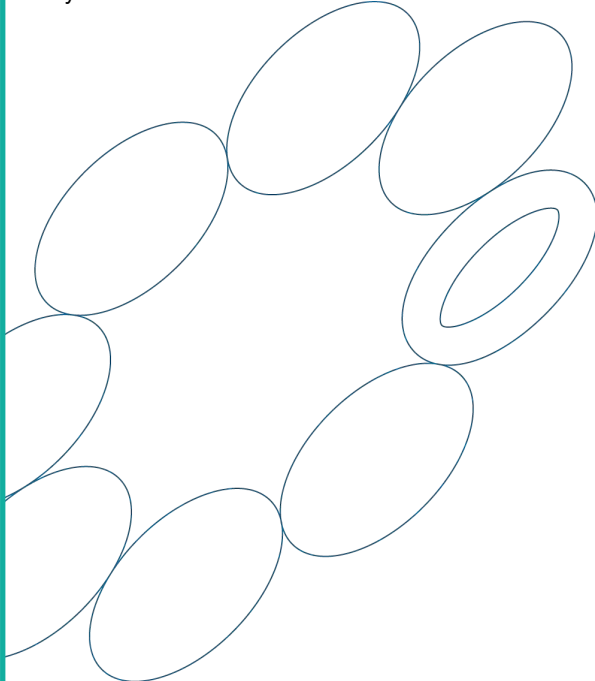


# Strategic Alignment: cascading the Balanced Scorecard in a multi-national company

## Balanced Scorecard Case Study – Crosshouse

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# Crosshouse

## Introduction

**NB: The identity of the organisation examined in this case study has been disguised**

Crosshouse is a multi-divisional, multi-national FMCG Company based in Europe.

In the late 1990's Crosshouse began to develop a Balanced Scorecard based strategic management system and took the decision to implement it across the whole organisation. The multi-divisional and multi-national nature of the organisation presented design and project management challenges that had at that time not been addressed in any reported Balanced Scorecard development project. To solve these challenges, significant advances were required of both the conceptual models that underpin the Balanced Scorecard framework and the design methods used to implement it. The project to design and introduce a strategic management system based on the Balanced Scorecard was successfully completed and the value of the conceptual and methodological advances was demonstrated. With regard to the documentation of the Balanced Scorecard, and the reporting of measurement data, Crosshouse chose to develop in-house a performance measurement software solution, primarily for cost reasons. While the software system worked, it was not widely adopted and so failed to deliver the tracking and reporting outcomes expected and ultimately this limited the utility of the strategic management system developed.

This case looks at these experiences and draws some conclusions concerning best practice relating to Balanced Scorecard design and implementation. It does this by considering the case from seven different viewpoints.

## Standards

Many organisations use standard measures in the design of their Balanced Scorecard or prefer to use it like a financial reporting system where the measures neatly add up. This section outlines 2GC's viewpoint and explores how Crosshouse approached the use of standardised measures.

### 2GC View

Standardised vocabulary defining the components e.g. what do we mean by Vision, Objectives, Measures, Initiatives etc. is good practice when designing a Balanced Scorecard. Use of a standardised design process and review cycle is also advantageous because it supports a corporate planning framework and furthers the horizontal and vertical strategy dialogue. However, developers should be wary of imposing onto a Balanced Scorecard design standard content in the form of mandatory objectives and measures; doing this risks diminishing the Balanced Scorecard users' sense of local relevance; an important factor in ensuring that the Balanced Scorecard is adopted and used.

### Crosshouse

This project led to the design and introduction of 16 Balanced Scorecards across the organisation. The main project followed an initial pilot (in a non-core country operation), and a subsequent project in the Information Systems division. From these initial activities a standard Balanced Scorecard design approach and implementation plan was developed. With minor evolutionary changes, these were then applied in all subsequent projects. The Balanced Scorecard design was one of the first to include an explicit statement of 'destination' as a complement to the selected strategic objectives. This destination statement described

expected state of an organisational unit at some nominated date in the future, and as such summarised the expected consequences of executing the strategy adopted by the management team. The selected strategic objectives described what the management team saw as their key points for focus during the execution of this strategy: achieving these objectives would ensure that the overall strategy would be implemented as planned, and so (if the strategy was a good one) the Destination reached.

The use of a standard approach facilitated the auditing of Balanced Scorecard design work, and also built a common vocabulary within the organisation to describe elements of the Balanced Scorecards developed. This helped promote internal discussions concerning strategy, and also made it easier for managers transferring between units to learn about their new unit's strategy and performance.

Standard objectives and measures (i.e. common across all Balanced Scorecards) were not introduced. But a carefully designed 'cascading' system sought to ensure alignment between the various Balanced Scorecards developed and the overall goals of the business as defined by a corporate level Balanced Scorecard.

