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A case study of KFC Denmark:

How Balanced ScoreCard scale down into small organizations

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Abstract

Title: A case study of KFC Denmark – How BSC scale down into small organizations.

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Five key words: BSC, scaling, small organization, implementation, design

Purpose: The purpose of this research is to study how performance measurement- and management systems such as BSC scale down into small organizations. Since the data is scarce and rarely documented and published, the author sought to perform a case study and action research in an organization that was planning on implementing BSC. The results from this study would help shed more light on the topic of how BSC scale down into small organizations.

Methodology: The methods used for this report were case study and action research. The author has both a professional relation and a personal relation with KFC Denmark. Action research was used because the author together with top management in KFC Denmark analyzed the current conditions of KFC Denmark, and then designed a BSC. An analysis of the design compared to theory and empirical data was conducted after KFC Denmark had set its BSC design targets. Data was gathered through interviews with top management and analysis of secondary data such as financial reports, internal financial reports, training documents, franchise rules.

Theoretical perspectives: Theories used for this report revolved around BSC, its possibilities and limitations. The report discusses scaling, designing and implementing BSC for small organizations. Difficulties that can surround a design and implementation as well as general obstacles that can occur in all organizations, including the limitations of BSC are discussed.

Empirical foundation: The data in the field regarding BSC for small organizations are scarce compared to data about large corporations. The empirical data used for this study consisted of a failed BSC design in a SME. Reasons for the failure were identified. The data was then compared to KFC Denmark's design to provide additional input for the author to assess the success of KFC Denmark's BSC design.

Conclusions: After comparing KFC Denmark's BSC design with how BSC theory prescribed and with the empirical case of a failed BSC in a SME. The author deemed it feasible to implement BSC in small organizations, in this report an organization with less than 100 employees as KFC Denmark. While conditions in small organizations are not always optimal to implement BSC due to time and resource constraint, partial or imbalanced implementations could reduce the difficulty and improve the success rate.

Foreword and acknowledgements

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Chapter 1. Introduction

This chapter will cover the purpose of the research topic the author chose, as well as the reasoning behind the selection of the research subject. General information about the research subject will be presented, as well as the author's personal engagement in KFC Denmark. A clarification of the difference between the author's objective and KFC Denmark's objective is presented at the end of this chapter.

1.1 Background

Isken Aps is a family owned company that is franchising the American fast food brand Kentucky Fried Chicken (KFC). The company was founded in 1986 and is currently managing four KFC restaurants with more than 80 employees in the Copenhagen area in Denmark. The gross revenue from 2010 was 43 million Danish kronor and the annual revenue of the company has consistently grown by 9% every year for the last ten years.

This report will cover the use of Balanced Scorecard (BSC) in a small organization. BSC is a management control system that is used to balance performance measurement metrics from four different perspectives in an organization to achieve both long term and short term competitive advantages. Its purpose is to mitigate the deficiencies of traditional performance measurement systems that mainly focused on financial metrics.

The author has a professional and a personal relationship with KFC Denmark, as KFC Denmark is the author's family business, having worked in KFC Denmark for over 7 years and at the time of this report, has achieved the position of local operations manager at one of KFC Denmark's restaurants. The author has knowledge and experience of working in all the positions in a KFC restaurant. The author has also been involved in the development and launch of a new side product. Furthermore the author has also been involved in the recruitment of the majority of the current employees working in the different restaurants.

1.2 Purpose and background of analyzing KFC Denmark

The reason why KFC Denmark was selected was because the company had already decided to implement BSC as a performance measurement- and management system, and that the condition of the company matched the topic that the author was researching. The author also has a long history of working in KFC Denmark, and is currently in a position that involves direct contact with top management. As implementation of BSC in small companies is a field with relatively scarce data (Rillo, 2004; Tennant, Tanoren, 2005), it seemed fitting that KFC Denmark would be a good organization to research. The author analyzed KFC Denmark's current situation and then created a draft design for a BSC coordinated with top management to discuss and agree on a

corporate wide strategy and finally implement the BSC in KFC Denmark's operations of franchising the KFC brand in Denmark. The European Headquarters of KFC has demanded that all KFC franchisers' in Europe implements BSC. The European headquarters have decided to leave it to each franchise licensee to setup a strategy and create relevant metrics in its implementation of BSC.

1.3 Research discussion

The small supply of data regarding BSC for small organizations could be attributed to several factors (Nicholas, 1977; Rompho, 2011). Past research has indicated that there are 3 main factors that affect the use BSC for small organizations (Nicholas, 1977; Rompho, 2011).

The 1st factor is that small organizations that are still in a growth and expansion stage usually don't restructure the organization as the environment within the organization is changing too rapidly, and focus is usually on sales, product/service development and human resource management (Stanley, 1985).

The 2nd factor is that small organizations might lack the financial resources to research and plan an implementation of BSC compared to other big organizations (Nicholas, 1977). As small organizations don't have the same financial strength as the large organizations usually cited in reference cases (Kaplan, Norton, 1996, 2001; Marr et al., 2004; Silk, 1998; Malmi, 2001; McAdam, 2000; Andersen et al., 2001), so even if a small organization would be interested in implementing BSC, it might not be feasible or financially reasonable.

The 3rd factor could be a lack of incentives to restructure, as one perception of BSC is that it's just another management system to measure financial metrics (Kaplan, Norton, 1996). Small organizations' usually work in an ad hoc way, in other words they are formally structured, but the work process and workflow is informal, often organized in a matrix like structure working in teams that assemble for a project and then disbands when the project is finished (Curtis, 1975). In organizational theory it is referred to as a flat organization, as communication is done directly between the involved parties and does not travel through layers of hierarchy (Blau, 1962). For these small organizations the implementation of BSC might introduce more bureaucratic work than what was inherent.

The author considers two other factors in this case study, that can affect the outcome of the BSC design and implementation.

The 1st factor that is unique for this research paper is the fast food industry that KFC Denmark is active in. The fast food industry does not carry similarities that are replicable in other industries, nor is it similar to other businesses in the food and service industry. Characteristics such as low pay, high employee turnover rate, young employees and few career options to name a few. Those factors can have a noticeable impact on the flexibility in how BSC for KFC Denmark can be designed (Tudor, 2011)

The 2nd factor unique for this research paper is culture, as BSC originates from USA. It has been crafted and designed in a nation which is distinctly different from the nation where it will be used in this report. As such the author considers cultural difference a factor that can have a profound impact on both the design and implementation of BSC in KFC Denmark, these differences can have an impact on the success of implementing BSC (Child, 2005)

Considering the mentioned characteristics that are prevalent in the research subject, and the management control system that is to be implemented, the generalizability of the results attained in this report is dependent on the impact from the various factors mentioned when designing the BSC system. Regardless of the original intention of BSC, the actual implementation in each situation is case specific. The end result from KFC Denmark's decision will reveal whether the mentioned factors will be limiting or benefiting KFC Denmark's BSC design.

When considering how well a BSC implementation would work in a small organization one would have to consider the degree of formalized bureaucracy and if there is any discrepancy between the formalized work flow and the informal work flow (Peter, 1962). Let us consider two examples. If company 1 is a small organization that is strongly hierarchical with no difference between formalized work processes and actual work processes, with a habit of using management systems with strict formalized goals communicated throughout the organization. Then an implementation of BSC would be easy to communicate, as there is already a structure similar to the financial perspective of BSC. However this does not guarantee a smooth implementation though, an implementation that is successfully designed can still fail in its operation (Rompho, 2011).

Then there is company 2, which is an organization that has a formalized paper hierarchy. But with a large discrepancy between the formalized work flow and the informal work flow. Responsibility is shared between positions that are unrelated with authority resting on management. There is no clear management system with strict financial goals or other metric to measure performance and lead the company's development. An implementation of BSC into an organization that lacks any experience of working with formalized management- or measurement systems would face more challenges, compared to an organization that has experience of similar management or measurement systems (Kaplan, Norton, 1996; Child, 2005). However that is not an impossible obstacle for implementing BSC. As has been mentioned, the success of implementing BSC depends on many risk factors and driving factors (Kaplan, Norton, 1996).

1.4 Research topic

The research topic of this report is to analyze how BSC scale down in organizations. Countless research papers and reference literature have already covered how well BSC scale from an organization with 100s of employees to 10000s of employees (Kaplan, Norton, 1996, 2001; Marr et al., 2004; Silk, 1998; Malmi, 2001; McAdam, 2000; Andersen et al., 2001). The cases covered

in reference papers and literature usually doesn't cover BSC implementations in small organizations with less than 100 employees (Rillo, 2004; Tennant, Tanoren, 2005).

How does **Balanced Scorecard** scale down into small organizations?

The author was seeking to both expand the empirical data available regarding BSC in small organizations as well as to engage in and direct KFC Denmark's BSC implementation.

