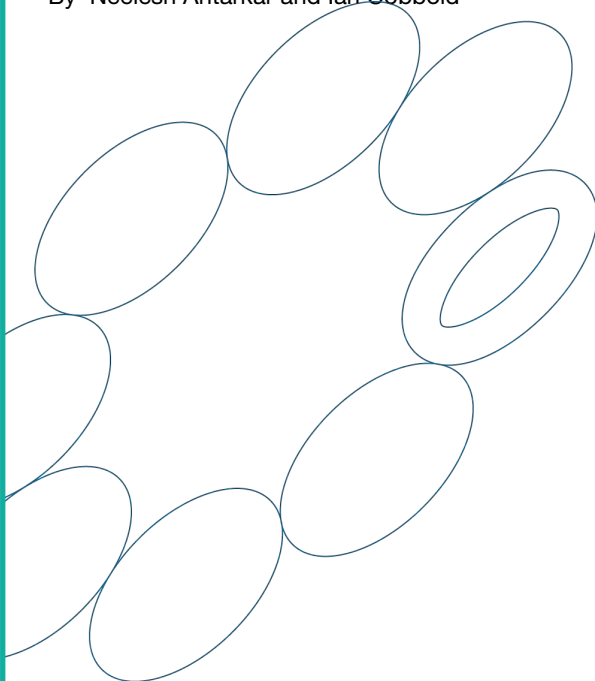


Implementing the Balanced Scorecard – lessons and insights from a multi-divisional oil company

Balanced Scorecard Case Study – Truro

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Introduction

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

Truro is a multi-divisional oil firm based in Middle East.

In the late 1990's Truro determined a need for a strategic and performance management system to integrate its existing performance management tools and provide a mechanism for monitoring its progress towards its strategic goals. To meet these needs Truro implemented, with the help assistance of an external consulting firm, a series of Balanced Scorecard designs for their Corporate and Organisational unit levels. The Balanced Scorecard development process began with a strategic review of that lead to the identification of new strategic priorities. Subsequently a total of seven Balanced Scorecards were developed commencing with the Corporate Balanced Scorecard and then cascading to sub-units: Lubricants, Retail, Commercial, Distribution, Terminal Operations and Group Business Services (GBS). The sub-units were a mixture of commercial units, support functions and simple cost centres. Finally the post-design (implementation and usage) process was supported by the introduction of specialised Balanced Scorecard reporting software.

A wide range of potential learning points has emerged from this implementation. While the software functioned effectively, the organisational issues surrounding the design of the Balanced Scorecard (primarily relating to measure selection) and the approaches adopted to support implementation and use of the Balanced Scorecards diminished the overall value of the performance management system developed.

This case describes the project activities 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

This section outlines 2GC's viewpoint and explores how Truro approached the use of standards within the design and implementation of their Balanced Scorecard system. Many organisations aim to standardise measures in their Balanced Scorecards designs across units and hierarchical levels, often prompted by a desire to simplify initial design work, and facilitate the aggregation and reporting of performance across the organisation using financial style reporting systems. Other firms standardise the design elements of Balanced Scorecard, or adopt standard processes for the use of Balanced Scorecard.

2GC View

Use of a standardised vocabulary defining the components of a Balanced Scorecard system (e.g. what do we mean by Destination, Objectives, Measures, Initiatives etc.) is good practice. Using a standardised design process and review cycle is also valuable, as it can support horizontal and vertical dialogue concerning organisational goals, often becoming a component of a corporate planning framework. However the adoption of 'standard content' (e.g. requiring some or all Balanced Scorecards to adopt standard measures or objectives) is less likely to be helpful, as it risks diminishing the 'local' relevance of each Balanced Scorecard to the issues of the management teams that will use them. The external imposition of elements also can reduce the sense of ownership of specific designs felt by management teams.

