

Using Balanced Scorecard to Elevate the Value of Your IT Department



Turning “IT Doesn’t Matter” Into “IT is a Strategic Contributor” to Corporate Performance

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Lewis & Fowler
Smart People - Brilliant Results

Introduction



- **Strategic Consulting Practice Director**
- **25 Years IT Leadership and Consulting Experience**
- **IT Scorecard & Metrics Implementation Consultant**
- **Industry experience in petrochemicals, newspaper publishing systems, manufacturing, electric utilities, pulp and paper, government services, defense systems and aerospace, and semiconductors**
- **Physics graduate degree, MBA in Systems Management**



- **CARL DUBLER, Global Practice Manager**
- **IT Industry since 1987, much of it specialized in database and BI technologies**
- **Before EMC, worked 5 years at Microsoft and earned *Circle of Excellence*, their top honor**
- **Degree in *Rhetoric and Argumentation***

Web Cast Outline

How an IT Scorecard is different from a Traditional Scorecard

Developing a strategy based organization

5 steps to building an IT scorecard

Linking strategy to execution

Putting the scorecard to work

Scorecard Tool Demonstration

Wrap up

“Flying by the seat of your pants”

What aviators can teach us about the need for scorecard solutions

Trust Your Instruments!

What I *felt* was happening



Reality was something else



Lesson: Making decisions without instrumentation is dangerous!



Current Location

- Home
- Finance**
- Scorecard Pivot

Actions

- Create Subarea
- Change Settings
- Manage Security
- Manage Content
- Manage Portal Site
- Add to My Links
- Alert Me
- Edit Page

P&L SCORECARD



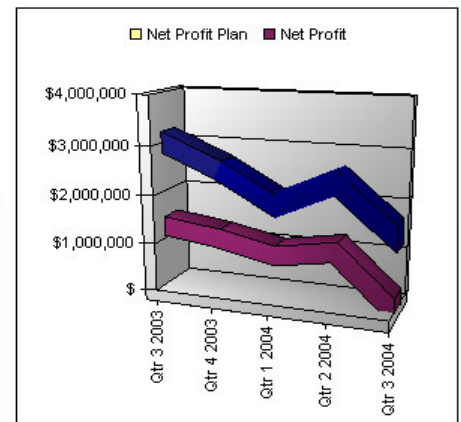
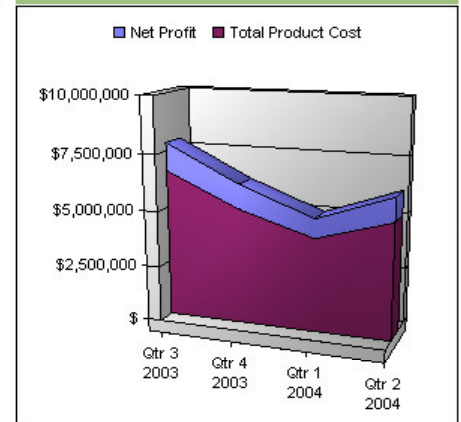
All Order Date						
2004						
	Qtr 1 2004			Qtr 2 2004		
	Actual	Plan	Trend	Actual	Plan	Trend
All Reseller						
United States						
Profit and Loss						
Revenue						
Units Sold	9,829	●	↗	14,990	●	↗
Product Revenue	\$5,052,978.76	●	→	\$6,253,813.68	●	→
Costs						
Product Cost	\$4,186,276.47	●	→	\$5,185,894.44	●	→
Average Discount	4.32%	◆	→	4.77%	◆	→
Profit						
Profit	\$866,702.29	◆	→	\$1,067,919.24	◆	→
Profit Margin %	17.15%	◆	↘	17.07%	◆	↘

Live Meeting: Meet Now

Type	Name	Modified By	Created	File Size
Income Statement		SQL2KBI\Administrator	4/7/2005 10:46 AM	42 KB
Net Profit Analysis		SQL2KBI\Administrator	4/7/2005 10:46 AM	92 KB
Net Profit Analysis		SQL2KBI\Administrator	4/7/2005 10:46 AM	28 KB
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Profit and Loss Statement		SQL2KBI\Administrator	4/7/2005 10:46 AM	12 KB
Profit Margin Analysis		SQL2KBI\Administrator	4/7/2005 10:46 AM	21 KB
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P&L SCORECARD

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	2004					
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	Actual	Plan	Trend	Actual	Plan	Trend
All Reseller						
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Units Sold	9,829		↗	14,990		↗
Product Revenue	\$5,052,978.76		→	\$6,253,813.68		→
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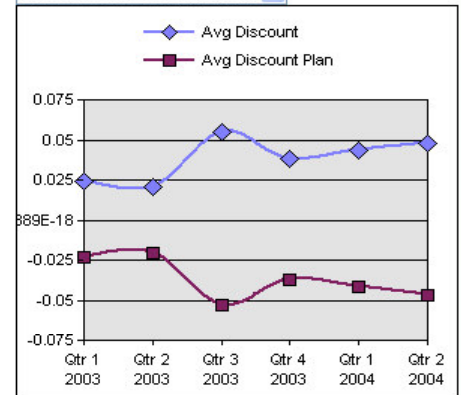
Average Discount by Region SQLRS [dropdown]

