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How to put ideas to work

The balanced scorecard can help a company execute strategy – but only if it makes sense to front-line staff, writes **Alison Maitland**

Mel Keeley and his staff at the Build Center in Romford, Essex, have little time for lofty management theories. They are too busy meeting customer demand for bricks and mortar.

Being at the front line, however, they are the very employees that Wolseley, the international building products group, had to bring on board when it launched a performance measurement system modelled on the balanced scorecard, which covers a mix of financial and non-financial targets.

"When it was first presented to us, we were a bit sceptical," admits Mr Keeley, whose 15 staff supply local builders and DIY enthusiasts with construction materials, interiors and electrical hire equipment.

The highly acquisitive FTSE-100 group introduced the system in its UK "heavy-side" division to improve performance by binding newer and older businesses together with a common culture and objectives. The balanced scorecard offsets the traditional bias towards purely financial measures by incorporating factors such as customer satisfaction and staff motivation.

Wolseley realised from the start that if it failed to win over those at the sharp end, the project would be pointless. "We always had in mind that we were going to be delivering this to hard-nosed branch managers," says Adrian Barden, UK managing director, who introduced the programme when he was in charge of the division. "It had to be meaningful and easy to understand and measure, otherwise they would rubbish it."

Branch managers as well as senior executives were involved in the working party that began designing the programme in late 2001. The team spent several months deciding on the key elements of the business and how to measure them. They settled on 17, from financial indicators such as return on capital employed and sales growth to non-financial measures such as customer satisfaction, branch safety and purchases from preferred suppliers.

To communicate to the branches how they were doing on each measure, the team devised a traffic light system. They discarded references to a "balanced scorecard" in favour of "R2G" (red-to-green) – shorthand for the drive to improve performance from unacceptable (red) or acceptable (amber) to excellent (green). Results were sent to the branches each month.

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"As the results started to come back and we started to hit green and see what it was doing to our branches, we got more and more enthusiastic about it," says Mr Keeley. "It keeps you focused on all the major parts of the branch and the business. There are times when you're really busy and you take your eye off a certain aspect of it. This highlights it straightaway."

Wolseley's approach goes to the heart of the challenge companies face in executing strategy. There is a "disconnect" in most companies between the formulation of strategy and its execution, say Robert Kaplan and David Norton, who devised the balanced scorecard in the early 1990s. In their recent research, published in October's Harvard Business Review, they found that an overwhelming 85 per cent of employees on average do not know or understand their companies' strategy.

Companies often deploy the balanced scorecard to help bring about change or improve understanding of strategy across disparate parts of the business. But some make the mistake of treating it as nothing more than a performance measurement tool, delegating its implementation to the IT department, says Mr Norton. "For us, it is a framework for thinking about strategy and then implementing it, and that starts with the CEO." (See panel.)

Concern about the poor communication of strategy is echoed by Robin Speculand, a former Citigroup executive who runs Bridges Business Consultancy and has used the balanced scorecard with clients for 10 years. In researching his book, *Bricks to Bridges*, he found that only one in 10 companies claimed to be successful at implementing strategy.

"Most leaders underestimate the challenge," he says. "They think: 'We've got the strategy!' But the implementation takes at least twice the effort. It's not just the fanfare of the CEO standing on the platform. It has to be a long-term, consistent message."

Wolseley has done better than most at using a balanced scorecard system to achieve its objectives, according to Andy Neely, professor of operations strategy and performance at Cranfield School of Management. "Its implementation is one of the most robust and effective that I have ever seen," says Prof Neely, who is completing a study of the scheme for the Advanced Institute for Management Research (AIM).

"There's a lot of rhetoric about the balanced scorecard, which says: 'If you implement this, you'll move from number three to number one in your industry.' Of course it's much

Poster boy: but Mel Keeley, a branch manager, admits to being sceptical at first Danie

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more complex. It's the people at the front line, the customer service people, who have to improve the quality of service. If you don't give them data in a form that allows them to understand what to do differently, it's not very helpful."

Prof Neely compared 156 Wolseley branches using R2G with a control group of 156 plumbing branches that did not use the system. He picked the nearest plumbing sites in each case, on average 4.5km away, controlling for the month, the weather and market demand.

Following the launch of R2G, the build branches showed a statistically significant increase in sales and gross profits compared to the plumbing branches. Within the build division, however, some branches produced better financial results than others. They were the ones that also performed better on non-financial measures such as customer retention.

In other words, some branches were more enthusiastic than others about wooing customers, suppliers and staff under the scheme, and this produced better financial results. To find out why attitudes to these less tangible aspects of performance varied, Prof Neely interviewed 40 managers.

His initial findings show that most reacted well to the scheme. Some came up with creative ways to boost non-financial performance, for example by allocating staff to contact builders who had not visited the branch for a while and persuade them to come back. These managers were asked to share their ideas with other branches.

A few branch managers remained sceptical about the scheme and one admitted he had "never taken a blind bit of notice of it". This was despite bonuses initially being linked to the scheme's success. Some managers had reservations about measures being too complex or outside their control.

Wolseley's experience demonstrates how a balanced scorecard system can improve financial performance. Mr Barden says the company has similar schemes in other divisions, such as the US timber business, but only uses it where appropriate.

The emphasis now is on giving branch managers a deeper understanding of how the non-financial elements affect performance.

Certain conditions seem to be necessary to maintain improvements in performance: the programme must have commitment from the top; it must be tailored to the needs of the business; it should be adaptable to changing conditions; and it should incorporate incentives, preferably for all staff.

During the evaluation, Wolseley stopped linking bonuses directly to success in achieving green scores. The link is due to be re-established in August. Mr Keeley, the Romford branch manager, says it proved an important reward, particularly to employees. "It created a lot more interest within the branch," he says.

When misuse leads to failure

There are two main reasons why companies go wrong with the widely used balanced scorecard, according to David Norton, the consultant who created the concept with Robert Kaplan, a Harvard Business School Professor.

Fifty-seven per cent of companies use the scorecard, according to the Management Tools survey by Bain & Co. It is most common in North America, followed by Europe and Latin America, and least common in Asia.

"The number one cause of failure is that you don't have leadership at the executive levels of the organisation," says Mr Norton. "They don't embrace it and use it for managing their strategy."

The second is that some companies treat it purely as a measurement tool, a problem he admits stems partly from its name.

The concept has evolved since its inception, he says. The latest Kaplan-Norton thinking is that companies need a unit at corporate level – they call it an "office of strategy management" – dedicated to ensuring that strategy is communicated to every employee and translated into plans, targets and incentives in each business unit and department.

Incentives are crucial, Mr Norton believes. Managers who have achieved breakthroughs in performance with the scorecard say they would tie it to executive compensation sooner if they were doing it again.

"There's so much change in organisations that managers don't always believe you mean what you say. The balanced scorecard may just be 'flavour of the month'. Tying it to compensation shows that you mean it."

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