

# Using the Balanced Scorecard to bring IT Governance to Light

Effective measurement of IT governance maturity to enhance business and IT alignment.

**I**n today's organisations, where such strategic reliance is placed on the IT function developing and delivering complex systems to support both corporate policy and external regulations, IT governance has a major impact on business strategy. The successful alignment of IT and the business is more critical than ever and mature IT governance practices enhance the ability of IT to deliver strategic initiatives based on efficiency, control and value. But how is the realisation of business value delivery through IT measured? How can assurance be provided that the IT organisation is not investing in bad projects? And are there adequate control mechanisms in place?

## What are the challenges faced by IT functions today?

The IT function continues to see ever increasing challenges from the business in the delivery of products, services and systems. The context of this delivery and the environment in which the IT function operates is also continuously changing. New regulatory requirements, increased competition, complex supply chains and a diverse group of key stakeholders whose expectations need to be managed all conspire to increase the challenge.

## Where does governance fit into this complex picture?

In the face of these significant challenges, IT governance can bring clarity around the responsibility, authority and communication and reporting flows which enhance decision making. Accompanying policies, processes, standards and control mechanisms enable people to carry out their roles and responsibilities. Effective IT governance is therefore a key strategic enabler for growth and prosperity and helps to achieve the fusion of IT and the business. However, to achieve these ambitions it must be addressed in the context of the wider business governance and be strategically aligned through the value chain.

Designing an effective IT governance structure, around the organisation's value chain, objectives and performance goals, is therefore a significant challenge and one which needs to be approached in stages through a supporting governance framework which

takes account of all the key considerations (see Figure 1).

## How does the balanced scorecard relate to the challenges of effective IT governance?

The IT Governance Framework, when implemented, will include supporting structure, processes and mechanisms. In this context, the processes include strategic decision making and monitoring through methods such as the balanced scorecard. The importance of the IT function justifies the use of the balanced scorecard to further assess the effectiveness of IT governance changes introduced.

## The successful alignment of IT and the business is more critical than ever

The balanced scorecard can be an effective strategic planning and management tool for aligning activities to the vision and strategy of the organisation, improving both the internal and

external communications, and monitoring organisation performance against strategic goals. Ideally, the balanced scorecard should therefore be a pragmatic tool for easily identifying how well the IT governance process is going and how it can be improved. The scorecard:

- Balances both financial and non-financial measures
- balances performance drivers (lead) with outcome measures (lag)
- balances short and long term objectives/measures

## What perspectives are considered by the business balanced scorecard?

The business balanced scorecard tracks performance and progress against strategic goals which are divided into a four-perspective view of an organisation performance:

- Customer: Focuses on the measurement of performance as perceived by the customer
- Financial: Measures the fiscal health associated with organisational performance
- Internal Business Processes Perspective: Measures internal business practices and system processes for efficiency and effectiveness