Product: <Select a Value> [dropdown]

View Report

REPORT VIEWS

Discount Rates Over Time Chart [dropdown]



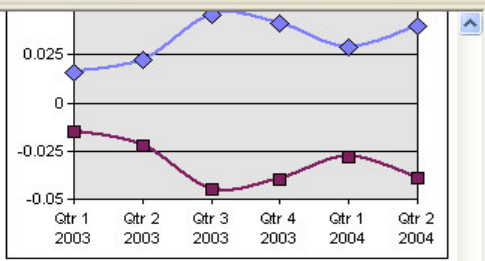
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Type	Name	Modified
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	Qtr 1 2004			Qtr 2 2004		
	Actual	Plan	Trend	Actual	Plan	Trend
All Reseller						
United States						
Profit and Loss						
Revenue						
Units Sold	2,817		↗	4,433		↗
Product Revenue	\$87,480.75		→	\$130,835.12		→
Costs						
Product Cost	\$69,271.00		→	\$107,287.97		→
Average Discount	2.91%		↘	4.02%		↘
Profit						
Profit	\$18,209.75		↘	\$23,547.15		↘
Profit Margin %	20.81%		↘	17.99%		↘



Average Discount Document Library

Type	Name	Modified
Document	Average Discount Analysis	4/7/2005 11:36 AM
Document	Average Discount Q4 Presentation	4/7/2005 11:36 AM
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Average Discount by Region SQLRS

Product:

1 of 13 | 100% | Find | Next

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- Select a format
 - HTML with Office Web Components
 - Excel**
 - Web archive
 - Acrobat (PDF) file
 - TIFF file
 - CSV (comma delimited)
 - XML file with report data

Average Discount by Region

STATE	CITY	RESELLER	AVG DISCOUNT	AVG DISC PLAN	ORDER QTY	ORDER QTY PLAN	PRODUCT COST	PRODUCT COST PLAN	NET PROFIT
Alabama									
	Birmingham								
		Extreme Toy Store							
	Florence								
		Pedal Systems Company							
	Huntsville								

Let's get started with some Balanced Scorecard Background

With the tools shown in the previous slides,
there comes a broad and deep background
of how to put Balanced Scorecard to work

BSC Connects Strategy with Execution†

- **Strategy is about creating *fit* among a firm's activities:**
 - The success of strategy depends on doing many things well – not just a few
 - If there is no fit among the activities, there is no distinctive strategy and little to sustain strategic development
- **Management then reverts to operational effectiveness, which then determines the relative effectiveness of the organization**

† “What is Strategy,” M. E. Porter, *Harvard Business Review*, 74(6) pp. 61–78.

How Does BSC Convey the Value of IT?

- The value IT delivers to the business must drive everything IT does
- This value is usually not adequately or explicitly addressed
- Value in the sense of IT is a negotiated convention†
- The definition of value is created, not discovered
- The financial measure of value is necessary but not sufficient
- Balanced scorecard is a framework for strategic discussion of value

† “Valuing the IS Contribution to the Business,” Foundation Operational Excellence Report, Computer Sciences Corporation 1999

What is Strategy?†

- Strategy is how an organization intends to create value for its customers, stakeholders and shareholders by increasing the fit among its business units
- In the business of IT, intangible assets represent a significant percentage of the value proposition
- IT strategy therefore must explicitly address the operation and alignment of these intangible assets

†*Strategy Maps: Converting Intangible Assets into Tangible Outcomes*, Robert S. Kaplan and David P. Norton, HBS Press, 2004

The Components of Strategy

- Strategy themes – usually represented in a *Strategy Map*
- Objectives – what the strategy must achieve and what's critical to its success
- Measures – how success will be measured and tracked
- Targets – the needed level of performance or rate of improvement
- Initiatives – the actions required to achieve the objectives

Themes of an IT Strategy

- **Business improvement can be enabled by IT that is integrated not disintegrated**
 - Horizontal system remove barriers between business units
- **IT requirements are always growing, changing and being extended**
- **IT is about abstractions.**
 - Business processes, objects, services are the foundation of these abstractions.
 - Hardware and software are simply the tools of implementation.

IT Value Must Be Negotiated With The Recipients Of IT's Services

A fundamental aspect of negotiation is creating and claiming value. This is the “negotiators dilemma.”

