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CALCULATING RETURN

A Strategic Measure of IT Value

BY REGINA KWON

Determining the value of an IT investment is no longer a matter of equating three accountants with one DEC minicomputer—not surprising, given that technology today focuses on enhancing processes rather than replacing them. In the search for new ways to measure IT value, executives are increasingly looking to traditional management theory.

The need to assess intangibles like marketability, agility and morale is not peculiar to IT—after all, corporations have long used a variety of tools to gauge success. One of the most popular is the Balanced Scorecard, a concept developed in the early 1990s that associates high-level strategy with specific metrics. Setting up a scorecard at a large company can cost hundreds of thousands of dollars in consulting fees, but that hasn't hampered its adoption: More than 40% of the Fortune 500 have built one, according to the Balanced Scorecard Collaborative (www.bscol.org), which oversees the concept's development. Using this approach within IT is relatively new, says Robert Gold, a principal of the Collaborative, but necessary if IT organizations wish to focus on strategy as well as operational efficiency.

In the scorecard scenario, a company organizes its goals into what the Collaborative calls perspectives: Financial, Customer, Internal Process and Learning/Growth. The company then determines cause-effect relationships—e.g., satisfied customers buy more goods, which increases revenue (Fig. 1). Next, the company lists measures for each goal, pinpoints targets and identifies projects to help reach those targets (Fig. 2).

Departments create scorecards tied to the company's targets, and employees and projects have cards tied to their department's targets. This cascading nature "provides a line of sight between each individual, what they're working on, the unit they support, and how that impacts the strategy of the whole enterprise," says Michael Radcliff, CTO of Ingersoll-Rand, which recently worked with Gold to set up an IT scorecard. "It's a terrific way to link initiatives to strategic objectives and get your people lined up with those initiatives."

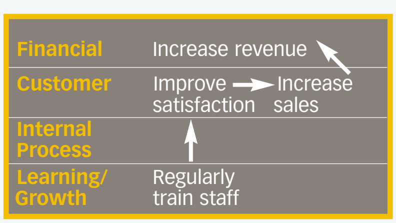

Fig. 1: Sample enterprise strategy map

Perspective	Objective	Measure	Target	Project
Customer	Increase sales to existing base	Customer turnover	Decrease by 25%	Quality Care Program

Fig. 2: Sample line from a corporate scorecard

EXERCISE: BALANCED SCORECARD

Translating objectives into measures is often one of the most difficult parts of managing IT's role in a project. In the example below, Marketing has listed a few objectives for a new call-center application. Enter the measures you think are appropriate and what they would indicate, then take a look at *Baseline*'s suggestions.

Perspective	Objectives	Measures
Financial	Reduce customer support costs	
Customer	Increase cross-selling Improve customer satisfaction	
Internal Process	Increase efficiency	
Learning/Growth	Keep staff well-trained	

TOTAL COST OF OWNERSHIP: COSTLY MAINTENANCE COULD OUTWEIGH BENEFITS OF CHEAP SETUP
COST/CALL: HIGH RATIO MAY SIGNAL NEED TO EVALUATE WORKFLOW

SALES/1,000 CALLS: RATE MAY BE IMPROVED BY INTEGRATING ORDER-PROCESSING SYSTEM
FIRST-CALL RESOLUTION RATE: LOW PERCENTAGES MAY BE A PROBLEM WITH TRAINING

AVERAGE SPEED OF ANSWER: LONG WAITS MAY INDICATE TOO FEW STAFF OR LINE PROBLEMS
CALLS/DAY: A FLOOD OF CALLS MAY RESULT FROM PROBLEMS WITH PRODUCT DOCUMENTATION

STAFF TURNOVER: THE RATE HELPS GOVERN FREQUENCY OF TRAINING SESSIONS
PERIODIC TESTING: CONSISTENTLY LOW SCORES MAY MEAN A FEATURE IS OVERLY COMPLEX