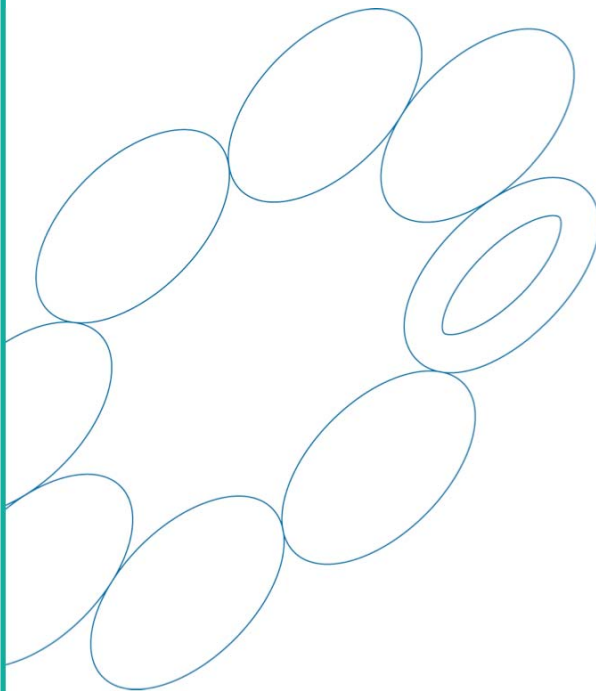


2GC Case Study - ENERCO

3rd Generation Balanced Scorecard in a Major Energy Company

September 2008



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2GC Limited
Albany House
Market Street
Maidenhead
Berkshire
SL6 8BE UK

+44 (0) 1628 421506
www.2gc.co.uk
info@2gc.co.uk

2GC Case Study - ENERCO

Summary

Over a 12-month period in 2007 and early 2008 2GC worked with a multinational division of a global energy company (ENERCO) on a programme to develop Balanced Scorecards for its Business Unit and Functional Senior Management Teams worldwide. The specific aims of the programme were to improve the alignment of business units behind the division's strategic goals, and to provide a mechanism to better track the execution of this strategy.

The organisational design used by ENERCO is complex. This, coupled with the organisation's inclination towards deep customisation of standard management tools and the need for this work to integrate neatly with other ongoing projects (particularly in the area of strategic planning) required the development of a novel Balanced Scorecard design process.

The work comprised four stages:

1. Design and test a customised Balanced Scorecard design method. To ensure representative coverage, testing was undertaken in three Business Units and one Function;
2. Roll-out of the reference design process with further business units and functions;
3. Training on the deployment of the reference design process for the client's internal facilitators, and;
4. Awareness sessions for key financial managers.

This case study considers all four stages from the perspective of:

- The client need...
- The processes followed...
- The challenges faced...
- The outcomes achieved.



The Client need...

For many years ENERCO had wrestled with the general challenges of performance management in a large, multi-business organisation. Its own internal analysis highlighted the need for improved performance management processes and systems:

- Strategies were not clearly formulated, communicated or linked to in-year plans;
- Accountabilities were not clearly defined;
- Consequences of failing to deliver against the plan were unclear;
- Performance monitoring relied very heavily on detailed financial metrics alone, and;
- Financial targets were set at easily achievable levels.

In 2006, senior management of a major Division of ENERCO approved the exploration of opportunities with several leading international consultancies to address these problems. The essence of the brief was the need for a new, more strategic approach to performance management. A tender competition amongst three consultancies resulted in 2GC being appointed to work on this issue alongside an in-house project team.

The Processes Followed...

2GC's well proven 3rd Generation Balanced Scorecard approach to Balanced Scorecard design was clearly able to address ENERCO's Performance Management issues as listed above - indeed awareness of this ability for 3rd Generation methods to address these issues was one of the reasons 2GC was appointed by ENERCO.

ENERCO's existing five-year Strategic Plans offered a good starting point for Balanced Scorecard design. The challenge was developing a process that management teams could follow that would allow these long term strategic goals to link to present in-year priorities, and for these priorities to be associated with "balanced" (customer, operational/health & safety, financial and people) metrics, sensible targets and clear accountabilities.

