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Method of building the Balanced Scorecard in Wirtualna Polska S.A.

1. Introduction

Efficient management of planning and controlling accomplishment of complex strategic goals processes is a challenge for every enterprise. However, companies operating in market conditions, in confrontation with competitors and internal problems should manage this task.

Determination of mission and vision and basic strategic goals of the company, should translate on operation throughout indication of initiatives, which should be taken, and persons responsible for execution of these initiatives. One of the methods of translating strategy on company's operational goals and controlling execution of this strategy is Balanced Scorecard (abbreviation: BSC), which allows, when appropriate measures are taken, to measure performance not only in Financial Perspective but also in Customer Perspective, Internal Business Perspective, Innovation and Learning Perspective.

Balanced Scorecard, as every tool provided for management of complex process, is a theoretical model difficult in receipt and usage, therefore skills to accustom it seem to be particularly important and making practical experience even more valuable. During the first five months' period of 2002, in Wirtualna Polska S.A. enterprise, an effort was taken to create the Balanced Scorecard. As a result of undertaken activities, Scorecards, which contained scorecard for WP S.A. (corporation card) and six scorecards for six organization units directly subdued to administration of the company (functional cards), were created. The aim of this article is to present the way, in which the Balanced Scorecard creation process for Wirtualna Polska S. A. was conducted. The Method of introducing Scorecard in large firm seemed worth to present it to the wider audience because it is fresh and recently perceived method.

The text is divided to five parts. In the first part, general introduction to the problem and motives for introducing Scorecard in WP S. A. will be presented. In the second part, stages of introducing the Scorecard will be presented. In the next, third

part of this article, author will present activities, which preceded the moment, which seems to be crucial to the whole process - the moment of establishing a team. In the fourth part of this article author will present activities undertaken since the moment of establishing the team. In the fifth and the last part, activities closing the creation stage will be presented. Also, the work plan connected with the transition to the next stage of introducing the Scorecard will be presented.

2. Motives of introducing the Scorecard in WP. S. A.

Balanced Scorecard theoretical basics were published for the first time by its creators, professors R. Kaplan and D. Norton, in 1992 in famous "Harvard Business Review"[8]. In this and few next publications, authors indicate two cardinal reasons, which show why this method seems to be better than any other currently available.

First reason is the lack of skills in translating strategy into operational goals. Strategies created by administration of a company in files form are not always incorporate because management and company workers simply do not know them. In that case strategies are treated as confidential and are frugally secured. Authors of "Transforming Corner-Office Strategy into Frontline Action" article, O. Gadiesh and L. Gilbert, indicate on 80-100 principle, which says that it is better if the succeeding in 80% strategy is introduced in 100% than the 100% correct strategy is not introduced at all [2, pg. 74].

Second problem is that when a company administration makes an effort to translate strategy into operational goals, the measures of its accomplishment tests are usually financial measures. The financial measures refer to the past and are not showing perspectives of performing strategy in future. The managing accountancy or controlling, although very important for managing, show only what was done for realization of a strategy in budget area. They show nothing in customer, internal processes and development of a company area. In that case these areas are not controlled.

R. Kaplan and D. Norton in their first book "Translating strategy into action. The Balanced Scorecard" indicate insufficiency of measuring financial results and to prove their thesis they give example of Xerox enterprise [7, pg. 20-24]. In the middle of 70's Management of this famous corporation decided to exploit their good financial results and monopolist position on market. Xerox didn't care about customer's satisfaction and improvement of products quality. As a result of such a politics, Xerox, which was one of the most prosperous corporations between 1955-1975, almost went bankrupt when Japanese and American competitors entered the market, because dissatisfied customers withdrawn in masses.

Because of insufficient role of financial measures, four basic perspectives which translate strategy on operational goals were assigned in Balanced Scorecard. These four perspectives include not only past measures but also include future measures: Financial, Customer, Internal Processes, Innovation and Learning perspective.