Value for one is not necessarily value for both. If both pursue their best option, both will often get the worst outcome

Steps in Negotiating IT Value

- 1. Create formal and informal opportunities for dialogue** – reinforce and broaden the reach of decisions of IT value
- 2. Build credibility** – set targets that capture the imagination of the business and then deliver on them
- 3. Facilitate alignment** – IT has a duty to mediate in achieving alignment between business units
- 4. Market success** – value is a perception and perceptions can be influenced
- 5. Educate IT about business, and business about IT** – bridge the gap between IT and the business
- 6. Rearrange responsibilities** – have the business manage systems and IT manage processes

Traditional Scorecard v. IT Scorecard

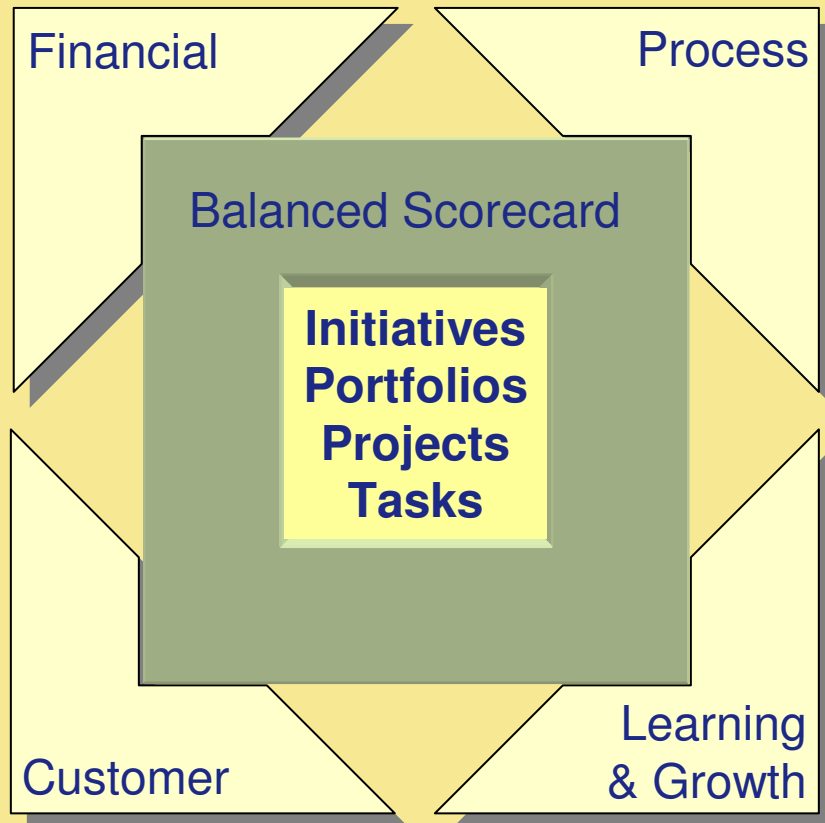
- **IT scorecards have similar attributes to traditional scorecards ...**
 - They should be cascaded from the enterprise strategy
- **But they are different in significant ways ...**
 - First they should focus on the boundaries of IT that fulfill the corporate strategy
 - Then they should focus on internal operations
 - Then on enterprise operational excellence as a means to deliver strategic corporate value

Traditional Balanced Scorecard

A lagging indicator that provides the ultimate definition of success

Satisfaction, retention, and growth defines the value proposition for the targeted customer segments

4 Perspectives of a Traditional Balanced Scorecard



The value proposition is created and delivered through processes
Improving processes can improve value

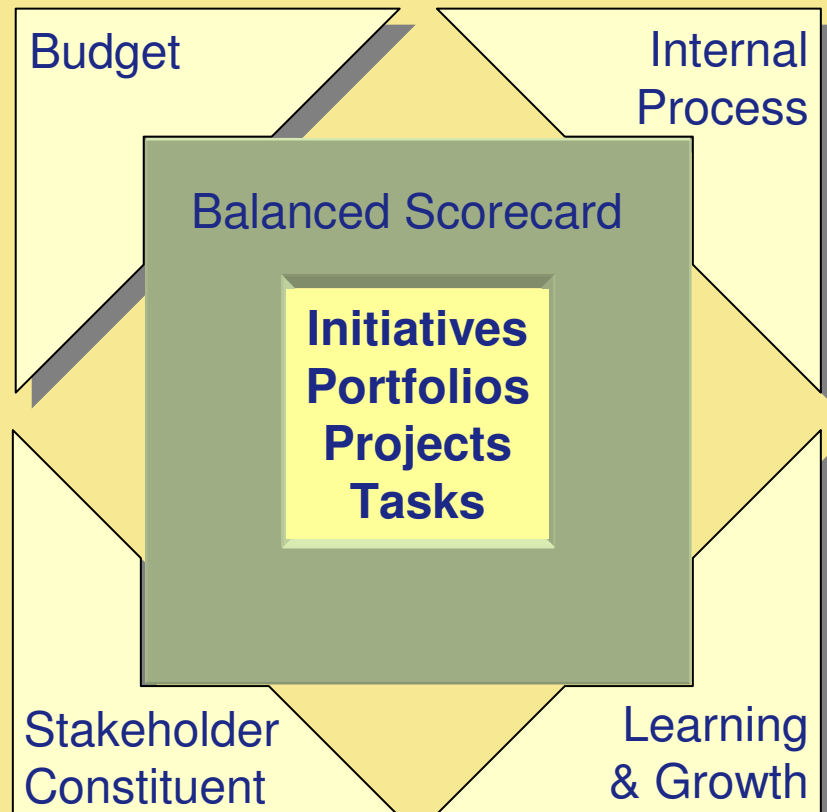
Improvements in people, technology, and organizations are leading indicators in the support of strategy

