

# THE IT BALANCED SCORECARD (BSC) EXPLAINED



The Balanced Scorecard is a management system that clarifies the strategy and vision of an organization, translating them into action that can be tracked. In simple terms, it's a way of understanding how well the department or entire organization is doing – an alternate, or preferred, way to measure successful strategy implementation that goes beyond financials.

Initially, the balanced scorecard (BSC) turns strategy into something tangible, so that it can be measured. But the real success of a BSC lies in its [prioritization of measurements](#) that are most meaningful to the organization. It is this prioritization that makes the BSC approach a true management system, going beyond a mere measurement system.

As organizations adopted the Balanced Scorecard in the 1990s, however, one issue emerged universally: how to measure the IT department's contribution to the Balanced Scorecard, and ultimately to the bottom line. Today, the BSC for IT is one of [several IT frameworks](#) you can implement.

## History of the Balanced Scorecard

In the early 1990s, two professors at Harvard Business School found that the vast majority of companies managed their business based solely on financial measurements. Robert Kaplan and David Norton recognized a significant shortcoming: while finance is imperative to business health, it only reports what has already happened. Finances can't define where a business will head.

Together, Kaplan and Norton wanted to develop a way to manage strategy performance – and strategy isn't something that easily translates to numbers and metrics. They built the Balanced Scorecard as the solution to this problem. The main objective of the BSC is to translate corporate strategy and mission into tangible objects that can be measured, and prioritizing which measurements are [most meaningful](#).

The Balanced Scorecard defined four perspective that help managers plan, implement, and achieve the business strategy:

- **Financial Perspective:** tracking financial requirements and performance
- **Internal Business Process Perspective:** measuring critical-to-customer process requirements
- **Customer Perspective:** measuring the satisfaction and performance requirements of customers, as it applies to both the organization and what it delivers (products or services)
- **Knowledge, Education, and Growth Perspective:** measuring how the organization educates employees, gains and captures knowledges, and uses this information to grow and stay competitive

The vital part of maintaining a BSC is that all four arenas must be evaluated consistently. To delay examination or ignore a metric altogether will lead to an unbalanced business situation with inevitable and significant negative impact.

Whether they anticipated this sea change, Kaplan and Norton's Balanced Scorecard highlights a change in business management that is nearly the standard today, 25 years later. Not only did they see that finance couldn't predict the future, but now, businesses focus on service delivery and customer satisfaction almost more than the financial bottom line.

## IT and the BSC

Anyone in the industry knows that IT is changing drastically. A necessary component of any company in the 21st century, IT is no longer solely the bearer of hardware and software support. In fact, enterprises understand that IT is just as relevant to service delivery as any other business function within an organization, like marketing and finance. IT is also starting to support intelligent software development and implementation.

Perhaps the biggest shift, however, is that IT has increasingly become the product. Whether your company is selling an app or an enterprise system, technology fuels it. Even if your company's product is sustainably sourced bedsheets or print-to-order artwork, your company must have top-of-the-line technology to support it, from customer service to order management to logistics.

With the [original scorecard system](#), IT was difficult to measure with the pre-existing measurements, perhaps due to its place as "only" a utility. But since IT is a business partner, no longer a mere utility, it must be managed strategically and forecast accurately.

The tricky part is this: IT often resides in its own business silo, away from other "vital" business partners, the industry typically relies on its own unique, IT-centric metrics to track performance. IT has often also been reactive in their work, responding to outages or help desk issues once they arise; as such, IT teams aren't traditionally poised to think or act strategically.

A strong performance in the IT department may not translate to a positive performance to other parts of the enterprise.

# Building an IT BSC

Not long after Kaplan and Norton developed their Balanced Scorecard, Belgian organizational theorist Wim Van Grembergen and IT specialist Rik Van Bruggen adopted the traditional BSC. They saw the difficulties in applying the four legs of the traditional BSC to an IT environment. In 1997, they modified the four areas to better fit an IT environment:

- Corporate contribution
- Customer (User) Orientation
- Operational Excellence
- Future Orientation

The goal of this revised IT Balanced Scorecard is to align the IT department with the rest of the organization, so that its metrics can be tracked alongside enterprise-wide metrics. It's easy to see why. Imagine that IT is helping other business units improve their efficiency and customer satisfaction – that's a value-add for the enterprise. Historically, however, no metrics track these contributions.

