specific initiatives and tangible assets (shown in the lower left quadrant of Figure 3); however, the scope of holistic business performance measurement is as represented in Figure 3.

![Holistic Business Performance Measurement](image)

**Figure 3. Holistic Business Performance Measurement**

Note: In Gartner's process model, this holistic scope is assumed throughout.

Process 1 (Define Value Objectives) assumes the full range of assets from intangible to tangible on an enterprise basis (this is shown by the top half of the chart). Process 2 (Establish Business Performance Goals) builds the framework for this overall holistic view (all quadrants). Process 3 (Measure TVO of Individual Initiatives) focuses on the lower half of the chart. Finally, Process 4 (Develop Performance Scorecards) advocates an individual initiative view (in the lower half of the chart) and comprehensive roll-up of initiatives to an overall enterprise view (all quadrants).

Gartner's Business Performance Framework is one technique for establishing business performance goals and the associated metrics. This framework guides enterprises in building their business performance metrics through three successive levels of decomposition of their business operations:

- **Level 1**: Business operations are broken down into three business aspects. Collectively, these business aspects represent all of the actionable activities performed within an enterprise:
  - *Demand management* is all the actionable activities involved with generating demand for the products and services offered by the enterprise.
  - *Supply management* is all the actionable activities directly involved with satisfying demand for the products and services offered by the enterprise.
Support services are all the other actionable activities involved with supporting the enterprise (that is, providing services to internal clients at a cost and quality that is acceptable to its clients).

- **Level 2:** Each business aspect is decomposed into its relevant aggregate measures of performance. For example, the demand management business aspect is composed of three aggregate measurements: market responsiveness, sales effectiveness and product development effectiveness.

- **Level 3:** The aggregate measures of performance are decomposed a final time into their "prime" metrics. Extending the demand management example, the market responsiveness aggregate includes prime measurements such as a market share index, an opportunity/threat index or a product portfolio index.

With these techniques, an enterprise can select the metrics that are most appropriate for its industry or business model. These metrics are then applied, customized and refined for each business initiative in the next stage of the process model (see "Gartner Business Performance Framework v1.0: The Enterprise Reference Model," http://www.gartnerg2.com/wp/wp-0902-0003.asp).

### 1.3 Process 3: Measure TVO of Individual Initiatives

This process assesses the "total value of opportunity" (TVO) of an investment. TVO is a metrics-based approach to measuring the business performance of an individual IT or other business investment. TVO includes components that address business initiative costs, benefits and other relevant factors of risk, time and conversion effectiveness (which is an assessment of an enterprise’s ability to convert projected value into actual business benefit).

Assessing the TVO of an individual initiative includes four components:

- A cost/benefit analysis: The cost analysis is done on the basis of total cost of ownership (TCO) principles to ensure that the visible, hidden, one-time and recurring costs of the initiative are all included. See "The Total Cost of Ownership Index: Defining the Database," TU-18-1381, for a summary of TCO approaches for distributed computing. The benefits identified are mapped against a holistic framework of business metrics, which represent all of the business activities of an enterprise (as described in section 1.2, above).

- Value analysis: A complete value analysis must quantify the value that a successful initiative would deliver to the business at a future time. Value quantification schemes must be applied to all the value assets created by the initiative.

- Organization diagnostics: These diagnostics include three types of risk assessment — business, management and technology. IT initiatives are also measured against enterprise needs in five areas: strategic alignment, risk, direct payback, architecture and business process.

- Best practices: The ongoing monitoring of the value delivered against the value modeled through the standard set of business metrics that enable an enterprise to judge its own ongoing "conversion effectiveness" against similar initiatives undertaken in the past, and against other enterprises using similar methodologies and measures.