Balanced Scorecard for IT Value

Budget is usually provided by higher level. Performance to budget is a core success measure. Delivery of value against budget is a basic strategy measures success

Stakeholders are internal customers. Their success depends on having the right systems at the right cost at the right time.

4 Perspectives of an Information Technology Balanced Scorecard



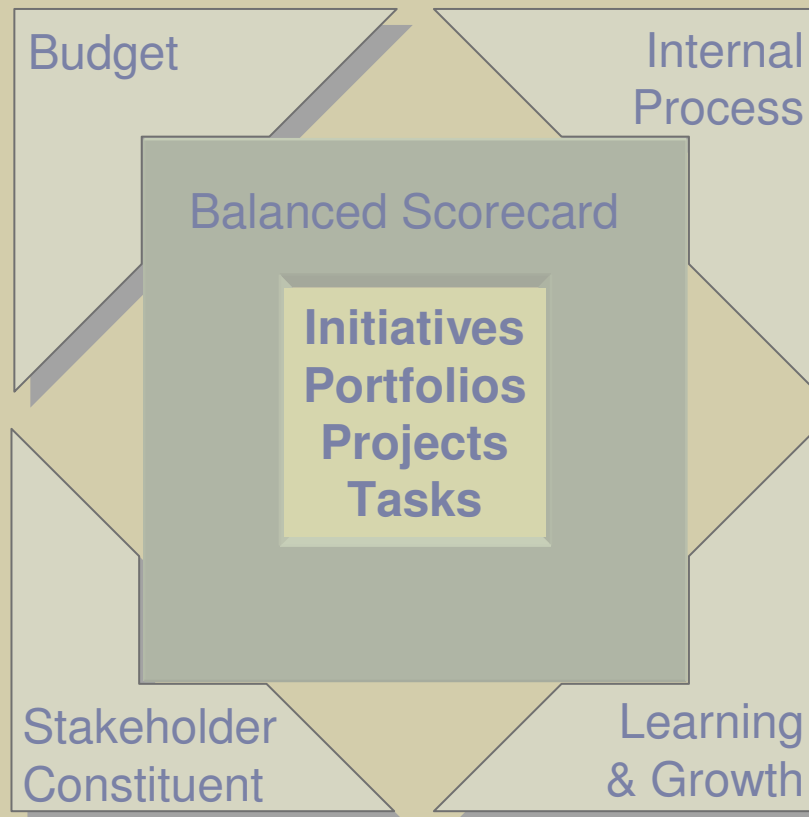
Managing the value stream of application acquisition and development is a core competency of IT.

Learning to be lean and agile provides visible benefits to those responsible with growing the enterprise through products and services

IT BSC's Probing Questions

What is the Cause-and-Effect relationship between budget and IT value delivered to the organization?

4 Perspectives of an Information Technology Balanced Scorecard



How can the internal processes of IT be designed to best suite the achievement of the defined goals within the Budget and Stakeholder perspectives?

What is the integrated value chain provided by these processes?

What is the clearly defined mission of IT that satisfies the needs of the customers in the best possible way?

How can these needs lead to financial measures of success within the Budget perspective?

What goals can be identified to facilitate corporate innovation and learning to fulfill the corporate strategy?

How can this innovation be about the corporation not just about IT?

