

# White Paper

## Implementing an IT Balanced Scorecard (IT-BSC)

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## Executive Summary

In the past, managing an organizations IT capability as if it were merely a cost center<sup>1</sup> was good enough. However, over the last decade Information Technology has become an integral part of business operations and is now a requirement for successful business strategies and for companies to remain competitive. Today it has become imperative to align IT operations and goals with business strategy.

The balanced scorecard (BSC) is a well-known and widely used business strategy and performance management tool, developed by Norton and Kaplan from Harvard Business School in the early 1990's<sup>i</sup>. This scorecard was initially designed as a performance measurement framework, but has since evolved into performance management - a strategy scorecard helping translate business strategy into operational terms<sup>ii</sup>.

The traditional BSC can be tailored to suite an IT business unit focus by tweaking the perspectives. An important consideration is that the IT-BCS, along with the perspectives, objectives and goals, should always map back to the business scorecard for traceability and alignment. According to ISACA's Certified Information System Auditor (CISA) Review Manual, four dimensions of an IT-BCS may include<sup>iii</sup>:

- Business Contribution – *'How does management view the IT department'*
- User Orientation – *'How do users view the IT department'*

<sup>1</sup> A cost center is part of an organization that does not produce direct profit and adds to the cost of running a company.

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- Operational Excellence – *'How effective and efficient are IT processes'*
- Future Orientation – *'How well is IT positioned to meet future needs'*

Adapting the traditional balanced scorecard to be used within an IT capability, that is, to be used for the purpose of measuring performance of IT strategic goals in support of the overall business strategy, can be very powerful. One of the core benefits of the IT-Balanced Scorecard (IT-BSC) is the alignment of IT to Organizational Strategy.

In this paper we will go into the details of setting up and implementing an IT-BSC, as well as discuss the outcomes and anticipated benefits of such a performance management tool.

## **Defining IT Performance Management Structure**

As mentioned, the BSC is concerned with four high-level perspectives encircling the organizations vision and strategy. These four perspectives should be influenced by and support the strategy. The perspectives and structure are intended to be a template only and should be adapted to any specific organization or department.

The balanced scorecard was initially developed as a performance management tool, but has since been increasingly associated with strategy implementation and management<sup>v</sup>. The purposes of the scorecard are to allow management to identify strategic and competitive advantages, assess the performance of operations in support of business strategy, while at the same time keeping all evaluation perspectives in balance.

In order to apply the balanced scorecard framework in an IT context, a layered structure is recommended<sup>v</sup>. The highest level is the perspective level. As you can see in the figure Fig.1. the four perspectives of the traditional BSC have been adapted to suite an IT context. The next layer is the mission. Each perspective should have its own mission statement – there are a few example mission statements in Fig.1 – IT-BSC below. Once the mission is defined, objectives and goals can be developed in support of the mission.

