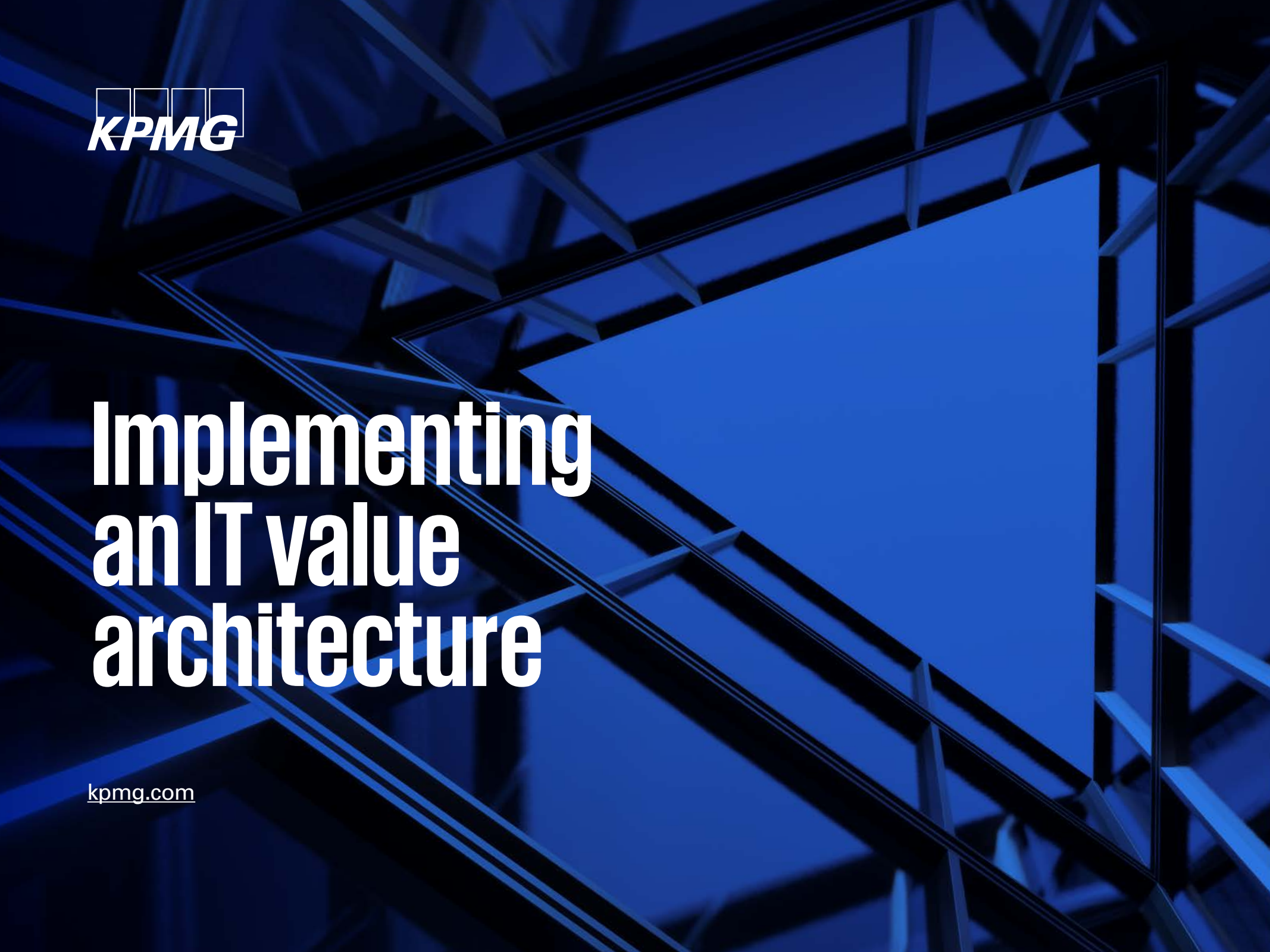

KPMG

Implementing an IT value architecture

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Increasing your value as an IT leader starts with data-driven decision-making and quantifiable, value-driven IT.