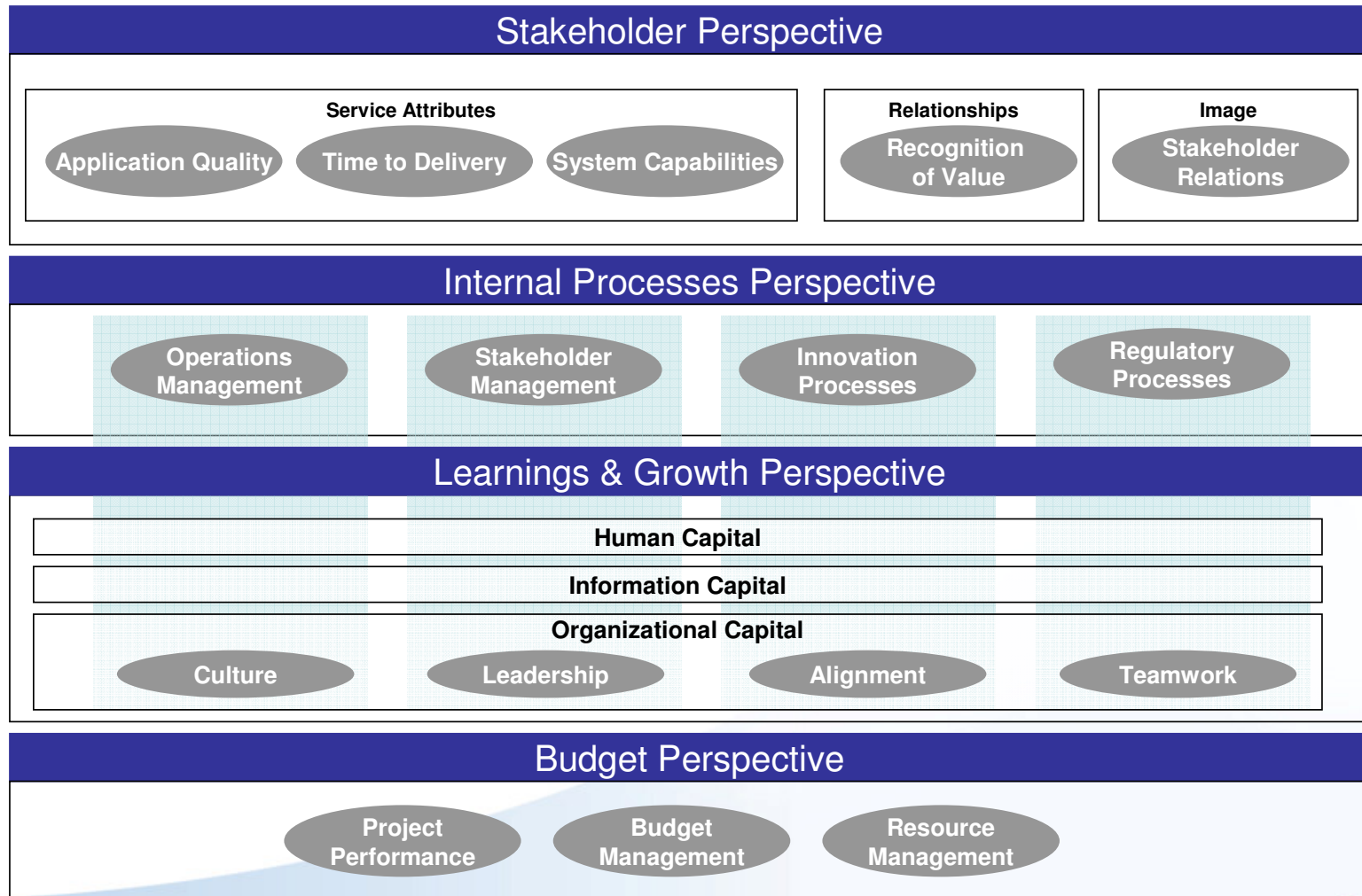
The Core Problem With Strategy

- The relationship between organizational actions and perceived value is subject to many external influences and not easily observed
- It is difficult to show relationships between management direction & organizational behavior
- A measurement system can tell us what happened, but it can't tell us whether what happened was worthwhile
- This is the fallacy of starting with a “dashboard” approach to Balanced Scorecard. Without strategy, the numbers only reflect operational excellence

Building Strategy – Where to Start?

1. What stakeholder value proposition defines the source of value?
2. What business processes create value for the stakeholder?
3. What intangible assets must be aligned with the strategy?
4. What is the cause and effect relationship that converts intangible assets into tangible outcomes?
5. Budget performance is a lagging indicator, how can we assure this performance provides a tangible definition of value?

Example IT BSC Strategy Map



Starting the Balanced Scorecard Initiative



There are several ways to start a Balanced Scorecard Initiative. Any approach needs to focus on “keeping score” for improvement of the “team”

Five Simple Steps to the 1st Scorecard

1. Identify the strategic linkages between value and execution

- A strategy map is an easy place to start

2. Identify the success indicators

- How will we recognize success when it comes?

3. Identify the initiatives that deliver this success

- What projects, programs or portfolios will be traced to strategic success?

