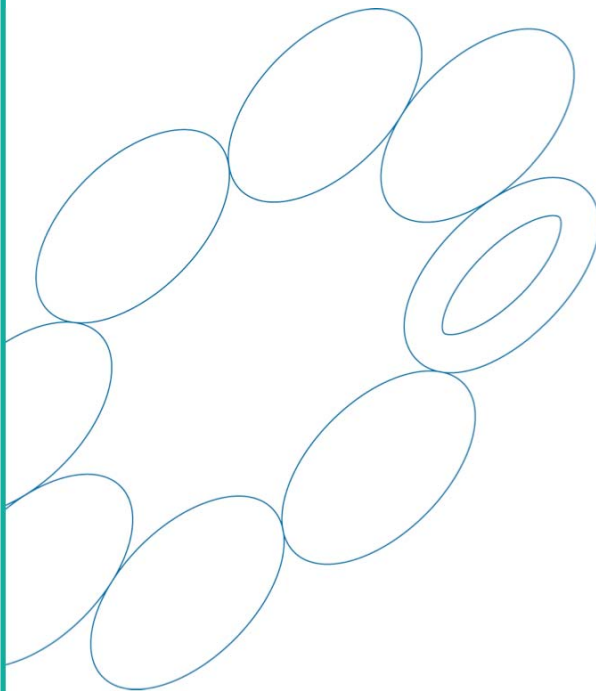


2GC Case Study - Al Khamsa

Strategic Planning at a Middle East Engineering Company: a Balanced Scorecard approach

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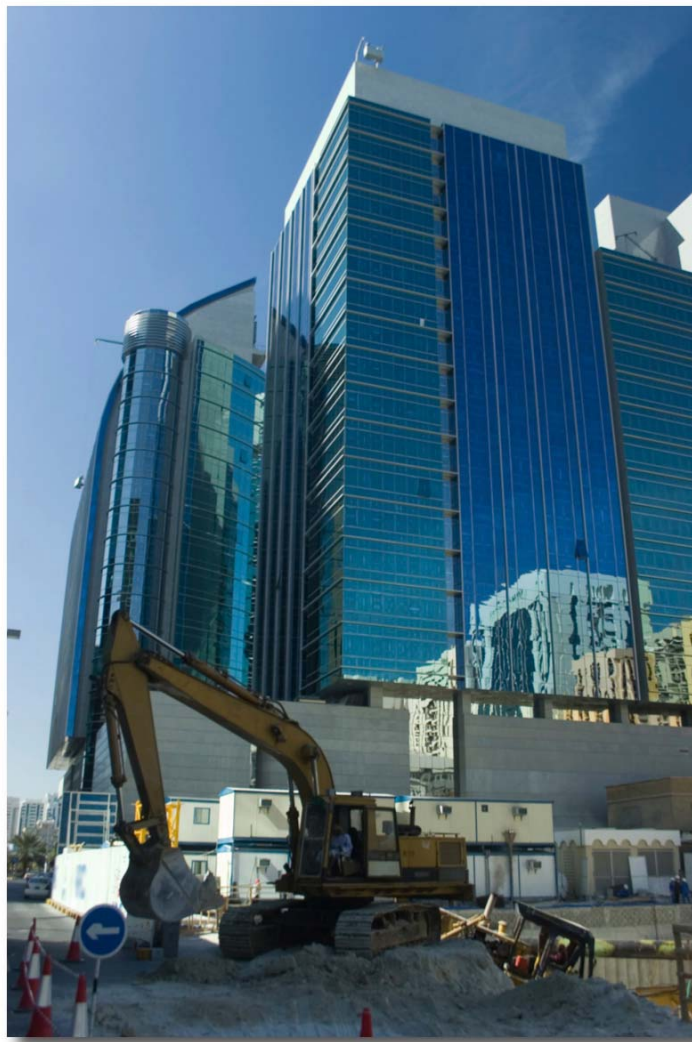
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“The Balanced Scorecard work accelerated our achievement of the 04/07 strategic plan. We now have clear management accountability and a focus on delivery. The Scorecard review meetings and reporting in particular, provided a very effective forum for strategy execution. They give us a clear agenda for the quarterly review of strategic performance, leading to definite management focus on our high priority objectives. Levels of delivery are much higher as a result. We learned a lot from 2GC, and not just about Balanced Scorecard.” Managing Director, Al Khamsa