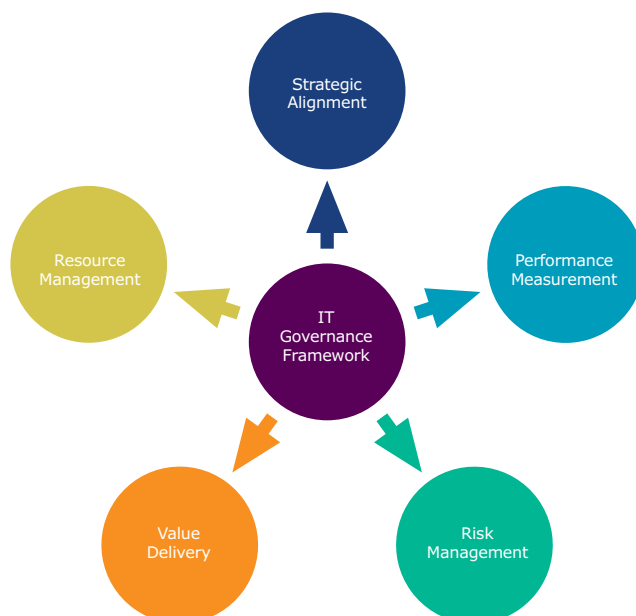


Figure 1: IT Governance Framework - Considerations

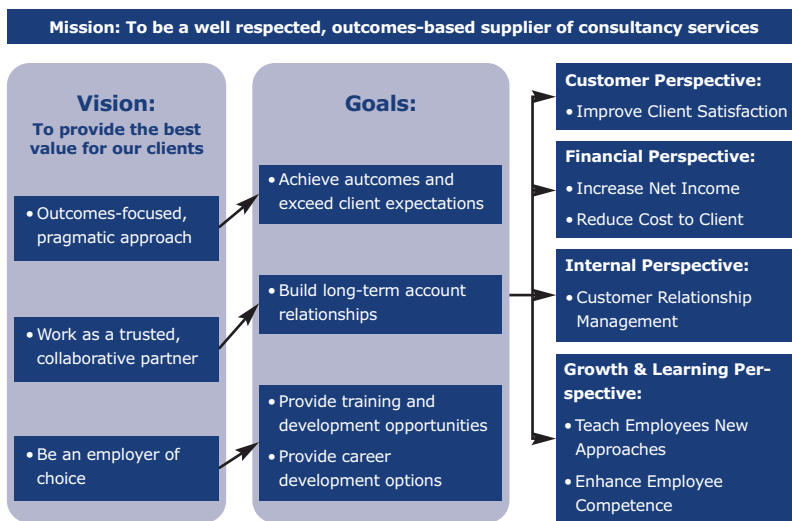


Figure 2: Objectives linked to goals, vision and mission statements

- **Innovation, Growth and Learning:** Measures progress towards achieving the attraction, development and retention of staff

Each of these perspectives contains objectives (see Figure 2) which are the means through which to achieve the strategic goals and, ultimately, company vision and mission statements. The scorecard is a living method which can be continuously monitored and revised based on identified priorities.

### What is the relationship between the business and IT balanced scorecards?

The IT balanced scorecard focuses on different but inter-related perspectives from the business scorecard, focusing on:

- **User Orientation:** How users view the IT function
- **Operational Excellence:** Measures the effectiveness and efficiency of the IT function
- **Business Contribution:** Reflecting management's view of the IT function
- **Future Orientation/Innovation:** Measures how well IT is positioned to meet future needs

The relationships between the IT balanced scorecard and business balanced scorecard perspectives is shown in Figure 3.

### The importance of business and IT balanced scorecard alignment

To ensure the effectiveness of the IT balanced scorecard for measuring success of IT governance changes introduced, the scorecard must be fully aligned to the business balanced scorecards. To achieve this alignment and to ensure communication and agreement of the IT scorecard with key business stakeholders, the IT scorecard must not be developed in isolation.

The IT scorecard enables focused measurement of IT-related change, such as IT governance changes, only if seen in the context of the broader group-wide picture, therefore considering the impact to other key business functions. The corporate strategy, mission and vision, filtered through the business

### The scorecard is a living method which can be continuously monitored based on identified priorities

scorecard should then flow through and be aligned with the IT strategy, mission and vision.

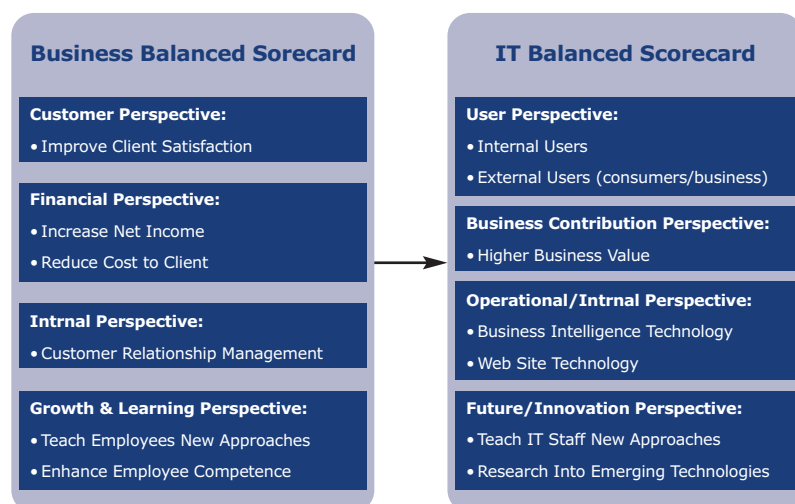


Figure 3: Relationship between Business Balanced Scorecard and the IT Balanced Scorecard