1.5 Author's objectives


The author's objective is to engage and guide top management in KFC Denmark in implementing BSC. From the results of KFC Denmark's BSC design and implementation, analyze how BSC can scale down in a small organization. Considering the differences that exist between the corporations that are usually cited in literature and the research subject of the author (Kaplan, Norton, 1996, 2001; Marr et al., 2004; Silk, 1998; Malmi, 2001; McAdam, 2000; Andersen et al., 2001), there are differences in organizational structure, organizational size, management, culture and industry.


1.6 KFC Denmark's objectives


KFC Denmark's objective with implementing BSC was to adhere to the demand from KFC Europe, while at the same time perform a thorough analysis of the company. KFC Denmark also hoped to achieve a better understanding of how it performed with the use of a new management system.


1.7 Overview of the report


The overview of the report is divided into 8 parts.


- 


Introduction chapter covers the purpose of the research topic the author chose, as well as the reasoning behind the selection of the research subject. General information about the research subject will be presented, as well as the author's personal engagement in KFC Denmark.
- 


Research chapter method will cover the author's methods for this research as case study and action research. Execution will detail how and when the data for this report was gathered from interviews and KFC documents.
- 

Theory chapter will cover the concept behind BSC. Theoretical design process and implementation theory is presented. The author has considered common discussion topics, limitations and critique regarding BSC. An empirical reference case is presented to provide a framework for BSC in SME.
- 

KFC's conditions chapter will cover a detailed analysis of KFC Denmark's current conditions, ranging from management structure, corporate vision to employee policy.
- 

BSC designing and implementation chapter covers the design of KFC Denmark's BSC and the planned implementation of BSC. The discussion between tradeoffs between the choices considered and choices chosen is presented.
- 

Culture and industry chapter covers the analysis of culture and the fast food industry. The author perceived culture and fast food to have an impact on KFC Denmark's implementation of BSC.
- 

Analyzing BSC chapter will cover the analysis of KFC Denmark. The analysis will cover all the factors that have been previously discussed, method, theory, KFC Denmark's current condition, KFC Denmark's BSC design, culture and fast food industry.
- 

Conclusion chapter covers the conclusions that the author has reached after analyzing KFC Denmark's design, the feasibility of its design, implementation, and consideration regarding alternative approaches.

Chapter 2. Research method

This chapter will cover the theory regarding the research strategy, information regarding data types and credibility. The author's methods for this research were case study and action research. As the author had a personal stake in the change process and was directing its course. Additionally, the choice to use action and case study strategy is due to the author's personal engagement as explained in Chapter 1. Execution will detail how and when the data for this report was gathered.

The research strategies that were used for this report were case study and action research, the reason two strategies were used was because the author had an active role in driving the change in KFC Denmark, while at the same time observing and documenting the process. Top management in KFC Denmark had been instructed by KFC Europe to implement BSC, so it wasn't the need of KFC Denmark that initiated the change process. As such the author, whom had the most knowledge regarding BSC, was coordinating and directing the change. But not making the final decision on which actions to take or metrics to use.

2.1 Case study

A case study focuses on analyzing a single phenomenon in a population, organization, location in the context of its occurrence. The aim is to get a deep understanding by observing the research subject in its natural surrounding and understand activities and effects in its context. A case study analysis can allow a researcher to understand "how, why and what" is happening in a phenomenon (Saunders, Lewis, Thornhill, 2003). The usefulness of conducting a *case study* is reliant on 3 factors: reliability, duplicability and validity (Bryman, Bell, 2005; Yin, 1984). This is of course dependent on the researcher, if they want to make generalized statements from the results or just understand the processes in a unique context. Case study strategy usually makes use of both quantitative and qualitative methods to gather data (Saunders, Lewis, Thornhill 2003).

Yin (1984) describes 3 distinct types of case study:

- The critical case, the purpose is to test a theory and a case is selected to achieve a greater understanding of a phenomenon.
- The unique case, the purpose is to get a deeper understanding of the results and processes involved in a phenomenon.
- The informative case, the purpose is to observe and analyze a phenomenon that can hopefully yield useful information that can be useful in more than just one case.

2.2 Action research

Action research involves direct action affecting the direction and nature of the change that is to occur, maybe even being the main driver for change (Marsick, Watkins, 1997; Coghlan, Brannick, 2001). When conducting action research there are two distinct ways that the research can be conducted. One way is the research being conducted with the researchers interest as main focus, the second way is that the research is done with the sponsor's interest as main focus (Schein, 1995). The distinction between those two ways is the degree of control the researcher has over the design and the process.

Gummesson (1985) specifically points out that a person conducting action research assumes the role of researcher/consultant, and has to balance the requirements of the two roles. The researcher's focus is method, hypothesis generation, report writing. While the consultant's focus is to solve the problem at hand, apply established methods and theory on the target organization. Saunders, Lewis and Thornhill (2003) details 3 common themes that are present in an action research strategy:

1. The purpose of the research – managing change (Cunningham, 1995)
2. Close collaboration between practitioners and researchers, where the researcher assumes the role of practitioner-researcher and is affecting the change that is occurring (Eden, Huxham, 1996:75; Zuber-Skerritt, 1996)
3. The results from an action research strategy should be generalizable to other contexts (Eden, Huxham, 1996:75). Depending on the role of the one conducting the research, researcher or consultant, the results could focus on the refinement of theory or knowledge transfer to other contexts (Saunders, Lewis and Thornhill 2003).

Saunders, Lewis and Thornhill (2003) detail the process of an action research strategy. The process can be broken down into 6 steps:

1. An idea or internal/external driving force for change occurs
2. Research is done on facts and action possibilities
3. Planning of the choice of method to change
4. Implementation of the method of change
5. Monitor and evaluate the effects of the method of change
6. Revise and adjust the method for improvement and repeat steps 3-6

2.3 Data gathering

Primary data is information that has been gathered for the purpose of researcher's topic, and can be of quantitative and qualitative nature. Saunders, Lewis and Thornhill (2003) have detailed 3

methods that can be used to gather primary data, however only observation and interviewing are relevant to the author's research report.

The three methods are: 1. Observation, 2. Interviews, 3. Questionnaires

Interviews – The process of discussion between two or more people is what best describes the interview approach (Kahn, Cannell, 1957). Saunders, Lewis and Thornhill (2003) highlight the value that interviews as information source could provide to research, it allows a researcher to gather in depth information that might not have been possible with either questionnaires or observation. It enables the researcher to develop a trust with the research subject to gain access to data that might be relevant that the researcher might not have thought off (Adams, 1991). Interview as a method can be approached from several perspectives, Saunders, Lewis and Thornhill (2003) differentiates between 3 approaches:

Structured interviews – A structured interview has a set of predetermined questions that will be asked to the research subjects, answers can be recorded in both open as well as closed variables.

Semi-structured interviews – In a semi-structured interview the researcher has a predetermined theme they want to discuss with the research subjects. The questions for a semi-structured interview are determinant on the research subject involved, as not all questions will be suitable for all research subjects (Wass, Wells, 1994)

Unstructured interviews – This interview type is informal, where the aim is to gain an in-depth understanding of both the research subject as well as the research topic (Robson, 2002). No predetermined questions are used, the questions are open. Allowing the research subject to answer freely in a way they determine is relevant to the questions asked.

Healey and Rawlinson (1993, 1994) distinguish between 2 different approaches:

Standardized interviews – An interview approach where the interview process is structured and standardized, e.g. this enables different researchers to use the same questionnaire for different research moments and generate data for comparison.

Non-standardized interviews – This is similar to Saunders, Lewis and Thornhill (2003) description of semi-structured and unstructured interviews.

The author of this report has used both qualitative and quantitative data to conduct the research for this report. Qualitative data was in the form of interview data with top management, work routines for staff, reporting routines for managers in restaurants, franchise guidelines and some information that has been exchanged with KFC Europe regarding the demand for KFC Denmark to implement BSC. The nature of quantitative data used were annual reports, financial reports, procurement value of goods, sell value of goods and staff performance metric reports.

The primary data gathered by the author were from semi-structured in-depth interviews with top management. The themes that were discussed was KFC Denmark’s implementation of BSC, topics discussed were top managements perception of BSC, how BSC functions, and the requirements of using BSC, KFC Denmark’s approach to BSC and how BSC will be implemented in KFC Denmark. Secondary data used for this report were of both qualitative and quantitative nature mentioned in the above paragraph.

Due to the sensitivity of some of the data gathered, only data that is deemed to not affect the competitiveness of KFC Denmark will be disclosed.

2.4 Execution of the action research in this case study

This report’s author is assuming the role of a change consultant. The author will not only be observing the change process that is to occur, but also lead the change and assist management with the design process of BSC for KFC Denmark. The focus of the author was on the current change process and the future effects that would derive from it, as a historic analysis would not benefit the change nor future results.

The data for this report was gathered via the following means:

- 2 semi-structured interviews with 2 representatives from top management Bjartmar Trastarson and Snorri Trastarson. The 1st interview was conducted 26th of March, the interview period lasted from 10:00 to 16:00, and the 2nd interview was conducted 23rd of April. The interview period lasted from 10:00 to 16:00. Both interviews were conducted at the office at KFC Field’s.

