

The performing IT organization

The IT 'right' of existence

IT managers today are faced with increased expectations from internal stakeholders concerning IT performance and their contribution to the overall business results, hence, the need for formal measurement and management of IT performance emerges.

Getting started

Choosing a framework for our IT-scorecard might seem a difficult task to accomplish. What are the necessary building blocks of the 'right' IT-scorecard framework and how can we distinguish between the multitude of available frameworks for quality and performance in our business environment? Similarities and differences between frameworks and concepts such as Balanced Scorecard, CobiT, ITIL, EVA, CMM, ABC and so on, simply add to the overall confusion.

In order to find a suitable answer to these issues we need to take one step back and consider the actual purpose of an IT-scorecard, which is in the end to *improve and sustain* IT performance. To accomplish this goal we need to implement a continuous cycle of *measuring, managing and improving*.

Measuring means a focused visualization of your IT performance, subsequently in the management stage evaluating the results, drawing conclusions and taking decisions that drive actions towards improvement. While improvement actions should be *linked* to your scorecard, the main function of the IT scorecard is to be found in the measurement and management steps of the overall change process.

Change implies a journey from your present situation to a more favourable future one, hence, to build a suitable IT scorecard we need to consider our present strengths and weaknesses and compose our framework to reflect the most important challenges in our IT performance, rather than just *choosing* one. Taking the best elements of the above mentioned 'standard' frameworks and combining them into our IT scorecard framework is undoubtedly the better approach.

Over time, improvement of our IT performance will reflect in changes in strengths and weaknesses, thus creating the need for changes in the IT scorecard framework.

Building a foundation

The balanced scorecard provides us with a framework that includes all necessary perspectives to measure and manage performance of an organization. Furthermore, the concept of the BSC includes the active use of causal relationships, in the process enabling a pro-active performance management approach. In essence, the balanced scorecard covers all bases and enables us to drive performance, rather than reacting to it.

However, the standard BSC framework does not reflect very well the aspects of IT's contribution to the overall business results. The financial, customers, internal processes and growth & learn perspectives of the BSC are much too broad to aim our attention at the IT specific challenges in today's business environment.

Let us therefore consider the revised BSC framework below as a basic foundation for our IT scorecard. Instead of just looking at financial results we focus on building a sound *Corporate Contribution*. The customer perspective becomes *User Orientation*, while the internal perspective is translated into *Operational Excellence*. Finally, the growth and learn perspective is changed into *Future Orientation*.