Truro

Truro used the same design process for each of the Balanced Scorecards created with the intention of ensuring consistency throughout the project. In addition, use of a similar process enabled each of the Organisational Units to develop and share a common understanding of the design process – helping communication on performance management issues both during and after the design project. Implicit in the use of a common design process was the adoption of a classical ‘objective based’ Balanced Scorecard architecture (i.e. broadly similar to the designs illustrating the Books and later Articles on the topic by Kaplan & Norton). The design adopted thus did not include a separate ‘strategic destination’ component¹. Omission of this element reduced the ability of the developers of the Corporate Level and the sub-unit Balanced Scorecards to ensure alignment with the overall goals of the business. To some extent, availability of previously agreed budget documents made up for this weakness.

When examining the Balanced Scorecards themselves, only a few of top line financial objectives and measures² were common across all Balanced Scorecards. The bulk of the objectives and measures were uniquely chosen to be relevant to the unit developing each Balanced Scorecard. However, some standard objectives and measures related to the Environment, and Health and Safety were included on each Balanced Scorecard, in line with pre-existing corporate guidelines, developed. In hindsight, this mix of standardised and locally relevant Objectives and Measures worked well. But it is believed that more effective Balanced Scorecard designs would have been achieved this commonality had been achieved through the inclusion of additional standard statements in ‘destination’ statements, had such existed in the adopted standard architecture.

Transparency

Organisations typically use measurement systems to control the business at either a strategic or an operational level. This section explores why Truro 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 micro manage and enforce compliance in operational processes. These two types of control are generally referred to as Strategic Control and Management Control respectively. Balanced Scorecard can be used as an effective tool to monitor and control either strategic plans or operational performance; however these applications are different, and require different design approaches. When introducing Balanced Scorecards, organisations must first become clear about their objectives the new tool, and then use a design and design process appropriate to these objectives.

Truro

Truro was already using a variety of planning and operational management tools. The Balanced Scorecard programme at Truro was to some extent motivated by a desire to integrate these various tools within a common framework. The main benefit expected from the development and use of Balanced Scorecard centred on communication of strategy and monitoring the delivery of strategic goals³.

¹ The creation of a destination element is now considered by many practitioners and academics as an essential part in successful balanced scorecard design

² e.g. Related to revenue and profit in the case of front line functions and cost in the case of support functions

³ These benefits are some of those normally associated with a well-designed strategic control system – for more information on what strategic control is go to www.2gc.co.uk

Truro adopted a 'bottom up' approach to the development of its Balanced Scorecard. The Corporate Balanced Scorecard design was completed last, and was based upon the results of the sub-units' work. This approach had clear limitations, in that the development of the sub-unit Balanced Scorecards was not obviously informed by goals of the business as a whole (as prior to the Corporate work they had not yet been articulated within a Balanced Scorecard framework). This weakness in the design process (working bottom up) had an odd consequence. When the sub-units presented their designs to Corporate, lack of apparent alignment with Corporate's strategic goals led the management team to view the Balanced Scorecards as relating more to operational issues than strategic implementation. This was unsurprising, as the sub-units did not have any strategic interaction with the Corporate unit to get their Balanced Scorecards 'aligned and approved' in terms of overall direction and planned resources allocation prior to their completion. Further, the design process adopted did not promote or encourage significant 'contracting' behaviour between the elements of the organisation.

As a result, this Balanced Scorecard initiative did little to improve the clarity of what the organisation was trying to control despite the obvious potential to do so. This lack of clarity led the management team to make the decision to use the Balanced Scorecards for operational purposes. The result of this action was to create conflict - the design process and the designs were based on strategic not operational control. This conflict led to diminished commitment in overall Balanced Scorecard usage from the sub-units.

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 Truro 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 'right information to review.' 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 rather it will help to align all systems in support of the same goals and perhaps refine their content.

