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ViewPoint

Measuring the Value of IT in Business Transformation

Progressive CIOs Leverage the Balanced Scorecard to help their Companies Evolve

– Sanjay Purohit, Tim Miner

"The BSC changes the conversation between IT and the business," says Linda Bankston, CIO at DuPont. "The conversation becomes focused around strategy and impact rather than whether or not something can be done."

The Dilemma Facing CIOs

Escalating competitive forces are compelling companies to use IT departments as differentiators in the marketplace. Decisions that face an auto manufacturer in designing and managing their supply chain IT infrastructure, for instance, have become the source of its competitive advantage. Retailers live and die by the design of their inventory management system and their skill in mining customer information. The IT platform no longer simply serves the firm: it has become the business; the value proposition.

This increasingly important role is transforming IT from being a simple support function within the organization to a key player of the organization. Today more than ever before, IT is helping to define the core business process, which ultimately measures a company's value.

This elevated position puts many CIOs and IT managers in a dilemma, because the value of their organizations can no longer be measured by traditional cost methods. If companies are no longer measured by the mere value of cash on hand, then IT departments should not be gauged by their ability to adhere to a budget. Unfortunately, many CIOs find that their key measures of success are purely financial.

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Without any real means to measure IT value other than monetary ones, or any clear performance gauge other than staying within budget, many CIOs are in a tough spot. Other departments have clear targets to aim for. For example, the sales department has revenue goals, and everyone within the company typically knows whether or not the goals have been met. The HR department commonly uses employee satisfaction surveys to help judge the effectiveness of its objectives. While IT systems offer statistics about uptime, downtime, and idle CPU cycles, these metrics only reveal the operational health of IT assets rather than the strategic value IT has to offer to the corporation as a whole.

Traditionally, the value of a service is measured by the degree of satisfaction of the customers who receive it. The IT department, however, does not serve a defined customer group. It serves every department within the company and many organizations outside of the company. These interests can be divergent, forcing the IT department to resolve conflicts between local needs and the overall best interests of the company.

The Balanced Scorecard for IT

Conceived in the early 1990's as a framework for measuring overall corporate value, the Balanced Scorecard (BSC) has received rave reviews in the press and has many advocates among Fortune500 companies. The main theory behind this framework is that performance measures used to manage any strategy should be "balanced". In other words, they should not only gauge financial performance, but also measure performance from the view of customers, internal processes and organizational competence.

While acknowledged as an organizational management tool, what most people do not know about the BSC is that it can be successfully used as a framework for the IT department alone. CIOs can implement departmental BSC frameworks without having to convince the rest of the organization to use the same framework. Once implemented, the BSC framework helps galvanize the IT organization around strategic objectives, and to align those objectives with the core strategy of the company.

An IT organization also uses the BSC framework to tie measures to each of these objectives. The measures extend beyond traditional financial metrics, providing a gauge of quality, speed and innovation. This demonstrates the IT organization's ability to support and drive business changes and therefore confirms its ultimate value.

By identifying themes across various perspectives the BSC enables the CIO to more precisely track service objectives. The overview inherent within the BSC framework also gives IT managers a communication tool that furthers the objectives of the organization. This is imperative in strategically guiding personnel and ensuring that each individual is working towards a common and shared goal.

A Hands-On Approach to Measuring Value

The Balanced Scorecard is not a static list of measures, but a framework for implementing and aligning complex programs of change within strategy-focused organizations. Today's CIOs are discovering that the Balanced Scorecard method can be used to consolidate IT objectives, setting a departmental agenda that complements and extends executive decision-making initiatives.

The Balanced Scorecard is based on four fundamentals of business management:

1. Articulate and communicate key strategic objectives
2. Create a focus by aligning key performance metrics
3. Align change initiatives towards strategic objectives
4. Install structured reviews to monitor performance

In effect, it helps CIOs articulate strategic objectives so that they can be negotiated and finalized. Armed with this information, the CIO becomes the vitally needed change agent in today's competitive environment, communicating a coherent strategy to all members of the department. This level of communication is essential in order to measure the value the IT department delivers in support of changes to core business processes.

In situations where corporate management uses other methods to communicate strategy, the Balanced Scorecard can help the CIO suggest overall business transformation objectives to executive leaders, and demonstrate how IT will support those objectives. Furthermore, the Balanced Scorecard helps CIOs identify performance measures and review the compliance with strategic objectives. By charting current initiatives, CIOs can determine if IT has the appropriate set of initiatives in place to address the primary needs of the evolving business.

The Balanced Scorecard ensures that the right information is gathered and reviewed, so objectives can be managed intelligently. In this way, it facilitates a better understanding of the success or failure of specific initiatives. A wide range of performance measures can be monitored to verify that IT initiatives are aligned with the overall objectives of the business, as shown on figure 1

Sr.	Performance Measure	Target	Actual	Status
A	**Contribute to Productivity Strategy**			
1	IT Cost as % of Revenue			
2	# of key processes integrated through systems			
B	**Contribute to Growth Strategy**			
1	% Leads generated through IT initiatives			
2	Adequacy of data to support client relationship			
C	**Strengthen IT Management Capability**			
1	% footprint on obsolete technology			
2	New/ existing system adoption rate			
3	% Applications adhering to performance standards			
4	Weighted SLA adherence			
D	**Enable Competence Development**			
1	% Employees with training plan serviced			
2	% Employees with defined career paths			
3	% Projects with knowledge assets created			

Figure 1: An IT Balanced Scorecard

The Balanced Scorecard helps CIOs determine which processes must be improved in order to support the strategies of the department and of the company. With the BSC, a CIO can continually review performance measures to ensure that IT processes and systems are on track for business transformation.