## Application

Measurement systems can be used to inform both strategic and operational management processes. This section explores why Crosshouse developed their Balanced Scorecards and how they were used.

### 2GC View

Balanced Scorecards can be used to monitor and control the business for one of two purposes - to communicate and monitor delivery of strategic goals or to manage and enforce compliance in operational processes. These two types of control are generally referred to as Strategic Control and Management Control respectively. Although the Balanced Scorecard is an effective support to both types of control application, there are two key points to note:

Organisations must first be clear about the objectives of their management system (i.e. their intended application), and then:

Use an appropriate design approach to ensure it to meet those objectives.

### Crosshouse

From the outset, a goal of the Balanced Scorecard based management system being created to become a replacement for the organisation's existing strategic and operational review processes. The documentation produced by the Balanced Scorecard design process was to be used to support review discussions between a unit and the CEO's team, and once agreement between the two groups was reached about its content, the documentation would become a strategic contract between the unit and centre. Achievement of the strategic contract would be monitored by reference to the Balanced Scorecard measures and targets chosen by the unit managers. This approach was to be supported by changes to the strategic planning and budgeting processes to introduce greater clarity and focus concerning how discretionary projects would be initiated and approved.

This clear intended application triggered early consideration of both the format for the Balanced Scorecard designs being produced, and the development process being used. Two early pilot projects led to modifications in both these areas, and a greater understanding within the CEO's team of the scale of activity required to complete implementation across the whole organisation. These changes led to the adoption of a largely standardised design process, and a common format for the documentation of the Balanced Scorecards produced. It also led to an increased emphasis during the design process on in-house facilitation of

design projects, and the importance of the participation of unit management teams during design of unit Balanced Scorecards. In addition, work started early in the programme on changes to related internal management processes. For example the capital spending approval process was modified so that approval became dependant upon showing how the associated project would contribute to the delivery of an agreed Balanced Scorecard objective.

One beneficial but unexpected consequence of these internal process changes collectively was to reduce the tendency of the CEO's team to debate non-strategic operational issues during reviews of unit activities.

Overall the new Balanced Scorecard based management system, and associated changes to internal processes, were strongly favoured by the unit management teams, as they perceived it as giving them a stronger mandate for local action without 'interference'. The central strategy team also liked the approach, as they believed it provided increased the visibility of unit performance against the strategic contract at Board level, while simultaneously reducing the level of monitoring activity required.

## Simplification

Some organisations implement Balanced Scorecard as an add-on to existing systems as opposed to using it at the centre of a strategic management system. In Simplification we examine how Crosshouse used their Balanced Scorecards and whether they simplified the whole management system or added to existing measurement practices.

### 2GC View

Taking a holistic viewpoint it is important that organisations avoid having simply 'more information to review' and ensure they have the 'right information to review'. The Balanced Scorecard, when used as a strategic control system is designed to improve focus on what is important in order to achieve long-term goals. This increases clarity and reduces ambiguity - not more information, just relevant information. An effective strategic control system will not make existing performance measurement tools redundant, but rather align all systems in support of the same goals and perhaps refine their content.

### Crosshouse

As noted above the introduction of Balanced Scorecard formed part of a wider programme to review and update the strategic and operational review tools used within this organisation. Effectively the programme substituted new types of review activities for old ones, and looked to modify others<sup>1</sup> to increase the clarity and alignment of core management control processes. The Balanced Scorecard did not however replace any of the existing operational reporting and management systems – it provided additional information to managers. About 50% of the measures selected as of key importance during the project were ones that were not previously collected, or for which no reliable surrogate existed. In general there was a strong feeling reported that the new information was 'relevant' and valuable. This offset resistance to the increase in the volume of available measurement data.

## Management Information for the centre

One of the goals for any management system is to provide decision makers with correct, relevant and timely data to aid them in the process of making decisions about managing the business. The type of information will depend upon what the organisation is trying to manage.

<sup>1</sup> e.g. the annual budget process

## 2GC View

The type of management information required by the centre builds on the communication vs. compliance discussion from the Transparency section. What does the centre need to know to achieve overall goals as opposed to what they would like to know in order to intervene and manage at an operational level? In 2GC's experience a good approach at the top-level is to use a strategic control system (such as the Balanced Scorecard) as contracting tool between management teams rather than a management control system for operations.

Too much intervention and top-management participation in the business unit decision-making process is more likely to stifle it than help it along. It is important that the central departments or board communicate clearly what they are trying to achieve at the central level and then to discuss and agree with each Department/business unit what can be done to help achieve the goals.

