Enterprise and I&T Performance in the Digital Age

Published 3 December 2020 - ID G00727647 - 16 min read
By Analysts Joanne Kopcho, Deb Curtis

Initiatives: CIO Leadership of Strategy, Governance and Operating Models; IT Cost Optimization, Finance, Risk and Value

Organizations that have become digital businesses utilize an interwoven set of measurements to enable business performance and results. This level of ongoing enterprisewide learning and change challenges CIOs to continuously recalibrate strategy and execution.

Overview

Key Challenges

- Continual change across the enterprise (I&T and business) requires insight into enterprise, strategic and operational performance to efficiently refocus outcomes, capabilities and teams.

- Ongoing transformation and innovation require executive leaders to continuously bring the community together to co-create or change performance.

- Failure to determine or adjust performance, or make the right measurements, results in lost opportunities or failure to achieve enterprise objectives.

Recommendations

CIOs measuring performance within an operating model transformed for digital must:


- Utilize performance management practices to develop an enterprise mindset (culture), and co-create measurable value across accountable stakeholders.

- Continuously recalibrate performance by establishing frequent reviews to identify, sense and adjust execution, funding and talent to achieve business objectives.

Introduction

As organizations integrate digital into their business strategies, the 2019 Gartner CEO and Senior Business Executive Survey found that 43% introduced separate/distinct new digital products. Of those
that did, 70% reported that this resulted in delivering good/excellent results. Even so, for most enterprises, digital revenue is lagging aspirations. The 2021 Gartner CIO Survey found that, on average, 20% of revenue was achieved from digital business today, inclusive of digital channels. Becoming a digital business is complex and challenging, because the entire company must shift to being laser-focused on continuous strategy and execution to achieve enterprise performance goals. Digitally transformed organizations manage performance as part of the value-optimizing I&T operating model (see Digital Business Requires an I&T Operating Model That Unlocks Value and Drives Revenue Growth).

The value-optimizing operating model is iterative and centered around the frequent delivery of enterprise competitive differentiation. When applied, this operating model enables private- and public-sector organizations to successfully execute their strategy or mission rapidly and in new or changing ways.

Performance goals are equally managed top down to accountable parties for execution, with frequent bottom-up assessments for execution recalibration. Accountability for performance occurs within all levels of the organization. Top down, strategic goals are broken into required business outcomes and capabilities allocated across executives, leaders and teams. Bottom-up execution and delivery from shared team and leader accountabilities align to business outcomes or key performance indicators (KPIs). The organization’s enterprise operating model is transformed and focuses on achieving the strategy. Creating strategic performance will require all CIOs and executive leaders to look across multiple inputs and measurements. We have identified three tiers of performance the CIO must orchestrate in the digital age, shown in Figure 1.
Orchestrate Multiple Tiers of Enterprise Performance Management for Value

In Figure 2, three iterative practices emerge that CIOs will utilize to manage the tiers’ performance.
Figure 2. Three Iterative Practices for Digital-Age Performance Management

Three Iterative Practices for Digital-Age Performance Management

First, each tier within the performance system must identify an essential and integrated view of the practices, technologies and impact of the performance on strategy execution success. Across the organization, established stakeholder partnerships provide the picture of enterprise business performance as part of ongoing digital transformation. Innovation is celebrated, measured and enhanced. Performance management must include various and interwoven measurements. The measurements provide all organization levels insight from enterprise results (revenue growth, customer satisfaction) to operational execution success (product, service quality).

Next, CIOs must establish an enterprise mindset, working with other senior business leaders to co-create meaningful performance indicators that enable them to calibrate performance continuously. CIOs, now in the role of a CxO, and all other executive and senior leaders must orchestrate the continual alignment of talent (competencies, capabilities, resources) to achieve business performance.

Finally, orchestrating performance across executives, leaders and teams will require the performance management system to be continuously reviewed, and will necessitate more agility in reporting. Members of multidisciplinary teams (fusion teams) composed of IT and business stakeholders are held jointly accountable for frequent delivery of value or business results. The ability to connect from a tactical-level project or product delivery to strategic objectives and key results (OKRs) requires the value-optimizing level of maturity within reporting mechanisms (tools, data, ownership) and culture.

