The Balanced Scorecard as a Communication Protocol for Managing Across Intra-Organizational Borders

Track: Operations Strategy

Abstract

The Balanced Scorecard is commonly associated with the area of performance measurement. However the Scorecard framework, and the processes associated with Scorecard design are more fundamentally concerned with communication and articulation of strategy at operational levels. This role for the Balanced Scorecard, specifically the use of the Scorecard to communicate operations strategy across intra-organizational borders is the subject of this paper. Research carried out in a multi-divisional organization will be presented. The research shows how a modified Scorecard design process allows firms to rationalize strategic communication so that only strategically relevant information is transmitted in the design of the strategic control system.

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Introduction

When large, multiple strategic business unit (SBU) organizations attempt to communicate strategy two main methods of strategic communication and control are commonplace; the strategic plan, and budgets. Strategic plans are limited in several ways. Underpinning their production is the assumption that parent strategies can be formulated and articulated in a conscious and deliberative way. However, this may only be true in certain contexts (Rumelt, 1980). In the specific case of inter SBU communication, there is also the assumption that the corporate HQ can understand and plan the activities of a subordinate organization. In practice this again is only likely in limited circumstances (Mintzberg, 1990). However, even if these difficulties can be surmounted, in most large (multiple SBU) organizations, intra-organization information flow rates are often too slow to support the “strategic planning” control model (Mintzberg, 1990; Mintzberg, 1994; Flitman, 1996; Cyert, 1963). Hence if strategic management is to be effective there is a requirement to either: improve the speed of intra-organization information flow; or, reduce the volume and/or frequency of inter-SBU information traffic. Alternatively firms could in some other way, rationalize such communication so that only strategically relevant information is transmitted in the strategic control system.

Budgets are one such device for rationalizing, and thereby improving the speed of strategic communication. However budgets, which themselves can be articulations of, or proxies for strategic plans are also of limited use as communication devices in that they explicitly exclude many important non-quantitative aspects of strategic intent and required performance (Kaplan and Norton 1992a). Many authors from different management disciplines have claimed that

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strategic communication, control and measurement often focuses narrowly on easily quantifiable criteria such as cost and productivity, while neglecting other criteria which are important to competitive success (Sink 1985). Further, reliance on summary budgetary information alone hinders organizations in that such reliance creates an overemphasis on short-term financial issues (Kaplan and Norton 1996).

Although Kaplan and Norton's work has largely been interpreted – and used by practitioners – in the area of performance measurement, their Balanced Scorecard framework, and the processes associated with its production are more fundamentally concerned with strategy articulation and communication. It is this role for the Balanced Scorecard, and in particular the use of the scorecard to articulate strategy across intra-organizational boarders that is the subject of this paper.

The paper will explore the development of scorecards for strategic communication and control at a multi-divisional firm. The aim of the program reported in the case study was to introduce the Balanced Scorecard as a strategic management framework for the whole business. The case study organization is a national oil extraction, distribution and retailing business operating across both industrial and consumer markets in the Persian Gulf.

Case study - Persoil[1]

Persoil was a traditionally organized multi-layered organization, where prior to implementation of the Balanced Scorecard, most communication (during planning and ongoing operations) was one-way, from the Corporate HQ (Corporate) to other strategic business units (SBUs). There was little or no horizontal communication. Corporate would set overall budgetary targets for each of the SBUs. These targets were arrived at using ad-hoc growth projections based on past performance, and the SBUs were required to submit their plans (budgets) to support delivery of these targets. Each division submitted its plan individually to Corporate without discussing the impact of the same on other SBUs. Leaving aside the unwillingness of Corporate to allow SBUs to participate in a two-way vertical and horizontal communication; the lack of any such communication processes could mainly be attributed to lack of a mechanism to evaluate and communicate the collective impact of the delivery plans suggested by the SBUs.

Persoil was the main national oil company of its home state, and until early 1999 operated without significant competition. Assured business therefore meant that despite many inefficient business practices, the company operated profitably. However, de-regulation and increasing competition meant that by early 2000 the company's position in certain markets was deteriorating rapidly.

This increasing threat prompted Corporate to look for management tools to address what it perceived as two critical weaknesses; effective formulation and implementation of strategy, and efficient communication of the same to operational units. After an evaluation of various alternatives, Persoil decided to use the Balanced Scorecard methodology.