4. Build the actual scorecard processes

- Integrate the scorecard process into existing business management processes

5. Rollout the scorecard processes to the organization

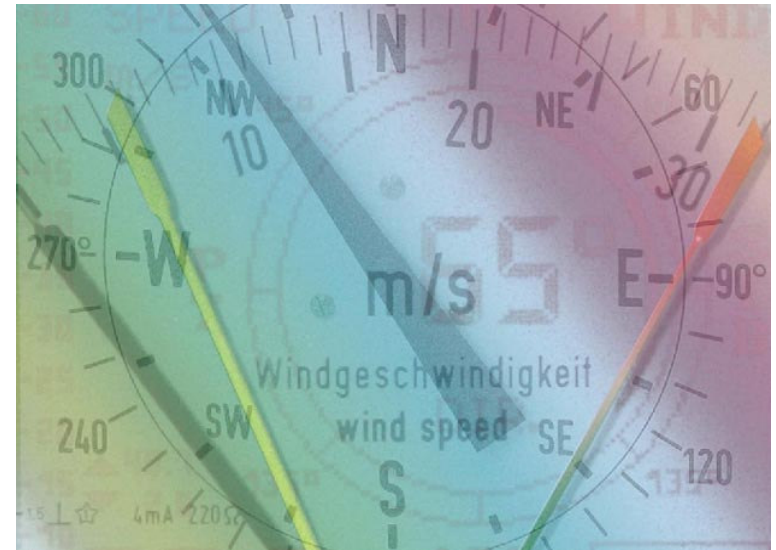
- Put the scorecard into the hands of the community of users as part of their operational process

1. Building IT Scorecard Linkages

- The development of strategy for IT starts with a simple, straightforward approach
 - *Ask your customer what they want you to do for them, how much they are willing to pay, and how they will acknowledge you've done it*
- This is really too simple of course, but it starts the conversation on the outcome rather than the means
- Strategy depends on this conversation
- Find phrases in the conversation with the customer of IT that fit in each perspective of the BSC
- Build a Strategy Map between each of these objectives.
 - One place to learn is: *Strategy Maps: Converting Intangible Assets into Tangible Outcomes*, Robert Kaplan and David Norton, HBS Press

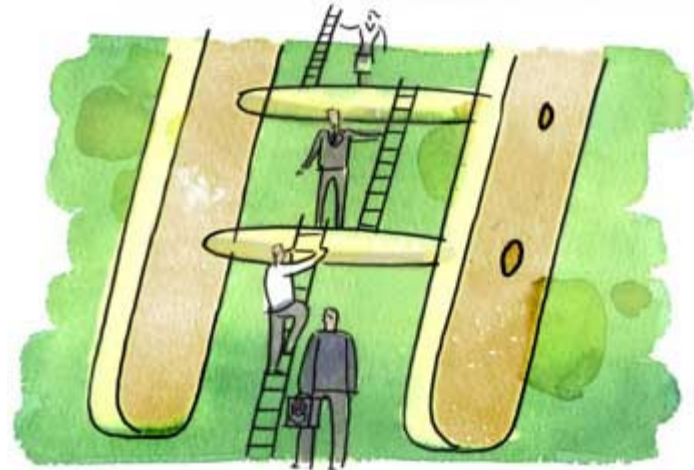
2. Identify IT BSC Success Indicators

- Indicators are not the same as measures
- Start with indicators
 - Cost per square foot of construction is an indicator
 - It does not say much about architecture – but is an indicator of affordability
- Indicators “indicate” fulfillment of the strategy
 - Measures are tactical, indicators are strategic
 - Wind speed is a measure
 - The suitability of the wind for an outdoor activity is an indicator



3. Identify IT BSC Initiatives

- **Translating strategy into beneficial outcomes requires initiatives be connected to an objective and then a strategy**
- **Start with the current core processes**
 - Find which ones support strategy, their impact, cost and returned value
 - Stop doing work that can not be traced in some way to a strategy
- **A “Strategy Focused Organization” does just that, focuses on strategy**



4. The IT BSC Building Process

- **Integrate the scorecard into business operations**
 - Making Balanced Scorecard part of the everyday process is difficult – if not the most difficult part of the BSC Initiative
- **Real data, useful data, data that describes strategic indicators is required for the Scorecard to be operational**
- **BSC is itself a continuous process improvement process**

Questions to Start the 4 Quadrants

<p><u>Budget</u></p> <ul style="list-style-type: none">● What accountability do we have for budget compliance?	<p><u>Customer</u></p> <ul style="list-style-type: none">● Who do we define as our customers?● What do our customers demand of us?● How do we present our selves to our customer?
<p><u>Internal Processes</u></p> <ul style="list-style-type: none">● What must we do internally to achieve our objectives identified in the customer perspective?	<p><u>Learning and Growth</u></p> <ul style="list-style-type: none">● Do we have the skills and competencies required to achieve process and customer objectives?● Does our staff possess the information needed to achieve their objectives?● Do we have the abilities to sustain our growth and change?

