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How Balanced Scorecards Work for Statoil on Three Levels

Case Study

For Current Members of Process Advisory Programs Only

Co-authored by Penny Weller and James Creelman, senior business advisors.

Statoil (STO) is an integrated oil and gas company with considerable international activities. The organization has more than 25,000 employees, about half of whom work outside its Stavanger, Norway, headquarters. In 2006 revenues reached a record Kr.425 billion (US$69 billion). Statoil is listed on the Oslo and New York stock exchanges.

RUNE SKJÆVELAND
Vice President,
Strategy, Finance and Control,
Statoil Global Business Services

In his 24 years with Statoil, Mr. Skjæveland has served nine years in corporate staff functions, including four as manager. He has also worked in the Natural Gas business unit as manager for Statoil UK's gas finance function in London. He has also served in manufacturing and marketing, including CFO for Statoil Ireland in Dublin; Finance and Administration Manager for Statoil Asia Pacific in Singapore, and manager within the Oil Trading & Supply Division in Norway.

Executive Summary

When Norway's Statoil launched its business support unit, Global Business Services (GBS), in 2001, it quickly created and implemented a cascade of balanced scorecards for three levels:

1. GBS
2. Functional shared services lines (such as finance)
3. Departmental levels

Scorecards at each level contain five perspectives shared throughout the enterprise. Led by Rune Skjæveland, vice president of strategy, finance and control, GBS is working toward becoming a world-class provider of business services by 2010. To that end, the company also ties the balanced scorecard to individual performance, including bonuses.

Background

The balanced scorecard is a strategy management and implementation system that comprises a strategy map and an accompanying scorecard of strategic measures, targets and initiatives. An example of a generic balanced scorecard strategy map is shown in **Fig. 1.** The scorecard system is typically collocated according to four performance perspectives:

- **Financial:** To succeed financially, how should we appear to our shareholders?
- **Customer:** To achieve our vision, how should we appear to our customers?
- **Internal process:** To satisfy our shareholders and customers, at what business processes must we excel?
- **Learning and growth:** To achieve our vision, how will we sustain our ability to change and improve?

Integrated oil and gas provider Statoil put its first scorecard in place in the mid-1990s and has successfully used it at multiple organizational levels ever since. Indeed, the organization now has more than 700 active scorecards enterprise-wide from corporate down to departmental and team levels. For most employees, incentive compensation is also tied to performance based on the scorecard.