Name	Title	Interview 1	Interview 2
Bjartmar Trastarson	CEO	26 th March, 2012 10.00-16.00	23 rd April, 2012 10.00-16.00
Snorri Trastarson	General Manager	26th March, 2012 10.00-16.00	23rd April, 2012 10.00-16.00

1st interview focused on the structure of KFC Denmark. The theme of the interview was KFC Denmark’s current conditions, how and why the company was setup as it was. As the author was not part of top management, the details and reasons for why KFC Denmark was the main priority when conducting the 1st interview (Questions can be found in appendix 3).

2nd interview discussed the design of BSC for KFC Denmark. The theme of the interview was how to design BSC for KFC Denmark, and discuss ideas for implementation and the possible outcomes and obstacles to implement new metrics as well as the revision of old metrics. Ideas and feedback were bounced between the author and top management to evaluate feasibility. Some of the ideas discussed could not be implemented in the first iteration as there were infrastructural obstacles, some ideas were postponed for future review and some were postponed indefinitely. (Overview of questions and topic discussed can be found in appendix 4)

- Reading internal training documents

There are different kinds of training documents involved in working at KFC Denmark, the duration of training and amount of training material to study depends on the type of position an employee will undertake in KFC Denmark. Some positions, such as shift manager and operations manager, require an employee to be knowledgeable about all positions. The author's current position has required the author to study all the training material available for employees in KFC Denmark.

- Studying financial documents for the last 5 years

Public as well as internal financial documents were gathered and analyzed to assess the feasibility, possibilities and obstacles for designing BSC for KFC Denmark. The financial documents were mainly used to set the target goals for the financial- and customer perspective

The author's focus during the discussions' with top management for designing BSC were the interest of the company, as the author has a personal stake in how well BSC will work and in the performance of the KFC Denmark. The design of BSC focused more on KFC Denmark's conditions and less on the theoretical approach to how a BSC should be designed. The consultant role was dominant when designing BSC with top management.

2.5 Credibility

Credibility concerns the subject and objective reliability of a researcher. The subjective perspective is regarding the quality of e.g. person and trustworthiness of the researcher. The objective perspective is regarding the quality of e.g. research conducted and credentials (Saunders, Lewis, Thornhill, 2003). When conducting research the credibility of the author is affected by how well their personal bias has been disclosed and presented, if the author has been open with how their personal views might have affected the report in either method of choice, data gathering, analysis and conclusions (Saunders, Lewis, Thornhill, 2003; Gummesson, 1985). The author has a long professional relation and personal relation with KFC Denmark. The author's history with KFC Denmark is a reason for why top management entrusted the author with managing the BSC implementation that had to be conducted. Even though the author was not the person making the final decision in the design and implementation of BSC, the author's efforts were crucial in the direction surrounding BSC and during the discussions in designing BSC.

The author's objective is to test current theory surrounding BSC in a small organization, to test the limits in how far BSC can be scaled down. By testing the theory of scaling BSC, the author is aiming to provide additional knowledge surrounding the use of BSC in small organizations, while the externality of the results can be disputed. It is not possible to make a definite statement regarding the externality until KFC Denmark's BSC design has been tested over a period of time. The theory surrounding BSC is vast and detailed and has been tested and trialed multiple times

since its inception (Eldenberg, Wolcott, 2005; Hilton et al., 2007; Merchant, Van der stede, 2007; Anthony, Govindarajan, 2007).

2.6 Overview

To achieve a satisfactory level of knowledge of the BSC management system, knowledge was accumulated by studying reference literature by the founders of BSC Robert S. Kaplan and Steve P. Norton. Additional knowledge was gathered from literature specializing in management control systems, organizational theory and business process systems (Child, 2005; Bakker et al, 2008). As the reference literature mainly details considerations when designing and implementing the BSC system, reference cases of implementations within the same industry and unrelated industries were used to try to identify objectives or processes that could be generalized to KFC Denmark's strategy planning and implementation of BSC.

Chapter 3. Theory

This chapter will cover the concept behind BSC as it was described by Kaplan and Norton, the basic idea of the importance of having a balanced ScoreCard for performance measurement. A typical BSC design is presented. Common discussion topics and critique regarding BSC is presented. Difficulties that can surround a design and implementation as well as general obstacles that can occur in all organizations, including the limitations of the BSC are presented. An empirical reference case is presented to provide a framework for BSC in SME.

3.1 Definition of BSC

BSC is a management control system developed by Professor Dr. Robert S. Kaplan from Harvard Business School and Dr. David P. Norton in the early 1990s. BSC as a concept made its debut in “The Balanced Scorecard—Measures That Drive Performance” in Harvard Business Review, in 1992 (Kaplan, Norton, 1996). BSC is supposed to address the weaknesses and vagueness of traditional management approaches that only focus on financial metrics. BSC aims to provide a clear prescription as to what metrics organizations should measure, connecting vision and strategy into clear definable linkages to integrate and communicate performance and objectives across an organization and align strategic initiatives. When fully implemented, BSC aligns everyone within an organization so management and all employees understand how their performance can further the company’s strategic goals (Kaplan, Norton, 1996). It is generally recognized that a primary goal of performance measurement systems is to promote goal congruence and influence managers’ behavior (Otley, 1999).

BSC is a widely implemented performance measurement system. Given its widespread acceptance and use by practitioners, BSC is well-entrenched in the management accounting teaching literature and frequently researched by academics (Eldenberg, Wolcott, 2005; Hilton et al., 2007; Merchant, Van der stede, 2007; Anthony, Govindarajan, 2007) (Horngren et al., 2010; Hoque,James, 2000; Lipe, Salterio, 2000; Malina, Selto, 2001; Ittner, Larcher, 2003; Banker et al., 2004; Othman, 2008; Wiersma, 2009; Greiling, 2010). The concept of BSC as a management control system is not to leverage or imitate other management control systems that have advantages in measuring isolated aspects of a company. The strength of BSc is that it theoretically creates goal congruence among different business units within a company (Dinesh, 1998).

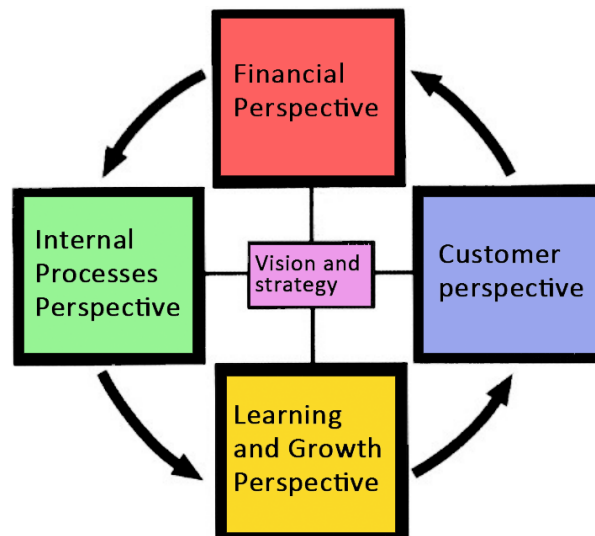
The implementation of a BSC system starts from four different perspectives to identify activities that work towards different sub objectives, but towards common main objectives (Kaplan, Norton, 1996). Performance measurement systems employed by many firms incorporate a

combination of both financial and non-financial metrics (Brancato, 1995; Bryant et al., 2004; Epstein, Manzoni, 1997; Stivers et al., 1998).

3.2 The four perspectives

BSC suggests that an organization's performance can be viewed from four main perspectives: financial, customer, internal business process, and learning and growth. These four perspectives are linked to the organizations' long term strategy and competitive advantage and create a holistic model of its strategy that allows all employees to see how their performance contribute to the success of the organization.

Every activity within a company strives to improve the financial aspect, whether it is sales, product mix, employee training or research & development to name a few (Maiga, Jacobs, 2003). The BSC management control system strives to create a activities within the four perspectives that can and will have an impact on the outcome in achieving the objectives set.



(Inspired by Norton and Kaplan, 1996: 9)

3.2.1 Financial perspective

Activities within the four perspectives encompass different strategies and actions. The theory for financial perspective brings up 3 objectives for a business unit: growth, sustain and harvest. And regardless of which of the 3 objectives that is used, there are 2 financial themes that drive the business strategy: Revenue growth and product mix, cost reduction/productivity improvement, asset utilization/investment strategy (Kaplan, Norton, 1996).

Revenue growth and product mix addresses considerations for new products, new applications for current products, new customers and markets, new product mix and pricing strategy. Cost reduction/productivity improvement addresses traditional considerations related to manufacturing such as reduced unit costs, reduced transaction costs/increased transaction channels and reduced operation expenses.