Organizations must decide how to employ the Balanced Scorecard in the most beneficial way for their bottom line. Some enterprises take a top-down approach that puts all departments, including IT, on the same scorecard. Others opt to customize their scorecards, providing a specific IT Balanced Scorecard.

Let's take a look:

## Applying existing BSC metrics to IT

In this approach, the IT BSC focuses on aligning language, so those within IT and those outside it are talking about measuring the same sorts of things in the same sorts of ways.

- Think about existing measurements in other areas: for instance, in HR the time-to-hire and employee turnover metrics, or in accounts and finance, there may be an order-to-cash measurement.
- What can IT do to contribute to these measurements?
- Once IT is looped into company language, a shift occurs wherein employees understand how the same terminology applies differently to each department.

## Creating an IT-specific BSC

For other organizations, the best approach is to take inspiration from the four quadrants of the traditional BSC then customize them to fit IT (use the areas defined by Van Grembergen and Van Bruggen, or choose others entirely).

Or, IT performance experts suggest using the IT BSC quadrants, but changing which [key performance indicators](#) the IT team applies as these are likely different from KPIs for other business units. For instance:

- The "customer" quadrant can be measured by "IT equipment users", wherein the customers become whoever partners with IT. These quadrants could have KPIs that track development of these partnerships and the satisfaction of these users.

- The “operational excellence” quadrant could have KPIs that measure help desk efficiency, time-to-respond, efficient software development, etc., as align with the organization's overall strategy.

## Getting IT and enterprise buy-in

Companies that have adopted the IT BSC approach see success when deploying it in tandem with a companywide overhaul of strategic planning. Employee buy-in is crucial, as the metrics must be embraced by both leadership and employees in order to measure and be used consistently and accurately.

The BSC, including the IT BSC, encourages enterprises to get rid of thinking along the lines of “this is how it's always been done”. Instead, the BSC measures exactly what is or isn't aligning with the strategy – so changes are inevitable.

## Criticisms of the BSC: Is it worth it?

The BSC, including the IT BSC, has become a stalwart component of tracking company success. It is estimated that nearly two-thirds of large-size enterprises deploy BSC principles. Still, [some criticism](#) may be warranted.

When the BSC was first developed, many business strategists pointed out two major issues: that the framework itself had no formal validation – Kaplan and Norton, remarkably, didn't cite any previous research in their first topic articles – and that it seemed to focus overwhelmingly on financial stakeholders, which mean only bottom-line, for-profit companies may benefit.

Today, however, both of these have been rendered moot. In subsequent research and versions of the scorecard, Kaplan and Norton updated their theory with facts and examples. More importantly, however, the BSC has developed to fit a variety of situations, including IT-specific scorecards, as well as the broader work of non-profit organizations and government entities who may measure success with much less financial focus.

One criticism remains – that the framework requires customization, and such customization rarely provides a unified bottom-line score or clear recommendations. A framework of metrics, like the BSC, does still require significant leadership and focus.

## BSC is a way to track value

At the end of the day, enterprises can use whichever parts of the BSC work for their IT or other departments. It is not a one-size-fits-all solution: you can't just deploy it and land on success.

IT experts in particular encourage IT departments to use the BSC as a way to continue to build IT value to the organization. Companies that have adopted the management system report that the IT BSC helps explore new ways of looking at IT – which means that IT can be empowered to take on new projects or innovative ideas. The scorecard can help encourage long-term goals, like software and help desk automation, to free up time for IT to reinvest their labor into more value-add ventures.

In this way, implementing an IT BSC becomes more about culture than numbers. It requires an agreed notion of what areas are prioritized and what leadership should look like. And the more employees and leaders outside of IT that embrace the cultural change, the easier the IT BSC will be

to implement.

## **Additional resources**

For inspiration on your IT BSC, [take a look at these templates](#) and consider how [these case studies](#) from private and public sectors across the world might help create your roadmap.