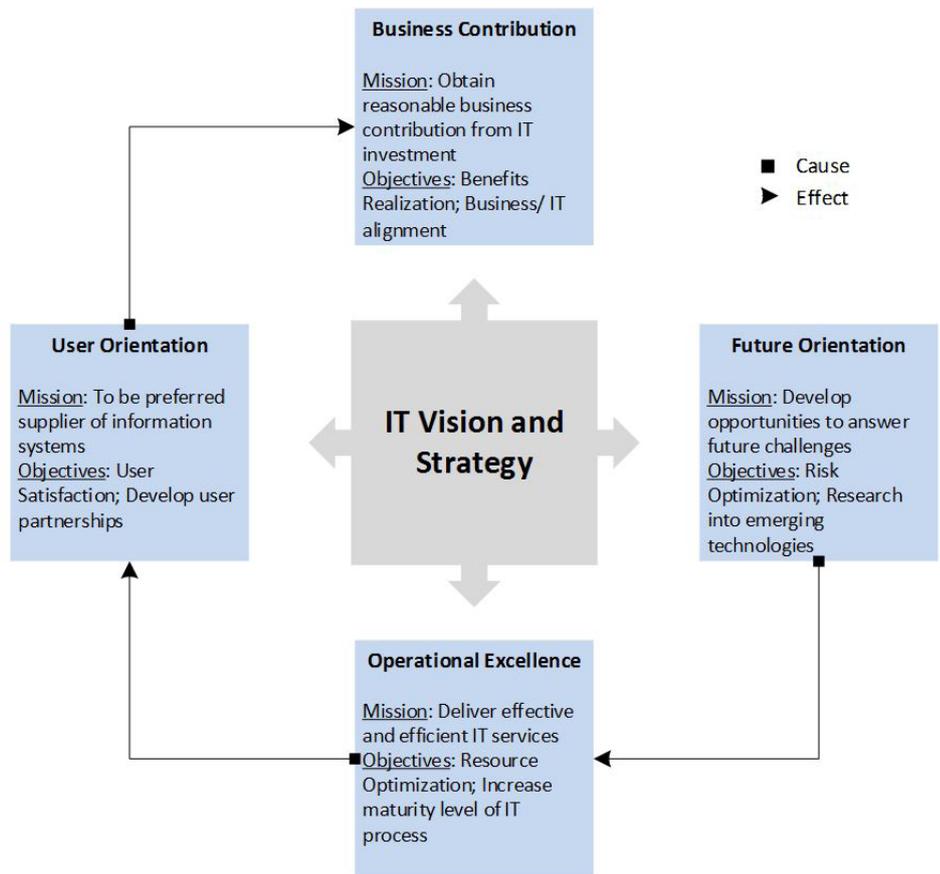


Fig.1 – IT-BSC<sup>vi</sup>

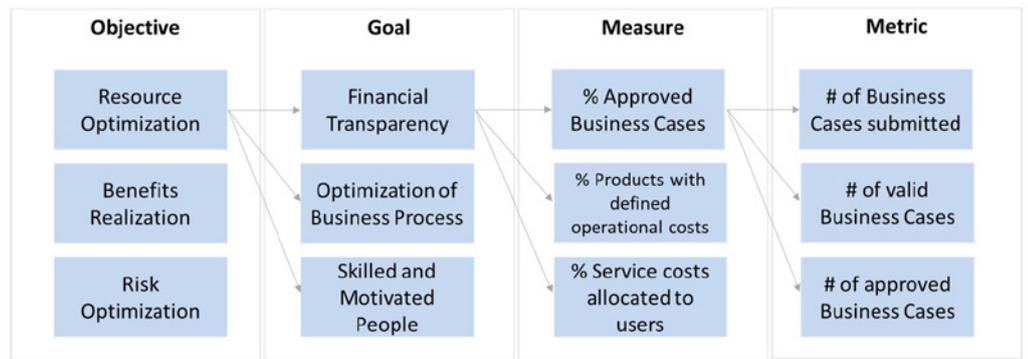
For the next layer down, there should be a number of measures and metrics in order to report on and manage the success of the goals and objectives within each perspective. At the center of the IT-BSC is the IT Vision and Strategy. This should be directly derived from the corporate vision and strategy and should be referenced to align with it. The IT Vision and Strategy will influence mission and objectives within each of the perspectives in the scorecard.

ISACA suggests an additional dimension to the IT-BSC, and that is the cause and effect relationships between each of the perspectives. As can be seen in Fig.1, the Future Orientation scorecard perspective is the cause of the Operational Excellence effect. This may or may not be applicable to all environments, but it could assist in root cause analysis where performance or outcomes are not meeting goals and objectives.

As mentioned earlier, scorecards should be altered to suit the needs of the organization, bearing in mind what needs to be measured, at what interval, and what outcome is expected, for example, the reporting requirements.

Goals and Objectives for each of the perspectives should adhere to the SMART principle, that is, they should be Specific, Measurable, Attainable, Realistic and Timely.

A number of metrics should be defined and identified for measurement of the goals. An example derived from ISACA's COBIT 5 framework for IT Governance and Management can be seen in Fig.2 below:



**Fig.2 – IT-BSC Perspective Layers**

A structured approach will assist when designing performance measures and metrics<sup>vii</sup>. A defined structure will ensure all measures are equally comprehensive and formed from the same basis. A well-defined framework can also assist with continuous improvement in meeting goals and objectives. The example structure below can be used as a baseline for a measure and metric development framework:

| Dimension                          | Comment   |
|------------------------------------|---|
| Measure Name                       | Concise name of the measure. e.g. % Approved Business Cases   |
| Measure Purpose                    | Descriptive statement of the purpose of the measure. e.g. Measuring business case approval and project initiation success                         |
| Relationship to Goal and Objective | Linkage back to Goals and Objectives. e.g. Financial Transparency, Resource Optimization  |
| Target                             | Defined optimized level of the measure. e.g. 75% Strategic Project Business Cases Approved, 35% Operational Project Business Cases Approved       |
| Metric Data Source                 | Location of metric data for the measure. e.g. SharePoint Projects, iServer IT Portfolio Management  |
| Measurement Calculation or Formula | Instruction on how the measurement is calculated. e.g. $[\# \text{ of Approved Business Cases}] / [\# \text{ of Business Cases Submitted}] * 100$ |
| Frequency of Measurement           | How often the measure is calculated. e.g. Once per quarter  |
| Responsible Stakeholder            | Name of responsible stakeholder for the measure. e.g. Project Steering Committee  |
| Action or Response to Result       | Description of result response. e.g. Unacceptable strategic approval rate; review business case cost benefit analysis                             |

When designing measures and metrics it is important to involve all relevant stakeholders, and take reporting requirements, data sources and frequency into account. Additionally, measures and metrics should always be clearly defined within their context to avoid misinterpretation.

