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The process of implementation of the ABRAMCZYK Company strategy – practical use of the Balanced Scorecard

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THE PROCESS OF IMPLEMENTATION OF THE ABRAMCZYK COMPANY STRATEGY – PRACTICAL USE OF THE BALANCED SCORECARD*

Abstract

The paper briefly presents the program on the implementation process for the ABRAMCZYK Company strategy. The ABRAMCZYK Company will strengthen its market position through a successful implementation of the company's new strategy. The Balanced Scorecard is a tool which permits this process to be lead properly. The combination of objectives, measures, targets and initiatives described in four perspectives of the company's activities helps to make the process of strategy implementation measurable and controllable. The paper aims at delivering basic information about the use of the Balanced Scorecard in practice.

Keywords: balanced scorecard, strategy implementation, strategy maps.

JEL codes: M10, M12, M31, M54.

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1. Introduction

The ABRAMCZYK was founded in 1989 as a privately-owned company. Since its inception, the company has dealt mainly within the frozen fish industry. The company is located in the city of Bydgoszcz. The company turnover in 2007 totaled USD 36 000 000, making ABRAMCZYK the 2nd – 3rd ranked company in the Polish market within the frozen fish industry. Now, the company's management has decided to implement new development strategies in order to gain a leading position on the domestic market and strengthen market penetration on overseas markets.

The successful execution of a strategy requires three components. First, it is necessary to describe the strategy, next to measure the strategy, and finally manage the strategy. Consequently, in order to create and implement an effective strategy, one can use a Balanced Scorecard to focus the organization.

The mission, values, vision and targets of the company have the strongest influence for future prospects of the organization (Walters 2002, Victoria 2005). The Balanced Scorecard helps to coalesce these, difficult to describe components of the strategy, with touchable projects that contribute to gain planned results of the organization's work. Kaplan and Norton (2004) point out that the Balanced Scorecard strategy map provides a framework to illustrate how strategy links intangible assets to the value – creating processes. They also observe that the strategy map describes the logic of the strategy, showing clearly the objectives for the critical internal processes that create value; the strategy map provides the visual framework for integrating the organization's objectives in the four perspectives of the Balanced Scorecard. It illustrates the cause – and –

effect relationships that link desired outcomes in the financial and customer perspectives to outstanding performance in the critical internal processes: operations management, customer management, innovation, and regulatory and social processes.

The first part of the paper presents strategic objectives in light of the Balanced Scorecard's four perspectives. The range of the company's objectives is built on the base of strategic themes and the company's targets, set by the company's board. The purpose of this paper's is to present the planned results which after their fulfillment will contribute to the increase of long-term shareholder value.

The second part of the work is devoted to the presentation of the Strategy Map. The inventors of the Balanced Scorecard; Norton and Kaplan asked "Having trouble with your strategy?" and replied "Then map it" and "Use strategy maps to communicate your strategy". This section will allow receivers of the strategy's imperatives to imagine the process as an entire project.