Analysis
Identify Enterprise Performance Management

Digital-age performance requires continual review of measurements and metrics across all levels of the enterprise. Performance management monitors and optimizes enterprise performance. Performance is one of the nine components within operating model patterns that Gartner has defined (see Designing and Implementing the I&T Operating Model: Components and Interdependencies). The performance component of any operating model establishes measurements and metrics which the remaining operating model components must enable or target.

Consequently, performance must be defined, measured and continuously reviewed in the context of enterprise performance and strategic performance (top two tiers of the pyramid in Figure 1). Within the value-optimizing I&T operating model, enterprise leaders focus on creating or evolving opportunities for clear enterprise strategic or competitive advantage. Joint accountability across integrated teams and leaders grows business revenue and enterprisewide competitive advantage through differentiated business capabilities. It’s not just the IT organization that must change, the entire enterprise behavior must adapt.

Digital businesses must integrate enterprise capabilities and business results. CIOs and executives will require an enterprisewide and transparent system that provides insight into what is happening across this integrated picture of strategy and execution. CIOs view all performance across the organization and together evaluate, communicate and take appropriate actions on strategy execution. This system is not necessarily a single set of technology and practices. The system is developed across a variety of enterprise mechanisms, technologies, practices and roles.

Measurements across each tier of the performance model in Figure 1 will provide the right level of visibility into different aspects of the enterprise. Separately or in conjunction, the tiers address specific performance from an operational to the strategic level, as defined in Table 1. As the value-based performance system evolves, CIOs and enterprise leaders must collaborate to establish clear objectives and direction for each tier.
Table 1: Multiple Tiers of Performance for Digitally Transformed Operating Model

Viewing partial table. Click here to view full table

<table>
<thead>
<tr>
<th>Tier</th>
<th>Characteristics</th>
<th>Nature of Performance</th>
<th>Related Performance Research</th>
</tr>
</thead>
</table>
| Enterprise Performance | C-suite and executive leaders are jointly measured (and compensated) on enterprise performance related to the organization’s strategic objectives and planned or anticipated results. | Enterprise strategic objectives  
Enterprise OKRs  
Enterprise financial results and priorities | How Executives in Transition Can Use OKRs to Deliver Better Outcomes  
Digital Metrics Library: Value Stories to Communicate and Measure Performance |
| Strategic Performance | Senior leaders and teams negotiate performance based on business-value-based strategic planning and execution (e.g., product, program, project, services). | Strategic KPIs, roadmaps, outcomes and benefits for products, programs and projects  
Business value/outcomes | Outcome-Driven Metrics for the Digital Era  
Define KPIs That Measure Digital Business Cost |

Source: Gartner (December 2020)

Recommendations:

- Assess how current performance measurements align to the enterprise strategy and business performance:
  - Define core objectives and direction for the future-state performance system and measurements utilizing inputs from the digitally transformed operating model tiers of performance.
  - Gather stakeholder feedback on how the current performance management tools and dashboards may need to be utilized.
  - Review where new enterprise measurements must be defined and implemented to provide insight into enterprise capabilities, KPIs and strategic results:
Co-create Performance Mindset and Accountability

In the value-optimizing I&T operating model, the CIO and other senior enterprise executives use leading indicators, focused on business outcomes. While important to business performance and objectives, leaders and teams need to understand that key performance indicators (KPIs) and other metrics have an underlying component — relationships. A recent Harvard Business Review article states, “KPIs need to reflect the fact that value creation is a two-way street (bottom up, top down) and that both sides of the transaction need to get something out of it.” CIOs, executive leaders, senior leaders and teams must co-create a set of performance measurements that align from all angles to create and preserve enterprise business value. In this approach, performance enables business outcomes that serve as leading indicators of enterprise performance improvement. Leading indicators can also highlight problems which, if left unmanaged, would ultimately lead to negative impacts on the enterprise (profit margins, customer satisfaction).

Just having the measurements defined is not enough, the measurement must be communicated. In Gartner’s 2020 Execution Gaps Survey, 35% of respondents indicated progress and ongoing achievement of the strategy execution not being communicated to all levels of the organization being a barrier to the execution of the current strategy. Monitoring strategic success requires determining how to utilize and communicate performance across the enterprise (see Master These Core Enterprise Capabilities to Advance Your Digital Transformation). In a digitally transformed organization, enterprise performance is co-created and connected from top-down and bottom-up insights.