3.2.2 Customer perspective

The customer perspective is strongly related to traditional marketing strategy of achieving a competitive advantage (Porter, 2004) through different activities such as, finding the right target customer group through segmentation and having different product mixes for different customer groups e.g. high-end and low-end products. Porter (2004) and Kaplan and Norton (1996) mentions that there are some reoccurring core metrics that all organizations use, regardless of using BSC or other management control systems, and the measurements are: market share, customer retention, customer acquisition, customer satisfaction and customer profitability. As these measures are central in all strategy for long-term profitability it is expected that they would reappear in the BSC management system, as BSC is designed to strike a balance between long term and short-term profitability focus. Additional attributes also brought forth in “The balanced scorecard” are the product/service attributes i.e. the quality and functions of what is sold. Customer relationship is how a company treats its customers and how they differentiate themselves when excluding the product or service, image and reputation deals with customer perception and what objectives the company should work towards to display the correct image towards its customers to achieve the company’s objectives (Kaplan, Norton, 1996, 2001).

3.2.3 Internal processes

The internal business process perspective addresses long term issues in a company strategy. While financial perspective is mainly short term with slight focus on the long term. The customer and internal business process perspectives focus more on long term competitiveness. The internal business process perspective addresses the need for innovation, to be able to compete in the future, beyond the short time frame that a focus on financial numbers that some control systems focuses on. There are 3 key points in this perspective: Innovation, Operations and Post sale. The activities in this perspective work as a supporting function to the customer and financial perspective. Innovation is not only about the functions in a product or a service delivered to a customer, but also about predicting and shaping future demands from its customers. To be able to affect customer demand in a way that a company can gain a competitive advantage ahead of the competition, the operation process refers to activities that are also mentioned in the financial and customer perspective, production of goods and delivering of goods, but the focus here lies on the company’s production and work flow and how they can improve it to deliver superior value to its customers and in turn good return on investment. Post sale is the last process in the internal value chain and refers to the routines and policies in place to follow up post sale activities, not how they are performed with the customers (Kaplan, Norton, 1996, 2001).

3.2.4 Learning and growth perspective

The last perspective is the learning and growth perspective. This is the main supporting function amongst the four perspectives and it focuses on employee capabilities, information system capabilities and motivation, empowerment and goal alignment. Employee capabilities addresses the importance of having competent employees that has the knowledge, skills and authority to interact with customers, old management control systems viewed the product as the critical

factor and employees as an expense factor (Otley,1994; Simons,1995). But as the economy in western nations has shifted towards a knowledge-based economy, the employee and its intellectual capital is an important factor for the long-term financial growth, long-term competitiveness and profitability of the company (Kaplan, Norton, 1996, 2001).

“The balanced scorecard (Kaplan, Norton, 1996)” details three core categories when it comes to employee measurement: employee satisfaction, employee retention and employee productivity. These are three common measurements similar to the core measures in the customer perspective. The difficulty with these three measurements is how to define them for each organization in a way that the metrics are relevant for the main objectives’ of the organization (Kaplan, Norton, 1996, 2001).

Motivation, empowerment and alignment are the last main categories of the learning and growth perspective. These categories address the importance of keeping satisfied staff, as satisfied staff will perform better in their interactions with customers, creating a circle of positivism. The first two categories, motivation and empowerment, highlights the importance of creating a sense of responsibility in managers as well as front line personnel (Brownell, Hirst, 1986; Brownell, 1982). Alignment brings us back to the topic of goal congruence, a common point where an implementation of a management system can fail is the lack of alignment between personal goals and corporate goals in an organization. If alignment between long-term personnel- and corporate goals do not occur, then there is a risk of a BSC implementation getting gamed by staff to meet the short-term financial goals (Kaplan, Norton, 1996, 2001).

3.3 Considerations when building a BSC

Implementation of BSC is usually performed in a top down fashion, where top management together with managers of different Strategic Business Units (SBU) in the organization meet and discusses to craft a vision and strategy, these targets should be ambitious but still be achievable regardless of external factors i.e. they should not reliable on factors the company does not control (Kaplan, Norton, 1996; Sharma, 2009; Selto, 2001). The more ambitious goals together with top managements continued support is supposed to unleash the full potential of a company (Kaplan, Norton, 1996, 2001).

Hence why the first step, after vision and a general strategy has been set, is to decide on the financial goals to be reached, often called the hard and short-term objectives of an organization. As most organizations aim to provide a good return on capital with minimal risk for the stakeholders, whom often only focus on the return on investment that a company achieves (Kaplan, Norton, 1996 ; Slater, Olson, Reddy, 1997). Which is why financial is one of the four perspectives in BSC, as its importance is vital. But it’s not always beneficial to measure only financial metrics, hence the use of four perspectives in the whole implementation of BSC encompassing all aspects of a company (Kaplan, Norton, 1996). This is illustrated by the Return On Capital Employed box in the diagram above.

The second step is to look into the customer perspective and analyze what adjustments can be made to the current strategy to accommodate a more aggressive growth in revenue and profitability to attain the more ambitious financial goals. It could be necessary to discard all current metrics for customer management to create all new metrics that satisfy both the short term and the long term interest of the company's customer interests (Kaplan, Norton, 1996). What BSC aims to achieve in the customer perspective is a simultaneous focus on short-term financial interest as well as a long-term customer oriented focus. Instead of having a metric that only focuses on new customers acquired, a more relevant metric for long term profitability would be profitability / customer or total revenue / customer over a longer period of time (Kaplan, Norton, 1996).

The third step is to look into how an organization's internal business processes can be improved to achieve a focus on long-term customer loyalty (Kaplan, Norton, 1996). When focus is on satisfying customer demand over long periods, this will bring a different challenge than just meeting a customer's demand to meet the results for the next quarterly report. For example, in a large company with divided units, interdepartmental cooperation could be a first step in improving internal business processes to create new solutions to customers. Instead of different departments interacting with the customer to deliver pieces of a solution, interdepartmental cooperation would allow a company to deliver a package solution to the whole customer from start to finish. For a small company, focus could be on the operating processes in the day-to-day operations, creating metrics that were not measured before, it could be reduced waste generation or reduce the time that personnel are spent idling (Ittner, Larcker, 1998; Perrin, 1996). This is illustrated by the process quality and process cycle time box in the diagram above.

The last step is the alignment of goals. To make the individual's goals in the organization reflect the goals of the corporate strategy (Kaplan, Norton, 1996). Both in the short term and the long term, this is a difficult procedure to balance, as financial metrics are the dominant carrier of information that is easy to communicate and understand. While soft values and non-financial metrics such as employee satisfaction and employee knowledge development are more difficult to communicate to a company's stakeholders (Kaplan, Norton, 1996), nonetheless they are an important metric to measure. As knowledge is the most important resource a company has, to not measure it or only focus on financial metrics will not create a long-term competitive advantage for a company. A difficulty in the learning and growth perspective is to both create relevant metrics and assign them enough weight to warrant interest from company stakeholders (Kaplan, Norton, 1996). This is illustrated by the employee skills box in the diagram above.

3.4 How to build and implement BSC according to theory

BSC can be implemented in various ways, the authors' Kaplan and Norton (1996) have pointed out the need to make adjustments when implementing BSC across various organizations. Kaplan and Norton (1996) have described a typical process when a company is planning to make use of

BSC. The process can be separated into two stages: first stage is the design process and the second stage is the implementation process.

3.4.1 Designing process

Select organizational level – The first step is to decide on which organizational level to design the BSC for, consideration has to be given if it will be a corporate wide scorecard where the performance of all important SBUs in a company are measured, or will there be different scorecards for different levels in the organization. In this phase, interviews should be conducted with management in all levels of the organization.

Identify Strategic Business Unit (SBU) synergy/corporate linkages – Interviews with top management and key division managers are made to assess whether the targets set by the independent SBUs conflict or whether synergy effects can be achieved

Build consensus around strategic objectives – To achieve goal congruence amongst the different SBUs, the team or individual facilitating the BSC design should first prepare material on BSC and information regarding the company's strategy and goals. Interviews with top management are conducted. Afterwards the facilitator analyzes the data gathered and constructs a list with rankings of objectives. Following that, a workshop with top management should be arranged to create consensus by having dialogue discussing the design that the facilitator has drafted. The decision making could be decided by voting through ballots, vocal votes to name a few methods. The decision winner could be selected through majority votes or require the full support of the attending management.

Selecting and designing metrics – The facilitator works together with management responsible to select the metrics to incorporate into the BSC that aligns with the strategic goals. Cause and effect relations are evaluated between the chosen metrics performance and results, as well as the cause and effect relation between the 4 perspectives. It is important to review the developed scorecards. Both on a corporate level and SBU level before finalizing the scorecards. Scorecards can, depending on the circumstances, be developed for individuals within an organization to allow each employee to measure their contribution to the long term strategic goals. In theory it is argued that the compensation of all employees should be tied to the BSC, as such compensation plans should be tied to the performance results. Kaplan and Norton have listed core measures for financial, customer and learning and growth that are common when designing a BSC.