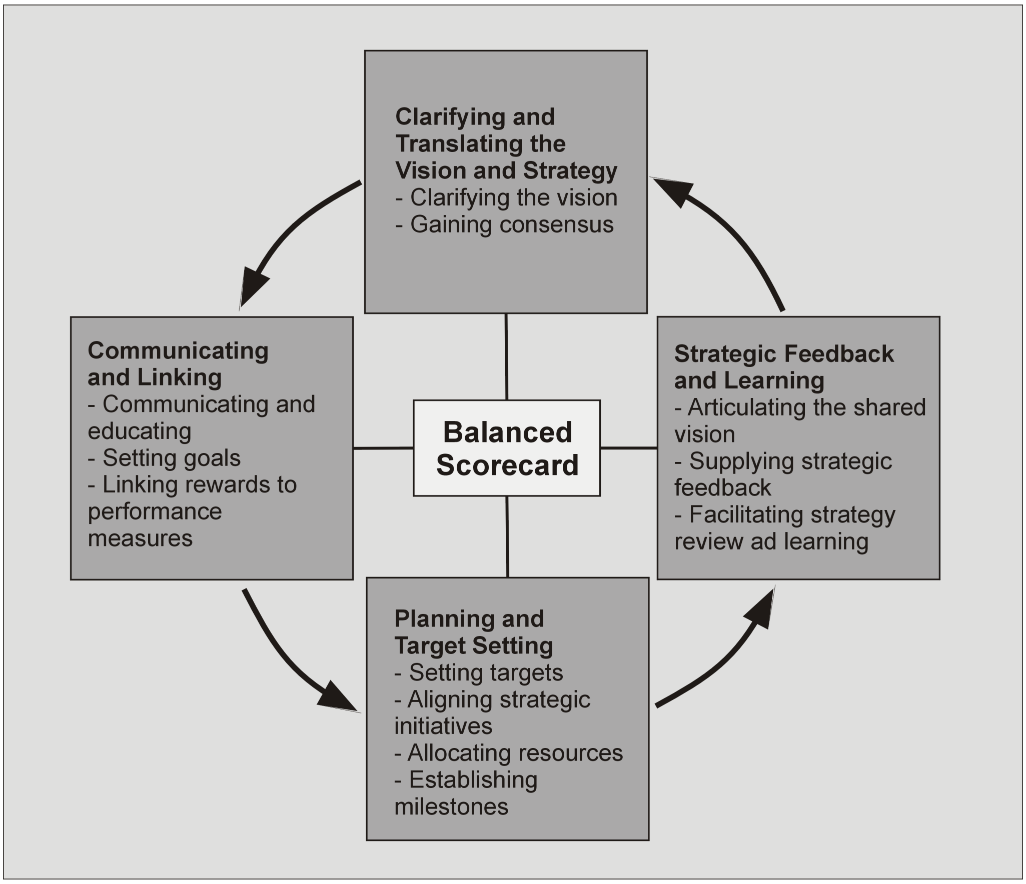
Next, is presented the most important part of the paper. The strategic objectives are equipped with the indicators which measure the process of implementation and the description of the initiative to enable one to conduct this process according to the set range of the action plan. This paper's guidelines equip the company's members with all indicators through which the strategy can be executed in a proper manner.

The main purpose of the paper is to present the practical use of the Balanced Scorecard as a tool which can support the process of strategy formulation and execution. This practical approach is the most important advantage of this paper.

The Balanced Scorecard is presented as a strategic framework for action. The graphical presentation of this idea presents figure 1.

Figure 1

The Balanced Scorecard as a Strategic Framework for Action



Source: Kaplan & Norton (1996).

Figure 1 presents the Balanced Scorecard as a framework that through creating and executing particular activities grouped in separate tasks, the company is able to support the process of strategy implementation. The relations between four perspectives of the Balanced Scorecard are presented in a graphical manner. The figure explains a permanently executed process of strategy formulation, implementation, evaluation and adoption to new requirements of the organization's surrounding.

2. Strategic objectives stemming from the Balanced Scorecard's four perspectives

Based on the strategic themes presented in the light of the Balanced Scorecard, ABRAMCZYK decides the range of the objectives to implement in the usage of the Balanced Scorecard (Grant 2005).

The strategic objectives in light of the financial perspective are as follows:

- Improve cost structure by lowering costs,
- Increase asset utilization,
- Expand revenue opportunities,
- Enhance customer value,
- Improve cash cycle,

The strategic objectives stemming from the customer perspective are as follows:

- Increase the company's brand awareness,
- Improve customer satisfaction,
- Increase the percentage of customer retention,
- Increase level of profitability from key customers,
- Increase the number of key customers served,

The strategic objectives stemming from the internal perspective are as follows.

- Develop and launch new products on the market,
- Improve the quality of the products offered,
- Improve the quality of internal processes; especially shorten the time of the delivery,

- Increase the importance of the electronic contact with the company’s customers,
- Improve internal communication,

The strategic objectives stemming from the learning and growth perspective are as follows:

- Attract and retain top talents,
- Strengthen employees’ commitment,
- Create a customer – focused culture,
- Develop strategic competencies,
- Increase strategy’s awareness among employees

The strategic objectives stemming from the four perspectives of the Balanced Scorecard allow building of the range of elements, which are the parts of the cause-and-effect relationships. Moreover, around them are arranged the indicators controlling whether the objective is achieved or not.

Coalescing the strategic themes and the company’s targets with the earlier described Critical Success Factors, the company’s objectives which stem from the four perspectives of the Balanced Scorecard, make it possible to build a strategy map of ABRAMCZYK (Van Veen-Dirks, Wijn 2002).

3. Strategy Map

As previously mentioned, strategy can be difficult to understand by employees on different levels of the organization’s hierarchy. Consequently, the level of participation and commitment of the company’s employees in pursuing concepts of the strategy would be weak. In order to present the strategy in a visual manner, Norton and Kaplan have created the concept of a Strategy Map.