Introduction

The Al Khamsa Engineering Company (name disguised) is a mid-sized engineering and architectural consultancy based in the Middle East. Highly successful in the past, the firm had been suffering from the political and economic instability in the region. The young and ambitious Managing Director of Al Khamsa believed in the potential of the regional market and was determined to harness the firm’s technical prowess and strong reputation in order to deliver greatly improved financial results. Previous efforts with strategic planning had produced mixed results. The 2001-2004 strategic plan was sensible at the time of its writing, but of the initiatives making up the plan, few had been successfully implemented. For the future, besides a new strategic plan, there would also need to be: commitment to the plan from Al Khamsa’s executives; a mechanism for controlling delivery of the plan, and; greater clarity about actions



and accountability to ensure realisation of the strategic goals. Moreover, it was essential to produce this quickly. Al Khamsa was six months into the 2004-2007 planning period, without a formal plan to guide tactical decision-making. The Al Khamsa MD and Organisational Development Director investigated means of achieving these objectives and selected an approach to strategic planning based on the 3rd Generation Balanced Scorecard.

The Approach

Start-Up

The selected approach would involve a series of three workshops over a two-month period. Prior to the first workshop the 2GC consultant reviewed the company's strategic documentation to better understand the state of the firm and its strategic objectives from the previous planning periods. Following the document review the consultant discussed with the MD the scale of his ambition. This conversation clarified the MD's expectations: over the next three years a doubling of revenues with no erosion of profitability. Shortly thereafter, the consultant interviewed all Board Members (the firm's Partners) and all members of the Executive Committee, as well as a dozen middle managers. The primary purpose of these structured interviews was to determine interviewees' opinions of what Al Khamsa was doing right, what was not going well, and what the future Al Khamsa needed to "look like". In other words, we sought to identify the range of strategic goals that the firm might set for itself. Opinions here varied, particularly around the scale of growth that was possible.

Workshop 1 – Strategic Goals (Destination Statement)

This initial workshop with the Board and Executive Committee was designed to achieve two objectives. The first was to agree the likely sources of revenue in 2007, by geography and architectural speciality. (E.g. the type of building / structure in which the firm would specialise: conference centres; bridges; etc.) The second objective was to generate agreement around non-financial aspects of the firm, that would need to be in place by 2007 if this growth was to be realised.

The first objective was achieved through a novel approach to syndicate working. The 2GC consultant wanted to generate brisk but robust and open debate, and then quickly achieve consensus on revenue targets for each region and specialisation. Two carefully constructed syndicate groups, each containing half the membership of the Executive Committee, were given a large grid of paper. The grid axes listed respectively: the geographical regions served by Al Khamsa; and the architectural specialities offered by the firm. As appropriate, in the grid cells were placed backgammon chips - each chip representing \$100,000 - to represent current sales of a given service into a region. Next, syndicates were given the same number of chips, representing the MD's target of doubling revenues by 2007. The challenge was therefore for each syndicate to decide where additional revenues would come from; by geography and service. After much discussion and shuffling of chips around the grid, the syndicate groups separately reached consensus on the most likely sources of growth. Next, the two grids were compared and the larger group debated and agreed a final allocation of future revenues. Perhaps not surprisingly, the two syndicate groups came up with very similar allocations, making the final, combined view relatively easy to agree. The parallel emergence of similar conclusions on revenue sources provided a solid affirmation for the final result.

The remainder of the first workshop was spent on brainstorming and processing attendees' views of what the organisation would need to look like to obtain the revenue goals. Descriptions of the future organisation were clustered under the three non-financial perspectives of the 3rd Generation Balanced Scorecard: Customer



and Partner (External) Relationships, Internal Activities and Processes, and People, Organisation and Culture. Approximately eighty descriptive sentences were agreed across the three perspectives. These included for example descriptions of: a new incentive system needed to retain top staff; new technology to allow electronic exchange of documents and new partners in target regions.