Core financial measures

- Return on investment/economic value added
- Profitability
- Revenue growth/mix
- Cost reduction
- Cost reduction productivity

Core customer measures

- Market share
- Customer acquisition
- Customer retention
- Customer profitability
- Customer satisfaction

Core learning and growth measures

- Employee satisfaction
- Employee retention
- Employee productivity

(Source: Kaplan, Norton, 1996: 306)

Executive workshop – The facilitator assembles both top management and key managers from SBUs within the company for a workshop to discuss all the targets that have been set, the goal is to achieve consensus amongst all key management in an organization regarding the goals set. An active dialogue is promoted so that all involved parties can voice their opinion and provide feedback. The participants should agree on a time frame for the targets to be achieved ranging from 3-5 years or more.

3.4.2 Implementation theory

An implementation plan is made after all the targets have been decided, the implementation plan covers how to draft, communicate and finally implement a BSC.

Develop implementation plan – A plan is drafted together with key management from different SBUs, the plan should include information about how the SBUs plan to incorporate the developed scorecards, as well as the time frame and how they plan to anchor the scorecard amongst employees. An evaluation time frame is discussed and decided by the participating managers to review the results of the targets in the future.

Executive workshop – A final workshop is held with top management to gain final consensus and approval regarding vision, objectives and metrics. Alignment of the goals of all the SBUs in an organization is discussed, adjusted and finally approved

Communicate and implement – The final step in the implementation process is to communicate and implement the BSC within the organization's management system, implementation should be done gradually over time, although it is recommended by Kaplan and Norton (1996) that the implementation be finished within 60 days. After a full implementation has been finished, all

employees in an organization will be able to measure their contribution to the organization and receive rewards in accordance with their effort.

Although change is executed with the intent of creating improvements, there is always a chance that the employees affected by the change will fight the change for various reasons (Child, 2005).

3.5 Risks and difficulties

There are numerous examples throughout reference cases and reference literature of failed implementations of BSC. Those cases have provided knowledge for future organizations seeking to implement BSC that can benefit from the knowledge about the considerations and pitfalls of BSC designs' in other companies (Angel, Rampersad, 2005; Kenny, 2003; Dennis, 2008; Spechbacher, 2003; Smith, 1998; Joshi, 2001; Olve, Roy, Wetter, 1997). The different kinds of risks and difficulties have been discussed in Harvard Business Review, Harvard Business Press, reference literature and case studies of failed implementations of BSC (Angel, Rampersad, 2005; Argyris, 1994).

3.6 Discussion about BSC

Common misconceptions:

- BSC is just another measurement system / performance measurement system
- BSC can be implemented in a SBU even if higher management isn't involved
- BSC is just another management trend

3.6.1 BSC is just another performance measurement system

There exists an abundance of different methods to measure everything from financial-, employee-, turnover-, satisfaction- and education performance to name a few. These different measurement systems exists in isolation, it means that they exist only for a certain ecosystem in either one department or between a few departments to measure the factor that is relevant to them, not to drive them towards the company's strategic goal. Companies that have already employed a multitude of measurement systems in an ad hoc manner will of course become more skeptics towards BSC and might regard it as "just another measurement system" (Frigo, Krumwiede, 1999). While that statement is far from accurate when considering a proper implementation of BSC, it is nonetheless a misconception that can be regarded as a risk when the concept of BSC is not properly communicated to top management, all the staff and the people that will be responsible for an implementation of BSC. When presenting BSC to top management, it is vital to communicate BSC as a management control system to drive the company's strategy through every part of the organization to create goal congruence.

3.6.2 BSC can be implemented in a SBU even if higher management isn't involved

As has been mentioned in the above paragraph, a misconception of BSC is that it is just another performance measurement system, and that it can be implemented within a SBU without top management's involvement with little or none interdepartmental communication (Kaplan, Norton, 1996). A BSC implementation that is implemented in an isolated manner locally for one

SBU without top management involvement would not succeed. As the measurements of the effect on the long term and short term results of the company would not be feasible due to lack of corporate goal congruence (Kaplan, Norton, 1996). If a SBU would decide to implement it themselves, they would only be able to measure their achievements effects in their own unit and measure the resource utilization within their specific SBU. They wouldn't be able to measure if the improvements have been beneficial for the company's strategic goals, nor would they be able to discern if the actions had long term and short-term beneficial effects (Kaplan, Norton, 1996).

3.6.3 BSC is just another management trend

For corporations having been victim of the trends of management and organizational systems throughout the years, it is of no surprise if they happen to be more resistant to the adoption of what can be perceived as yet another management system. If a company has undergone several attempts at introducing different management systems throughout its history, future attempts at introducing new management systems, locally or corporately, runs the risk of becoming disconnected from the actual work processes in the organization (Child, 2005). This is in light of past failed attempts, that there is a lack of belief in that an implementation of a new management system is a response to an actual need and not a response to a new management trend.

Clear communication about the purpose and processes of implementing a new management system is vital, as is top management's commitment as they will set the strategic goals that will foster the creation of goals in the different perspectives of BSC for the individual SBUs in a company. It is important to have a strong continual commitment from top management, so that an implementation of BSC is not perceived as just a temporary management trend.

In closing the above statements, perceived facts and actual facts must be distinguished. Having a misconception about the effects of a BSC implementation will have disastrous consequences for its implementation (Kaplan, Norton, 1996). As top management will have the impression it is getting a management system for one purpose while its actual purpose is another, this can lead to not only a lack of commitment and support, but also cause the organization to abandon the management system all together (Kaplan, Norton, 1996; Child, 2005).

3.7 Critique

Bourne (2008) and Pforsich (2006) argue that one reason firms are not getting the full value from their BSCs is that they are not implemented and used properly, which is largely due to the difficulty managers have in properly operationalizing Kaplan and Norton's BSC.

3.7.1 Common obstacles

Even when an implementation adheres to all the considerations that are outlined in theory, there is still the possibility of failure as the company operates with the new management control system. Failure can happen because of several factors, the most common are outlined (Kaplan, Norton, 1996):

- Initial phase has momentum, however there is no continuous force to review and reevaluate the BSC implementation
- Higher management delegates the responsibility for implementation to lower management
- Lower management attempts to implement BSC on its own
- BSC is viewed as another management fad
- Why fix what isn't broken
- Information overload

3.7.2 Lack of continuous support

A common pitfall that organizations fall into when trying to implement any management system is the lack of continuous support from the unit that is responsible. A key component of BSC is the creation of lagging and leading indicators that allows an organization or individual SBU to keep track of its short-term actions, to see whether the effects are leading to an improvement that brings it closer to the strategic goals of an organization. BSC like most other management system has to be periodically reviewed when either the external factors are radically changing or when the organization's SBUs actions aren't leading to the expected results. Top management has to show support and commitment when implementing BSC by continuously reinforcing that actions by SBU's should lead to results that are aligned to the corporate goals, otherwise they should be reevaluated and depending on the results, actions should be taken within the SBU's to analyze why actions aren't leading to the desired results or reevaluate if the goals are feasible or not.

3.7.3 Responsibility for implementation is delegated to lower management

Another obstacle that is detrimental to a proper implementation of BSC is when top management decides to implement it, however after the initial start, the responsibility and continuous commitment is solely left to lower management (Kaplan, Norton, 1996). This can occur when top management hasn't understood the structure of BSC as a management control system. When BSC hasn't been clearly communicated to top management, whom then believes that they decide on the implementation, but leaves the strategic goal creation to lower management, whom often lacks the authority to decide on corporate wide strategic goals (Banker et al., 2004; Malina, Selto, 2001, 2007). When top management delegates responsibility without authority it shows a lack of support and commitment which will can lead to disconnect between implementation and actual work processes in the lower parts of the organization (Kaplan, Norton, 1996; Child, 2005). Top management must be the main authority when BSC is to be implemented, as they have authority over all divisions and can exercise their authority over SBU's that aren't performing (Kaplan, Norton, 1996). If one SBU would try to exercise authority over another SBU when failing to implement BSC, their orders would not carry the same authority, and would even risk being ignored because lack of authority (Don, Boehner, 2007).

3.7.4 Lower management attempts to implement a management system themselves

This obstacle is more related to implementation of management systems in general, but the reason this is relevant, is because BSC requires top management to direct all the SBU in an

organization towards a common goal. If lower management would attempt to implement a performance measurement system that is unrelated to other units and without top management coordinating the SBU's, the lack of goal congruence can lead to different SBU's performing actions that don't lead to an overall improvement for an organization in neither the short or long term (Kaplan, Norton, 1996).

3.7.5 Information overload

With today's modern IT-systems, finding ways to measure has become less of an issue and measuring the right thing has become the critical topic. Measuring too many metrics leads to unnecessary administrative work for all involved departments in an organization (Lipe, Salterio, 2000, 2002; Ridgway, 1956). And it will also be difficult for top management to get a clear relevant picture of the organizations goals and the progression (Ridgway, 1956). A risk is that top management chooses to ignore the non-financial metrics and only focus on the financial metrics when there are too many metrics that are unrelated to the long-term competitive advantage of the company. This would destroy the purpose of BSC and create an imbalanced scorecard (Example, appendix 7)

Companies that have tried numerous different control systems usually suffer from a worse case of information overload, as the leftovers from the different attempts are still lingering in the organizational system (Burney, Matherly, 2007). When an organization wants to use BSC, an important aspect when it comes to relevant metrics is to start from scratch and identify relevant metrics, and then weigh them against relevance and effect generated to reach the strategic goals of the organization.