The complex organisational design used by ENERCO meant that for many business units, the "senior management team" (SMT) was scattered across at least two continents. In many SMT's it was unusual for the whole team to meet face-to-face. This presented a serious challenge for the Balanced Scorecard design activity - as 3rd Generation methods aim to build consensus among SMT members, which is most easily achieved through whole-team meetings.

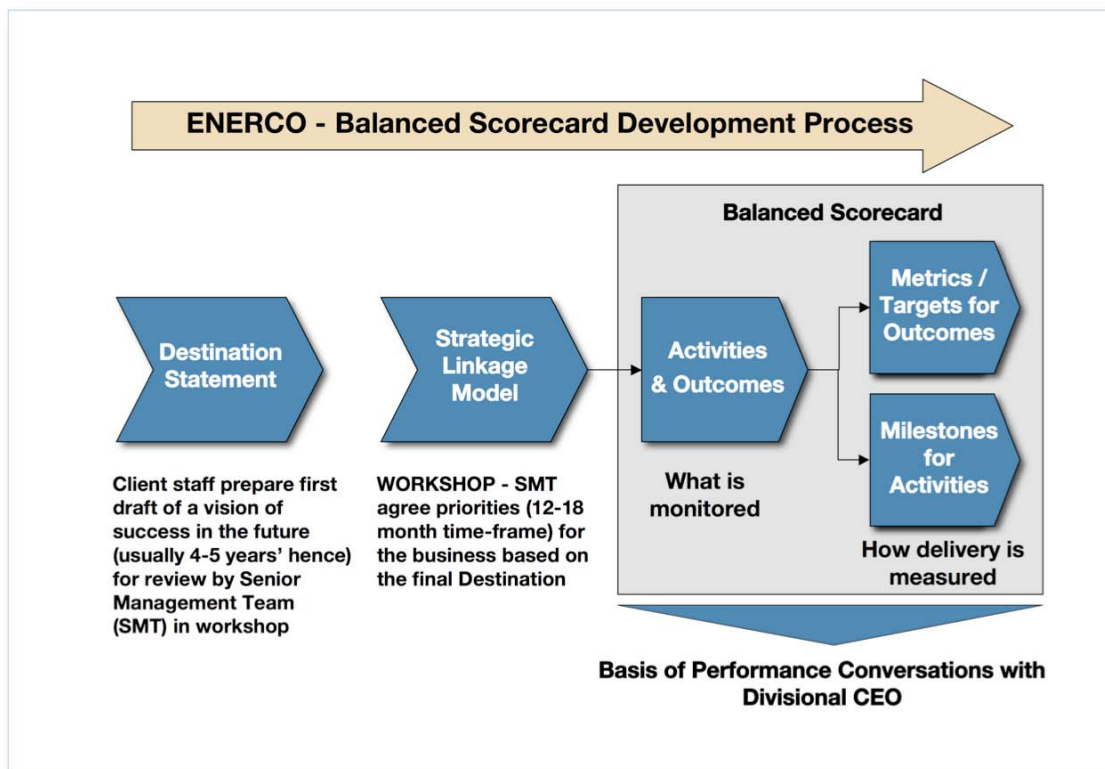
Balanced Scorecard Design Process

2GC faced extremely tight time and access constraints which limited how many Balanced Scorecard design workshops each SMT would (or could) attend, and how long the design workshops could be. However, the internal project team and other in-house planning staff were extremely able and keen to co-facilitate the core design work. It was against this background that we decided to "buffer" scarce workshop time with as much "off-line" work as possible.

