Balanced scorecard and emerging strategies

Understanding implementation in large and complex organizations

Review

Have you ever been into a construction engineer's office on a large scale project? Aside from the large cups of tea or coffee and plans that litter the room, you will typically see the walls dominated by huge project plans for the build. There will be multiple plans – typically in form of Gantt charts – that plan each portion of the build in a step-by-step process. It looks mightily impressive, although increasingly many project managers would argue that being so prescriptive about timelines is only doomed to fail.

However, the key point is that with a complex build, multiple projects will overlap and be interdependent, and as such there is a need for engineers to have an overview of what needs to be done next at any given stage. In theory, this sort of logic should see the project through, but logic rarely prevails on a build, and problems crop up on a daily basis. Lack of raw materials, breakdowns, sickness and myriads of other hold-ups can cause chaos – and the parallel with large firms and their strategic planning initiatives are not difficult to see. Luckily, there has been no shortage in advice from practice and academia as to how to deal with all this potential chaos.

Devil in the detail

Perhaps the biggest single academic theory to gain traction in practice in modern business is the balanced scorecard, first put forward by academics Kaplan and Norton in the early 1990s. Its application has been assessed and reassessed in hundreds of different scenarios, and the latest of these has been completed by Lawrie *et al.* (2016) in their research article, "Multi-level strategic alignment within a complex organisation".

The study looks at the adoption and implementation of the balanced scorecard at multiple levels in a complex organization based in the Middle East, with key considerations regarding how this activity fed into corporate strategy, and the effectiveness of the implementation over a four-year period from 2008. All of this is set against the wider context of strategic planning as a way for firms and their senior management to plan and drive forward organizations.

The next generation

One of the problems encountered with earlier generations of the balanced scorecard was the difficulty in adopting multiple scorecards across a business, particularly on top of each other. While this affected the first two generations, the so-called "3rd generation balanced scorecard" enabled cascading down from scorecard to scorecard. Typically, this new version of the balanced scorecard has three key characteristics:

- First, an over-arching "Destination Statement" is put forward by the senior management team of an organization designed to brief stakeholders about the future direction and performance expected from the firm. This in turn highlights the key strategic targets for each part of the business to enable the vision to be realized.
- Underneath the senior team, each department or business unit sets its own destination statement which reflects its own goals, which are known as "contribution statements", and in turn this is used to identify the strategy of the work unit.
- Finally, these contribution statements are used to define for lower levels of the organization what their direction should focus on, and in turn this aids communication, defining of training needs and designing of processes to maximize their impact, back-up the chain and achieve the original visions set out in the contribution and destination statements.

Case study approach

To analyze the effectiveness of this next generation version of the balanced scorecard, the authors looked at the implementation of the approach in a large energy company based in the Middle East over four years from 2008. The company had seen rapid growth and at that time, it was operating in one Gulf state with a workforce of around 10,000 people. The senior management was concerned about the integration of smaller firms into a larger organization, and as a result, it had separated into four linked businesses. This presented problems around the strategic reimagining of the firm and its implementation, and so a model of strategic planning was needed, which was the updated balanced scorecard.

The date set for the destination statement was January 1, 2013, and planning used a three-phase approach:

- Corporate-level work – this included the creation of the destination statement, setting high-level strategic objectives and develop the design process for the change programs; it was undertaken over five clear stages by dedicated teams.
- Initial cascading of the balanced scorecard – this focused on seven units that reported directly to the senior management team of the energy company, split between the operational and support sides of the business. The process mirrored the first phase as closely as possible.
- Cascading of the business unit-level balanced scorecards – the initial focus was on around 15 per cent of all the business units in the wider firm, and necessitated many more balanced scorecard designs that included additional revisions. This included the design to be in Arabic rather than in English to better reflect the linguistic skills of the participating units.

Implementation

While the first phase was implemented as planned, the second phase faced issues surrounding variable engagement from different units. It was observed that while there was good support from those who had used the balanced scorecard approach before, there

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was a lack of clarity around the future roles of two units in particular, and engagement also varied according to the positivity of the respective heads of each business unit.

Nevertheless, overall implementation followed and was judged a success. Key outcomes included the following:

- strategic control was gained over the first tranche of business units over a total of 16 months;
- key staff gained in-depth knowledge of the program and its methodology, which would form the base for further multi-phase implementation; and
- behaviors were observed to change following implementation toward the new strategic goals, including reports of improved communication around how the goals were achieved.

In conclusion, the authors reported that a large-scale implementation of multiple balanced scorecards can be implemented in a reasonable timeframe, with the main considerations including the use of a cascade approach, aligned strategic frameworks and locally cognizant strategic activities.

Comment

The article "Multi-level strategic alignment within a complex organisation" by Lawrie *et al.* (2016) provides an in-depth look at how a large, complex organization was able to implement the balanced scorecard in multiple levels and phases. Such a case study can teach business change managers a good deal about the theoretical as well as the practical considerations of such an implementation, particularly in the context of the Middle East.

Keywords:
Performance management,
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Balanced scorecard,
Strategic control

Reference

Lawrie, G., Abdullah, N.A., Bragg, C. and Varlet, G. (2016), "Multi-level strategic alignment within a complex organisation", *Journal of Modelling in Management*, Vol. 11 No. 4, pp. 889-910.