The Balanced Scorecard Institute explains that the strategy map is a way of providing a macro view of an organization's strategy, and provides it with a language in which managers can describe their strategy, prior to constructing metrics to evaluate performance against their strategies.

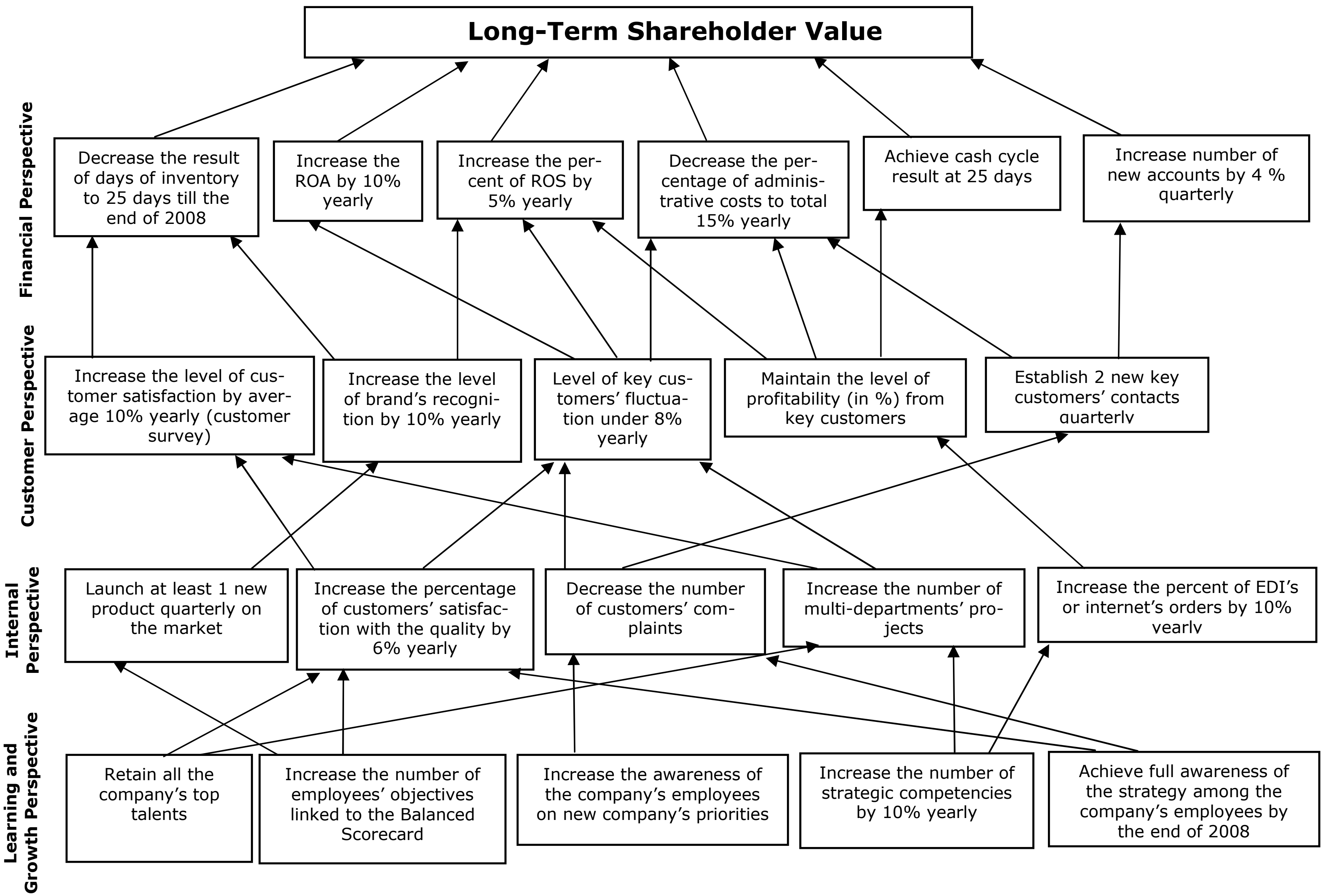
They also point out that the strategy map is a visual tool for designing strategies and identifying strategic goals. It usually shows the four perspectives of the balanced scorecard in four layers, with learning & growth at the bottom, followed by business processes, customer satisfaction, and financial results (or mission value in the case of not-for-profit firms). Activities to achieve strategic goals are mapped as 'bubbles' linked by cause-effect arrows that are assumed to occur. The strategy map provides the missing link between strategy formulation and strategy execution (Niven 2002).