[1] Company's real name disguised.

Design principles

The Balanced Scorecard design process used at Persoil would be required to design a strategic management framework for the whole business. The need to repeat the Balanced Scorecard process seven times throughout the organization, working with a wide range of operational and commercial SBUs, each operating in organizational and market spaces of varying maturity required the development of a simple, repeatable and generally applicable design process. In order to allow communication concerning scorecards thorough the organization, it also required the development of a common framework for the outcome.

The design process was based around the following general principles:

- The process would involve directly those who would eventually make use of the measures developed to manage the entity for which the Balanced Scorecard is being designed. Typically this would be "the Board" or some analogue. Therefore, representatives of those who were going to use the information produced by the measurement system would undertake the development of the scorecard.

- The articulation of causal relationships, strategic objectives, and the development of measures associated with these would be done directly by the group, primarily done "live" during extended workshop sessions. (These first two principles differentiate the process here described from Kaplan and Norton's original (Kaplan & Norton, 1996) process wherein such design work is carried out remotely by consultants.)

- The Balanced Scorecards developed would conform to standard design criteria set out in a common "reference" design developed by the organization.

The design process

Seven SBUs were involved in the Scorecard design process; Corporate, Sales and Marketing (Retail and Corporate), Lubricants, Aviation, Operations and Human Resources. Initially the process included two rounds of workshops for each SBU beginning with the Corporate SBU (comprising the seven senior managers from each SBU), followed by the Sales related SBUs; Retail Sales, Corporate Sales, Aviation and Lubricants. Finally support SBUs such as Operations and HR were sequenced at the end of the process.

1st workshops

Starting with the Corporate SBU helped establish overall direction in the form of an embryonic vision statement, which was then used as guide by other SBUs for their own design processes. As the Sales related SBUs were mostly dependent on the Corporate SBU for setting their own vision and objectives, these were sequenced after the Corporate SBU and they developed initial plans to meet the Corporate vision. Support SBUs were sequenced last, as these were critically dependent on Corporate and the sales-related SBUs for inputs.

Within support SBUs, HR scorecard workshops were scheduled last since their own vision and objectives were dependent on other Operations division's plans and the sales related divisional plans. So, for the first time in Persoil's history sales & marketing, operations and resource divisions were able to begin their planning processes with more than simple budgetary targets for strategic direction. The workshop sessions also for the first time allowed support SBUs to debate details of the delivery of the strategy within the overall framework of broadly defined targets presented to them as part of Corporate vision.

2nd workshops

The workshop II events also followed the same sequence. Outputs from Workshop I events were presented to the Corporate SBU at the start of Workshop II. These were mostly vision statements, though some SBUs had begun to spell out strategic objectives and develop strategic linkage models. This provided senior management, for the first time, a chance to collectively evaluate the SBUs concerns regarding delivery of the strategic plan. For example the SBUs could now initiate discussions on the realism of timeframes and the overall financial impact of cost associated with delivery at the SBU level. Corporate management could also for the first time evaluate both individual divisional plans and their overall impact on the Corporate direction. Decisions on, for example maximization of ROI in the divisions could now be evaluated more effectively.

Once the Corporate management had modified its vision to accommodate the SBU response, this was presented back to the SBUs during Workshop II events. SBUs found this communication very useful as it gave them a better understanding of Corporate management's perspective on, appetite for, and willingness to compromise on various issues. On the basis of revised Corporate vision, SBUs altered their plans accordingly. The output from the 2nd series of workshops was for each unit a refined statement of strategic vision, strategic objectives and an articulation of causality as represented by the strategic linkage model.

3rd workshops

A final third round of workshops took place where individual SBUs presented their revised plans to Corporate management for final approval. Though not originally planned, this series of workshops was necessary since there were many operational delivery issues that were critical from the divisional perspective that Corporate had not evaluated. The forum was designed to include only individual SBUs so that they could present their point of view independently to Corporate management. This said, representatives from the other SBUs on the Corporate panel were present to evaluate the "horizontal" impact of individual SBUs' plans. New outputs from the 3rd set of workshops were performance measures and targets relating to each strategic objective, and implementation plans.