After the workshop, these agreed descriptions of the future, both financial and non-financial were consolidated and documented to produce what was known as the 'Al Khamsa Destination Statement 2007'. The Destination Statement was distributed to all attendees, with instructions for them to review and recommend revisions thereto.

Workshop 2 – Strategic Objectives

Two weeks later, and based on the feedback from workshop 1 attendees, the consultant produced a revised Destination Statement. The first half of workshop 2 was spent discussing and agreeing the potential revisions to produce a final Destination Statement. Next, high priority statements from the Destination Statement were identified through a carefully controlled voting process. These statements were used to generate a list of actions needed to make the priority statements a reality. Participants clustered the actions into related themes and in so doing derived ten strategic objectives that would need to be actively progressed by management. Thereafter, the group identified the strategic outcomes that were being sought through these activity-type strategic objectives. The causal relationships amongst objectives were then discussed and agreed, producing a first draft Strategic Linkage Model. This Model summarised the Al Khamsa strategy to achieve the agreed Destination, and contained objectives related to: Knowledge Management, Project & Quality Management, Client Relationship Management, Skills Building and Acquisition, and New Services Creation.

Finally, objective owners were nominated from amongst the Executive Committee. These individuals were tasked with describing in detail their strategic objectives so that tacit group understanding of the objectives, and the decisions that led to their creation would be captured accurately for future action and reference. For the outcome-type strategic objectives, the owners we asked also to identify what measures (indicators) could be used to track progress in achieving these objectives.



Two days after the workshop the Destination Statement and Strategic Linkage Model were presented to approximately fifteen middle managers, department heads and supervisors. This group began to identify more precisely how the activity objectives could be implemented, so that the strategic outcome objectives could be achieved. The implementation plans were

documented for the benefit of the objective owners at Executive Committee level. Finally, the middle managers were invited to join one or more “objective teams”; groups that would support the owners in defining each objective in more detail. In this way the company achieved broader management “buy in” to its strategic plans.

Workshop 3 – Objective Planning

A slightly different set of Al Khamsa managers attended a third workshop, conducted four weeks after the second. Members of the Board did not participate – these senior individuals had contributed to the discussions and agreements around strategic goals. The more detailed planning for ‘how to get there’ was left to the executives and those who reported to them directly; the aforementioned middle managers, the people who had supported the initial definition of each objective.

The workshop began with a presentation and review by the relevant objective owner of each activity-type strategic objective. Objective definition was discussed and debated, and choices were made about what each objective should actually involve. Discussion of this kind is typically very difficult, if not impossible, to achieve “in a vacuum”. Because the 3rd Generation Balanced Scorecard design process provided documented, draft-form definitions of each objective, it was relatively easy to focus on which elements of the definitions were “correct”, incorrect or missing. This approach therefore allowed executives to agree, after only two and a half days of workshop time the broad change activities required of them over the next 12 to 18 months.

The afternoon was devoted to planning for each objective. In syndicate groups, and led by each objective owner, the groups created high-level plans for completing their activity-type objective. The syndicates were required to identify: actions required over the next 12 months; specific deliverables necessitated by these actions (To answer the question; “how will we know when this action is completed?”), timings for the actions, and the person or persons responsible for delivery.

With the planning work completed, Al Khamsa managers had clarity for the first time, about what they needed to do to realise their strategic ambition. In this respect the project differed from a typical Balanced Scorecard project. Generally, Balanced Scorecard consultants spend their time helping leadership teams clarify the outcomes - with associated measures -



being sought by the organisation. Rarely are Balanced Scorecard consultants involved with the detailed planning for actions required to achieve these outcomes. In the case of Al Khamsa, it was fairly clear that, unless the required activities were defined and agreed in some detail, the likelihood of achieving the outcome-type strategic objectives was low. For this reason, the consultant argued, and the client agreed, to devote project time to the development of detailed strategic plans.

Workshop 4 – Plan Validation, Measurement and Implementation

To save on “set-up” time, workshop 4 followed immediately after workshop 3. The day began with a review of each “activity objective” plan, again presented by the objective owner. The plans were tested for realism, and were often found to be lacking; Al Khamsa managers aspired to do too much in too short a timeframe. As is often the case, managers found it difficult to

distinguish between what ought to be done, and what was feasible to actually do. The plan timings were therefore modified until managers were able to size-up their plans and commit to their delivery.

