IBS intelligence
A CEDAR BUSINESS

IBSVIEW

DEFINING AND ADOPTING AN IT SCORECARD

BY **V. RAMKUMAR,**
IBS RESEARCH THOUGHT LEADER

V RAMKUMAR, DISCUSSES DRIVING BEST-IN-CLASS STRATEGY VIA AN IT BALANCED SCORECARD

When it comes to typical bank IT issues, there are five broad themes: Driving strategic relevance of IT and enablement of superior customer experience; Improving return on IT spend, and enhancing its effectiveness; Continued improvement for next generation banking; Aligning IT applications and technology infrastructure with an overall vision; Enhancing and developing the skills and potential of the IT organisation.

But a bank's IT strategy is only as good as its implementation and adoption, a case of designing a good IT roadmap aligned to the strategy, but also a direct result of how disciplined the bank is in implementing it in its day-to-day functions. And that is where the Balanced Scorecard (BSC) helps.

This can articulate strategy across both financial and non-financial (including customer, internal process and organisational) objectives, and facilitates in driving its execution through an effective system of measurement. Ultimately, what gets measured is what gets managed.

Should the bank have a scorecard defined at a corporate level, it becomes even more effective to have a cascaded IT scorecard, although this is neither mandatory or a pre-requisite. Laid out here are four simple steps, the approach to defining and adopting an IT Scorecard for the bank, to help drive a best-in-class IT strategy.

1. Articulate your objectives:

The starting point of a well driven IT strategy is in having it articulated accurately. The crux of this definition process is in having objectives grouped across the four perspectives of the Balanced Scorecard: How should customers (internal and external) perceive the services rendered, addressing their expectations and aligned to the overall IT vision?; What is the value proposition of the IT function to the enterprise, from a financial perspective?; How should the processes be driven across planning, innovation, operational excellence, and how do we improve it?; How should the IT organisation learn and improve? What technology and MIS framework would be required?

There are typically three to five objectives defined for each perspective, and collectively no more than 20 -25 objectives for the overall IT function. Their linkage results in a well articulated strategy map, that defines the cascaded impact of each area over the other.

2. Define measures and set targets:

What cannot be measured, cannot be managed. It therefore becomes imperative that the strategic objectives defined for the IT enterprise are defined by specific measures, both practical and appropriate. These could be lead measures which help in taking preemptive steps, or lag measures that help determine the impact. Mere measurement alone would not be sufficient, unless set against the context of a target that needs to be achieved – which could be conservative, realistic, aggressive or in, select situations, aspirational or breakthrough.

Having set measures and reporting on the basis of a structured scorecard helps as a communication tool – where the impact on business is reported on a tangible metric. It also helps as a management tool, as it looks inward to the IT organisation to manage and monitor IT performance.

3. Align strategic projects:

So much of the CIO's time gets sucked into managing projects, that the job almost dilutes into a PMO function in most banks. Hardly surprising, given that 100-odd projects of varied size and scale are running at any given point of time.

The Balanced Scorecard helps in prioritising initiatives. If a project is not directly impacting any of the stated strategic objectives, then it is not worth pursuing! Conversely, any objective would need to be supported by an initiative or a project, as its vehicle towards completion. Just as the BSC objectives are measured, it would also be important to set Quality, Time and Cost (QTC) measures and key milestones for the IT initiatives to monitor progress. The IT BSC helps one do just that.

More importantly, this alignment also brings in the discipline of differentiating the means from its end. The projects are only a means to a larger strategic goal. Just as a Lean-Six Sigma Business Process Re-engineering exercise is not an objective, but an initiative that will help address a financial or process objective, a core banking change is also the means to driving a contemporary technology platform in a bank.

WHEN IT COMES TO TYPICAL BANK IT ISSUES, THERE ARE FIVE BROAD THEMES: DRIVING STRATEGIC RELEVANCE OF IT AND ENABLEMENT OF SUPERIOR CUSTOMER EXPERIENCE; IMPROVING RETURN ON IT SPEND, AND ENHANCING ITS EFFECTIVENESS; CONTINUED IMPROVEMENT FOR NEXT GENERATION BANKING; ALIGNING IT APPLICATIONS AND TECHNOLOGY INFRASTRUCTURE WITH AN OVERALL VISION; ENHANCING AND DEVELOPING THE SKILLS AND POTENTIAL OF THE IT ORGANISATION.

4. Measuring individual metrics – key for enterprise performance

The scorecard can remain a theoretical exercise, unless it is made accountable across the appropriate owners of respective objectives and initiatives. Even better, when the Individual Performance Measurement (IPM) is completely aligned to that of the Enterprise Performance Measures (EPM) as measured by the IT Balanced Scorecard. This tends to positively influence the values and behaviour required of successful IT organisations. The key success factors also include ensuring 'singularity' of ownership (collective ownership results in no ownership) and in alignment of the objective-initiative ownership.

Forward looking banks also tend to leverage the BSC as a tool to measure performance of vendors, and create a reward system built around the demonstrated performance of the four perspectives. Typical measures tend to be around transparency in pricing (Financial), Investment in the relationship with the bank (Customer), Quality of Delivery (Process) and Consistency and quality of resources (Learning & Growth). The scorecard also helps drive large transformation programmes and/or

mergers and acquisition programmes, where the integration metrics are set against well defined measures across Quality, Timelines and Monetary budgets. The Balanced Scorecard can also drive partnership and service agreements with suppliers, service providers and business functions.

However, it can only be as effective as it is made to be. Unless performance measures are reported on a monthly basis, and a review is forced by the CIO with his/her direct reports, and the performance (or lack thereof) is explicitly acknowledged, the incentive to perform rapidly diminishes. Remember, people respond well to what is 'inspected', much better than to what is 'expected'.

About IBS Intelligence

Established in 1991, IBS Intelligence is the definitive source of independent news, analysis & research relating to global financial technology markets. IBS has an integrated offering including a comprehensive research portfolio, and a range of value added services. Its iconic monthly publication – IBS Journal – is recognized worldwide. IBS Intelligence is now a division of Cedar Management Consulting International LLC, a leading global management and technology consulting firm. The firm, with its research and consulting expertise has worked with over 1000 clients globally.

For more information, please visit www.ibsintelligence.com or email us at info@ibsintelligence.com

Copyright © 2016 IBS Intelligence | All rights reserved.