To this end, a modified design process was developed that mixed 'off-line' working with a single extended whole-team meeting of the SMT. The design process comprised three steps:

- Off-line working to brief the SMT members one-on-one by telephone or face-to-face about the process, and to develop, and review a draft Destination Statement developed by one or two members of the SMT working with the facilitators based on the existing five-year Plans and Strategies.
- Group working by the SMT to confirm/finalise the Destination Statement and then develop from it a Strategic Linkage model (SLM) that would document the key priorities for the SMT in the year ahead and form the basis of their Balanced Scorecard. A key part of this activity would be the assigning of SMT members as 'owners' of these various priorities to support subsequent design work and ongoing delivery of the priority;
- More off-line working after the workshop wherein the business unit planning team (who would be responsible for operating the Balanced Scorecard once it was complete) would work with the internal project team and 2GC to describe the priorities on the SLM in more detail, and develop measures and targets (in association with the priority 'owners').

Our approach enabled the Senior Management Team members to limit their workshop time to one and a half days. The design process used is illustrated overleaf.



Training Courses and Awareness Programmes

In order to accelerate the roll-out of the 3rd Generation Balanced Scorecard the client asked 2GC to develop and deliver a series of training courses. These courses were designed to transfer skills and knowledge to in-house project teams so that they could help prepare for, and maximise the outputs from, the core design process.

The underlying design processes used were consistent with best-practice 3rd Generation Balanced Scorecard design methods, and 2GC had available its own existing well proven two-day training course on 3rd Generation Balanced Scorecard design methods. So in the interests of efficiency and reliability, it was agreed that 2GC would adapt this course to provide the basis for an ENERCO internal training course on their particular variant of the 3rd Generation Balanced Scorecard design process.

The result was a two-day training course that reflected the methodology used and included examples of material produced – Destination Statements, Strategic Linkage Models, and Metrics/Targets derived from the early adopting units within ENERCO.

In total 34 ENERCO managers attended three training courses.

Feedback from participants on these training courses, and from the early implementations of the design approach, alerted the project team to the need for some additional activities to improve top level executives' awareness of the context for this Balanced Scorecard development work, and of the design process that had been developed. Accordingly a half-day Awareness session was also developed and delivered to eighteen senior and financial managers in January 2008. This session explored the work done to date with the client, and briefly explained the design process used as well as its conceptual foundations.



The Challenges Faced...

Planning - a process to comply with, not something to manage with

ENERCO is a very complex organisation made up of very bright and capable people wrestling with the challenge of allowing its diverse business units to get things done, and the need of the 'centre' to co-ordinate and control all this activity. One of the organisational responses has been the creation of a highly structured organisation supported by many management processes and systems. Another has been the evolution of an approach to management of these business units (sizeable, valuable) that aims to get things done in a way that acknowledges the presence of these processes and systems but that draws upon them and engages with them only in so far as to do so helps 'get things done'.

As a result of this, it was perhaps unsurprising to meet with some resistance to the Balanced Scorecard process designed by 2GC and the Client project team. Some SMTs felt that they had all they needed with their existing approach to performance management:

- A five year Strategy derived from a vision to 2020;
- A Road-map of implementation;
- In-year performance metrics allied to an incentive pay scheme for Senior Management Team members, and a team scheme for staff;
- Financial, Operational and Health & Safety metrics.

However ENERCO's internal analysis had already revealed that in several businesses and functions the Road Map had little traction with Teams and in some cases was not used. The study had also highlighted a disconnect between strategy and in-year performance management – the former was poorly integrated by Senior Management Teams into the performance conversations with their bosses. This in turn had had the effect of discouraging the businesses from making much needed changes, making it hard for ENERCO to deliver on its strategic agenda.

The approach adopted to this issue of getting SMTs to engage in the design process had three components:

- Senior sponsors of the program were encouraged to make clear and visible their support for the Balanced Scorecard process - something aided by a change in senior management near the start of the programme, where both incoming and outgoing senior managers could communicate their support for the work;
- Participants in the Balanced Scorecard design work were strongly supportive of it (once complete, they could see its utility for their own drive to 'get things done'). So we encouraged members of SMTs that had already completed their design to participate in work with other SMTs (either as facilitators or as participants in initial briefing sessions for business unit SMTs);
- Project facilitators were encouraged to be highly flexible in their implementation of the design process - the aim being to get as close to 'best practice' as was practicable with any given team, rather than woodenly insisting on compliance with a process.