If you're an IT leader (CIO, CTO, CISO, or other),—and the CEO were to ask you, "How are you delivering value to the business?", would you simply describe what investments are being made in technology, or would you be able to show how technology investments are being directed to achieve business outcomes?

Most IT leaders today are familiar with the concept of assigning value to IT efforts, defining objectives and key results (OKRs) to align technology initiatives with business objectives. And yet, all too often, these same leaders struggle to defensibly connect their technology efforts directly to real value recognized across the enterprise. When negotiating with business counterparts on how valuable an idea is to pursue, IT leaders often overly rely on intuition instead of pointing to a specific business outcome and empowering others to follow suit.

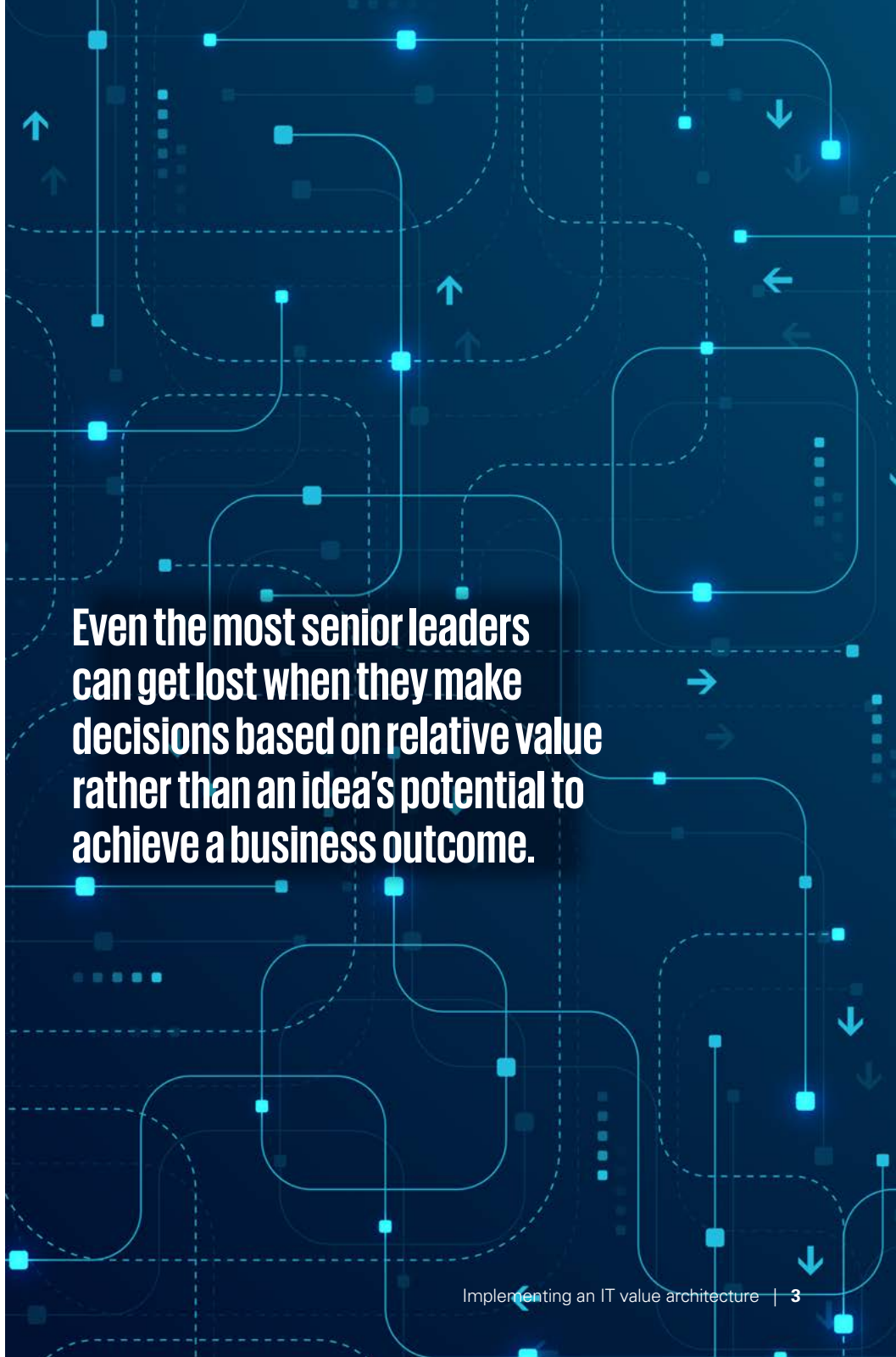
"How?" versus "Why?"