Implementing a Global Business Services Scorecard

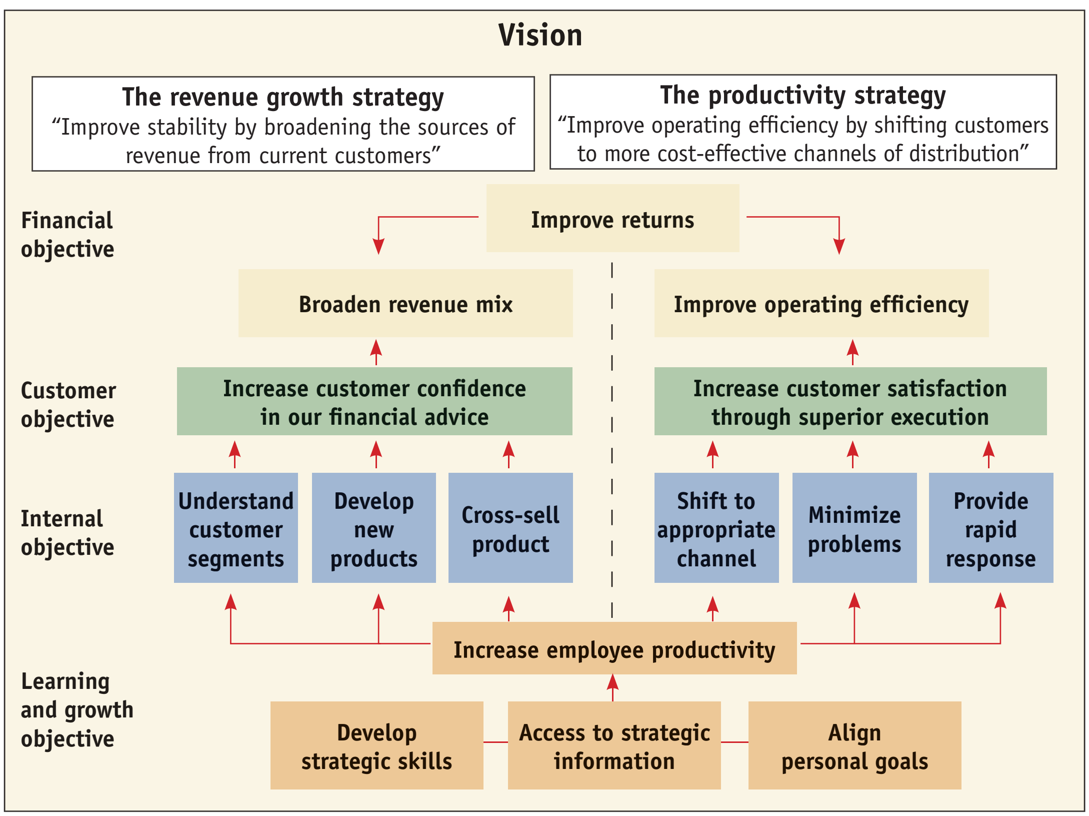
Statoil created its first shared services scorecard in 2001 when it centralized parts of IT and other functions. From this fledgling beginning, the company ultimately launched Global Business Services (GBS) in August 2006.

With 1,700 employees, GBS comprises five functions: finance, IT, HR, administrative procurement and facilities management. Presently, about 300 staffers are deployed within the finance shared services center but Statoil plans to increase this number by mid-2007 when a further 120 employees will be brought in to handle the organization's growing market share of back-office services.

Rune Skjæveland, who has responsibility for strategy, finance and control for GBS, explains that growing internal market share is crucial if the center is to realize its ambitions of becoming a world-class provider of business services by 2010.

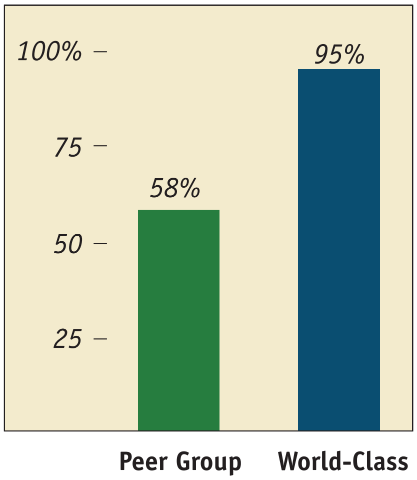
"We outlined a program for becoming world-class and will use the balanced scorecard to get there," says Skjæveland. Hackett research finds that use of balanced scorecards is much higher for world-class service center organizations (SSO) than for peer-group companies with SSOs **(Fig 2)**.

FIG.1
An example of a balanced scorecard strategy map illustrating possible themes and strategic objectives



Source: The Hackett Group, 2007

FIG. 2
Percent of finance organizations with an SSC that use a balanced scorecard, 2007