## Crosshouse

The Balanced Scorecard project actually served to reduce the amount of information routinely demanded by the centre of the operating units. Prior to this project the centre would mount periodic strategic evaluations of each operating unit, and to do this demanded and reviewed large volumes of data about the operation and its strategy. These evaluations were largely replaced by the Balanced Scorecard design / review cycle introduced – and once in place the information reported on a routine basis was much more strongly tied to the measures selected on the Balanced Scorecard. Where a measure was out of a tolerance range, additional information about why and the likely actions to correct the performance was sometimes asked for: in practice though evaluation of the measurement data was done locally by the unit management teams. As mentioned earlier under Standards, one feature of the design adopted in this organisation was that the Balanced Scorecards, although aligned with corporate goals, did not collectively 'add up' in an arithmetic sense to the corporate scorecard. The corporate Balanced Scorecard was not a summary of values on subsidiary Balanced Scorecards.

## Growth and Diversity

Communicating strategic direction and high-level target setting are two areas where organisations sometimes experience difficulty and where Balanced Scorecard can be employed to good effect. This is especially true if it is used for strategic control purposes. The Growth and Diversity section explores how Crosshouse approached these areas.

## 2GC View

High-level target setting and strategic communication should be based on ongoing interactive dialogue between management levels and support functions, as opposed to instructions and directives. One cause of difficulty however, especially regarding target setting, is how to tackle and capture the rapid pace of change in the external environment in relation to target setting and strategic choices. Using Balanced Scorecard correctly can help this – the explicit documentation of a management team's hypotheses about the strategic choices made, and the subsequent measurement of this by the Balanced Scorecard can inform progress reviews and promote what academics call double loop learning<sup>2</sup> concerning the strategy and the management team's implementation of it.

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<sup>2</sup> Double loop in this context is a feedback mechanism. Double loop feedback is where a simple feedback mechanism such as a process control exists in conjunction with a more sophisticated feedback mechanism. This feedback loop serves to analyse the outcome and the process of the first loop. For more on this topic, see "Double Loop Learning in Organizations", Argyris, C. (1977) Harvard Business Review, 55 (5), pp 115 - 125

## Crosshouse

The Balanced Scorecard design and implementation within Crosshouse was explicitly designed to promote increased clarity of purpose and communication quality between operating units and support functions on topics relating to the achievement of an overall strategy for the firm. The project was highly successful in this regard, promoting increased autonomy within each unit. It also provided each unit with enhanced information concerning the effectiveness of the local strategies being pursued, and a framework for ensuring this distributed activity was broadly aligned behind an overall set of goals and objectives. One component of the introduction of this approach at Crosshouse was a reduction in the amount of high-level participation in operational decisions and processes within units. This was typified by the elimination of the detailed strategic and operational review of each unit by the CEO's team.

## Ownership and Space

For a management system to have real impact upon the running of an organisation it is important that the information gained drives actions and change. Ownership of the management system and subsequent results are key factors in this success.

### 2GC View

Without ownership of the management system it is unlikely that any required changes will be actioned. It is essential to release power and control to the relevant people so they can act on the information and insights provided. As part of this process it is important to allow time to discuss results of the management system i.e. change behaviour and routines connected with the strategic or performance management review process. The benefit of re-evaluating the use of management time is that the management team will subsequently focus more on the future through discussions about strategy, causality and strategic choices as opposed to focusing on historic reviews of financial discrepancies and "who's fault it all was".

## Crosshouse

Although inclusion of all relevant managers in design of a Balanced Scorecard creates a high degree of ownership among the participants that normally isn't enough to ensure the newly created tool becomes an internalised part of the management process. Therefore the project facilitation team in Crosshouse in most cases trained up a member of the organisational unit to become the local 'Balanced Scorecard Support'. This person was given functional training in how to facilitate and maintain the Balanced Scorecard design. They were charged by the management team to ensure that their use of Balanced Scorecard was maintained over time, and that necessary maintenance and implementation tasks were completed.

The Balanced Scorecard development work within Crosshouse was, as noted previously, integrated with other activities to revise the approaches taken to some core management processes used within the organisation. One of these was to change the way time was spent in management meetings. It was estimated that about 95% of the meeting time was spent considering financial issues, and only 5% on strategy. The goal was to change this imbalance to 40/60 % in favour of strategy – at least in the long-term. To drive this behavioural change the project's internal facilitators were encouraged to emphasise during design meetings with managers the need to focus more on strategic action based on Balanced Scorecard measurement information and less on financial history in the form of traditional budget reviews. To strengthen the shift in focus even further, relevant objectives, measures and targets were included in some scorecards addressing this particular part of the management process.

## Software

This topic looks at the need to make software an enabler of effective strategy implementation and how to avoid technology getting in the way of change.

### 2GC View

It is imperative that any organisation should have a clear understanding of what it is they want from a software system and not to introduce technology until the organisation is ready. In particular it is important to determine in advance how such a system is likely to benefit individuals in managing more effectively and increasing the speed of change rather than hampering their efforts. The practical requirements of a Balanced Scorecard software system are to report measurement data, and provide a store of descriptive information about the Balanced Scorecard design (why was a particular target set, who is responsible for this objective, etc.). Compared to these basic requirements, demand for, and the utility of, drill down or modelling tools appears limited, particularly in relation to Balanced Scorecards used for strategic management purposes – however as many Balanced Scorecard software systems are derived from analytical information, commercial systems usually promote such functionality.