Geography

The geographical spread of businesses and their management necessitated delegation of draft Destination Statement design to planning and strategy personnel in each unit. These staff then used conference calling to validate their draft work with the decision-makers in the Senior Management Teams. This process also required the project team leading this work to have to repeatedly “resell” the processes to be used to participants and proved inefficient in getting all participants to buy-in to the Destination Statement BEFORE the workshop day. Additional Senior Management Team discussion time was inevitably required once the team was face-to-face. This was because the workshop day was often the first time the Senior Management Team was engaged fully with the content, and also because the Team members met infrequently and were not well known to each other.

In response the design process evolved to take into account limited management time and availability, and to allow for multi-lingual/cultural teams. In some cases the workshop was extended to one and a half days to allow more time for team-meeting and Destination Statement validation to take place.



We have a better way ...

“When we [ENERCO] buy a washing machine, we ask Maytag to take it apart on the sales floor, then we kick the pieces around a bit, then we ask Maytag to re-assemble. Then we might buy the washing machine.”

The project team encountered many suggestions for “other ways of doing this” from participants in the Balanced Scorecard design workshops - usually allied to, or derived from existing planning or performance measurement processes despite the fact that these were considered to be “broken”. Usually such suggestions were made with a view to avoiding participation in some part of the design process. 2GC was required to regularly explain how and why the 3rd Generation Balanced Scorecard methodology works, its conceptual underpinning and its effectiveness in practice.

The effect of these challenges was to encourage 2GC to look deeply at its methodology and be able to apply it flexibly to accommodate the client need.

Outcomes achieved...

2GC working with the ENERCO project team completed Balanced Scorecard designs within 19 Business Units, each resulting in Balanced Scorecards showing 12-18 month priorities, metrics and targets. 16 of the workshops were in major Business Units and 3 within functions in the UK, continental Europe, USA and Africa.

As a result of this work, a Division of ENERCO is using Balanced Scorecards based on the best-practice 3rd Generation Balanced Scorecard approach derived from the strategies of the business units/functions concerned. Because of these Balanced Scorecards, performance conversations within these units are now based on a broader range of strategic and operational information than previously, with more clearly defined accountabilities in place to ensure priorities are delivered. In this respect, the work has clearly addressed the issues with

respect of performance management and strategic delivery identified by ENERCO at the outset.

Within ENERCO there has been a very strong endorsement of the benefits of the 2GC design process. One leader of a US based business commented:

“In 36 hours this process has built alignment within the Senior Management Team around the strategy that we failed to achieve through many months of discussion”.

Another comment captures how 2GC’s process fitted the client need so appropriately:

“The Balanced Scorecard Process provides some much needed structure and standardisation for how we set out, monitor, and track our strategy delivery. It facilitates a discussion for a Senior Management Team to:

- *articulate and agree what needs to be done to deliver the strategy,*
- *work out what the overall business milestones and activities should be,*
- *what success looks like and how we should measure it,*
- *what really is business critical and requires more effort, and*
- *what resource and skills & capabilities we need.*

We intended to do this anyway.....the Balanced Scorecard provides us with the process and tools to do it better.”

Lastly, one project team member who was involved in a number of the individual business designs stated:

“As part of developing an overall Performance Management Framework we called upon 2GC's obvious expertise and track record to help us land a 'balanced scorecard'. We soon realised that their process also went across all elements of what we were trying to achieve both with strategy implementation, internal communications and in creating a powerful performance management culture.”

About 2GC Active Management...

2GC is a research-led consultancy expert in addressing the strategic and performance management issues faced by organisations in today's era of rapid change and intense competition. Central to much of 2GC's work is the application of 3rd Generation Balanced Scorecard, an approach to strategic implementation, strategy management and performance measurement.

This case study is one of a broad collection of materials and resources relating to Performance Management that can be obtained for free from the 2GC Active Management web site. Visit it at <http://www.2gc.co.uk/> or contact 2GC directly by phone or email for more information on this or other topics.

Contact 2GC Active Management

- Phone: +44 1628 421506
- Email: info@2GC.co.uk