5. A “Generic” IT Scorecard

User Orientation

- Be the preferred supplier of applications
- Be the preferred supplier of operations
- Partnership with users
- User satisfaction

Corporate Contribution

- Control IT expenses
- Improve business value of IT projects
- Improve business value for IT function

Operational Excellence

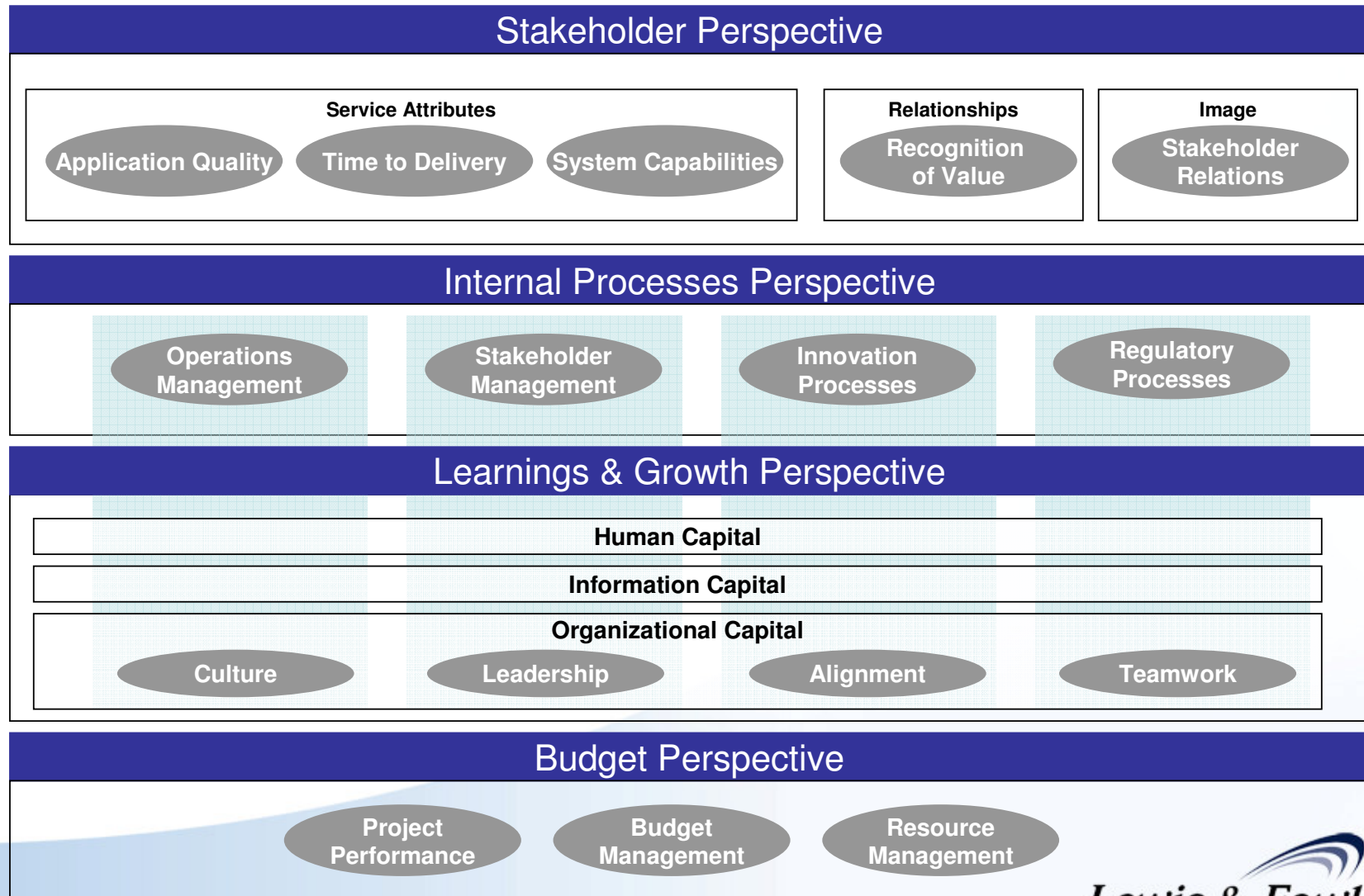
- Effective software development
- Efficient operations
- Timely problem management
- Competent users and staff

Future Orientation

- Permanent training and education
- Expertise of IT personnel
- Age of applications portfolio
- Research into emerging technology