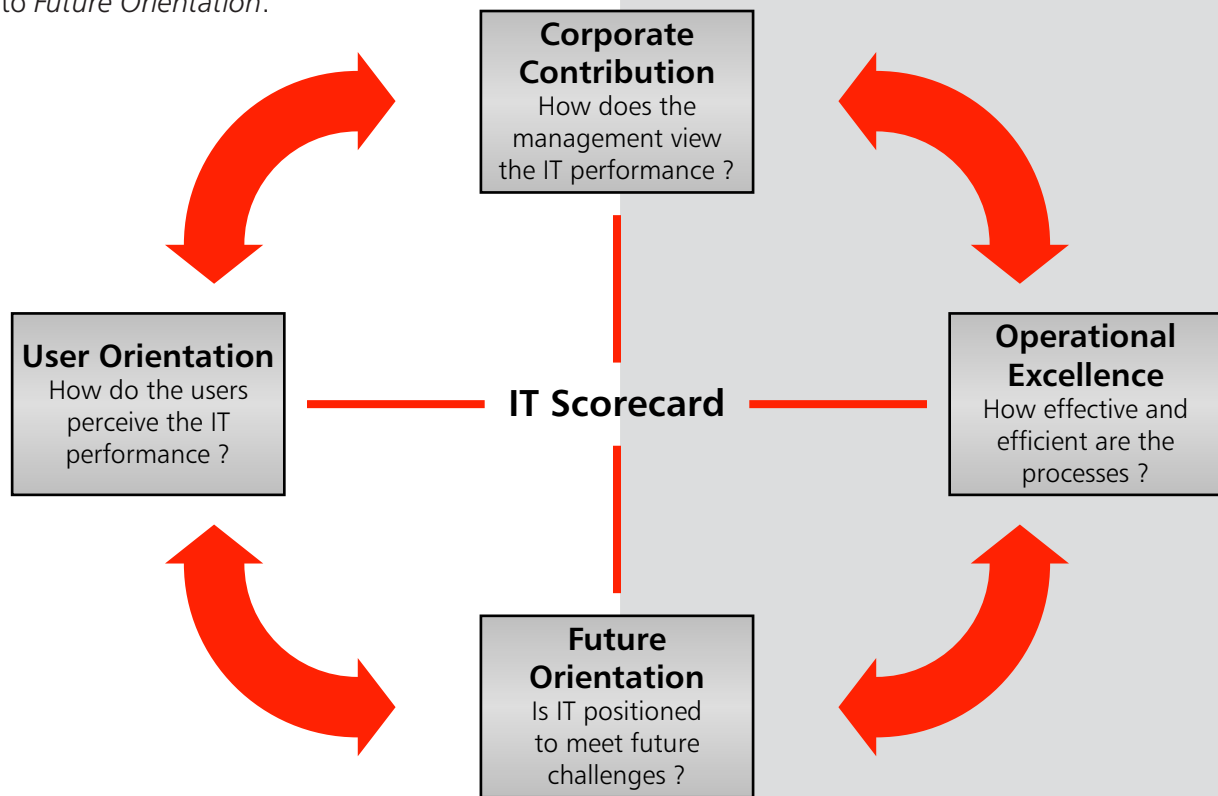


fig 1. The basic IT-scorecard framework

Looking at the four perspectives of the IT scorecard we can start thinking about the content behind these perspectives, for instance:

- ❑ **Corporate Contribution** - Obtaining a reasonable business contribution with IT investments, focusing on control of IT expenses, business value of new projects and business value of the IT function.
- ❑ **User Orientation** - Becoming the preferred supplier of information systems and supporting business opportunities through IT, creating a real partnership and establishing a high level of user satisfaction.
- ❑ **Operational Excellence** - Delivering efficient and effective IT products and services through efficient software development, hardware reliability and help desk support.
- ❑ **Future Orientation** - Develop opportunities and answer future challenges, providing training and education, skilled IT resources, research and control of application portfolio aging.

Now that we have an excellent starting point for our IT scorecard framework, we need to specify the key performance areas below our main perspectives in such a way that they address any present challenges we might have and at the same time reflect our IT business strategy.

To do this, we have to find an elegant way to assess our present strengths and weaknesses and compare them with our future vision.

Filling in the blanks

The first step in this part of the process is to address our present challenges, thus we need to assess our level of competence at this starting point. There are basically two frameworks that might help us accomplish this task, being CobiT and ITIL. Both systems provide a process oriented framework and assessment tools, they both have their specific strengths and weaknesses.

However, the assessment and audit capability of CobiT appears stronger than the one from ITIL, especially because CobiT makes use of an integrated version of the CMM methodology (Capability and Maturity Model). All 34 process descriptions of CobiT, divided over four categories (Planning & Organisation, Delivery & Support, Acquisition & Implementation and Monitoring), provide you with a process specific translation of the six stages of the capability and maturity model.