Truro

Truro was already using the 'Structure Tree' approach⁴ to identify critical initiatives and activities. The strategic planning process was not separately defined and was limited to preparation of budgets. Prior to the Balanced Scorecard development project, a huge amount of information was being collected that was being reported monthly via a Management Information System (MIS). Despite this, there was no formal process or framework in place for reviewing the information generated. It could be said that the existing tools were not providing sufficient, relevant information and feedback in terms of what was happening within the firm or why it was happening, nor did they effectively drive consideration of what was needed in the light of the information to ensure successful execution of business goals.

In the light of these issues, there was a need for the Balanced Scorecard to address them and provide a solution. One key objective for the company was to provide a common framework

⁴ Developed by ODI (Organisational Development Inc.)

for achieving strategic control and align all existing tools around the framework. The introduction of the Balanced Scorecard and associated management processes was intended to provide improvements in these areas, but in practical terms, due to the flawed design approach (as explained in the previous section) it led the management to make use of the Balanced Scorecards in a more operational way. It resulted in the introduction of additional processes that did not clearly lead to simpler or more effective business processes.

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.

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 micro manage? 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 to micro-manage.

Too much intervention and top-management participation in the SBU 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; the 'centre' discusses and agrees with each Department/SBU what they can offer to help achieve the goals; and that the 'centre' follows up through constructive dialogue whether or not they are getting the help they were promised and whether it is still relevant.

Truro

Truro wanted its Balanced Scorecards performance management system to improve corporate management's strategic control over the business. However, the adoption of a flawed Balanced Scorecard design process undermined the scope for Balanced Scorecard to be used as a strategic control tool – ultimately, in this respect, Truro's corporate managers did not get what they sought. This failure was caused by:

- Inappropriate choice of design sequencing (Divisional Scorecards were developed before the Corporate Scorecards, as explained earlier) and;
- Omission of a separate 'destination' statement from the adopted design architecture.

The two flaws made it harder for the centre to have a common framework for the evaluation of sub-unit Balanced Scorecards, and reduced the apparent relevance of objectives defined on sub-unit Balanced Scorecards to the goals of corporate managers.

Truro realised at the end of the design phase that the development process had failed to gather sufficient relevant information from sub-units to allow the corporate team to evaluate and approve their strategies as described within their Balanced Scorecard designs. Although it was too late then for the organisation to include an explicit destination component within the designs, an attempt was made during the review stage to correct the problems caused by the bottom-up sequencing. A further review of Corporate Scorecard by top managers was scheduled to occur after all the sub-unit Balanced Scorecards had been reviewed. Further, it was planned that an additional report, detailing the overall progress of sub-units against corporate objectives would be prepared for corporate review meetings in order that top management could have some basis (and common framework) to evaluate divisional progress and actions. However, these modifications failed to deliver the required results - possibly

because by then the corporate management team had already discounted the use of the Balanced Scorecards for strategic control purposes.

Growth and Diversity

Communicating strategic direction and high-level target setting are two areas where organisations sometimes experience difficulty and this is an area where a Balanced Scorecard can be employed to good effect. This is especially true if it is designed to be used for strategic control purposes. The Growth and Diversity section explores how Truro 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. It supports what academics call double loop⁵ learning⁶, building on inclusion of operational insights and market knowledge from the whole organisation.

Truro

Flaws in the design process adopted by Truro resulted the sub-unit Balanced Scorecards primarily reporting on the achievement of objectives defined in the budget (as per top management directives). These flaws meant that although it was capable of doing so, the Balanced Scorecard project did not enhance the sub-units' freedom to define and act upon locally relevant objectives that were aligned to the overall goals of the organisation. As a result, many of the sub-unit managers lost faith (buy-in) to the process and its utility as a management tool. A major contributing factor in this originated from top management in the way they decided and sometimes even dictated the priorities for a unit. By dictating priorities in this way, the potential of the Balanced Scorecard to be used as a strategic contracting tool was significantly diminished.