In Wirtualna Polska S.A. enterprise, taking the second place among Internet portals in Poland and having the 72% range among home Internet users [3, pg. 29], both reasons enumerated above played an important part in delivering the motives for introducing the Balanced Scorecard process.

Focusing senior management's and worker's attention around strategy became a burning necessity in year 2001, when it appeared that times of Internet market

prosperity will not come as quickly as it was expected. The fact of collapsing many Internet firms around the world and problems with reaching remunerativity by other firms on leading American Internet market [comp. 10], questioned the conviction, that the fight for a place on Internet portals' market altogether with waiting for times of internet boom would be sufficient. The investment process, taking place in 2001, connected with the entering of strategic investor "Telekomunikacja Polska S. A." forced the establishing of ambitious goals regarding to achievement of specified financial result. In this situation, introducing the controlling of strategy realization, expressed in definite for few years budget, became an urgent need. On the company president's initiative, a project was established, which then was implemented by an individual organizational cell[2], which - in connection with the managing board - as one of its main goals, received the task of introducing the Scorecard into managing processes.

Choice of a tool, used to carry out changes and concentrate management and workers around the strategy, was also connected with the second analyzed reason. Companies of advanced technology have, as their basic assets, immaterial human resources described in the innovation and learning perspective. The need of taking care of development of immaterial assets, which can set 85% of value of all assets, was described by D. Norton in a foreword to the book of B. Becker, M. Huselid and D. Ulrich: "The HR Scorecard. Linking People, Strategy and Performance" [1, s. ix]. Internet companies have a high input in technological development, expressed in internal processes perspective. It isn't necessary to explain especially what is the taking care of customer perspective, it becomes, however, urgent in Internet since it's known that Internet users are less loyal to the mark and change their preferences of internet portals easily.

There is one additional reason for using a Balanced Scorecard in WP S.A. referring to the effects of applying it, which is indicated by theoreticians and is supported with many reasons, that is: precise ling of the strategy. To achieve that, as it will be described below, experiences described by R. Kaplan and D. Norton [5] were used when creating a strategy.

3. Stages of introducing Scorecard in WP S.A.

Basing on previous experiences, we can distinguish four main stages of introducing Scorecard in WP S. A. These stages correspond to the four connected and pervaded processes [comp. 7, pg. 11, 278; 9. pgs. 76-79].

A. Formalization of the mission and vision - creation of Scorecard throughout immerging the strategy on detailed goals, sections of measures and determination of relations between them.

B. Education – the strategy of communication in a company which uses the card and the enclosure of the card in operational managing process.

C. Planning – the creation of the budget plans and development based on the scorecard

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[2] Introducing of Balanced Scorecard is usually entrusted to organizational cells connected with financial controlling. In Wirtualna Polska S. A. case, liable to board of directors cell was established, which was called "organization development team".

D. Monitoring - and learning of the whole organization based on periodic scorecard analysis.

Within a framework of stage A. following sub stages were assigned.

A.1   Formula of mission - expression of company mission in one phrase.

A.2   Strategy map – ordering the mission to many detailed strategic goals and drawing it in form of map of connections.

A.3   Architecture of a card – finding out the measures and success factors for strategic goals

A.4   Card structure - drawing the measures of strategic goals in form of structural relations map.

The subject of this article is description of method used in creation of firm's scorecard - therefore, in the next part, the description of four sub stages, assigned in stage A, will occur.

4. Procedure preceding the establishing of the team.

First steps, between year 2001 and 2002, were connected with the drawing of a strategy map with detailed strategic goals on it. This process took place in the board of directors and organization development team. By making use of experiences described by R. Kaplan and D. Norton in previously mentioned publications [5; 7], many strategic goals were found. These goals were describing in detail the present-day state of the company and goals that the firm wished to achieve. Forty-one, evenly divided among four perspectives (financial, customer, internal processes, innovation and learning), cross-section and two strategies in vertical section (revenue growth strategy and productivity growth strategy), strategic goals were found. It was possibly precisely attempted to reflect all the activity areas of a company.