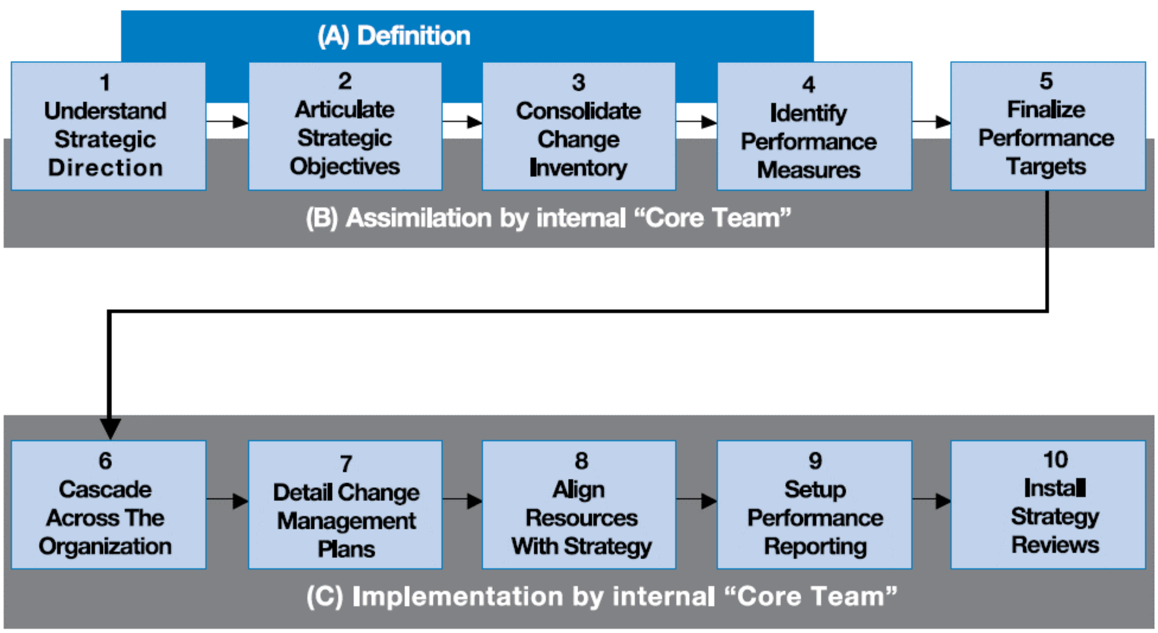
Making it Happen: The Proactive CIO

Implementing the Balanced Scorecard involves a phased approach with meticulous change management. The first step is the definition phase. This phase usually takes three to four weeks and delivers the following results, which form the foundation for the later phases:

- Consensus on vision and future scenarios
- Articulation of key strategic objectives
- Performance metrics (Balanced Scorecard)
- Initiatives to meet strategic objectives

The results of the definition phase are put into play to bring about the second phase: assimilation. The assimilation stage usually lasts four to six weeks. During this period, an internal core team socializes the process with all key stakeholders and finalizes the elements for implementation. The third phase is implementation, in which the internal core team deploys the process on an ongoing basis. It typically takes six to eight months to achieve a total blending of Balanced Scorecard processes with key management systems.

Many software-based systems promise a short-cut: Follow the approach outlined in the application and the Balanced Scorecard will be implemented. But our experience has shown time and time again that individuals need to take ownership of the framework's reviewing and reporting process in order to see the results desired. Once these Balanced Scorecard processes have become second nature, after many quarters of experience, can automation be used to facilitate the process.



Summary

The best strategy is useless if it remains only a theoretical construct. The Balanced Scorecard breaks down strategy into initiatives that have relevance to day-to-day activities. Further, it facilitates resource allocation based on both immediate performance and long-term value.

It takes a significant amount of time to implement the Balanced Scorecard properly. However, once completed, it provides a powerful way to review the performance of the IT department. Adhering to the objectives defined in the Balanced Scorecard helps IT to fulfill its proper role as a change agent in today's competitive marketplace. This continual realignment with the objectives of other departments creates a solid framework to drive the overall progress of the company.

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Case Study

DuPont Uses Balanced Scorecard to Drive E-Commerce Initiative

The IT department of DuPont Engineering Polymers, a $2.5 billion division of DuPont Chemicals in Wilmington, Delaware, leveraged the Balanced Scorecard to help meet corporate goals and eliminate projects that were not contributing to the strategic directions of the firm. They quickly discovered that the Balanced Scorecard is an indispensable tool for demonstrating IT's value to the corporation.

According to Linda Bankston, CIO at DuPont Engineering Polymers, the IT department used the Balanced Scorecard to drive value by streamlining e-commerce processes, which helped foster new business models. [1] She used the BSC to establish metrics for key staff members, such as the global program manager and e-commerce technology manager.

Because of the dynamically fluctuating nature of IT—and the need for the IT department to be nimble and flexible—the Balanced Scorecard is more pertinent for IT than for any other department in the organization. Companies like DuPont use the BSC to convert value drivers into a series of carefully defined metrics. This exercise enables CIOs to quantify, qualify, and prioritize the ways in which their departments contribute to the objectives of the corporation.

As Bankston discovered, implementing the Balanced Scorecard at the departmental level helps align specific initiatives with stated corporate goals. She says her team improved communication and streamlined decision-making as a result of the Balanced Scorecard initiative. "The BSC changes the conversation between IT and the business, "she says. "The conversation becomes focused around strategy and impact rather than whether or not something can be done."

[1] Berkman, Eric, "How to Use the Balanced Scorecard," CIO, May 15, 2002.

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