

Scorecard and Strategy: Reflections on a BSC Career



In eight years Norman Chambers has brought the Balanced Scorecard to three different organizations: Rockwater, Brown & Root, and, ultimately, their parent company, energy giant Halliburton. In April 2000, Chambers took the helm at PetroCosm, a B2B online vertical marketplace for the oil and gas industry, bringing his scorecard insights from old economy organizations to his new economy venture — which he shares with us here.

A joint venture of Chevron and Texaco, backed by a leading venture capital firm, PetroCosm is tapping into the \$400-billion-a-year oil and gas business, of which a mere 2% is now conducted online. With 90% of reserves located outside the U.S., and development costs skyrocketing, PetroCosm will match buyers and sellers in everything from exploration to recruitment to refining — thereby, it hopes, bringing transparency, efficiency, and equity to the worldwide marketplace. When Chambers joined the company as CEO and president (and its second employee), the BSC was one of his first efforts. As he says, the scorecard has always “created the right conversations.”

BSR: *Do you see the BSC as providing a framework for testing the assumptions underlying the strategy? For an e-business, that ought to be important, in view of how many e-business models are as yet unproven.*

NC: There’s a tremendous opportunity to devise a scorecard as one is testing out the strategy. But many e-businesses seem to be focused on the value proposition, rather than on translating that value prop into distinct tactics. Many of my e-business peers sense that things are moving too quickly to take the time to establish a scorecard. Yet, I’m not sure that the business models of some e-businesses are as robust

as they should be. The absence of a clear strategy that can be translated into a scorecard could, in fact, be one of the tests of whether the business could succeed.

BSR: *In established industries it seems easier to devise metrics for the different scorecard perspectives. How do you define what performance should be for an e-commerce business?*

NC: Many e-businesses try to avoid being accountable for financial results in the traditional sense. At PetroCosm we have very traditional senses of financial measures. But at this point, our financial focus is primarily “burn rate”

— our monthly expenses. We compare those expenses against targets like functionality, customer acceptance, and creating new products and services. And even though we’ve not yet been able to capture those measures, the Balanced Scorecard still helps us look at our goals and see what has to occur.

In the customer perspective, for example, we want to create a community: to nurture our customers, to be viewed as the leading service, to gain market share, and to provide an egalitarian marketplace. We’ve already created measures, like number of registrants and PetroCosm’s spend

as a percentage of total industry spend. So the question of whether it’s appropriate for a company at this stage of development to have a scorecard for me is a no-brainer. Will these measures still be relevant by the end of the year? Clearly, we might need to review that, particularly since we’re not an established company.

BSR: *What matters here is less that PetroCosm is an e-business, but that it’s a start-up.*

NC: That’s right. I think back to what we did at Rockwater. Granted, that was the merger of two companies in an established industry. But we built a strategy and a scorecard that reflected the things we needed to do. There, however, we had had a developed infrastructure; it was easy to collect data.

BSR: *How does implementing the principles of the Strategy-Focused Organization compare across the different organizations you’ve been with — Rockwater, Brown & Root, and now PetroCosm?*

NC: It’s probably been the easiest at PetroCosm because we’re starting

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with a clean sheet of paper. Everybody is interested in exploring the aspects of the scorecard — the strategy, the tactics. People can bring insights without bringing a lot of baggage.

At B&R we were trying to fully integrate business units that had been quite separate. The challenge was how to get the unit leaders to accept a more federalist approach — to work horizontally so we would all be more effective and differentiate ourselves from our competition, while they still maintained their identity and product/service focus.

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Rockwater was a new company created from the merger of two distinct cultures, one British, one Dutch. That required identifying change agents within each camp to promote a shared vision — or at least an agreement that the BSC could be a significant factor in blending the two companies together.

BSR: *When mobilizing for change, how did you identify the change agents? Were you dealing with the usual resistance to change — or did you need different approaches to bridge those different cultures in order to win employees over?*

“All of the advantages of integrating the business units could be translated down to this one metric — cost per barrel.”

NC: Both. We had to choose respected people from within the organization who were open to change, but yet who had their feet on the ground — people who would own the BSC and who believed it would add value in the merging of these two cultures. At B&R we viewed the BSC as a catalyst to integration. Then, once we won an integrated contract, the BSC served to advance the goal of lowering the cost per barrel for oil and gas development. All of the advantages of integrating the business units could be translated down to this one metric.

BSR: *That seems like an easier sell than the attitude shift you needed to achieve — from a bureaucratic mentality, where the more people you put on a job, the more money you made, to a mentality where you'd only get paid for the value you created.*

NC: That was a radical change — I probably underestimated just how radical it was. At PetroCosm, we have a certain level of radical change as well — but more from the standpoint of customers. They sense that the tried-and-true methods of suppliers winning work through relationships are somehow going to be transgressed by moving to e-commerce, that the human element is no longer neces-

sary. That's far from the truth. The fact is, all that e-commerce will do is make that interaction more efficient.

BSR: *Describe the strategic themes — the big message — from company to company.*

NC: At Rockwater, we developed this notion of tier one and tier two customers. With the tier ones (more value-oriented) we had a sense of commitment, ownership, and commercial longevity by virtue of producing a system that was going to produce oil and gas. We were locking in that relationship based

on our performance. The tier twos (more price-oriented) were looking

for the cheapest possible price per component. At B&R, the idea of our integrating and being able to reduce cost per barrel of development shifted our focus from cost to value.

With PetroCosm, the idea was first to reduce unit costs by aggregating expenses, through transparency and knowledge. That's already very different from the traditional, pro-supplier value proposition. But technology enables suppliers to describe their products and services in fuller detail — with attributes, photographs, descriptions, proof points, performance data. Not only is that critical in getting suppliers to adopt e-commerce (reassuring them they're not being forced into a price-only environment), but it gives buyers a rich level of detail that clearly reflects the differences among products and services, thus justifying price differences.

BSR: *What's your biggest scorecard achievement?*

NC: There are two. One was identifying tier one and tier two customers and making distinctions in how we served the two. Being in the trenches — working in a price-only environment — actually made us seem stronger and better able to create the value-added services.

The second was recognizing linkages: the link between a measure in the financial perspective drilling down to a customer measure, then down to internal and learning. We've spent a fair amount of time at all the companies examining the linkages between measures: between employee retention and number of service quality issues; between training and employees' ability to have enriched, value-adding conversations with customers; between system up-time and time of customer on-boarding.

BSR: *Is there something you'd like to convey to Kaplan and Norton — either related to start-ups or e-commerce companies?*

NC: E-commerce businesses and startups are alike in that they are both in a kind of survival mode. What about a “Balanced Scorecard Lite?” — something that would reflect the roughness of the process at the start-up stage, but that would lay the foundation for thinking in the four quadrants and provide a foundation for further developing a BSC.

BSR: *Do you think that the scorecard has made you more responsive to the dynamics of your industry?*

NC: Unequivocally yes. Prior to BSC, did I know about customers or internal processes or innovation? Sure. But neither I nor anyone else had really put these together. And that's the light going off in the tunnel. I'm not much for collecting measures, but to be able to discuss these perspectives in a structured, focused way, to be able to get down to a level of granularity about internal processes and customers, to ask, “how would we measure that?”

“what would be the value?” “how are these things linked together?” — that's powerful stuff.

Brown & Root was profiled in the Balanced Scorecard Report special Hall of Fame issue (September 2000; Reprint #M70006). Both B&R's and Rockwater's scorecard implementations are covered in Robert Kaplan and David Norton's new book, The Strategy-Focused Organization.

Reprint #B0101B