Interdependences between the groups of strategic goals rather than interdependences between specific goals were searched on the strategy map level [Chart 1].
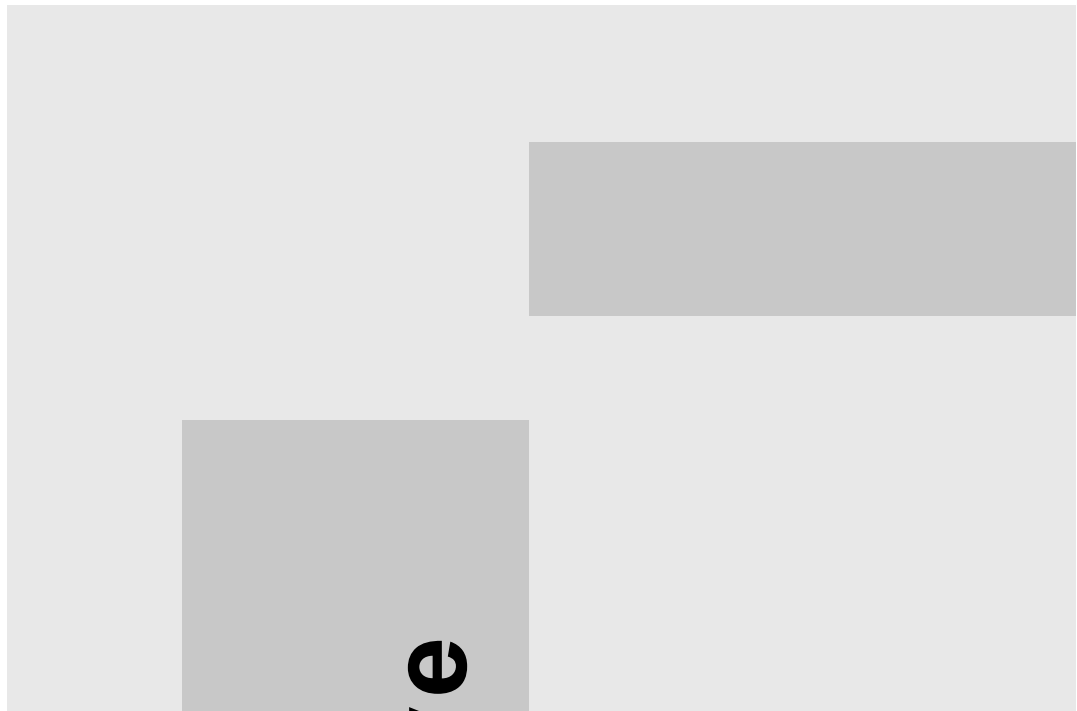
Chart 1. Composition of strategy map for WP S.A.

Source: WP S.A.

Such a construction of a map was sufficient for building a prototype of corporation card in January 2001. Reports on deviations of strategy for next three months were based on this prototype. Organization development team had interpreted every report and then it was discussed during the operational meetings of the Board and the mangers of six organizational units directly subordinated to the Board.

The Balanced Scorecard was constructed of eighteen measures: four financial perspective measures, five customer perspective measures, four internal processes measures and five in innovation and learning perspective measures. In the reporting process, using the possibly gathered dataset regarding planning and execution, between January and March, it was possible to state deviation level regarding thirteen, sixteen and fifteen measures. In the monitoring process changes of some measures were made. New measures were more sensible according to particular strategic goal.

Generally, from eighteen prototype measures to final version, ratified at the turn of the May and July 2002, four measures have qualified in unchanged form and four in slightly changed form. Five measures in unchanged or slightly unchanged form have qualified to functional card. Such a high serviceability of measures ascribed to strategic goals (thirteen of eighteen) comes from four reasons:

1. During the creation of strategy map, experiences from year 2001 were used. Such a map was created in slightly different form for previous strategy.