Gartner has developed a TVO measurement tool that automates the definition of business performance goals and the associated metrics for individual business or IT initiatives (see "The Total Value of Opportunity Approach," DF-17-0235).
1.4 Process 4: Develop Performance Scorecards

Scorecards provide a view of the overall expected performance vs. actual performance. In our process model, scorecards are used to assess the linkage of strategies, goals and objectives to the actual results of business initiatives. Scorecards include four components:

- **Metrics**: These are defined through the processes described in sections 1.2 and 1.3. Expected metrics should be established at the inception of the initiative. These are derived from strategies, goals and objectives. Metrics are continually updated to reflect current activities, priorities or objectives.

- **Performance Data**: This data is collected through various techniques, including automated monitoring, qualitative surveys, status reporting and other approaches. This is often the most challenging activity in the scorecard process, as many nonfinancial activities must be "measured" using qualitative, rather than quantitative, methods.

- **Calculators**: Calculations are needed to convert and translate raw data into actual performance metrics. The calculators must produce actual metrics that can be accurately compared to the expected metrics.

- **Reports**: Reporting must provide meaningful presentations and accurate interpretations of targeted vs. actual performance.

Ideally, scorecards should be implemented on multiple levels to assess the performance of individual business initiatives, multiple initiatives where high interrelationships exist among them and overall enterprise business performance.

The most-often-used scorecard model is "The Balanced Scorecard," which was developed by Norton and Kaplan. This model combines financial and nonfinancial measures of performance, and also includes financial objectives and other critical business aspects (see "Enterprise Reporting Must Include Intangible Assets," COM-16-0117, and "The Unbalanced Enterprise Is More Able to Stay on Course," TU-15-9477).

1.5 Process 5: Assess Results and Adjust the Process Model

The final stage of the process model is to learn from the process of monitoring and measuring the performance of business and IT initiatives, that is, continually evaluate results, update best practices across the process model, adjust strategic goals, refine metrics and so on. If the process model serves only as a set of sequential processes that provide historical views of performance, then most of your investment in the process model is lost. Projections, monitoring and measurement should be used to improve the performance of future business and IT initiatives as well as understanding current activities. Thus, results must be continually monitored and interpreted. Every process in the model should be evaluated for the continual improvement of practices, tools and decision-making based on these learnings.

Achieving the required business value from IT and other investments is a critical enterprise discipline. Choosing the right investments, reliably predicting results, understanding how to identify and rectify problems early in the initiative, and continually learning from best and worst practices of business activity are critical areas of organizational learning (see "Leading, Motivating and Supporting the Workforce of the New Knowledge Economy," R-14-4838).

Clear ownership for decision making within the process model is also critical. Ownership and governance ensure the linkage of processes to strategic direction, strong integration of processes across the model, completeness and accuracy of scorecards, and the appropriate application of results into future business
activities and strategy. Governance processes typically provide the methodologies for ownership and decision making (see "CIO Update: IT Governance Rules to Boost IS Organization and Business Unit Credibility," IGG-12042002-03).

2.0 Conclusions

All enterprises invest heavily in IT and other business initiatives, yet most have fragmented, unreliable or nonexistent processes to manage the performance of their investments. Enterprises need better visibility into the actual performance of these initiatives, a broader view of the value created and a credible source for organizational learning. Enterprises should take three key actions to build competencies in performance management:

- Adopt Gartner’s Process Model and develop a set of operational tools to communicate and manage the performance of business and IT investments. Adapt the model and tools to support your enterprise’s strategy and goals. Integrate your proven practices where feasible and defendable.

- Expand the vision of value on investments, business performance goals and business metrics to include intangible value creation, right from the start (at the enterprise strategy level).

- Learn from your experience with IT and business initiatives — define clear responsibility for integrating organizational learning throughout the process model. Ensure that the ongoing measuring and monitoring is happening, and that the feedback loops are actually used.
## Appendix A: Acronym Key

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<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ROI</td>
<td>Return on investment</td>
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<tr>
<td>TCO</td>
<td>Total cost of ownership</td>
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<tr>
<td>TVO</td>
<td>Total value of opportunity</td>
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<tr>
<td>VOI</td>
<td>Value on investment</td>
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