The strategy map is based on several principles;

- Strategy balances contradictory forces
- Strategy is based on a differential customer value proposition
- Value is created through internal business processes
- Strategy consists of simultaneous, complementary themes,
- Strategic alignment determines the value of intangible assets (Scott, Eyring, Gibson 2006).

Figure 2 presents the relations between the targets clustered in 4 perspectives of the Balanced Scorecard's Strategy Map. The fulfillment of all targets growing from bottom to top permits the result of a higher long-term shareholder value.

Figure 2. The Graphical Presentation of the ABRAMCZYK's Targets, as a Strategy Map



4. The strategic initiatives

The effectiveness of the strategic objectives depends greatly on the process of building the program of initiatives and financial support for these activities. The importance of strategic programs and its impact for achieving the company's goals was described by Ahn (2001)

The description of the particular initiatives and implementing the rules arising from the Balanced Scorecard's guidelines is as follows;

The strategic initiatives in light of the financial perspective are as follows:

Quarterly audit of the overhead costs – The Director of the Accounting Department together with the Executive Director must hold a meeting in order to discuss all aspects of the costs for administrative functions. The report with the conclusions will be passed to the company's board. The meetings will be held quarterly.

Policy of strict control of expenses for employees' salaries – The Company must strictly control the expenses of the production workforce. The negative influence of salary claims will determine the replacement of manual work by automation.

Program of the fulfillment of all market opportunities – The Company must be oriented to giving a positive response for all customers' inquiries that would achieve higher profitability.

Special bonuses for sales team – The Company must support the activity and results achieved by the sales team by a program of special incentives.

Control of sales cost in the traditional market – The cost of serving customers operating in the traditional market is going to be controlled very strictly. The company must accept relatively higher costs of servicing the customers; integrated chains of super – and hypermarkets.

Quarterly audits of low-margin items – The Company must review its range of products in order to phase out low-profit products. The process must be held quarterly and be monitored by the Sales Director and Executive Director. The report with the conclusions will be passed to the company's board.

Monthly meetings concentrating on purchase order's estimations – The Company must arrange monthly meetings concentrating on the estimation of future needs of the company concerning the purchase of raw material and value – added products. The chair must be held by the Sales Director, Director of the International Department and Executive Director. The report with the conclusions will be passed to the company's board.

The strategic initiatives in light of the customer perspective are as follows:

Pursue an advertising campaign in the national and local press – From the start of 2008, the company must start a commercial campaign promoting the products labeled by ABRAMCZYK and the LORD FISH brands. The details of the program are due to be overseen by the Sales and Marketing Department.

Implementing the program of quick response for customers' needs – The Company must implement the program concentrating on the quick replies demanded by the company's customers.

Common internet platform of shared ideas with customers – The Company's website must become the platform of transferring the ideas between the company and its customers.

Special incentives for served customers – The Company must use the program of special preferences for long – term customers. The company must implement a loyalty program for customers with the longest history of good business relations.

Program of special offers for key customers – The Company must prepare a program of special benefits for the company's key customers. The program must promote the level of cooperation (how many items are bought?) and the value of business (how much is it worth?).

The strategic initiatives in light of the internal perspective are as follows:

Establish research and development department – In order to create new concepts for the products, the company must establish a research and development department. The competences of the new department will be shared between the Sales and Marketing department and production department.

Establish quality cycles program – The Company must establish a program of quality cycles. The program must be managed mainly by Production Department's Director.

Implement International Standard Organization 9001 by the end of 2008 – The Company must prepare and implement solutions for their procedures in accordance with the guidelines of the ISO standards.

Appoint change leaders and empower them – All changes, implemented according to guidelines of the new strategy will be controlled by the departments' change leaders. The change leaders are due to be recruited from the top managers of the particular departments.

Program of special preferences for Electronic Data Interchange's or internet customers – The usage of the electronic tools which elevate the process of communication with the customers and reduce costs of this process must be preferred. The company must adjust its own software applications to establish opportunities for using the electronic tools.

Weekly meetings of the company's managers – The Company is due to establish the rule of weekly meetings of the company's top managers (the superiors of the company's departments). The meetings are designed to improve the process of transferring information internally.

Monthly meetings of the departments' employees – The Company must organize monthly meetings of employees of different departments dealing with similar problems (e.g. serving customers, arranging deliveries). The meetings are due to improve mutual understanding of the tasks fulfilled by particular departments of the company.