Next, the outcome-type strategic objectives were reviewed by the group, including the measures proposed in the first draft-definitions of these objectives. After further discussion, a set of two to four measures were selected for each outcome objective. The measures would allow management to track whether completion of their activity-type objectives was having the intended



effect on outcomes sought. It was also agreed that the activity-type objectives would be tracked against the plans recently developed. Managers had committed to deliver certain milestones, and the plans would be regularly reviewed to confirm that these milestones were being met.

Finally, after discussion the group determined how the newly defined strategic plan would be controlled. They agreed to meet quarterly, for a full-day review session. This would examine progress against plans overall, and progress - as indicated by the measures selected earlier - in achieving their specific outcome objectives.

Conclusion

Strategic Planning is potentially a painful and time-consuming process for organisations. Despite considerable time investment in the planning process, the resulting plans are often ill-defined, unrealistic and not fully bought into by managers tasked with implementation. The likelihood of task, and so plan achievement is therefore reduced. These problem areas do however, present considerable opportunity; they provide a list of specific requirements for an efficient strategic planning process:

- Strategic planning requires tightly structured, choreographed and robust processes if it is to be time-efficient.
- While not democracies, commercial organisations must include an element of the democratic if ownership of plans and processes is to be achieved. Strategic planning processes therefore should include carefully designed voting mechanisms to support achievement of consensus and allow time-efficient prioritisation.
- Any design process has to include, indeed enforce review and thorough definition of ideas, objectives and plans.
- Frequent reality checks must also be built-in, else strategic planning becomes the stuff of dreams rather than that which is actionable.
- Finally, buy-in is also critically dependent upon engagement and deep involvement in decision-making, and this implies a design process that ensures participation by all relevant managers.

The approach described in this case study would appear to address all these issues and the requirements they generate. Over two months, and using only some five days of management time, Al Khamsa managers were able to develop a clear strategic logic, a sensible set of plans, and a mechanism for controlling the implementation of strategy. The MD and his managers believed that these instruments would enable the firm to meet its ambitious strategic goal of doubling revenues over the next three years.

Al Khamsa's stated reason for undertaking this project was the design of a Balanced Scorecard for the firm. However greatest short-term value, according to the managers themselves, came from the process of agreeing how each of them would actually contribute to the achievement of the new strategy. In the longer term, using the Balanced Scorecard to formally track the achievement of sought outcomes would be an additional benefit of the project process. Additionally, Al Khamsa managers would know what they needed to do, collectively and individually, to drive the necessary changes in the organisation.

Epilogue - three years later

Exceeding its aspirations, after three years Al Khamsa has successfully doubled revenues while simultaneously raising margins three-fold. Al Khamsa's managing director described the Balanced Scorecard as being highly instrumental in driving the achievement of these growth targets.

Having more than achieved its objectives, Al Khamsa decided to re-engage 2GC to facilitate the reset of the firm's Balanced Scorecard and once again reflect ambitious growth objectives in a robust, realistic, actionable and measurable strategic plan. For 2GC this continued use of the Balanced Scorecard, and in-particular the re-set, is the best affirmation we could possibly have of the power and utility of 3rd Generation Balanced Scorecard.

The latest version of Al Khamsa's Balanced Scorecard does not have owners for Activity Objectives, instead the underlying initiatives are owned by managers of the firm. Customisation of this kind is a clear demonstration of the high degree of "ownership" of the tool in the hands of this energetic and progressive company. Al Khamsa is a project-focused organisation; in fact all they do is manage large architectural and engineering projects. With strong project management capabilities in place, it was not surprising that there was a desire to use the firm's mature and efficient project management processes to handle Balanced Scorecard Activities and associated initiatives.

About 2GC

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. Founded in 1999, UK-based 2GC has worked with organisations in over 30 countries, helping senior management teams to implement their strategic goals. Central to much of 2GC's work is the application of its 3rd Generation Balanced Scorecard, an approach to strategic implementation, strategy management and performance measurement.

For more information on 2GC's approach, please visit the 2GC web site at www.2gc.co.uk, telephone 2GC on +44 1628 421506 or email us via info@2gc.co.uk