Prioritization is all about making tradeoffs. As organizations scale, leaders build comfort in delegating their authority by adopting frameworks and developing guidelines to help people at all levels make tradeoff decisions.

Generally, the deeper you get in an organization, the more confident you can be in a person's estimate of the effort to deliver on an idea because they're closest to doing the work. However, for a tradeoff to happen, they also have to weigh the question of "Why should we do that?" In this case, the reverse is true—their answer to 'why' tends to get less recognizable the further away they are from the CEO.

The "Why?" or the value of something is hard to define. Assessing value in the context of other ideas by comparing them to each other is easier than assessing them in the context of the enterprise. This is why KPMG LLP commonly finds IT organizations in the "relative value trap," where they deploy various technology upgrades without making the enterprise any better off. Even the most senior leaders can get lost when they make decisions based on relative value rather than an idea's potential to achieve a business outcome.

Getting out of this trap requires challenging assumptions. Those in IT might assume that any business value-driven technology decisions will be initiated by a business function. That assumption makes IT great at taking orders but not at shaping how the enterprise thrives with technology. Likewise, the business may assume that IT is working with enterprise strategy in mind, ignoring the fact that business goals are not always communicated clearly throughout the organization. And both sides of the equation may assume that getting value estimates that resonate means building big business cases, and a cumbersome process that shifts from easier to harder.



Value-architecture frameworks

A value-architecture framework is a structured approach designed to help IT leaders align their investments with the organization's strategic business goals, transforming each expenditure into a contributor to measurable, strategic outcomes.

This framework is designed to enable data-driven decision-making instead of using subjective, relative measures to select and prioritize IT investments and make effective trade-offs.

Importantly, this isn't a one-time, up-front exercise, but rather a process that provides mechanisms to continually track and analyze IT investments against business outcomes over time. The trends that emerge can help IT leaders make course corrections and better future investment decisions based on real-world results.

At KPMG, we believe a three-tiered approach is required for IT leaders to develop such a framework:

- **Enterprise strategy alignment:** At the top tier, you must collaborate with enterprise leaders to clarify and articulate the overarching enterprise strategy. This strategy serves as the foundation for aligning IT priorities with the organization's long-term vision.
- **Value function OKRs:** The second tier focuses on translating the enterprise strategy into actionable objectives and key results (OKRs) for each business function, providing a clear path for IT efforts to deliver tangible impacts. Here, too, communication and collaboration are essential, this time with business unit leaders and other stakeholders.
- **Technology initiatives:** The final tier allows organizations to effectively align their technology efforts with strategic business goals, regardless of their operating model. By setting clear priorities, technology teams can help ensure their work contributes directly to the company's success. This framework accommodates both traditional project approaches and agile methodologies, providing a versatile pathway to capture and maximize organization value.

OKRs are the key

In this model, OKRs serve as a strategic compass for teams, enabling them to prioritize their work based on overall value to the organization. The focus is not on adopting specific methodologies, but rather on efficiently channeling team efforts towards initiatives that promise the greatest impact.