Source: The Hackett Group, 2007

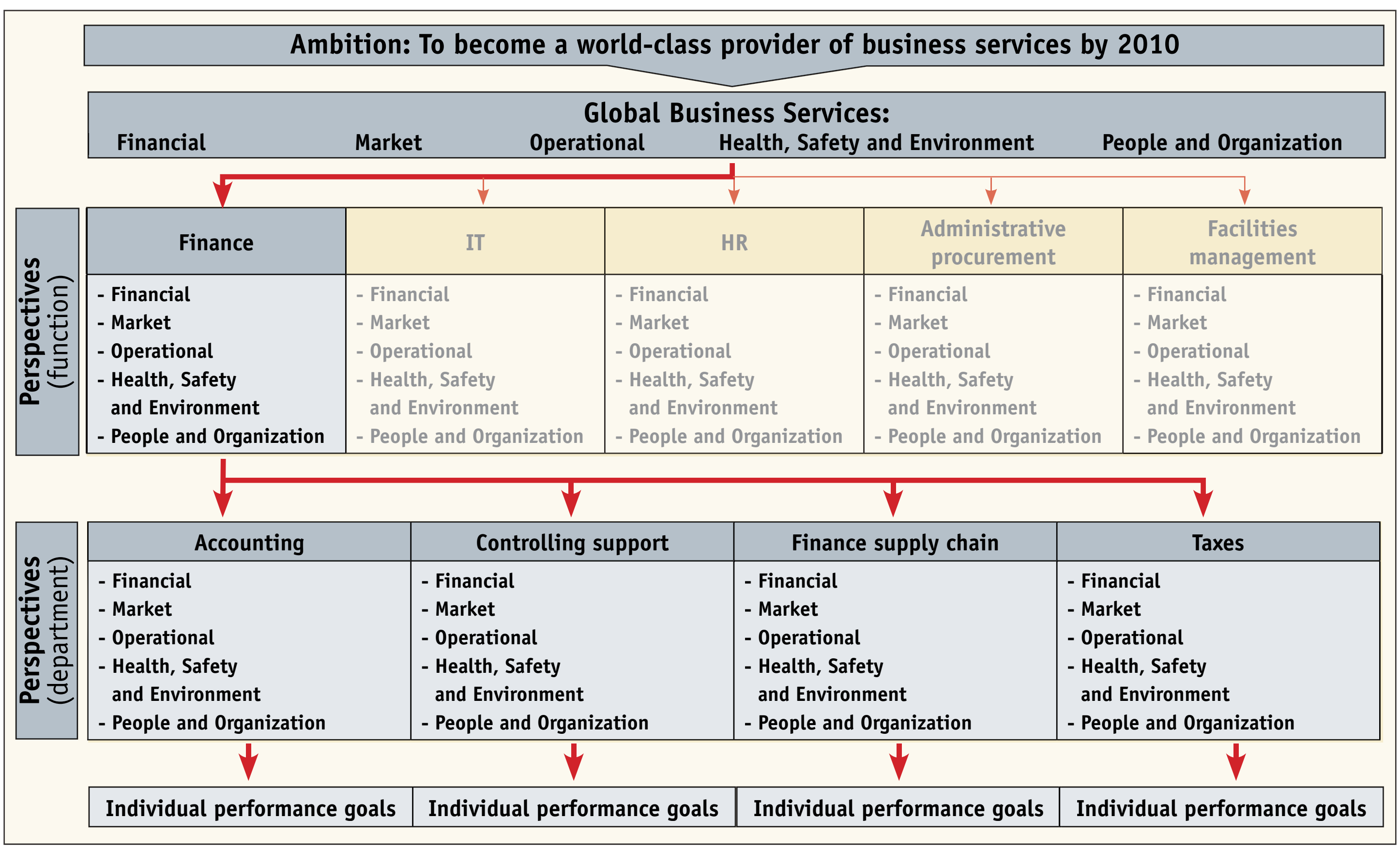
Within the SSO, there are three levels where scorecards are aligned: the GBS, function and department levels **(Fig. 3)**. Each is equally committed to the 2010 ambition, which serves as the anchor for aligned scorecard development.

What the Statoil/GBS scorecard system looks like

Most conventional templates call for four perspectives (or views, as they are also called). Within GBS (and throughout Statoil), there are five, including safety and environment. It is not unusual for organizations in industries such as oil and gas to include this or similar elements.