### Crosshouse

The Balanced Scorecards developed during this project were not automated using conventional / proprietary management information reporting tools. For most of the design / deployment phase, specialised software was not used at all – project documentation being created using standard office software and reported in paper format. Once designs for approximately one-half of the planned 16 Balanced Scorecards had been completed, the company began to review and evaluate commercial applications for the collection and reporting of data. They found the cost of the software available was prohibitive when considering the expected usage and likely value gained. Instead, for a nominal expenditure, a simple but effective data capture / reporting tool was created within an existing Lotus Notes environment. This tool provided limited functionality, but was technically fit for the task required of it.

At the time, the software was seen as being tangential to the overall success of the project and given a very low-key rollout, not being introduced to unit managers until the initial design of the Balanced Scorecard was complete. However the project process did assume that managers would complete measure definition and target setting for their Balanced Scorecard by entering data into the software system, and that this activity could and would be monitored by the CEO team primarily via the software system. But the low-key presentation of the software, and the managers' awareness that it was an internal solution, made it easier for management teams to defer activity to complete the implementation of Balanced Scorecard designs. As a consequence some units took as long to load targets for their selected Balanced Scorecard measures into the software as they had taken to design their Balanced Scorecard in the first place, by which time much of the momentum arising from the initial design and review process had dissipated. Although it is clear that these delays were not a result of technical flaws in the software, it has been suggested that if the software had been perceived by the organisation to be expensive, it might have been given a more high-profile presentation during the design stages of each Balanced Scorecard, and completion of the project could have been speeded up as a result of a greater urgency to get the software 'working'.

As it was, these completion delays consumed time and energy that would otherwise have been invested in making use of the Balanced Scorecard system, and probably reduced the utility of the whole project to the organisation.

## Conclusion

Crosshouse successfully and radically changed its approach to strategic management. Changes to strategic activities including planning, communication and performance reporting triggered changes in management behaviour, and helped to instil a greater sense of ownership and understanding of corporate strategic priorities, throughout the organisation. Having a clear view of the purpose of the management tool being created, and a perception of how it might influence the organisation itself, helped Crosshouse Directors to successfully complete this change programme.

Successful Balanced Scorecard design and development is predicated by consideration of how and for what purpose the tool is going to be used once it is implemented. At Crosshouse this helped to ensure that the right design methods and processes were selected<sup>3</sup>. Understanding of the intended use of the tool is also helped Crosshouse to structure the high-level plans required to develop and deploy the tool across the organisation. These considerations involved decisions about how far down the organisation to cascade Balanced Scorecards, the timescales for these decisions, and the nature and timing of subsequent changes to related management processes.

Crosshouse's experience with software underlines the need to maintain the momentum of change after the initial design process is completed. It also highlights the role software system introduction can play in the management of Balanced Scorecard development – Crosshouse found that expected programme management benefits arising from the use of the software tool to support measure definition and target setting were not realised. Assumptions that the software itself would motivate managers to complete these design tasks, or that managers would choose to refer to the software system subsequently for information about Balanced Scorecard progress appear to have been largely mistaken. It is clear that in this case the technical performance of the software system selected was of secondary importance in determining a successful outcome at Crosshouse compared to the decisions made about Balanced Scorecard and programme design, but that more careful management of the introduction of the software system would have improved the overall value of the work undertaken.

Key learning points from this case are:

- Understanding what you intend to use a Balanced Scorecard for is an important part of choosing the right approach / design methodology, and positively influences the success of the initial part of the change programme;
- Having mechanisms that ensure momentum is maintained across the whole of a Balanced Scorecard application programme is important. Avoid regarding Balanced Scorecard implementation as a project with a defined beginning and end, rather view it as an ongoing programme. Although best managed by being divided into distinct phases (design, development and deployment), a clear sense of urgency for change needs to be maintained through each of the programme phases;
- Successful use of the Balanced Scorecard demands continued top management support. That includes relinquishing power and control. Allowing managers to express what they think are the right things to do within their scope of influence creates a strong expectation that they will also be given the freedom to implement their plans – failure to meet this expectation is likely to undermine the value of the entire Balanced Scorecard.

<sup>3</sup> See the 2GC FAQ Document "[What are the main benefits of a Balanced Scorecard?](#)" for more information on types of Balanced Scorecard application

## About 2GC

2GC is a research led consultancy expert in addressing the strategic control 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 the widely acknowledged 3<sup>rd</sup> Generation Balanced Scorecard approach to strategic implementation, strategy management and performance measurement.