Furthermore, the adopted design and associated review processes did not facilitate vertical⁷ and horizontal⁸ communications. As a result, Truro could not establish instructive dialogue that enabled sharing and acting upon operational insights and market knowledge between various levels. Triggers had been built into the review process to accommodate these factors. However, two factors did not allow the firm to make the best utilisation of such triggers. Firstly, the Balanced Scorecard designs were based on strategic control principles but used as management control tools. Secondly, there was a lack of a properly sequenced review process. Although there was great potential for using Balanced Scorecard to support target setting and communication, Truro really could achieve neither due to flaws in the design process.

⁵ 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.

⁶ "Double Loop Learning in Organizations", Argyris, C. (1977) Harvard Business Review, 55 (5), pp 115 - 125

⁷ Between Corporate and Divisions

⁸ Between Divisions

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 focussing on historic reviews of financial discrepancies and “who's fault it all was”.

Truro

The Balanced Scorecard design process had identified ownerships and responsibilities in such a way that these participants could directly influence the delivery of various components such as objectives, measures, and initiatives. A few of the sub-unit initiatives identified that were critical for attainment of their objectives were elevated to the Corporate level, as the participants did not have the authority to carry these out. This created a dissonance in terms of an authority-responsibility mismatch. It was additionally affected by lack of proper vertical communication during the design process. Also, the efficiency of the Balanced Scorecard review meetings could have been improved substantially if the data collection and target setting processes for the measures on the corporate and sub-units Balanced Scorecards had been completed. But despite these shortcomings, Balanced Scorecard proved popular with managers within the organisation – broadly for these three reasons:

- Compared to the method used previously, monthly meetings intended primarily to discuss financial performance and variations against the budget numbers, managers felt that the Balanced Scorecard review meetings that replaced them provided ‘a much better way of communicating by focussing on discussions related to strategy’
- Managers also noted that the Balanced Scorecard system provided a more transparent way of looking at the whole business, in part because many of the linkages describing the relationships between strategic objectives had been developed and agreed collectively through discussions involving the whole group of people responsible
- Finally they also reported that ‘the process provides an objective framework to focus on actions and analyse variations without blaming any one individual’

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

Balanced Scorecards are often linked to three distinct types of software application: software for data reporting, software for data analysis, and software to promote improved management process. Many commercial packages combine two or more of these in a single vended application. Thus, before committing to the choice of software system, it is imperative that an organisation becomes aware of how it hopes the software will contribute to the effectiveness of its management activity, and choose products that work accordingly. Ultimately, software

solutions will not be adopted if they do not tangibly benefit the individual managers who are using Balanced Scorecard. Introduced appropriately, software can be a powerful and valuable investment for an organisation; introduced inappropriately software can undermine the potential for Balanced Scorecard to contribute to an organisations success.

Truro

This firm had independently selected a market leading Balanced Scorecard software vendor before it undertook any assessment of its functional requirements, and before it appointed the external consultant that helped with the design of the Balanced Scorecard system.

Implementation of this software was a total failure due to a variety of reasons:

- The firm had perceived the software to provide multiple benefits that were not part of the software. Selection of software was done without really understanding in detail what the software could deliver and why would it be needed. The firm expected the software to automatically do many things, without much manual input., that the software was unable to do. The software mainly had capabilities to graphically represent the data in terms of Objectives, Measures, Targets and Initiatives, along with some e-mail connectivity between users.
- Technical evaluation of the Software in terms of number of licenses, server configuration, connection to the backend (ERP) and other legacy (accounting software) software etc. was not done prior to selection.

There were many other implementation and operational issues that impeded introduction of the software – mainly due to dissonance between the expected functionality and that, which could be delivered, based on the software’s capabilities and the underlying Balanced Scorecard design adopted. The key issues of this type were:

- An assumption in the software design that sub-unit Balanced Scorecards would have the same or similar sets of Objectives and Measures, to keep the design simple. This was not the case in reality.
- The data loading procedure was cumbersome, requiring all the objectives (more than 100 for all the Balanced Scorecards together) to be input first before they could be allocated to the sub-unit Balanced Scorecards. This was in addition to defining the users and their authority levels to access data across divisions.
- Access authorities and administrative responsibilities for the software and the Balanced Scorecard data were defined within the software on the basis of certain assumptions about the organisational structure that didn’t apply to this firm, but could not be changed.
- The procedure to change and update information, especially the qualitative information, was very tedious and the software had a bug that prevented smooth operations in this regard.
- Operational inefficiencies and bugs forced the participants to input the data multiple times. This was very time consuming. The software was not in a position to deliver operationally in many areas where expectations were built through exaggerated communication about the capability of the software (by the firm’s top management) based on the sales information given by the vendor.

