**Mastering the Management System**

**Leading Question:** How can managers avoid the performance trap: poor short-term performance kills good long-term strategy?

**Summary:** Companies have difficulty balancing pressing operational concerns with long-term strategic priorities. The tension is acute: World-class processes won’t lead to success devoid of the right strategic direction, and McKinsey level strategy will go nowhere without the operational ability to execute. To address this dichotomy, Robert Kaplan and David Norton have created a framework to explain how to manage and link operations and strategy within a closed-loop management system. The system has five stages: (1) Strategic development, a company creates its mission, vision, and value statements from analysis of its strengths, weaknesses, and competitive environment; (2) Translate the strategy, executives translate the dream into reality by using roadmaps, scorecards, and performance metrics; (3) Plan operations, executives operationalize their roadmap by preparing resources, capacity plans, and budgets; (4) Monitor and learn, managers act on the plans and adjust to actual conditions through monitoring and dynamic learning; (5) Test and adapt the strategy, the strategy team tests their assumptions by analyzing cost, profitability, and correlations between strategy and performance.

**Discussion Points:**
- 60% to 80% of strategies fall short of predicted success
- Gresham’s Law: Bad operations drive out discussion about good strategy implementation
- PESTEL Analysis: Political, economic, social, technological, environmental, and legal factors
- 15 - 25 objectives of managers can be reduced to a one page strategy map
- StratEx: funds that should be allocated to strategic expenditures

*Concept by:* Harvard Business Review (Jan 2008) - tinyurl.com/5vduls7

Robert Kaplan – Professor at Harvard Business School
David Norton – Founder of the Palladium Group
**Best Practices in IT Portfolio Management**

**Leading Question:** How can your organization maximize its IT investment with a framework?

**Summary:** Most organizations struggle to show business gains from investments in information technology. The IT portfolio management (ITPM) maturity model seeks to address the challenges of delivering tangible benefits from IT projects. This model has four stages: Ad hoc, defined, managed, and synchronized. Ad hoc companies make investments that are uncoordinated, chaotic, and misaligned. Defined companies have defined key components of their portfolios and coarsely estimated the cost and benefits of each element. Managed companies have standardized process that enables objective project selection with a link to business strategy. Financial metrics are established and calculated for major projects. Synchronized companies match their IT investment with strategy. They are able to assess risk and reward, balance portfolios, and eliminated underperforming projects.

**Discussion Points:**
- $780 billion was spent on IT in the US in 2002
- 68% of IT projects were not on-time or on-budget
- There is a statistical link between synchronized ITPM and return-on-asset performance
- $150 billion of IT projects failed between 2002 and 2004
- 17% of companies run in the most mature stage of ITPM

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<th>Factor</th>
<th>Defined</th>
<th>Managed</th>
<th>Synchronized</th>
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<tr>
<td>Advanced Valuation</td>
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<td>Inclusion of qualitative option value in funding decisions; monitoring of project's earned value in deployment.</td>
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<td>Feedback Mechanism</td>
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<td>Feedback on IT alignment with strategy — score cards evaluate each project.</td>
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<td>Benefits Measurement</td>
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<td>Tracking of project benefits after project development is complete; measurement of IT value through the full project lifecycle.</td>
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<td>Active Portfolio Management</td>
<td>Annual review sessions between business-unit heads and IT to discuss IT and strategy alignment.</td>
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<td>Understanding of risk and return — portfolio weighted accordingly.</td>
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<td>Strategic Alignment</td>
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<td>Frequent review sessions with business unit to discuss strategy alignment (quarterly or monthly).</td>
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<td>Financial Metrics</td>
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<td>Use of financial metrics in prioritizing: NPV, ROI, IRR.</td>
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<td>Demand Management</td>
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<td>Well-defined scheme for screening, categorizing and prioritizing projects; portfolio-management approach to rank projects for investments.</td>
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<td>Centralization</td>
<td>All projects in one database; all IT spending tracked centrally and rolled into one database; centralized project office monitors projects</td>
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<td>Use of portfolio software — real-time updates on portfolio modifications, performance and health.</td>
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<td>Standardization</td>
<td>Applications and infrastructure are well defined and documented.</td>
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<td>IT portfolio segmented by asset classes — for example, infrastructure, strategic projects.</td>
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**Concept by:** MIT Sloan Management Review (Apr 2004) - tinyurl.com/6a524nl
Mark Jeffery – Professor at Northwestern University Kellogg School of Management
Ingmar Leliveld – Principal at DiamondCluster International
**Data to Dollars: Management with Next-Generation Executive Information Systems**

**Leading Question:** Why more than 50% of your data generated for executives is irrelevant?

**Summary:** Executives struggle to find the information they need to make sound decisions. Executive information systems (EIS), tools that transform data into insight in the executive domain, fail to deliver the insights that top managers need to make effective decisions. Information becomes trapped in silos, lost in transit, missed by collection systems, or presented in unfriendly formats. These symptoms of a failed EIS are part of a greater IT problem of inconsistent and unreliable data, poor oversight and system handling, and inflexible architecture. CIOs need to take a leadership role, in cooperation with business units, to redesign the underlying IT architecture to ensure the system produces meaningful results. As a result, a well-performing and flexible system will allow key stakeholders to make actionable decisions.