1. Financial
2. Market (essentially customer)
3. Operational (essentially process)
4. Health, Safety and Environment
5. People and Organization

FIG. 3
Balanced scorecards, with five perspectives, are in place at each level within the GBS



Source: The Hackett Group, 2007

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Each perspective has three parts, in keeping with the enterprise norm:

1. Strategic objectives (the strategy map)
2. Strategic measures or key performance indicators and targets
3. Initiatives or action programs

Skjæveland explains that Statoil followed a prescribed methodology for creating the GBS scorecard. "We start with setting the ambition, as that provides the strategic objectives, which we developed next. Then we created the KPIs and targets. Finally, we decided upon the action plans and initiatives," he says.

Examples of strategic objectives

The following are a few examples of strategic goals Skjæveland used to support scorecard views at the GBS level:

- **Financial:** "To enable Statoil businesses to create value"
- **Market:** "To be recognized as a world-class shared service provider"
- **Operational:** "To deliver business services according to agreed service level agreements"
- **Health, Safety and Environment:** "To develop hands-on leadership and improved personal behavior"
- **People and Organization:** "To develop a performance-based culture for the GBS organization"

Examples of strategic measures

- **Financial:** KPIs and targets focused on a Statoil-wide cost savings program; unit costs for several services
- **Market:** Customer and user surveys (i.e., instance satisfaction surveys for users of help desk and self-service solutions)
- **Operational:** Metrics around systems availability and Sarbanes-Oxley (SOX) compliance; progress in projects; incident resolution time
- **Health, Safety and Environment:** Total recordable injury frequency (used mostly for facility management)
- **People and Organization:** An annual global survey including ratings for areas such as "achieving the performance culture" and "ensuring the organization has the requisite skills and capabilities"

The Scorecard Cascade at Statoil and GBS

At the finance shared services level, the ambition is the same as that at the GBS level and so, broadly, are the strategic objectives. At the KPI level, metrics will better capture how the finance shared services organization supports the GBS objectives. For instance, in the finance shared services function, there are KPIs around the number of serious audit remarks and the SOX failure rate. More financial-specific metrics are also included, such as account reconciliations within deadline.

At the finance departmental level, there is even greater finance specificity. Finance is divided into accounting, controlling support, finance supply chain and taxes. Here we find more granular KPIs, such as automation of invoices within the accounting department scorecard and, within the financial supply chain scorecard, cash forecast accuracy and supplier payments on time.

Throughout Statoil, there is greater specificity at the lower organization level. This broadens as we rise up the shared service organization until we reach the world-class vision of 2010 at the GBS level. The scorecard is Statoil's core tool for aligning performance from the corporate level all the way down to the team level – a classic scorecard cascade.

Managing the cascaded scorecards is made simpler through a Web-based solution built in-house. This, Skjæveland states, is an efficient, accurate and user-friendly tool that helps the organization track progress toward its scorecard goals and, ultimately, its ambition.

Linking the Scorecard to Incentive Compensation

The cascade's power is furthered through its being linked to every employee's goals and to the incentive-compensation system for those receiving bonuses. "We pay on delivery of KPI and initiatives," says Skjæveland. "But a crucial part of the people evaluation process is that we give scores, tied to the bonus, based on what each person delivers and how they deliver – so there is an important behavioral component."

Challenges

According to Skjæveland, the major benefit of using the scorecard system is that it enables managers to prioritize performance behind the listed objectives that will propel the SSO to its ultimate ambition. But he admits there are some challenges, in particular around metric selection. "It can be difficult to find and define the KPIs that really reflect the main drivers of success," he says. "You cannot have 100 KPIs for each perspective. You need to identify the critical few metrics that support the critical few objectives."

But Skjæveland points out that organizations often forget that the "I" in KPI stands for indicator. "It is only an indication of whether or not the organization is progressing toward its strategic objectives, and is not a goal in itself," he says. "So, in Statoil we de-emphasize KPIs and heighten objectives and actions. And that's how ambitions are attained."