Finally the firm had thought that the software would be used during the development stage to avoid duplication of efforts in terms of preparation of the Balanced Scorecard related documents. However, the software was not capable of easy, real time changes to any kind of the data inputs. In the end, the design phase used only paper ‘working documents’.

In summary, the unjustified investment in software at this firm could have been avoided by carefully developing a detailed understanding of what the software could deliver and by analysing whether there was any need at all for software to support the Balanced Scorecard implementation process. The entire software fiasco at this firm led to the participants losing faith in Balanced Scorecard as a tool, as the two processes - Balanced Scorecard design and software implementation - were perceived to be part of one exercise related to introduction of Balanced Scorecard. After going through the software experience most participants felt that the investment in software to manage and present data was not justified. Looking at the purpose for which the Balanced Scorecards were designed (strategic control), and in fact the use of software actually prevented participants from using many functionalities that the Balanced Scorecard design process had identified - such as collective decision making with human interventions.

Conclusion

The decision to implement a software based Balanced Scorecard solution within Truro was well intentioned, and was backed by significant investment by the organisation both in the software system chosen and external consulting resources to support the design process.

It is clear from feedback from the management team that the design of Balanced Scorecards at Truro met the organisation's original expectations concerning its utility as a strategic management tool. However, it is also clear that a faulty design process, in particular an inappropriate development sequence for the multiple Balanced Scorecards and the omission of destination statements from the design used, reduced the opportunity to use a common framework to facilitate strategic 'contracting' and prevented Truro to use the Balanced Scorecards to their full potential. One feature of this weakness in design was the early decision by corporate management to re-target Balanced Scorecard as a Management Control tool - effectively 'giving up' on initial intention to use the tool to support strategic management across the business. But the design process that was already underway, which was orientated toward the development of strategic Balanced Scorecards also compromised this modified aim. Although the individual sub-units subsequently found the tool very helpful to manage the strategic aspects of the business at a local level, a satisfactory outcome was not achieved at the Corporate level. Finally, since the investment in software selected could not be justified as characteristics of the software compounded the Balanced Scorecard design problems, the whole management attention was eventually diverted away from the achievement of the original objectives (e.g. introducing a tool to support the integration of existing processes, strategic control etc.) to trying to identify how best the software could be used.

Key learning points from this case are:

- Many of this organisations problems could have been avoided if it had taken advice concerning its intention to develop a Balanced Scorecard from a suitably qualified expert before it approached / decided upon a specific software solution.
- Choice of a more appropriate architecture and development sequence by the Consultant in this case would have improved the utility of the Balanced Scorecards developed.
- Remember that there are two application types for Balanced Scorecard, each requiring a specific design approach.
- Balanced Scorecard designed for strategic control purposes cannot be used for operational/management control (and vice versa).

- The choice of an appropriate design methodology (e.g. what components to include – destination statements etc.) is an important determinant of success as the choice of development sequence (e.g. cascade down the hierarchy etc.)
- An organisation needs to carefully evaluate the Balanced Scorecard software from various standpoints e.g. Delivery capability, Expected cost-benefits, Technical compatibility with other existing software – ideally taking the advice of an independent expert in addition to the statements made by software salesmen.
- Current Balanced Scorecard software applications are generally more useful when applied to support operational (Management Control) Balanced Scorecards than the strategic ones.

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 3rd Generation Balanced Scorecard approach to strategic implementation, strategy management and performance measurement.