3.7.6 Resistance to change

Although change is executed with the intent of creating improvements, there is always a chance that the employees affected by the change will fight the change for various reasons (Child, 2005). While this is less relevant now, all management control systems that is planned to be implemented can encounter resistance within an organization, especially those that has had multiple failed attempts at implementing management systems (Child, 2005). When implementing BSC it is vital to communicate to the organization that it is not a management system for an isolated SBU or some SBU's in a company. It is vital that top management and lower management understand that it is a corporate wide strategic management system to create goal congruence and transparency. That allows everyone in an organization, when properly implemented, to view how their actions progresses the company towards its strategic goals (Kaplan, Norton, 1996). So to avoid an implementation of BSC becoming treated as yet another management system for one or few SBU's, it is vital to communicate the inter-relationship between the different perspectives to the units involved so that everyone thoroughly understands. That each action executed by one SBU affects the general outcome for whether the company can achieve its strategic goals or not.

3.7.7 Preserving status quo

There is a common argument for organizations or parts of organizations that are resistant to change, that line is “don’t fix what isn’t broken”. This line is often repeated by employees who can’t relate to the change in organization or operations when they perceive everything is working smoothly. The employees however often don’t understand corporate strategy and in turn cannot relate to why change is occurring when their day-to-day tasks are proceeding without complications. Many organizations have routines and localized goals setup for employees, but it’s rarely communicated why the goals are set, and even rarer is how they relate to corporate strategy.

3.7.8 Too much focus on financial metrics

Research on the strategy link indicates that most BSC firms are selecting diverse combinations of measures for their PM systems (Sandhu et al., 2008; Perrin, 1996). This can however become cumbersome if care is not exercised when evaluating the value of selected metrics. The risk of information overload with irrelevant information becomes and inherent risk in such scenarios (Cummings, 2004). Another related problem is the difficulty in determining clear cause and effect relationships between chosen metrics if they appear conflicting, this can diminish the purpose of creating goal congruence and instead create confusion regarding resource allocation (Kaplan, Norton, 1996, 2001). As such, an inherent problem when designing and implementing BSC for an organization, is the focus and tradition of only using performance metrics that have focused on financial metrics. The issue with financial metrics is that they can only reveal historic performance and does not provide any information regarding future performance or development (Merchant, 1985; Chakravarthy, 1986; Schoenfeld, 1986; Dearden, 1987; The AICPA, 1994) Kaplan, Norton, 1996). Nørreklit (2000) mentions that vagueness in cause and effect relationships are due not only because of vagueness in design, but also due to Kaplan and Norton’s ambiguity when explaining BSC. There is an inherent risk to only focus on financial metrics if the correlation between perspectives cannot clearly be shown to drive financial performance (Johanson, Skoog, Backlund, Almqvist, 2006). A lack of relevant causal relationship between metrics in the four perspectives could lead to top management not paying attention to any other metrics besides financial metrics (Kaplan, Norton, 1996; Nørreklit, 2000). In a survey conducted by Hackett Group (2004), Hackett Group concluded that less than 20% of companies that had implemented BSC had mature ScoreCards that generated value, furthermore the BSC implementations’ in Hackett Group’s survey made use of too many metrics and with heavy bias towards financial metrics.

3.8 Limitations

Reference theory in BSC has mainly focused on large corporations (Tennant, Tanoren, 2005), while its application on SME hasn’t been researched as thoroughly (Tennant, Tanoren, 2005). As there are considerable differences between how large corporations and SMEs operate, an eventual implementation of BSC in a SME has to be adjusted to suit the conditions a SME

operates in, this has been acknowledged by Tennant and Tanoren (2005), whom argue that SME have to operate on a more short term basis due to the competitive conditions of SME.

A factor that affects the implementation of BSC is that companies in hyper competition will have to make rapid adjustments within different units in an organization. Changing goals too often is a condition that Rompho (2011) mentioned that could dilute the value of using BSC, as that would make it difficult to anchor the targets within the units that will make use of them. There is also the problem of re-clarifying cause and effects relationships, spending time adjusting metrics will mean a company is spending more resources organizing units than performing activities to generate revenue.

A limiting factor that is opposite to the inflexibility of BSC is that Kaplan and Norton (1996) promotes double loop learning when designing BSC, setting evaluation milestones to revise and improve the implementation of BSC. When designing BSC, the importance of setting relevant metrics that allows a company to gain long term competitive advantages require time to communicate to all levels in an organization as well as to anchor the targets that have been set. Setting evaluation and revision milestones too frequently will make it difficult to anchor adjustments targets in an organization. While setting milestones too far in between would risk a company adhering to obsolete metrics in a rapidly changing environment. This ambiguity from the authors' causes BSC to appear both rigidly limiting and flexible (Nørreklit, 2000).

3.9 Empirical reference case of why BSC failed in a SME

The author's experience of finding empirical reference cases of BSC implementation in small companies, is that data and reports are scarce and not something that is readily available (Rompho, 2011; Andersen et al., 2001). This could be attributed to several factors:

The financial resources required to evaluate and implement BSC in small companies might outweigh the proposed benefits (Hudson et al., 2001). The usage frequency of management control systems in small companies might not be a common occurrence. There is also the possibility that management in small companies do not want to share the results of an implementation with outsiders, similar to the control desire that has been displayed in KFC Denmark regarding power delegation.

For this report the author has used an article conducted by Nopadol Rompho (2011) whom performed a case study of a failed BSC implementation in a SME. Rompho (2011) analyzes the underlying reasons why their implementation failed, and attempts to make generalizations that could occur in other BSC implementations in small companies. Rompho (2011) identified two key factors for why a BSC implementation in SME fails.

3.9.1 Design failure

This focuses on the use of metrics in the organization, as the failed case study had imbalances in its usage of metrics amongst the different perspectives. There was also the problem of having too many metrics and not having identified relevant metrics that would further the company's goal.

When there are too many metrics to adhere to, it creates confusion between which strategies that are best suitable to further the company's goals, as there can be conflicting results when striving to pursue too many metrics.

3.9.2 Process failure

It can be noted that a common reason for the failure of a BSC implementation is in during the implementation process (Kaplan, Norton, 2001)

The failures in the implementation process were due to:

- Lack of senior management commitment
- Too few individuals involved
- Keeping the scorecard at the top
- Overly long development process
- Treating BSC as a one-time measurement project
- Treating BSC as a systems project
- Hiring inexperienced consultants
- Introducing BSC only for compensation.

The key underlying factor for the failures in the implementation process were lack of open clear communication within the organization (Rompho, 2011).

3.9.3 Externality

The key factors that caused the failure identified by Rompho (2011) are generalizable as they can occur within any organization, and most of them are similar to the risks and difficulties that have been mentioned by Norton and Kaplan (1996) in their book "The balanced scorecard: translating strategy into action". It can also be concluded that implementing BSC in a SME is radically different than implementing it within a large organization, as the need for quick adjustments to maintain a competitive advantage is essential.

Factors that Rompho (2011) identified that are can be generalized to the KFC Denmark case are:

- Too few measures in some perspectives, imbalance between critical financial and non-financial metrics
- Not all metrics are fully relevant for the organization to reach its strategic goal

It was revealed during the case study by Rompho (2011), that even if the organization actually succeeded with the implementation according to the pre-requirements in theory. There was still a possibility that an implementation of BSC can fail. The cause for this case was that the metrics set were readjusted too frequently to be of any use, making obsolete before they could be used to gauge the performance of the units in the company and the company as a whole. Kaplan and Norton (2001) have highlighted the importance of having relevant consistent metrics over a period of time, to not risk having to keep the design process running indefinitely.

Chapter 4. Current conditions of KFC Denmark

This chapter will cover a detailed analysis of KFC Denmark's current conditions, ranging from management structure, corporate vision to employee policy. The current condition will provide a basis for what possibilities are available for KFC Denmark's BSC design.

4.1 About KFC Denmark

Since the KFC franchise in Denmark started as a wholly owned family company it has operated with a semi ad hoc like structure since its founding. While there is a traditional formal structure of director, managers and controllers, responsibilities and authority over the operations of its business units slightly overlap between all the different members of the family. While this might sound like a matrix like organizational structure, with shared authority and formally shared responsibility across different business units. The distinction in this case is that formally everyone has a specific role with certain tasks, responsibility and authority connected to that role, Whilst the actual operations consists of everyone being able to assume a jack-of-all-trades role.

The company has grown organically since its inception. From the author's understanding of the current and future plans regarding expansion, there are currently no plans to grow through merger, acquisition or joint ventures.