By setting clear, measurable, and ambitious goals, OKRs provide a structured way to evaluate any investment, whether at scale or for smaller tasks, by assessing its effort against its potential value. This approach can ensure that all actions align with the organization's broader objectives, allowing for more thoughtful decision making and resource allocation.

Objectives are qualitative, aspirational, and time-bound statements that define the goal(s) that an organization or team wants to achieve. An objective should:

- Be clear, concise, and easy to understand
- Align with the organization's strategic goals
- Focus on outcomes rather than activities

An example objective: Deploy AI capabilities to optimize customer service delivery.

Key results are measurable, quantitative, and time-bound metrics that define how progress towards the objectives will be measured. A key result should:

- Be specific, actionable, and relevant to the associated business goals, objectives, and challenges
- Be measurable and have clear success criteria to track progress and determine if the objective has been achieved in a specific timeframe
- Consider the criticality/urgency of the milestones to avoid low-hanging fruit that is not material to the desired outcome

An example result: By the end of the fiscal year, we will have a 50 percent reduction in manual call summarizations post customer service calls.

Value functions

Within a value-architecture framework, value functions describe the different aspects or dimensions of the business where IT adds value. You develop different OKRs for each value function:

- **Business function OKRs** focus on the overall goals of the business (e.g., revenue growth, market share, efficiency)
- **Customer function OKRs** focus on fulfilling customer expectations or contractual obligations (e.g., customizations, bug fixes, SLA improvements)
- **Corporate (back-office) function OKRs** focus on enabling the company's workforce (e.g., payroll, onboarding, employee portals)
- **IT function OKRs** focus on the technical needs of the organization (e.g., system performance and reliability, security, optimizing IT infrastructure)

Having multiple types of OKRs helps to balance the priorities of the enterprise so that critical back-office or technology needs required to keep the business running pave the way for long-term strategic goals.

The value of an impartial gatekeeper.

The "Field of Dreams," if-we-build-it-they-will-come approach—deploying technology for its own sake, without clear, up-front value linkage—is no longer viable and most organizations have abandoned it. Yet without an effective value architecture, IT leaders may find the practice sneaking in, often obliquely.

IT leaders will often face pressure to implement, fix, or adjust some feature or capability that business owners feel passionate about. As valuable as it may be, pressure to adopt generative AI (GenAI), for example, has, in some cases, prioritized its implementation without any definitive use case tied directly to a business outcome. Such efforts can result in continuously and capriciously shifting priorities that can chip away at IT value by slowly disconnecting IT actions from topline enterprise strategic objectives.

A value architecture provides the data-driven insights—and the discipline—to dispassionately challenge requests and say "no" to projects that don't measure up, regardless of the pressure being applied by business owners who each feel their need is essential.

It's as much a cultural shift as a process shift. Value architecture improves communication and increases transparency between IT and the business by providing a clear yardstick and a common understanding of how initiatives are evaluated.

Value-architecture framework in action: a real-world use case

We recently helped a leading healthcare insurer implement its value architecture.

The CIO described the transformation this way: "Before the value architecture, we did not have the level of transparency or maturity to tie back IT budgets to strategic priorities. We had evolved into a 'squeaky wheel' syndrome where you work on whatever has the most urgent deadline or where sponsors were able to pull the right strings or say the right magic words—rather than based on any sort of strategic roadmap."

Implementing the new value-architecture approach involved holding workshops to describe best practices for writing an OKR, including what it does and doesn't do, and focusing on their usefulness for prioritizing work by tying it to business value. The impact on the organization's culture was immediately apparent.

As the CIO notes, "The business areas now think and talk in terms of OKRs. People are now writing story cards and features, making sure they're tagged to OKRs—they have to be tagged to an OKR to be considered ready for development. If they're struggling to tie them to an OKR, we have that discussion. Is it because there's an OKR that's missing or is it because it's just a nice-to-have and it doesn't contribute to an OKR and needs to be rejected?"