# Aligning IT-BSC to Organization strategy

While the perspectives of the traditional BCS are tried and tested, the IT organization requires slightly different focus, and therefore needs to be measured differently to the traditional scorecard.

For starters, the IT capability is inherently an internally focused capability meaning the IT customers are internal to the organization, and IT is in fact an internal supplier to the business. Obviously this may not be the case where IT capabilities have been outsourced to third parties, but we will ignore this scenario for now.

Secondly, IT projects should consider not only the benefits for the end users, but also for the overall organization.

Some guidance on designing an IT focused performance management framework is offered by ISACA's COBIT 5 framework. This same framework also offers some ideas on the alignment of enterprise level goals with the IT related goals, which would be built into the IT-BSC. This alignment is critical to the success of any IT performance management framework – organizations need to understand the business benefits, costs and risks associated with the use of IT.

Therefore, when adapting and defining your IT-BSC it is important to maintain traceability and linkages to the business or organization level scorecard. Without this link back to the business scorecard and strategy, business benefits and IT support for corporate strategy cannot be analyzed and measured.

Below is an excerpt of the mapping of the COBIT 5 Enterprise goals, back to the IT related goals for the financial balanced scorecard perspective:

| IT-related Goal |   | Financial |    |    |    |    |
|-----------------|---|-----------|----|----|----|----|
|                 |   | 1.        | 2. | 3. | 4. | 5. |
| Financial       | 01 Alignment of IT and business strategy  | P         | P  | S  |    |    |
|                 | 02 IT compliance and support for business compliance with external laws and regulations |           |    | S  | P  |    |
|                 | 03 Commitment of executive management for making IT-related decisions                   | P         | S  | S  |    |    |
|                 | 04 Managed IT-related business risk   |           |    | P  | S  |    |
|                 | 05 Realised benefits from IT-enabled investments and services portfolio                 | P         | P  |    |    |    |
|                 | 06 Transparency of IT costs, benefits and risk  | S         |    | S  |    | P  |

Fig.3.: COBIT 5 Goals Mapping (Source: ISACA - COBIT 5 Framework)

The IT-related goals are on the vertical axis down the right, with the enterprise goals on the top. The matrix identifies primary (P) and secondary (S) support relationships, meaning '04 – Managed IT-related business risk' has primary support for '3 – Managed business risk', and secondary support for '4 – Compliance with external laws and regulations' enterprise goals.

Using these relationships, we are able to identify IT-related goal priorities, based on business priorities, or conversely, identify business scorecard perspectives that may be impacted due to poor performance on a number of IT-related goals.

For example, a failure or poor performance in the IT-related goal of 'Transparency of IT costs, benefits and risk' would directly (negatively) impact the enterprise goal of 'Financial Transparency'. These goals would traditionally fit within the financial BSC perspective.

Appendix A contains a complete set of COBIT 5 IT-related Goals as defined in the COBIT 5 IT-BSC.

## **Expected Benefits of using an IT-BSC**

The balanced scorecard aims to consolidate a wide range of diverse information into a single framework for the purpose of measurement and analysis<sup>viii</sup>. It is used to link business strategy to resources and then to performance measures. This linkage is important in order to identify areas of improvement and strengths within the organization, and of course within the IT capability.

The four high-level expected outcomes or goals of a well-designed IT-BSC include:

- Ensuring employees efforts are aligned to achieve IT objectives;
- Alignment of all IT initiatives with business goals and needs;
- Achievement of balanced results across stakeholder groups and perspectives;
- Establishment of measures and associated metrics for evaluating the effectiveness of IT.

A fully implemented IT-BSC can assist in communicating the IT strategy and provides a comprehensive overview of the health of the IT capability.

Repository based tools with rich reporting, dash-boarding and integration features are key to the success of an IT-BSC due to the holistic nature of the tool. The benefits realized from the implementation and use of IT-BSC will depend not only on how well the framework has been designed, but the support structures as well.