Looking Ahead

Skjæveland says that there will be concerted efforts to make the scorecard easier for internal customers to understand and, therefore, a better gauge of performance for GBS and the aligned shared services organizations. Interestingly, he sees this evolvement as less about GBS being customer-focused and more about partnership. "We are not talking about an external customer-supplier relationship," he says. "It's more of a partnership where we need to cooperate to achieve group optimization. We should be able to look into each other's scorecards and find solutions that are more relevant for the optimization of work. Siloed working does not optimize work, so neither will siloed scorecards."

About The Hackett Group

The Hackett Group, a strategic advisory firm, is a world leader in best practice research, benchmarking, and business transformation services that enable world-class performance across selling, general and administrative (SG&A) and supply chain activities. Hackett provides strategic insight, best practice advice and implementation services grounded in performance metrics obtained through 15 years and 3,500 benchmark studies at 2,100 of the world's leading companies. Through its sister company REL, a world leader in implementing cash flow improvement, Hackett also offers tailored solutions that generate cash flow from operations in addition to process cost savings.

Hackett Group Offices

Email: info@thehackettgroup.com
Toll-free: 866-442-2538
www.thehackettgroup.com

World Headquarters
1117 Perimeter Center West
Suite N500
Atlanta, GA 30338
United States
Phone: +1 770 225 3600

Aldermary House
10-15 Queen Street
London EC4N 1TX
United Kingdom
Phone: +44 207 003 8150

Torhaus Westhafen
Speicherstrasse 59
60327 Frankfurt am Main
Germany
Phone: +49 (0) 69 90 02 170

8, rue de Port Mahon
75002 Paris
France
Phone: +33 1 53 43 0400

Strawinskylaan 3051G
NL-1077 ZX Amsterdam
Netherlands
Phone: +31 20 301 2210

8-2-120/112/88&89
1st Floor, Aparna Crest
Road #2, Banjara Hills
Hyderabad 500034
India
Phone: +91 40 23551432

"Balsberg" P.O. Box
8058 Zurich Airport
Switzerland
Phone: +41 43 813 30 10

Related Research

"Four Steps to Creating a Balanced Scorecard for the Customer-to-Cash Process," March 19, 2007

"Rolls-Royce Proves that Finance SSCs Do More than Cut Costs: UK Firm Cuts Costs by 56%; Customer Satisfaction Soars," February 28, 2007

"How Innovative Business Partnering (and a Good Map) Helps Unilever Steer Finance into the Future," February 22, 2007

"Best Practices at the Root of World-Class Finance Organizations' Ability to Take Sarbanes-Oxley in Stride," December 18, 2006

About the Advisors

PENNY WELLER, PhD, CMA

Senior Business Advisor, The Hackett Group

A Six Sigma Black Belt and certified master trainer, Dr. Weller brings a wealth of experience in shared services, accounting and finance to The Hackett Group's Finance Shared Services, which she manages. In this capacity she responds to client inquiries, researches topical shared services issues, and coordinates conference and client networking events. Before joining The Hackett Group, Dr. Weller was a senior executive in shared services at Pfizer Inc. (formerly Pharmacia and Upjohn) for over 30 years. There, her management responsibilities included general ledger, inter-company, accounts receivable, property, consolidations, reporting, accounts payable, travel and expense, cost and inventory. In addition to her shared services expertise – including accounting and finance integrity and controls – Dr. Weller has managed multiple large-scale merger and system transitions, as well as initiatives in process improvement, activity-based management, and balanced scorecard design and implementation.

JAMES CREELMAN

Senior Research Advisor, The Hackett Group

Mr. Creelman is the author of 17 books and reports on management topics such as the balanced scorecard, enterprise performance management, shared services and finance. His most recent book, *Managing Business in Asia: Succeeding with the Balanced Scorecard* is an Asian business best seller. He also recently authored a major report entitled *Reinventing Planning and Budgeting for the Adaptive Enterprise*. With 20 years' experience in business research, analysis and advisory work, Mr. Creelman is a regular speaker at conferences and workshops throughout the world. He is a recognized global authority on the balanced scorecard and related topics.