A large part of the cultural change is the permission the value-architecture approach provides to reject such requests. "Instead of simply putting everything into the funnel and creating a huge backlog, people now realize that it is okay to say 'no'—not just that we can't do that right now, but that it's something we should never do."

The approach can also help avoid the sunk-cost fallacy. "It's really valuable to be able to take the OKR down one more level and ask, 'If we do that work—that thing you're prioritizing—how expensive is that going to be?' We just had a case where an automation project would

continued

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— CIO of company implementing value architecture

Value-architecture framework in action *continued*

cost $500,000 to complete compared to two-thirds of an $80,000 a year employee to continue to do it manually. So, we decided maybe we just do it manually for a while. The cost did not justify the benefit. And if we didn't have OKRs to guide us, I don't know if that ever would have surfaced. We probably would have thrown good money after bad and done the work."

The cultural change extends to the top of the organization. "Even our board is in tune with this. They're expecting reports and readouts that say within our growth pillar, here were the strategies. Tell me what your OKRs were, how much you invested in each of those, and how much you moved the needle."

By providing a framework that encourages leaders to consider and clearly articulate how business goals are tied to technology efforts, the value-architecture approach can provide an enhanced level of efficiency and agility. As the CIO observed, "Just the exercise of getting the leaders in a room, mapping out the OKRs, and then thinking about what tech capabilities would enable those provides a new level of crispness and clarity. It prevents you from going in with half- or three-quarters baked ideas."

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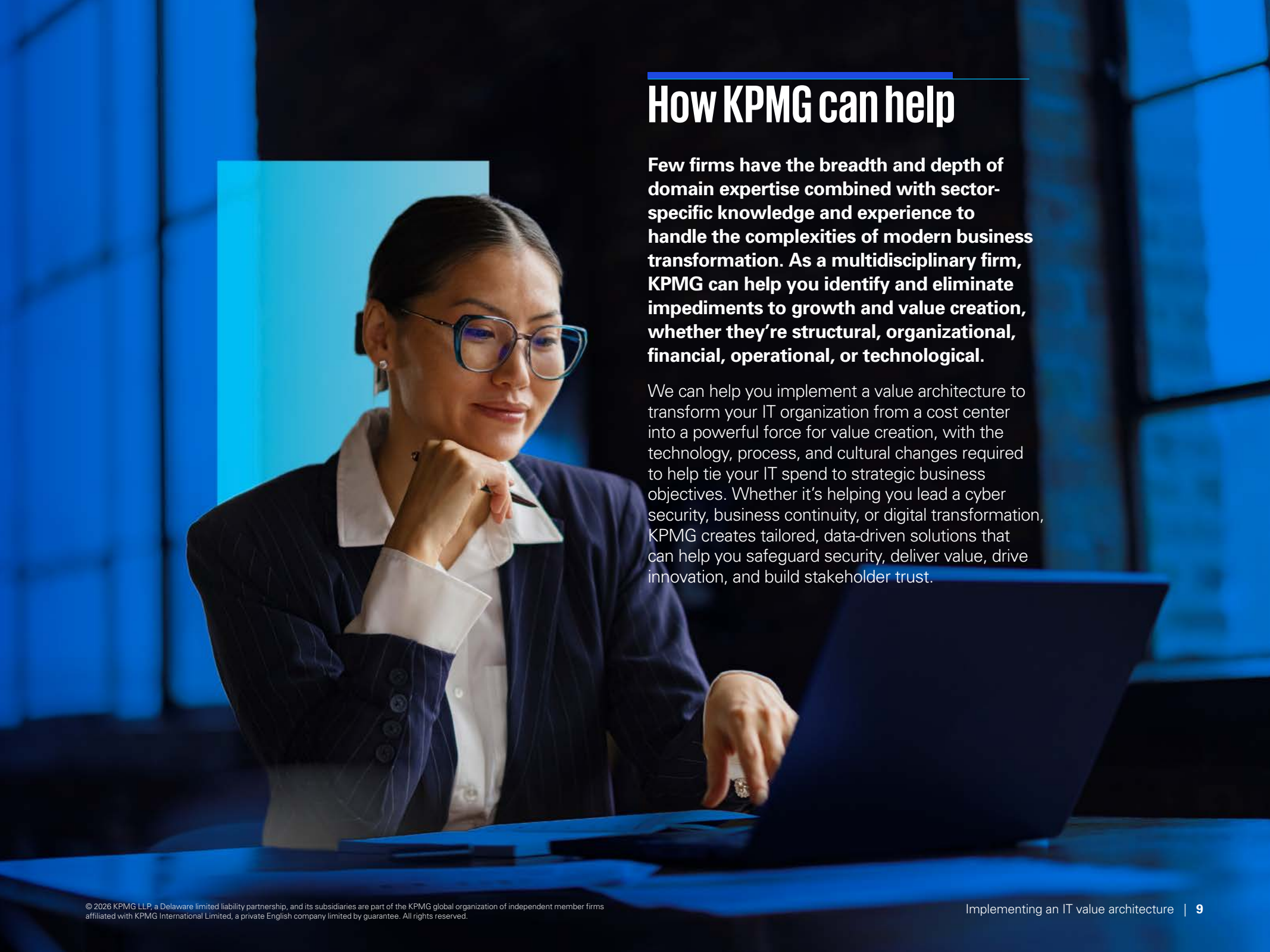
For example, one of the insurer's strategic priorities has been to accelerate growth in the small and midmarket segments, where penetration had lagged targets. "We found that the value-architecture approach helped us to ask the right question: What has been the barrier to growth?" What we found is that it could take up to four hours to set up a group in our system, whether it's ten thousand people in the group or just 100. That led us to ask, system-wise, what can we do to make it much faster and easier? How do we make it half an hour instead of four? In some areas, we had been measuring the wrong things. Now, we can go to the Board and say, 'Here's what market penetration was before, and here's what it is after we invested in this specific set of features.'"