2. During creation of corporation card, experiences from year 2001 were used. Attempts to build such a card and an attempt to report it were made. One of created these days measures occurred to be useful after some

modifications. The using of this measure (the time of inaccessibility of a portal) required many modifications in measure itself and in the way of gaining data for this measure.

3. Carrying out series of individual consultations with units' managers subdued to Board and gaining of their oral acceptation for the final form of card prototype.
4. Correct recognition of WP. S.A.'s current stage, and choosing the measures, especially in financial perspective, adequate to this stage.

This last issue seems to be very important in process of preparing scorecard in every firm. R. Kaplan and D. Norton make very useful remarks when discussing financial perspective in their first book [7, pgs. 51-62]. They enumerate three phases of firm development. In first phase, firms develop throughout creativity and have a large developing potential. To use this potential, firm cannot collapse and a growth of income is important. When diagnosis points out, that firm is on development stage, there is no use of introducing the following measures to the Scorecard: ROS, ROA, ROE. Measures related to income growth dynamics should be introduced. Only in the next phase (maturity), costs' reduction and productivity measures should be introduced. In the third phase (collecting the fruits), investments strategy measures should be used in a first row.

Before establishing the team, A.1 and A.2 stages were overcome in WP. S. A. Mission was formulated and it was drawn as the strategy map. This was connected with finding of forty-one detailed strategic goals. Next, for eighteen amongst these goals, a prototype composed from responding success factors and measures, was created. A schedule of week's work includes consultations with organizational units' managers and creation of first report (January 2002) [Chart 2].

Activities	Weeks (from 02. 01. 2002 to 22. 02. 2020)							
	1	2	3	4	5	6	7	8
Drawing the strategy map, based on mission, vision and assumptions, formulated during the investment process	X							
Establishing strategic goals for corporation card prototype		X	X					
Establishing measures for corporation card prototype			X					
Interviews with future leaders (managers of organizational units directly subdued to the board of directors).				X	X			
Creation of a file, leading to the establishing of the scorecard and transferring it to the leaders (managers) and the owners of the card (board)					X			
Making of the first corporation card prototype report and the first verification of measures.							X	
First meeting of future leaders - transferring the work and priorities connected with creation of functional cards.								X

Chart 2. Work schedule before establishing the team.

The whole process took eight weeks (January and February of 2002) and not without a value were the experiences gathered by the company during 2001. The consultations with organizational unites managers, subdued to board of directors, and board of directors support were the important element during this period were.

Establishing the team and creation of the Scorecard

In eighth week of 2002, the work schedule which tended towards building of final version of company's Scorecard was introduced to the WP S.A. management by the organization development team.

The schedule was composed from a short substantiation of introducing the scorecard, presentation of the team and proper schedule.

After getting acquainted with the schedule, the Board have established the Balanced Scorecard team throughout a voting. Thanks to that, top and middle level management were involved [Chart 3].

Name of the function in team	Staff	Position	Tasks
Owner	3	Board of directors	Superiority over the work of the team and results Support for work of the team Essential support
Architect	1	Organization Development Manager	Responsibility for architecture of the card construction Managing other team members' work Essential managing of leader's works Undertaking essential decisions in case of attitude divergences
Architect deputy	1	Financial Analyst	Responsibility for the construction of the architecture of the card
Changes leader	6	Managers (of the unit directly subdued to the board of directors)	Fixing the content of the card during the meetings with the Architect Construction of the specific elements of the card in team during meetings with the Architect
Changes leader sub-team member	25	Specialists	Consulting and fixing the content of the card during meetings with the Architect
Informant	1	PR specialist	Taking care of information circulation concerning work progress and communication connected with it, inside the company
In general	36		

Chart 3. Constitution of the team established to design balanced scorecard of WP. S. A.