Kaplan and Norton, 1992

One Model for an IT Scorecard



Microsoft Business Scorecard Manager Demonstration

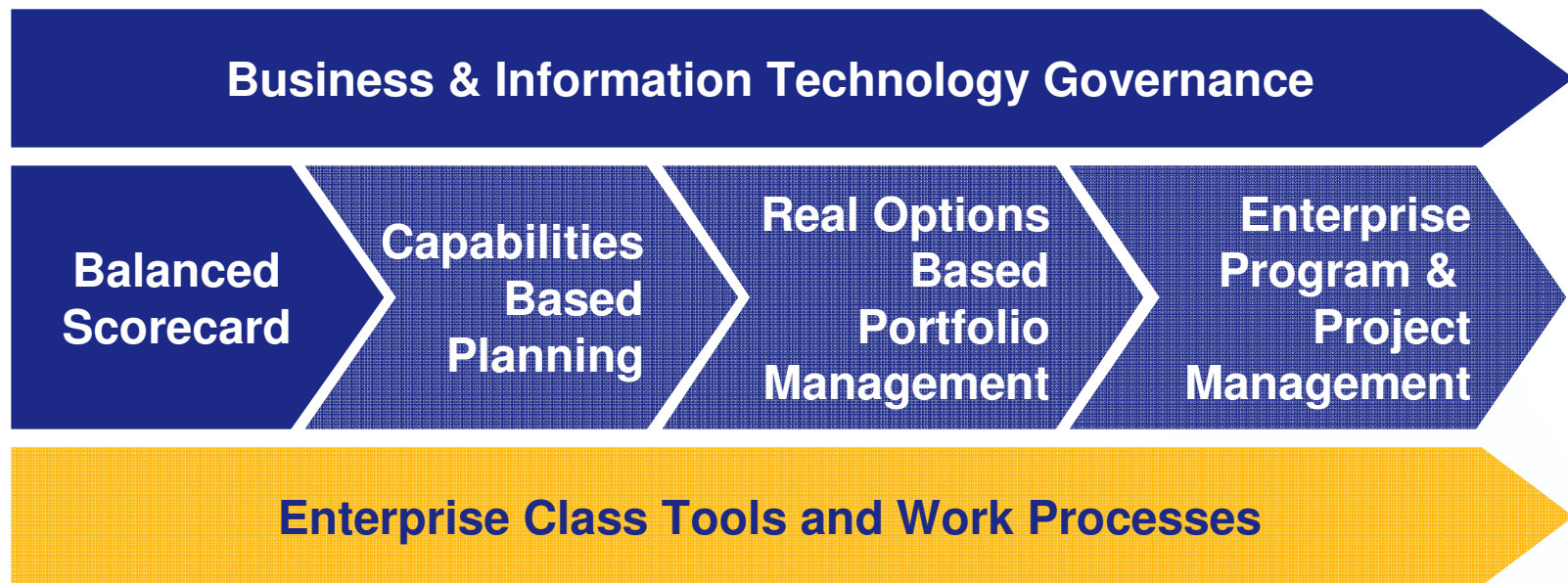
demo

Some Final Thoughts for Today

Having a Balanced Scorecard is the beginning of delivering IT value to the organization – not the end

BSC is Part of a Larger Whole

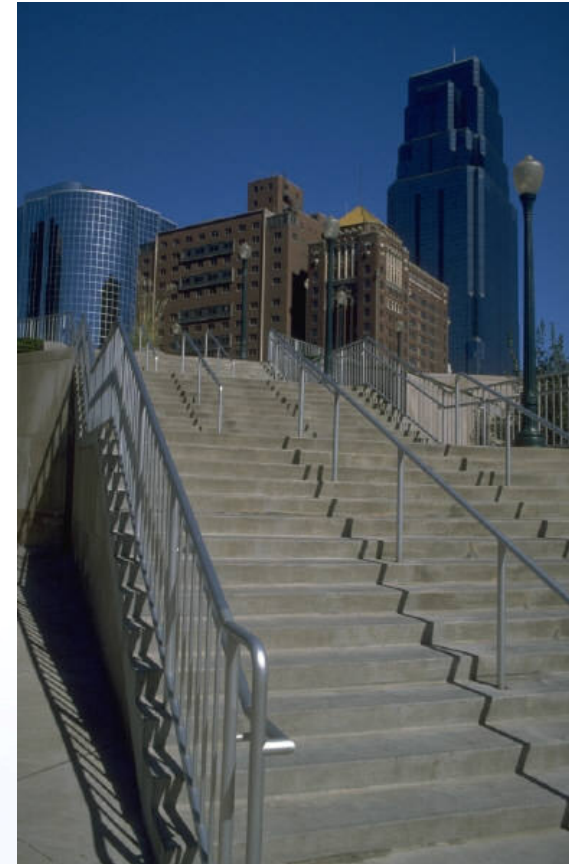
Governance is what converts Strategy into a Continuous Process



Project execution is what delivers IT value to the organization

Next Steps

- Assessment of the need for IT Scorecard
 - Self assessment
 - Engage Partner
- Assess endorsement and support
- Assess implementation capability
- Perform gap analysis and next steps recommendation
- Begin IT Scorecard journey



Questions and Answers

- Submit text questions into the chat section



For More Information...

- **IT Strategy and IT Scorecard Process Development and Implementation**
 - Contact Lewis & Fowler
 - Call or email Kendra Anderson at 720.849.3458, kanderson@lewisandfowler.com
 - Visit www.lewisandfowler.com
- **Microsoft Business Scorecard Manager Implementations**
 - Contact EMC Microsoft practice
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