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Chapter XIII Copinformation Technology

Governance through the Balanced Scorecard

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The balanced scorecard (BSC) initially developed by Kaplan and Norton, is a performance management system that enables businesses to drive strategies based on measurement and follow-up. In recent years, the BSC has been applied to information technology (IT). The IT BSC is becoming a popular tool with its concepts widely supported and dispersed by international consultant groups such as GartnerGroup, Renaissance Systems, Nolan Norton Institute, and others. Purcciafelli et al. (1999) predict that "by 2003, 60 percent of large enterprises and 30 percent of midsize enterprises will adopt a balanced set of metrics to guide business-oriented IT decisions (0.7 probability)." In this chapter, a generic IT BSC is proposed and its relationship with the business balanced scorecard (BU BSC) is established. It is shown how a cascade of balanced scorecards can support the IT governance process and its related business/IT alignment process. Further, the development and implementation of an IT BSC is discussed and an IT BSC maturity Model is introduced. The chapter concludes with the findings of a real-life case.

INTRODUCTION

Kaplan and Norton (1992; 1993; 1996a; 1996b) have introduced the balanced scorecard at an enterprise level. Their fundamental premise is that the evaluation of a firm should not be restricted to a traditional financial evaluation but should be supplemented with measures concerning customer satisfaction, internal processes and the ability to innovate. Results achieved within these additional perspective areas should assure future financial results and drive the organization towards its strategic goals while keeping all four perspectives in balance. For each of the four perspectives they propose a three layered structure: 1. Mission (e.g., to become the customers' most preferred supplier); 2. Objectives (e.g., to provide the

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customers with new products); 3. Measures (e.g., percentage of turnover generated by new products). The balanced scorecard can be applied to the IT function and its processes as Gold (1992; 1994) and Willcocks (1995) have conceptually described and has been further developed by Van Grembergen and Van Bruggen (1997), Van Grembergen and Timmerman (1998) and Van Grembergen (2000).

IT BALANCED SCORECARD

In Figure 1, a generic IT balanced scorecard is shown. The User Orientation perspective represents the user evaluation of IT. The Operational Excellence perspective represents the IT processes employed to develop and deliver the applications. The *Future* Orientation perspective represents the human and technology resources needed by IT to deliver its services over time. The Business Contribution perspective captures the business value created from the IT investments.

Each of these perspectives has to be translated into corresponding metrics and measures that assess the current situation. These assessments need to be repeated periodically and aligned with preestablished goals and benchmarks. Essential components of the IT BSC are the cause-and-effect relationships between measures. It enables the connections between the measures to be clarified in order to determine two key types of measures: outcome measures and performance drivers. A well developed IT scorecard contains a good mix of these two types of measures. Outcome measures such as programmers' productivity (e.g., number of function points per person per month) without performance drivers such as IT staff education (e.g., number of educational days per person per year) do not communicate how the outcomes are to be achieved. And performance drivers without outcome measures may lead to significant investment without a measurement indicating whether the chosen InC.

USER ORIENTATION	BUSINESS CONTRIBUTION	
How do users view the IT department?	How does management view the IT	1
*	department?	
Mission	Mission	
To be the preferred supplier of information	To obtain a reasonable business contribution	
systems.	from IT investments.	
Objectives	Objectives	
Preferred supplier of applications	Control of IT expenses	
Preferred supplier of operations vs prop-	Business value of IT projects	
oser of best solution, from whatever source	Provision of new business capabilities	
Partnership with users		
User satisfaction		
OPERATIONAL EXCELLENCE	FUTURE ORIENTATION	
How effective and efficient are the IT	How well is IT positioned to meet future]
processes?	needs?	
Mission	Mission	
To deliver effective and efficient IT	To develop opportunities to answer future	
applications and services.	challenges.	
Objectives	Objectives	
Efficient and effective developments	 Training and education of IT staff 	
Efficient and effective operations	• Expertise of IT staff	
idly i	Research into emerging technologies	
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Figure 1 Generic IT balanced scorecard

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