To get a proper understanding of the structure of KFC Denmark, the author has conducted interviews with the top management, CEO, CFO, Operations manager as well as the warehouse manager. The topics that were discussed during the interviews were:

- The company's current situation
- Strategy, long term and short term goal
- Management structure, chain of command
- Human Resource strategy
- Metrics used, underlying reason for selected metrics

The interviews were conducted with open questions to create a dialogue and deeper understanding of how KFC Denmark operated, and the background reasons for how KFC Denmark has arrived at their current position. The interviews were conducted on two occasions and the first focused on how the company is operating, the second focused on the change that KFC Denmark was going to implement. The questions can be found in Appendix 3, 4.

4.2 Vision and strategy

As it is a wholly owned family company and having grown organically, one cannot expect the same formal structure, rules and guidelines as a large enterprise that one can encounter when

reading reference literature and reference theory books about BSC (Ward, 2008). The strategy or main focus of the company is still to grow organically by accumulating profit from the established restaurants. Expansions to new locations are financed by a mix of company capital and loans from financial institutions. There is currently no fixed target for where and when the company will open up new restaurants, nor is there any set time frame. The tactic for selection of a location are evaluations of the locations customer potential, estimated time for brand to establish itself, return on capital employed to name a few. KFC Denmark currently has no set target to open a fixed amount of new restaurants per year instead it evaluates the possibilities as they arise.

4.3 Management structure

An illustration of the formal management structure can be found in Appendix 1.

In KFC Denmark, top management handles most decisions regarding the company, with little decentralization of authority. This is because the company is still small enough where top management is able to exercise its direct supervision over most of the day-to-day operations. Some parts of the operations are handled individually by the individual restaurant-managers. Each individual restaurant is treated as an individual Strategic Business Unit (SBU) and in turn carries a certain level of responsibility when reporting to top management about financial performance and non-financial performance. The different kinds of decisions are divided into centralized and decentralized.

Centralized decision-making

- Procurement sources
- Hiring of staff
- Work processes
- Central warehouse

4.4 Procurement sources

Procurement of goods is vital to the quality that KFC Denmark delivers to its customers and can be a complex process, hence why KFC Denmark has decided that the procurement process should be done by top management. KFC Denmark is free to procure goods either from other KFC suppliers in other countries or from local suppliers in Denmark, as long as the quality of goods delivered from the supplier meets or exceeds the standards that KFC Europe has set up. As such KFC Denmark has a mix of suppliers, both domestic and international.

4.5 Staff recruitment

As the staff is the front line personnel that meets and greets all the customers, it is also the service staff that will have the most impact on KFC Denmark's long-term success. With some of those considerations in mind, and also because of the importance of having a centralized unit for human resources, the hiring and firing of staff is also done centrally by top management. This

also removes the risk of an operations or shift manager in a local restaurant hiring friends or acquaintances that aren't suitable to work in a service industry. Having the human resources unit centrally administered also removes redundancy in a small organization as each local restaurant doesn't need to spend time and resources evaluating different candidates for each restaurant.

4.6 Work processes

As fast food franchises have strict control quality standards that all franchise licensees must adhere to. The day to day work of the employees in the restaurant is centrally decided by KFC Europe, with localization done to adhere to specific laws in each country. As such there is no difference between how food is prepared and served in either KFC franchise in Europe. The work processes are carefully detailed and must be read by all front line employees so they understand the importance of hygiene, freshness and quality.

4.7 Central warehouse

The central warehouse is under the supervision of top management. The suppliers are located both domestically and internationally and the choice of supplier depends on regular procurement factors such as price, quality, reliability, delivery time, freshness.

4.8 Decentralized decision making

- Staff scheduling and staff rotation
- Purchase amounts from the central warehouse

4.9 Staff scheduling and staff rotation

Each restaurant manager manages their own staff, from scheduling to staffing of personnel. As the manager in each restaurant has the most knowledge about customer volume, personnel efficiency and personnel culture. It is most suitable that they should decide who will be working in the restaurant at any given time. This also relieves top management of having to engage too much in day-to-day operations and focus more on strategic issues. While staffing is done locally, it cannot deviate too much from a given maximum and minimum limit of how many personnel should be working in a restaurant. As personnel costs in Denmark are very high, the cost of adding one more worker for a day significantly affects the profitability of a restaurant. As such there is a slight limit to how much freedom the operations manager of a restaurant has.

4.10 Purchase amounts

As each restaurant manager have the best knowledge about customer volume in each restaurant, it is most logical that they have the best knowledge about the amount of goods that are sold each day. In turn they can make the most qualified decision about the amount of goods to purchase from the central warehouse. All the managers order their goods from the central warehouse. Top management can provide assistance to restaurant managers if requested.

4.11 Staff policy

Topics covered under this headline are:

- Staff training formality
- Staff career
- Staff rewards and incentive
- Staff performance

The fourth perspective of BSC covers learning and growth for employees, which is essentially employee empowerment, incentive systems, employee training and employee performance in KFC Denmark's case. To properly understand KFC Denmark's situation the author inquired KFC Denmark's top management regarding how the current employee strategy is constructed. As staff policy forms the basis for constructing the incentive, empowerment and reward system when implementing BSC, it was important to understand the current staff policy to identify the gap between the current policy and proposed future policy, as well as the metrics and measures involved to measure how well the staff adheres to the training policies when performing the daily operations.

4.12 Staff training formality

Currently KFC Denmark trains its personnel by providing hands on training. The employees are guided in the tasks they are to perform, and are also instructed to perform them a few times in front of a supervisor to clear out any uncertainties. Besides the hands on training, the employees also have to clear a test and a basic hygiene course mandated by the department of health in Denmark. There is no system at the moment for registering and reporting each workers competence to external stakeholders, as such it is up to the operations manager in top management and the local restaurant managers in each restaurant to keep track of who has the competence to work in what position. During the interviews, it was clear that this was something top management intended to change.

While cash register personnel only have to understand their tasks and clear the test related to their position, a supervisor or restaurant manager has to complete the training and tests for all the positions in a restaurant. As the added responsibility will sometimes require the manager or supervisor to move between positions depending on how busy the day is, it is necessary that they have a complete understanding of all the roles in the process chain.

4.13 Career opportunities

There are 3 levels of employment in the local restaurants: Employee, which is the basic position working at the register as cash personnel or working in the kitchen as food chef. The second level is supervisor, with added responsibility for the restaurants performance. The third level is operations manager of the restaurant, with full authority and responsibility of scheduling

employees, the restaurants overall performance and purchasing of goods from the central warehouse. The decision of who will be promoted is done centrally as part of the human resource strategy of KFC Denmark. The higher levels of the hierarchy in KFC Denmark are currently mainly held by family members, relatives and close friends.

4.14 Staff rewards and incentive

There are currently two reward systems in place for operations managers in restaurants. The first reward is a bonus to the monthly salary if sales in their respective restaurant exceed a predetermined amount each month. The second bonus is also a bonus to the monthly salary, but with different thresholds and different metric. Instead of just measuring sales, the bonus is tied to the sales / total workers wage per month, with a different bonus amount depending on which threshold is reached.

4.15 Staff performance

KFC Denmark currently measures its staff performance with the help of an external partner, the process is similar to retailers employing mystery shoppers. This method is due to the licensing agreement with KFC Europe which requires the performance to be measured by an external company. KFC Denmark currently has no internal method to measure the employees' performance, and hence solely relies on financial metrics and the report compiled by the external partner.

The external partner makes anonymous unannounced visits to a random KFC restaurant and acts like a regular customer, making a purchase and using the facilities in the restaurant. After the whole process of entering the restaurant, purchase, exit has been finished. The representative from the external partner will then compile a report assessing factors affecting the score in the report. The report is called CHAMPS (Cleanliness, Hospitality, Accuracy, Maintenance, Product Quality, and Speed) and is sent to top management in KFC Denmark as well as KFC Europe. KFC Europe uses CHAMPS reports to assess the performance of the KFC restaurants across Europe. Hence CHAMPS scores are of high importance when KFC Europe assesses a licensee's performance in maintaining the KFC brand.

Chapter 5. Designing and implementing BSC in KFC Denmark

This chapter covers the design of KFC Denmark's BSC and the planned implementation of BSC. It will also cover the planned changes that will occur through the 1st and 2nd iteration of BSC. The discussion between tradeoffs between the choices considered and choices made is presented.

5.1 Discussing BSC design

This headline covers topics that were considered when discussing the implementation process of BSC in KFC Denmark, but that were left out of the final implementation by management due to several factors which will be detailed below. A second headline will cover the process and structure of the implementation of BSC that KFC Denmark chose to execute.

When the author was discussing and drafting the design of BSC together with top management in KFC Denmark, the focus was on adjusting theory to practice. This could potentially lead to KFC Denmark's BSC design not adhering to the BSC design explained in theory. When structuring the implementation process of BSC for KFC Denmark, the theories mentioned above were simplified and explained to management in layman's terms so that any gap between management and the author could easily be bridged. As the implementation process of BSC is not something that is accomplished on the first try, several meetings and discussions with top management was held to detail how BSC could be implemented in KFC Denmark (Questions are detailed in appendix 3, 4). Part of the process of was emphasizing the importance of goal congruence and how they establish the fundamentals for a successful or unsuccessful implementation.