Source: WP S.A.

The architect, who was responsible for building the card in strict sense, managed works of established team. In that case method of work consisted in conducting two series of meetings with teams established by leaders. Between the meetings, the architect and his deputy transmitted critically the results on card architecture. [Chart 4].

Activities	Weeks (from 25. 02. 2002 to 31. 05. 2002)												
	9	10	11	12	13	14	15	16	17	18	19	20	21
Establishing the team by Board	X												
First meeting of the leaders	X												
First series of consultations with sub-teams established by leaders - definition of strategic goals in particular units and possible measures		X	X										
Verification of the measures of strategic goals realization in particular functional cards, division of organizational units competences in responsibility for strategy and elimination of unsubstantiated measures repentance				X	X								
Drawing the detailed connection map between measures in vertical and horizontal section, introducing changes into corporation card						X							
Second series of consultations with sub-teams – verification of the whole architecture BSC and structure (in horizontal section)							X	X					
Creation of the data gathering system related to the plan and execution									X	X			
Presentation of work's results in form of Balanced Scorecard for WP S.A. to the Board												X	

Activities	Weeks (from 25. 02. 2002 to 31. 05. 2002)												
	9	10	11	12	13	14	15	16	17	18	19	20	21
Confirmation of BSC by board of directors, beginning he process of data collection for execution and planning for the first report – the beginning of education stage													X

Chart 4. Work schedule after establishing the team.

Source: WP S.A.

During the first series of six meetings with teams established by leaders, the architect presented strategy of the firm to the teams. Presentation covered:

– the mission

– main strategic goals

– key- strategic initiatives

– the strategy map

– explaining the sense of creating the Balanced Scorecard for WP S. A.

– corporation card prototype

– the information on management's resolution to set up the meeting participants to the project

– project schedule

During the meeting it was explained, that functional cards, which were to be created by the meeting participants, would be tightly connected with corporation card, where every measure will be the result of functional card [Chart 5].
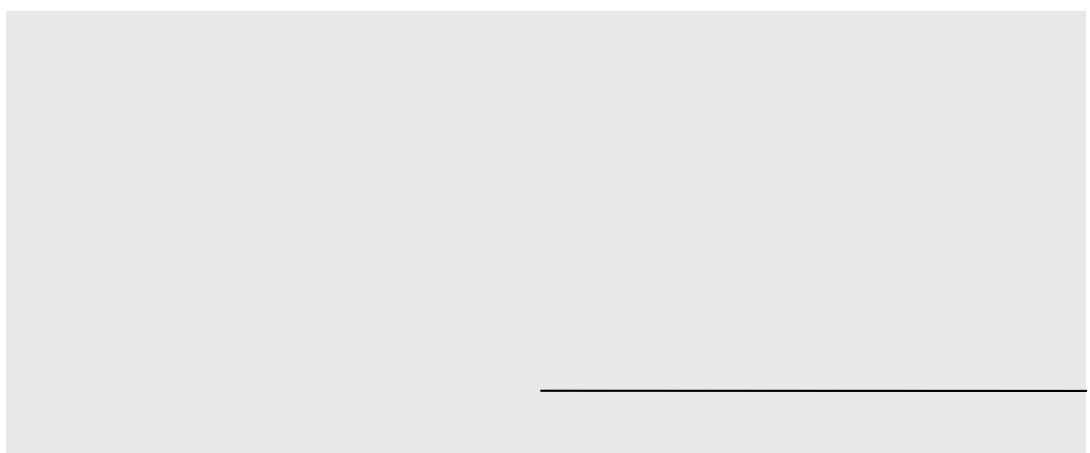

Chart 5. Architecture of WP S.A. Balanced Scorecard diagram

Source: WP S. A.