There are two areas for success the enterprise must orchestrate:

- **Maintaining the digital mindset** — A digital mindset is a set of attitudes and behaviors that enable people and organizations to foresee possibilities. Within the digitally transformed organization, the digital mindset permeates from ideation through to delivery and results. The CIO, executive leaders, senior leaders and multidisciplinary teams continually and iteratively learn from the impact of
technology and business on strategic enterprise results. CIOs use their expertise to manage cross-cutting platforms and integration capabilities and competencies to accelerate the development of new digital initiatives and KPIs. Digital foundations are adjusted based on continual learning and recalibration gained from insight on each tier of performance outlined in Figure 1. Relationship building across teams and senior leaders creates a mindset of continual communication and understanding, thus, allowing teams to address incremental success or failure of KPIs immediately and make appropriate adjustments (scope, ways of working, performance, technology).

- Establishing authority and accountability for performance — Clear authority and accountability across each tier of performance for value is critical. Executives, the CIO, senior leaders and teams all partake in accountability within the tiers of performance, as outlined in Figure 3. Each member plays a role in how the organizational strategy is achieved. The organizational strategy outlines the overall enterprise business performance. The iterative progress of roadmaps, initiatives, and innovation is frequently reviewed and adjusted to ensure the desired outcomes are headed in the right direction. It is imperative to empower senior leaders (project, product and programs) and teams with the authority to make their own prioritization decisions. That authority and accountability will be accorded to multidisciplinary fusion teams and product teams to achieve their outcomes.

**Figure 3. Establishing Joint Accountabilities for Value-Based Performance**

---

In one Gartner study of digital transformer organizations, the program, project and product management perspective is core to how a private cosmetics manufacturing company executes (see Master These Core Enterprise Capabilities to Advance Your Digital Transformation). The enterprise works in agile sprints for IT software development and R&D chemical testing labs. Larger projects and initiatives are
multiphased with incremental value delivery in milestones measured in months, not years. Accountability for execution is assigned to key executives to ensure buy-in. To execute programs, products and projects, the company deploys leaders and multidisciplinary teams from around the company and contract labor. There is a clear hierarchy of teams and ownership.

Recommendations:

- Review how executives and leadership are creating and evolving relationships among multidisciplinary teams and senior leaders to accomplish outcomes.
- Develop and mature digital mindset capabilities for business benefits and business value realization across multidisciplinary teams.
- Review and assign accountable roles to co-create performance and measurement activities to ensure integration across multiple tiers is addressed.
- Monitor and refine roles and accountabilities as multiple enterprise functions provide leadership for various tiers of performance to determine where adjustments are required across tiers.
- Communicate performance and measurement strategy and improvement plans across executive stakeholders.

Continuously Recalibrate Performance and Execution

Traditional and often static performance management does not always provide insight into how an organization is adapting to uncertain and volatile changes. Value-optimizing organization performance enables fluid execution that adapts to changing business objectives or direction. Effective performance management is the compass that guides you in the right direction. Performance measures and objectives shape and motivate behavior. You have to deliberately and publicly recalibrate performance to make progress. The value of a performance metric is its ability to influence decision making and drive action to successfully achieve strategic execution.

Performance measurements are “living components” that trace or connect where and how the organization is performing. As you shift goals at the top of the pyramid in Figure 1, the bottom of the pyramid needs to be aware as to how that lines up with the changes at the top. Often, those measurements are changed or recalibrated within periodic business reviews, by monitoring transparent, real-time dashboards, outlined in the example in Figure 4.
Continual reviews must include how enterprise capabilities (programs, products, services) are responding in their environment or their ecosystem, and whether adjustments are needed. Reviews are conducted quarterly, monthly or as frequently as needed based on delivery and execution results. Performance objectives focus on strategic achievement and goals (cost reduction, market share, customer retention).