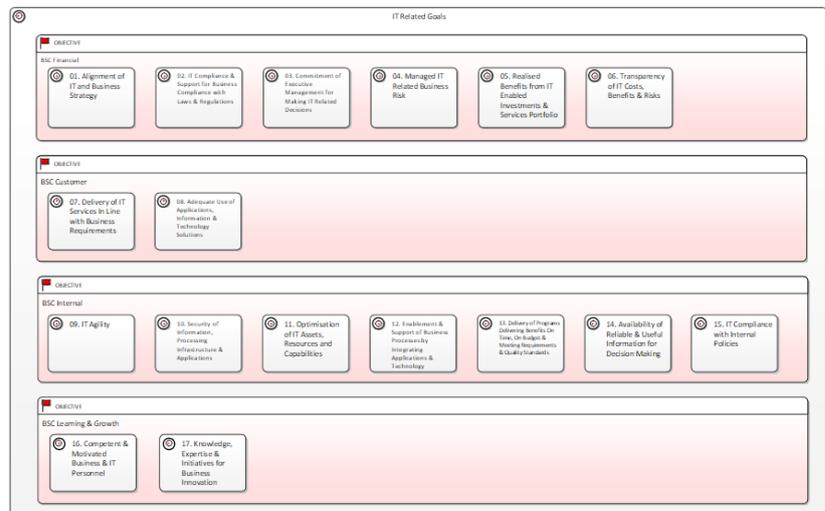
# Conclusion

Information Technology is no longer just a service provider to the business, but has become a strategic partner. Performance measurement techniques for service providers may include Service Level Agreements (SLA's) and KPI's etc. with penalties for non-compliance. These techniques for measuring the performance of a strategic partner are not comprehensive enough and not suitable. Strategic partners should share common goals with the organization, with aligned vision and mission statements. They should be involved in the execution of the organizations strategy, and share in the strategic successes.

The BCS is a good tried and tested technique for measuring how successfully organizations are meeting strategic goals, and adapting this technique to better fit the IT capability will assist in levelling the playing field for strategic performance measurement and management.

Moreover, the balanced scorecard is a great tool for demonstrating the strategic value of any business activities<sup>ix</sup>, including the business support activities being carried out by IT.

## Appendix A: COBIT 5 IT-BSC – IT-related Goals



| COBIT 5 IT-related Goal Name   |
|--|
| 1. Alignment of IT and Business Strategy                                   |
| 2. IT Compliance & Support for Business Compliance with Laws & Regulations |
| 3. Commitment of Executive Management for Making IT Related Decisions      |
| 4. Managed IT Related Business Risk  |
| 5. Realized Benefits from IT Enabled Investments & Services Portfolio      |
| 6. Transparency of IT Costs, Benefits & Risks                              |
| 7. Delivery of IT Services In Line with Business Requirements              |

|  |
|--|
| 8. Adequate Use of Applications, Information & Technology Solutions  |
| 9. IT Agility  |
| 10. Security of Information, Processing Infrastructure & Applications                                      |
| 11. Optimisation of IT Assets, Resources and Capabilities  |
| 12. Enablement & Support of Business Processes by Integrating Applications & Technology                    |
| 13. Delivery of Programs Delivering Benefits On Time, On Budget & Meeting Requirements & Quality Standards |
| 14. Availability of Reliable & Useful Information for Decision Making                                      |
| 15. IT Compliance with Internal Policies   |
| 16. Competent & Motivated Business & IT Personnel  |
| 17. Knowledge, Expertise & Initiatives for Business Innovation   |

## References

- <sup>i</sup> About the balanced scorecard (2014), The Balanced Scorecard Institute; accessed at: <http://balancedscorecard.org/Resources/About-the-Balanced-Scorecard>
- <sup>ii</sup> Effective performance management with Balanced Scorecard; Technical Report (2005), Liz Murby, Strathis Gould, ISEAD/ CIMA
- <sup>iii</sup> CISA Review Manual (2014), ISACA
- <sup>iv</sup> Effective performance management with Balanced Scorecard; Technical Report (2005), Liz Murby, Strathis Gould, ISEAD/ CIMA
- <sup>v</sup> CISA Review Manual (2014), ISACA
- <sup>vi</sup> CISA Review Manual (2014), ISACA
- <sup>vii</sup> Effective performance management with Balanced Scorecard; Technical Report (2005), Liz Murby, Strathis Gould, ISEAD/ CIMA
- <sup>viii</sup> Successfully implementing the balanced scorecard (2008), Jim Self, Donna Tolsen, University of Virginia Library.
- <sup>ix</sup> Why should you develop a balanced scorecard for security and risk management (2010), Rob McMillan, Gartner.

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