**Discussion Points:**
- Business intelligence: the ability to transform data into insights
- Less than 50% of data generated from a current EIS is relevant
- The CIO should play a central role to help top managers extract value from data
- Executive information systems should deliver varying level of detail
- Key Performance Indicator (KPI): executive decision making metrics, often predictive

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**Concept by:** McKinsey and Company (Jan 2010) - tinyurl.com/yk6u6gq
Joerg Mayer – BTO expert at McKinsey
Marcus Schaper – Principal at McKinsey
Automated Decision Making Comes of Age

**Leading Questions:** Is automated decision technology ready for my company?

**Summary:** Futurists have anticipated a day when managers could delegate decisions to computers. But automated decision making has been slow to materialize. Executives became wary of the concept that complex management decisions could be condensed into a set of variables, rules, and workflows. In addition, most available systems required a high degree of technical skill and expertise, therefore limiting their use to quantitative areas such as pricing promotion. Today, systems for automated decision making have advanced and are capable of handling a variety of situations where information is available electronically. Business areas that have used automated systems include: solution configuration, yield optimization, routing or segmentation decisions, corporate and regulatory compliance, fraud detection, and dynamic forecasting. These applications are most common in industries where knowledge and decisions criteria is highly structured and well understood like banking, insurance, utilities, and transportation.

**Discussion Points:**
- Harrah’s Entertainment earned several million by demand driven room rate optimization
- DeepGreen can make loan decisions in two minutes using automated technology
- 55% of errors were reduced at Partners HealthCare with automated order entry
- Organizations have been able to automate 80% of their highly structured decisions
- Automation has empirically reduced the need for low value, low skill jobs

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<td>Decision-support tools required too much time and expertise and were too idiosyncratic to be of use by decision makers; expert systems were too technically complex and too difficult to modify over time.</td>
<td>Automated decision systems are readily maintained and updated by business users and operate throughout the enterprise.</td>
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<td>The technology often existed in the form of “proofs of concept” or limited-scope prototypes.</td>
<td>The technology exists in the form of large-scale production systems that are able to handle large volumes of data (sometimes replacing significant numbers of information workers).</td>
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<td>A single technology focus prevailed, in which different tools existed for structured, unstructured and semistructured decisions.</td>
<td>Integrated tools or suites of tools can handle a variety of application types.</td>
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<td>Customized tools were difficult to use.</td>
<td>Off-the-shelf applications are relatively simple to install and use.</td>
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<td>Tools were stand-alone black boxes in which data went in and a decision came out; people still needed to implement the decisions.</td>
<td>Tools are integrated with automated information sources, production workflows and operational applications.</td>
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<td>Data were not widely available in electronic form.</td>
<td>Online data are widely available as inputs to automated decision systems.</td>
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**Concept by:** MIT Sloan Management Review (July 2005) - tinyurl.com/6695733
Thomas Davenport – Professor at Babson College
Jeanne Harris – Executive fellow at Accenture
Analytics: The New Path to Value

**Leading Questions:** How are the smartest organizations using analytics to transform insights into action?

**Summary:** MIT in partnership with IBM completed a survey of more than 3,000 executives, managers, and analysts to determine how they are gaining value from data. The survey documented the shift from executives feeling overwhelmed by information to recognizing the need to capitalize on information and analytics to gain a competitive advantage. Top performers recognized this need more that lower performers and were three times more likely to use sophisticated analytics. However, lack of understanding and lack bandwidth are the primary barriers to broad use of analytics. In addition, five critical recommendations emerged: focus on the biggest opportunities first; start with questions, not data; embed insights to drive action; keep existing capabilities while adding new ones; build the analytics foundation according to an information agenda.

**Discussion Points:**
- 60% of respondents cited innovating as a top business challenge
- Top performers are twice as likely to use insights to guide day-to-day operations
- Three levels of capability: aspirational, experiences, and transformed
- 63% percent more transformed organizations that aspirational organizations
- 6/10 organizations have more data than they know how to use effectively

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**Concept by:** MIT Sloan Management Review (October 2010) - tinyurl.com/3thzf69

Steve LaValle – Global strategy leader at IBM
Michael Hopkins – Editor-in-chief of MIT Sloan Management Review