The strategic initiatives in light of the learning and growth perspective are as follows:

Special bonuses for the company's top talents – The Company must offer special conditions of service for the most valuable employees of the company. The range of incentives must comprise of extra salary bonuses, flexible hours, and travel schemes for commuters, opportunities for advancement and additional days off.

Verify the company's appraisal system – The Company must verify its appraisal system. According to new principles, the appraisal system must mainly support employees' initiative, responsibility and readiness to comply with expectations of the new strategy.

System of training which present company's new priorities – The Company must arrange a system of cyclical training sessions presenting new strategic targets of the company. These meetings are due to be arranged at least quarterly.

Program of training for employees – The Company must arrange periodical sessions of special training for the company's employees. The meetings will be designed to deliver special skills and obtain solutions to resolve potential problems and cope with all difficulties.

External courses delivering skills required by the company – The Company must cooperate with external training companies delivering the required training to the company's employees to ensure the employees gain the appropriate knowledge needed to improve their expertise. The process of external courses must be arranged for employees' of all the company's departments. The training program must be prepared individually and tailored to specific needs of each department.

5. Strategic measurements

Kaplan and Norton claim (2004) that the goal of making measurements is to permit managers to see their company more clearly - from many perspectives - and hence to make wiser long-term decisions. ABRAMCZYK is aware of the importance of the measurement process for their particular elements of the new strategy. The company's decisions on every-day activities are due to be directed by the achieved results of the strategic targets, overseeing and, if necessary, changing the strategic priorities (Niven 2005).

The quality of the measurement system for the Balanced Scorecard is pivotal. The founders of the Balanced Scorecard argue (2004) that there are three main principles enabling an organization's Balanced Scorecard to be linked to its strategy:

– Cause-and-effect relationships; "Every measure selected for a Balanced Scorecard should be an element of a chain of cause-and-effect relationships that communicates the meaning of the business unit's strategy to the organization",
– Performance drivers; "A good Balanced Scorecard should have an appropriate mix of outcomes (lagging indicators) and performance drivers (leading indicators) that have been customized to the business unit's strategy",
– Linkage to financials; "Ultimately, causal paths from all the measures on a scorecard should be linked to financial objectives",

The Balanced Scorecard thus transforms the strategic plan from an attractive but passive document into the "marching orders" for the organization on a daily basis.

The strategic measurement indicators of the new ABRAMCZYK strategy, stemming from the financial perspective are as follows:

– Administrative costs to total costs,
– ROA,
– Number of new accounts,
– Profitability of the company's customers (ABC),
– Days of inventory,
– Cash cycle (days of accounts receivable plus days of inventory less days of payables),

The strategic measurement indicators of the new ABRAMCZYK strategy, stemming from the customer perspective are as follows:

- End – users' brand awareness (survey),
- Percentage of customers satisfied with cooperation (external survey),
- Number of key customers served (turnover above 1 000 000 PLN yearly),
- Percentage of growth in existing key customers' businesses,
- Percentage of customers' fluctuation,
- Percentage of key customers to overall customers.

The strategic measurement indicators of the new ABRAMCZYK strategy stemming from the internal perspective are as follows:

- Number and revenue from new products,
- Percentage of customers' satisfaction with the quality (external survey),
- Number and percent of customers' complaints,
- Percentage of orders received electronically (EDI),
- Percentage of multi-departments' projects.

The strategic measurement indicators of the new ABRAMCZYK strategy stemming from the learning and growth perspective are as follows:

- Percentage of key staff turnover,
- Number of answers confirming strong orientation for customers (customers' and employees' survey),
- Number of strategic competencies used by the company's employees,
- Employee's objectives linked to the Balanced Scorecard,
- Percentage of employees satisfied with the professionalism, culture, values and empowerment (internal survey).

6. The Balanced Scorecard of the ABRAMCZYK Company

The framework summarizing the company's objectives, measures, targets, and initiatives presented in graphical manner, are grouped in 4 tables. Table 1 presents the elements of the Balanced Scorecard in light of financial perspective. Table 2 informs about the tool's elements grouped in customer perspective. Table 3 gives examples of the company's objectives, measures, targets and initiatives of the internal perspective. Table 4, presents the Balanced Scorecard's parts in light of learning and growth perspective.