Next meeting phase was a "brainstorm", where everyone was trying to think of as many strategic goals as possible for their organizational unit. Goals were meant to be

formulated in every - financial, customer, internal, and growth perspective. This part of the meeting went on about one hour long.

Next phase was a phase of critical estimation and selection of goals with the selection of proper measures. This was the hardest part of every meeting. It took second and third hour. Participants of the meeting were so engaged in creation of their section's functional card, that the meeting could be stopped and continued during the next few days. The whole series of meetings referring to the six sections included twelve meetings, three hours each, thirty-six hours of teamwork altogether.

The architect and his deputy critically analyzed the results of teamwork in form of sixty measures. During the analysis it occurred that some measures, which were found during work of one section, could be used in other sections. Other measures, as it was proved after the analysis, could not be used. For many strategic goals, measures could not be found. Because of it, especially in processes and development perspective, the architect and his deputy made use of literature related to these two areas and created measures that have never been created before.

Architect's teamwork results in form of functional cards differed in almost fifty percent from particular teams' work results and needed another consultation. To achieve that, the architect and his deputy have drawn a cause-effect structure in vertical section for corporation card and in horizontal section (through perspectives) for functional cards [Chart 6].
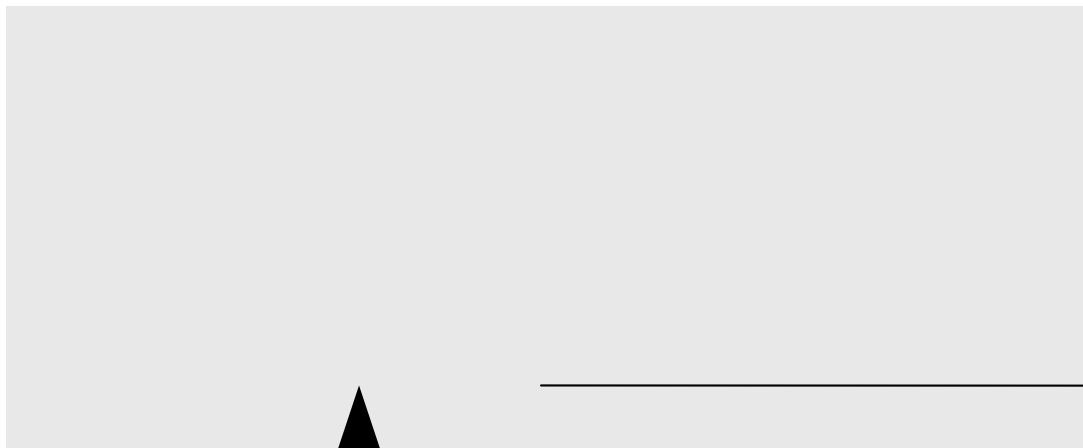

Chart 6. Structural sections in diagram of WP S.A. card architecture

Source: WP S.A.

Such drawn structure was much more transparent and could be verified, during next series of meetings, on the whole corporation level. Meetings partakers saw strategic goals and measures not only for their organizational unit but they could observe the way they were connected with Scorecard for the whole company. On illustration [Chart 7] we have an example of such a drawing of connections.

Chart 7. Example of a horizontal section of functional cards construction within the framework of one perspective.

Source: WP S.A.

In the structure, only the measures were seized, because on this stage of meetings partakers' knowledge advancement, this was recognized as sufficient. On the other hand, if the strategic goals were be added, picture would lose transparency.

Cross and vertical sections show relations between the same measures for more than one organizational unit. On such drawing it is much more easier to put weights for particular organizational units and particular measures.

After second series of meetings, where every one lasted about three hours, substantiated corrections, proposed during meetings in the Architect's team, were added. Overall, a system of strategic goals and ninety related measures for seven cards in four perspectives were created during the construction of Balanced Scorecard for WP S.A.