Design content – the reference design

This section explores the communication constructs that were developed during the Balanced Scorecard design process. The standard design criteria for the Persoil Balanced Scorecard required it to include the following elements:

Vision Statement

The design would include a formal statement of vision, in which the management group described the organizational unit five years later, should the unit achieve reasonable success in implementing its plans. The statement described in concrete detail elements such as size, revenues, structure etc. and also qualitatively described other elements such as working conditions, management style and market position. In workshops the management-group decided the choice of elements within the vision. In this respect the vision sets out long-term targets and success criteria for the unit, as well as acting as a focus for identifying key strategic activities, the conclusion of which was a critical underpinning of the vision.

Strategic Linkage Model

This model was a graphical representation of the entity's proposed strategic objectives, spread across the four Balanced Scorecard perspectives, linked by arrows showing the primary cause and effect relationships.

See figure 1

Once again, the management-group decided the selection of the objectives and causal linkages. However, there was a limit to the allowed complexity – normally no more than 24 objectives in total were permitted. Each objective was indicated by a short descriptive title. (Here also is a key point of differentiation from Kaplan and Norton's design process in that this process forced prior consideration of causality. Development of the strategic linkage model is a critical stage in the Balanced Scorecard design process here reported. In developing the model senior management teams clearly articulate their understanding of causal relationships within their organizational unit. It might be assumed that all senior managers should possess such understanding. However this is often not the case, and perhaps explains the propensity of managers to adopt generic rather than relevant improvement behaviors. (Mintzberg, Pascale, et al, 1996)

Strategic objective descriptions

These were brief descriptive statements that stated more fully each of the objectives selected for the Strategic Linkage Model.

Performance measures and targets

For each objective, one or two measures were chosen on the basis of their ability to monitor progress towards desired outcomes. Choice of measures was normally driven by the need to obtain information quickly and cheaply, and to use sources that updated frequently (typically four times a year or more). Targets were set partly in reference to contents of the vision statement.

Implementation plans

These were a set of short-term actions that if delivered would ensure that the Scorecard became a core element of strategic management activity within the entity. Typically this included setting a timetable for the management group to meet to review the Balanced Scorecard information.

Observations

Sequencing

As described above, the sequence of design stages may have seemed intuitively obvious. That is, scorecard development should be in the order; corporate, marketing, sales, operations and finally HR, but this certainty is confined to real world, everyday operations. In the semi-abstraction of strategy articulation – this design process – the sequence is not so clear. Further, there are no prescriptions in the performance management and strategic control literatures that explicitly advocate any particular sequence.

An exception comes from the industrial organization literature. Williamson observed that the sequence of strategic decision-making is governed by the completeness of information possessed by each body in the decision-making process (Williamson, 1975, p25 & 26). (That is, operations do not know what to provide until sales and marketing knows what to sell. Sales and marketing do not know what to sell until Corporate tells them roughly what business they are in … and so on.) This observation is also interesting because it highlights the absence of an explanation – in the balanced scorecard literature – for the design sequence of individual balanced scorecards. In fact the rationale for the intra-organizational design sequence also applies to individual scorecards. In this way the sequencing of intra-organizational scorecard design activity is a meta-level mirror of the sequencing of the general scorecard design process. (This aspect of the Persoil balanced scorecard design process was not a point of differentiation from the original Kaplan and Norton process. Rather it was an elaboration, formalization and explanation of it to explain and justify the sequence of scorecard rollout across many SBUs.)

Iteration, feedback and negotiation

The corporate vision statement provided a vernacular for negotiation between Corporate and the SBUs. By contrast the previous – pre scorecard – basis for negotiation was a budgetary target only. That is, an outcome measure and non-debatable except by expanding the scope of debate to operational practicalities. Whereas the new start-point, or imperative; the outline of delivery approaches at market, operational and resource-development levels as presented in the new Corporate vision statement, was a statement of intent that lay within the negotiation domain of the operational SBUs. As such it was evaluated and suggested modifications were returned to the Corporate unit.

Design communication constructs

The design process used provided a well-defined platform to enable communication through common understanding of concepts behind the tool:

A set of standard templates for Vision Statements, Objective Definitions, Measures and Initiatives were used and these focussed the thinking of participants from various SBUs onto the same set of communication areas.

The high degree of detail required in the Corporate vision statements (stressing details of future financial and market position, organisational form, internal processes configuration and general external relationships), provided and incentive for the SBUs to develop in detail their own delivery plans. In turn this allowed detailed assessment of the impact of these plans at the Corporate level.