Table 1. Financial Perspective

Objective	**Measure**	**Target**	**Initiative**
Improve cost structure	Administrative costs to total costs	Decrease the percent of administrative costs to 15% yearly	Quarter audit of the overhead costs, Policy of strict control of expenses for employees' salaries
Increase asset utilization	ROA	Increase the ROA by 10% yearly	Program of the fulfillment of all market opportunities
Expand revenue opportunities	Number of new accounts	Increase number of new accounts by 4 % quarterly	Special bonuses for sales team, control of sales cost of the traditional market
Enhance customer value	Profitability of the company's customers (ABC)	Increase the percentage of ROS by 5% yearly	Quarter audit of low-margin items
Improve cash cycle	Days of inventory, cash cycle (days of accounts receivable plus days of inventory less days of payables)	Decrease the result of days of inventory to 40 till the end of 2008, Achieve cash cycle result 25 days	Monthly meetings concentrating on purchase order's estimations

Table 2. Customer Perspective

Objective	**Measure**	**Target**	**Initiative**
Increase the company's brand awareness	End – users' brand awareness (survey)	Increase the level of brand's recognition by 10% yearly	Pursue an advertisement campaign in the national and local press
Improve customer satisfaction	Percentage of customers satisfied with cooperation (external survey)	Increase the level of customer satisfaction by average 10% yearly (customer survey)	Implementing the program of quick response for customers' needs, Common internet platform of shared ideas with customers
Increase the percentage of customer retention	Percentage of customers' fluctuation	Level of key customers' fluctuation under 8% yearly	Special incentives for served customers
Increase level of profitability from key customers	Percentage of growth in existing key customers' businesses	Maintain the level of the profitability (in %) from key customers	Program of special offer for key customers
Increase the number of served key customers	Number of key customers served (turnover above 1 000 000 PLN.)	Establish 1 new key customers contacts every 6 months	Program of special offer for new customers – mainly for distributors and chains of super- and hypermarkets

Table 3. Internal Perspective

Objective	Measure	Target	Initiative
Develop and launch new products on the market	Number and Revenue from new products	Launch minimum 1 new product quarterly on the market, Increase the % of revenue from new products	Establish research and development department
Improve the quality of the offered products	Percentage of customers' satisfaction with the quality (external survey)	Increase the percentage of customers' satisfaction with the quality by 6% yearly	Establish quality cycles program, Implement of ISO 9001 by the end of 2008
Improve the quality of internal processes – shorten the time of the delivery	Number and percent of customers' complaints	Decrease the number of customers' complaints	Appoint leaders of the changes and empower them, Implement of ISO 9001 by the end of 2008
Increase the importance of the electronic relations with the company's customers	Percentage of orders received electronically (EDI)	Increase the percent of EDI's or internet's orders by 10% yearly	Program of special preferences for EDI's or internet's customers
Improve internal communication	Percentage of multi-departments' projects	Increase the number of multi-departments' projects	Weekly meetings of the departments' managers, Monthly meetings of the departments' employees

Table 4. Learning and Growth Perspective

Objective	Measure	Target	Initiative
Attract and retain top talents	Percentage of key staff turnover	Retain all the company's top talents	Special bonuses for the company's top talents, additional incentives
Strengthen the employees' commitment	Number of answers confirming strong orientation for customers (internal+ external surveys)	Increase the awareness among the company's employees on new company's priorities	Verify the rules of the company's appraisal system
Create a customer – focused culture	Employee's objectives linked to the Balanced Scorecard	Increase the number of employees' objectives linked to the Balanced Scorecard	System of trainings presenting new company's priorities
Develop strategic competencies	Number of strategic competencies used by the company's employees	Increase the number of strategic competencies by 10% yearly possessed by employees	Program of trainings for employees, External courses delivered skills required by the company
Increase strategy's awareness among employees	Percentage of employees satisfied with the professionalism, culture, values and empowerment (internal survey)	Achieve full awareness of the company's strategy among the company's employees by the end of 2008	Quarterly training meetings for all company's employees

7. CONCLUSION

The process of implementing a Balanced Scorecard has been a decisive factor in helping to change the company's concept and how it perceives itself in becoming an industry leader. Without the successful implementation of the company's strategies, the company's mission, values and targets, would remain only as theory.

The Balanced Scorecard and the guidelines arising from this method support the process of the strategy's implementation and can contribute to its final success.

ABRAMCZYK's new organization strategy with the assistance of the Balanced Scorecard will help to seize and fulfill new opportunities. Alternatively, the diagnosed threats that arise from the Balanced Scorecard can be evaluated and managed according to an agreed action plan.

The same situation exists with the present internal features of the organization. The usage of the Balanced Scorecard in order to implement the new company's strategy permits the reduction of company costs and promotes the use of all market potential and in a longer perspective decrease the company's weaknesses and increase the importance and enhance the company's strengths.

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