One pleasant surprise the CIO reports was the lack of resistance to the change. "I underestimated how ready the business was for this. When we started meeting with them and laying it out, there wasn't any resistance. I thought for sure we would get some. We were ready with a change management framework and who was going to champion this, but we ended up not needing it much. They would say, 'There are 10 things on my wish list, but these three are the only ones that move in OKRs. So, I guess you can forget about the other seven.' They got there far faster than I thought they would."

And why did they choose KPMG LLP? "We evaluated seven vendors. What tipped the scales for KPMG was the sense there would be a co-creation of value. With the others, it felt like we were seeing a slide deck they had sold to 10 other clients. With KPMG, it felt a lot more like they were going to dig in and understand our business model. We were going to get a detailed understanding of our pain points, not an off-the-shelf solution. We were going to lock arms and create value together. And that's exactly what happened."



How KPMG can help

Few firms have the breadth and depth of domain expertise combined with sector-specific knowledge and experience to handle the complexities of modern business transformation. As a multidisciplinary firm, KPMG can help you identify and eliminate impediments to growth and value creation, whether they're structural, organizational, financial, operational, or technological.

We can help you implement a value architecture to transform your IT organization from a cost center into a powerful force for value creation, with the technology, process, and cultural changes required to help tie your IT spend to strategic business objectives. Whether it's helping you lead a cyber security, business continuity, or digital transformation, KPMG creates tailored, data-driven solutions that can help you safeguard security, deliver value, drive innovation, and build stakeholder trust.

Contacts

David Muir
US Managing Director, IT Strategy
KPMG LLP

drmuir@kpmg.com

Adam Schmidt
US Director, IT Strategy
KPMG LLP

adamschmidt@kpmg.com

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