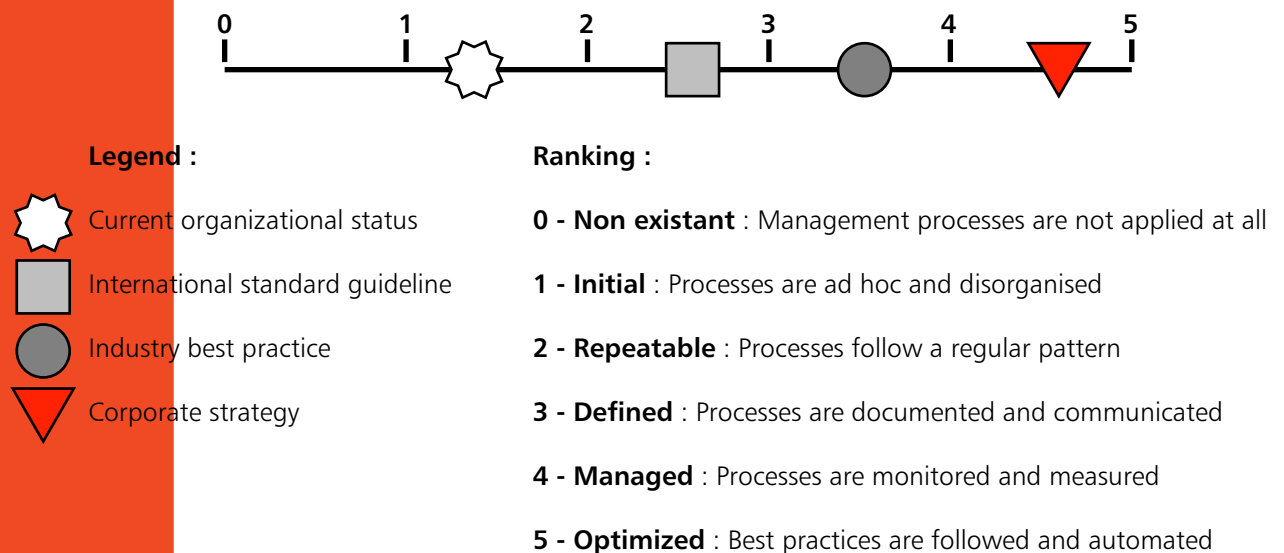


fig 2. The generic Capability and Maturity Model

Using CobiT to run an assessment of our present IT performance on all 34 of the framework's IT processes, applying the translated CMM evaluation for every process, creates a crystal clear picture of those areas in our IT performance that are eligible for improvement. Matching those 'weaknesses' with the four perspectives of our IT scorecard we can take a first step in defining the key performance areas we need to improve.

Next, based on our corporate strategy, we can identify those key performance areas we want to keep under close watch, regardless of their present performance and include them in the framework.

While the basic IT scorecard perspectives remain in place over time, most of the selected key performance areas underneath will very likely change when your IT performance evolves. Hence, you will need to re-use the CobiT assessment and strategy discussion regularly to redirect the focus of your IT scorecard on the right key performance areas.

At this point we have a more detailed scorecard defined, showing us those key performance areas in which we need to excel. However, at this stage the model is still purely result oriented, we know roughly what we would like to achieve. Remains the question how to accomplish this result, in other words which *additional* key performance areas should we include to drive our organization towards the expected outcome?

Defining the drivers in our scorecard framework can be initiated by again generating a discussion on strategy. To complement or feed this activity, the ITIL framework can be of high value, since this framework is much more improvement and action oriented than the CobiT model. Using the *activity plans* provided by ITIL for each of its process descriptions can help us to identify those key performance areas that will drive the performance of our IT infrastructure and services.

At this point in time we will define causal relationships in our IT scorecard, between the driving and result key performance areas. As is to be expected, those relations occur both inside perspectives (e.g. the effect of excellent service level agreements on user satisfaction) and across perspectives of our IT scorecard (e.g. the effect of response time management on the scores of service level results).

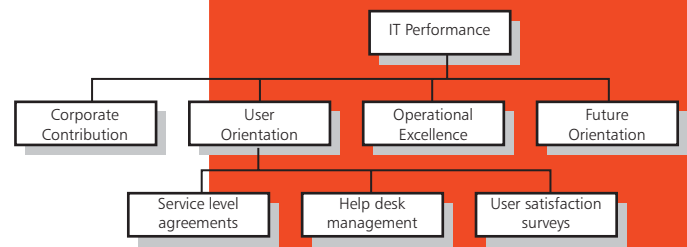


fig 3. Example of key performance areas defined

Completing the picture

A regular point of discussion in today's organizations is the definition of corporate contribution of the IT solutions. What investments should be allowed and how do we calculate their costs and values for the organization?

Using the process specific cost breakdown of the ITIL framework and even ABC (Activity Based Costing) can give us a grip on the cost side of this issue. Using the causal relationships within the IT scorecard we can visualize the added value of our IT solutions and services in both hard and soft effects. Very often however, the money spent for IT costs and investments is not valued in the right way.

So, last but not least, the EVA (Economic Value Added) concept can help us calculate the real costs of our IT spending. Integrating the total cost of capital employed by using the EVA formula of WACC (Weighted Average Cost of Capital) x Capital Employed in our IT scorecard helps us to visualize the return on investment of our IT organization.