IT scorecard effectiveness therefore depends on:

- Alignment with the corporate strategy
- Clear integration with the business scorecard (based on common values) – Goals and strategy cascading down through the business and its functions
- Group involvement (across functions)

These considerations can help to ensure that the IT scorecard approach becomes an enabler for the business as the IT governance changes measured make the IT function an improved enabler of business value.

In conjunction with an aligned approach to scorecard development, the introduction of critical success factors can help to further ensure that the IT balanced scorecard approach is applied in context. Critical success factors might, for example, focus on strong leadership and alignment, clear and measurable goals and clearly defined roles and responsibilities.

### How can the scorecards be effectively tracked?

In order to effectively track progress against the objectives stated in the IT balanced scorecard, a further enhancement to the approach uses a Strategy Articulation Map (SAM) for each balanced scorecard developed. The SAM introduces the concept of Strategic Themes around the key strategic objectives. These strategic themes correspond to the scorecard perspectives. It is possible to have more than one strategic theme for each perspective. The Vision, Mission and Strategic Themes from the Corporate (or Level 1) Scorecard are then cascaded down to all subsequent scorecard levels.

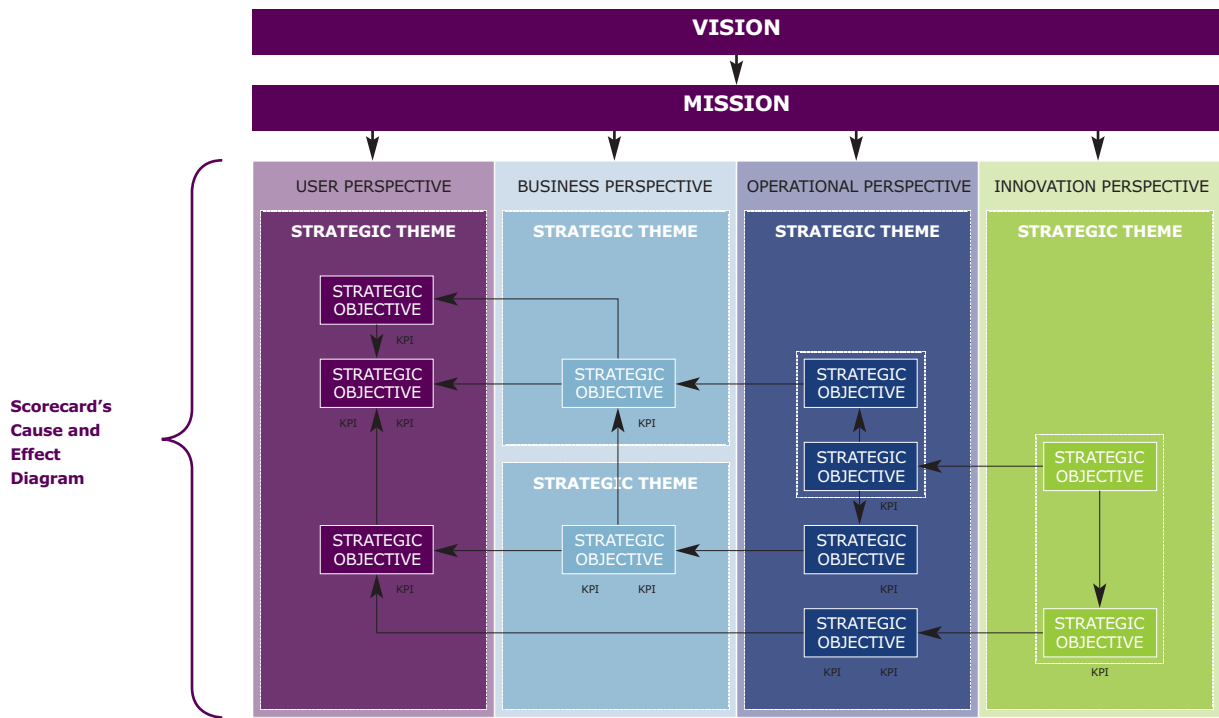


Figure 4: Strategy Articulation Map (SAM) incorporating Scorecard's Cause and Effect (SC&E) Diagram

Key Performance Indicators (KPIs) can be used to measure the achievement of Strategic Objectives. A Strategic Objective may be measured by one or more KPIs. A number of Strategic Objectives may be grouped and measured by one KPI. The key to successful tracking is then to apply the SMART approach to choose appropriate KPI's:

- S - simple:** uncomplicated, meaningful, unambiguous
- M - measurable:** can be quantified, data is available
- A - achievable:** users have the ability to achieve
- R - realistic:** users have the ability to influence or control
- T - timely:** short-term, monthly or quarterly timeframe

The SAM incorporates the Scorecard's Cause and Effect (SC&E) Diagram. The SC&E illustrates the linkages between the Strategic Objectives within the Scorecard. A Strategic Objective may be linked to one or more Strategic Objectives.

Figure 4 shows an example of the SAM approach for the IT balanced scorecard perspectives.

### What would be a typical project lifecycle for the development of the balanced scorecard?

The typical stages of a Balanced Scorecard project, incorporating the development of SAM's (including accompanying KPI's) are shown in Figure 5.

### Summary: How can it be applied to bring IT governance to light?

The delivery of value from the IT function is dependent on aligning IT with business strategy. Establishing mature IT governance practices enhances the ability of IT to deliver strategic IT initiatives based on efficiency, control and value. However, good governance requires measurement to ensure its effectiveness. The IT balanced scorecard approach is an effective

mechanism for measurement of governance effectiveness. Ultimately, the use of a scorecard approach which is based on strategic objectives and goals supporting clearly articulated vision and mission statements will therefore help to bring IT governance to light and act as an IT strategy enabler.

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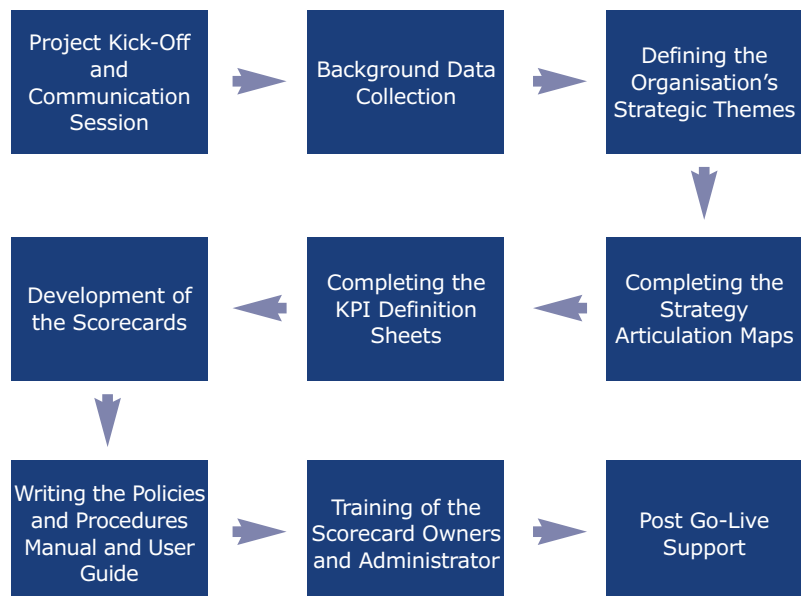


Figure 5: The stages of balanced scorecard and SAM development