Executive leaders, senior leaders and teams must establish proactive reviews of progress, including how value or benefits are incrementally addressed. Reviews further highlight where connections across each tier are aligned, or misaligned, when supporting overall business performance. As part of real-time and periodic reviews, CIO and executive leadership must include performance review as part of governance practices. Key triggers are defined and adjusted as performance is reviewed to ensure alignment from strategy, business performance down through operational performance. Triggers could include a variety of expected and unexpected results (unintended behaviors, enterprise capacity, business process throughput, estimated objectives, measurable outcomes).

With the same digital transformer research study, executives within the same private cosmetics company established weekly meetings to assess execution and any issues, problems, risks and disruptions they may be facing. They may reprioritize activities or initiatives and change resource allocation during these meetings. But monitoring is not just a weekly activity — they have real-time dashboards so that everyone knows how they are doing at all times and has predictive advanced notice of any potential slippage (see Master These Core Enterprise Capabilities to Advance Your Digital Transformation).
Recommendations:

- Utilize practices and tools to enable real-time, proactive and even predictive reporting of performance.

- Establish practices to identify and address trigger escalations based on thresholds to ensure more proactive reviews of enterprise performance across a variety of initiatives (product, project, program and services).

- Integrate governance practices to include dashboard inputs as additional inputs or triggers for new or changed planning or delivery decisions.

Evidence

1. 2020 Gartner CEO Survey: The Year of Recession, see Figure 12: Digital Business Strategy Options That CEOs Have Used, 2020 Compared to 2017 and Figure 13: CEOs’ Perceptions of the Quality of Results From Digital Business Strategies.

The 2021 Gartner CIO Survey was conducted online from 14 July 2020 through 14 August 2020 among Gartner Executive Programs members and other CIOs. Qualified respondents were each the most senior IT leader (CIO) for their overall organization or a part of their organization (for example, a business unit or region). The total sample was 1,877, with representation from all geographies and industry sectors (public and private). The survey was developed collaboratively by a team of Gartner analysts, and was reviewed, tested and administered by Gartner's Research Data and Analytics team. Disclaimer: Results do not represent "global" findings or the market as a whole but reflect sentiment of the respondents and companies surveyed.

Respondents were asked, "What percentage of your organization's total revenue would you attribute (or expect) as digital sales revenue in 2018, 2020 and 2022?"


Survey Analysis: How Execution Gaps Impact Strategic Execution Confidence — 5 Key Success Drivers

This study was conducted to establish and confirm the presence of “execution gaps” between three primary approaches, stances and domains of authority — executive, leadership and management — which, when imbalanced or not applied in the right way at the right time in a strategic execution or organizational transformation, significantly impact, slow or curtail these efforts.

The research was conducted online June through July 2020 among 194 respondents from North America, Europe, APAC and mainland China across all industries, with $1 billion or more in annual revenue. Respondents were screened for direct involvement in the transformation or strategic (change of strategic direction) execution — leader or member of a team dedicated to transformation/strategic redirection program. The study was developed collaboratively by Gartner analysts and the Primary Research Team.
Q. Have you experienced, or anticipate, any of the following executive-related challenges or situations during the execution of the current strategy? Thirty-five percent indicated progress and ongoing achievement not being communicated to all levels of the organization as a challenge during the execution of the current strategy.

Q. How confident are you that your new/current strategic plan will achieve the desired business outcomes? Rating on a scale from 1 to 7. Forty percent rated very confident and the survey identified the key drivers and their impact on confidence in current strategy execution:

- Effective and proper communication of progress and ongoing achievement to all levels of the organization — Factor 2.9x positive impact on confidence
- Establish a formal process to regularly review the goals, strategy and the strategic plan during execution — Factor 2.2x positive impact on confidence

5 What Is a Digital Mindset and Why Is It Important? KNOLSKAPE.

Recommended by the Authors

The 9 Rules for Demonstrating the Business Value of IT
Digital Business Requires an I&T Operating Model That Unlocks Value and Drives Revenue Growth
The CIO's Guide to Powerful Strategic Contribution
Leveraging Digital Product Management for Digital Business Transformation and Optimization
Evolve From the Quarterly Business Review to Continuous Agile Governance
Executive Summary Video: Introducing Outcome-Driven Metrics for the Digital Era
Executive Summary Video: Developing Outcome-Driven Metrics for the Digital Era