Perspective	Scorecard of WP S.A.	Scorecard of Unit 1	Scorecard of Unit 2	Scorecard of Unit 3	Scorecard of Unit 4	Scorecard of Unit 5	Scorecard of Unit 6
Financial	7	4	6	1	3	1	1
Customer	5	8	4	6	-	-	-
Internal	3	4	5	3	3	3	2
Growth	6	2	2	3	2	2	4

Chart 8. Number of measures assemblage in particular units and perspectives.

Source: WP S.A.

During the last two weeks, before the presentation of the created Scorecard to the board of directors of WP S.A., a system of data collection related to the execution

and plan was built by the architects' team. Particular organizational units generates statistics related to measures attributed to the other section's functional cards and that's why a number of generated in particular organizational units data related to the execution differs from data related to the plan [Chart 9]. Overall, to create reports for WP S.A. card, one hundred and seventeen different data would be needed.

Data	Unit 1	Unit 2	Unit 3	Unit 4	Unit 5	Unit 6
Execution	6	18	26	10	22	35
Plan	14	18	14	4	22	25

Chart 9. A set of data related to execution and plan in particular units

Source: WP S.A.

Such prepared material became a subject of final WP S.A. Scorecard architecture and structure presentation submitted to the management in the presence of leaders.

5. Finishing the development of Balanced Scorecard and continuing on to the next stage.

During the presentation for the WP management, the Balanced Scorecard owners have made some essential remarks, which called for some corrections to the system's architecture. After applying these, the architect has submitted the final version in order to pass the Balanced Scorecard approval resolution. In the resolution content, there has been included a plan of further activity, related to the undertaking of "education" stage, which was about to consist in:

1. current monthly reports on the Balanced Scorecard headed for the management and leaders,
2. the results' observation conducted by the management and leaders,
3. discussing the results on the management and leaders' meetings,
4. passing the assignations to the middle and low level administration,
5. implementing the motivational system connected with the Balanced Scorecard.

The last but one plan's aspect seems to be the most significant, since it refers to the operational managing of the company, based on the Balanced Scorecard conclusions. Thus, it refers to the education of the whole company – in range of operational fulfillment of the firm's strategy, which has been recorded and converted into measures in the Balanced Scorecard.

It has been also noted, that the card's architecture has been proposed in it's first functional version, and so, after the observation and receiving the comments from the people engaged in it, the gathering of the data and designing of the second functional version should occur in minimum three months of the WP S.A. card's full version.

The B stage of implementing the WP S.A. card will consist of the following sub stages:

B.1 Creation of the plan reflecting the company's aims and building of the performance data gathering system

B.2 Integration the result card's reporting system with the firm's operational management

B.3 The finishing up of the card's architecture

B.4 Observation of the operational initiatives from the point of view of connecting them with strategy, or of eliminating them.

B.5 Joining the card with the motivational system.

6. Summary

At the time of writing this paper, WP S.A. has been overcoming the B.1 stage. The activity of "developing the plan reflecting the company's intentions and building the performance data gathering system" is very time consuming, so the first report is expected in first half of June 2002, and is to cover the first five months of the year.

The building of the Balanced Scorecard was a challenge for a whole company and was accomplished successfully. The most pivotal aspect of entire process was WP S.A management's attitude – particularly the attitude of WP S.A Chairman Marek Borzestowski. He was the project initiator, and still remains the utmost engaged adherent of the Balanced Scorecard as one of company's mechanisms. The idea has gained the middle and low level administration's enthusiasm, but still "best to be the enemy of good" – used as the motto of the present article - principle was understood as main lines While developing the card it has been repeatedly proven that one can get into a dead-end while in search of perfect measures. Sometimes, one even should be satisfied with imperfect solutions.

It is not the excellence of the structure what counts in the Balanced Scorecard development stage, but the fact of efficient preparations to it's implementation, gaining the company management's enthusiasm for the idea and starting the evolution of operational meetings, resulting in dedicating more and more time to the strategic matters. Because that is the company success' deciding factor.

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