Developing formally a detailed vision statement also forced SBUs to identify the impact of the overall delivery plans in terms of any organizational changes. This typically covered issues such as manpower requirements, organization structures, staff designations, training etc.. Such focus again established a channel of communication with support SBUs such as HR to incorporate their inputs within the divisional plans.

An emphasis on identification of cost drivers during the creation of the strategic linkage diagram, also provided a channel for horizontal communication with other SBUs, especially the support SBUs. For example, the overall profitability of both Retail SBUs was dependent on cost of delivery charged to them by the Operations division, thus making it necessary for the Retail divisions to initiate communication with Operations before finalizing their plans.

Formalizing operational dependencies

The balanced scorecard design process identified many dependencies between various functions / SBUs. Some of these were then converted into formal agreements to communicate and monitor expectations from the complying parties. For example, sales SBUs would define Service Level Agreements (SLAs) with Operations for standard delivery times to end customers. Operations divisions would also develop similar SLAs with the Sales division on parameters such as order timing, order confirmation etc..

Conclusions

This paper’s main observation is that two important underpinnings of effective strategic communication and control across intra organizational borders; accurate articulation of intent, and accurate feedback; can be provided by both the process and outcome of properly designed Balanced Scorecards. In other words the success of the Balanced Scorecard as a strategic communication and management tool is critically dependent on the sequence and content of the design process used to deploy the tool.

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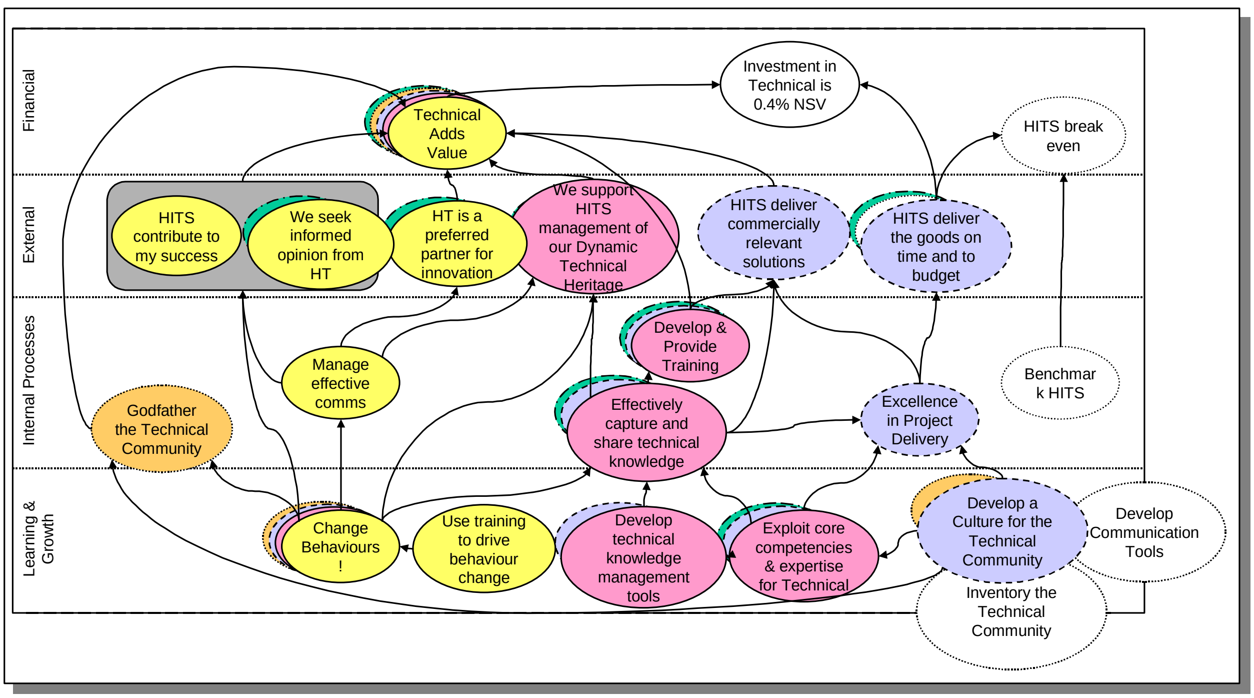

Figure 1