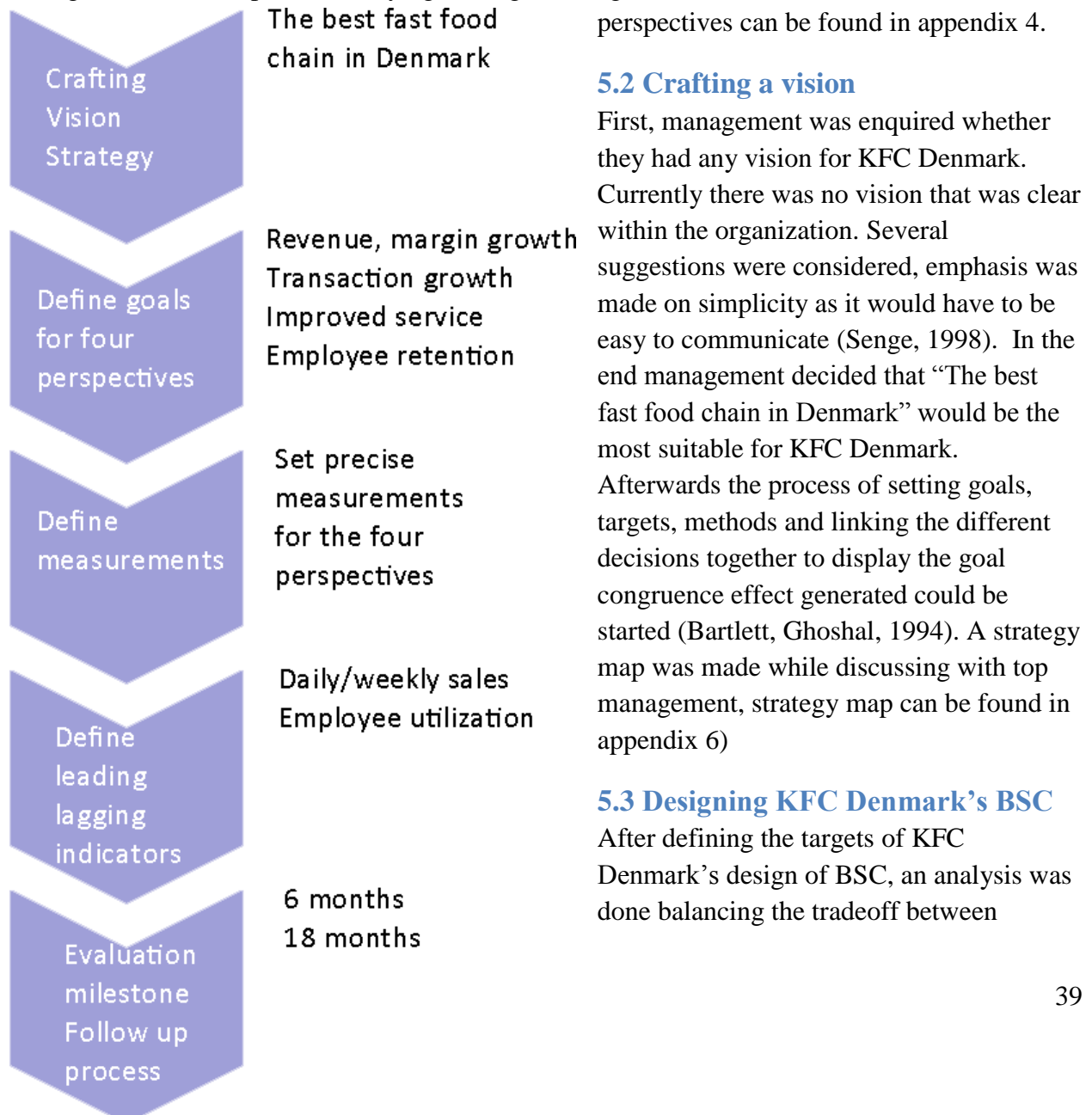
A possible method for crafting KFC Denmark's BSC implementation was to make use of prototyping (Larsson, 2004). This would theoretically enable top management and all the staff to work together on a model for how it could work. This would be less risky for management as the model is evaluated and improved as input and feedback is continuously provided over time, and possible losses due to miscommunication, and risks are tried in the model before implemented. However KFC Denmark's current condition is not suitable for prototyping for its first iteration of BSC due to:

- Time constraint
- Management's reluctance to involve staff in the development process
- Lack of metrics
- Lack of knowledge

However prototyping was suggested as a method when the milestones' for evaluation and improvement were reached. That would allow management to get familiar with the changing

process that implementing a continuously evolving management control system entails (Larsson, 2004). Rolf G. Larsson (2004) has presented various ways of developing BSC with prototyping that would allow for a more complete approach, but also require more resources and time, which the first BSC iteration did not have room for. However for KFC Denmark's 2nd iteration of BSC it would be a method of consideration. But that would also be dependent on management's willingness to use more time and resources to have large improvements or small incremental improvements. It might also open the door for more employee involvement with the possible effect of increased satisfaction as it is designed by all involved parties.

As explained under the theory headline above, the process for implementing BSC is to have a top down approach when presenting it to top management. As understanding and support within higher management is another crucial factor for implementing BSC. Several drafts were considered for each of the four perspectives and pros and cons were weighed against the resources needed against the time available to implement the drafts. Questions discussed throughout the whole process of trying to set goals, targets and method for the different



measuring more metrics in relation to the value of data received. This was used to assess the value of difference in administrative work load, and was dependent on how drastic the changes proposed and decided upon would affect the daily operations for the different layers in the organization.

5.3.1 Strategic goal

The first step was to establish new concrete strategic goals, the company previously hadn't set a clear strategy that directed its efforts, and the aim of the company was mainly to turn an annual profit. With focus directed on generating enough profit to sustain the company over time. No decisive decisions were made to as how the net profits generated would be invested or towards what activity the further investment could generate positive Return on Investment. Strategic goals should be long-term to allow top management to direct its short term activities and their results towards a few clear goals, as such several possible long-term goals were proposed, as well as the plausibility of the targets. Several suggestions were discussed, focusing mainly on large long-term strategic targets that required large capital investments or activities whose effects would drastically affect the company's situation (Danny, 2006). Topics suggested and discussed between the author and top management, were opening of new restaurants, acquiring of a new license to expand into new markets, market share increases. The degree of commitment to the topics discussed varied as some of them were perceived to be too vague to be able to properly asses for now.

The strategic goals for KFC Denmark for this implementation of BSC were decided for a 5 year period and it encompasses the following strategic targets:

- Two definitive capital investments, as top management decided that the opening of 2 new restaurants would be a reasonable long-term goal.
- A possible expansion into new markets if a license can be acquired.
- Tripling the current market share, measured in company revenue/industry revenue

Considering the company's growth the past few years it was decided by top management that growth targets above these mentioned goals would be too ambitious, as top management has yet to get accustomed to using BSC as both a management system as well as a control system. As mentioned in strategic goal, top management will start to measure new metrics to

5.3.2 Financial perspective

The second step was to establish new financial targets for the company, as KFC Denmark previously operated mainly with the goal of achieving profit, without a clear target of how much profit was to be achieved or what margins to reach. During the interviews with management, information was gathered regarding the revenue and profit from the last few years. Margin and average margin measurement was something that was brought up, but it was a metric that the company currently didn't measure. It was suggested by the author that the company starts to measure average margin, as the margin data on each product was already readily available

according to management. It was suggested by the author to top management that financial goals should encompass revenue, margin and cost targets, as are all related to the final profit generated by the company's profit units. The current situation of the company only focuses on making sure that the daily/weekly/monthly operations exceed the costs for the target time period.

It was suggested that revenue goals should focus on growth that at least meet or exceed average growth goals achieved in the past few years. Considering that a growth target below the average of past years isn't feasible since the company had opened new restaurants these past few years. As mentioned in the above paragraph, the company currently didn't measure average margin in the daily operations, it was suggested that a margin goal should be included in the financial targets from day 1 as the value of that information provides relevant information for how promotion campaigns affect the profitability of the company. It was also suggested that the base margin of comparison should be last fiscal year's average revenue, and that the target should be a modest growth as top management noted that a small company such as KFC Denmark have difficulties pushing margins further than they currently have now.

It should be noted that there is a theoretical minimum and maximum for how much margin that can be achieved per sales. As top management explained, some goods' margin can't be adjusted as they can't freely select whom to procure the goods from, another example is that the margin difference between some products are quite large and that an increase in average margin would have to happen by increasing the sales of high margin goods compared to lesser high margin goods even though they aren't substitutes.

The third financial metric discussed was expenses, as expenses in the form of rent, salary, waste disposal and goods procurement increases on an annual basis. Controlling expenses for a small company is a crucial component. Hence it was brought up which part of expenses KFC Denmark thought would be most reasonable to achieve, to reduce expenses on an annual basis or control the increase in expenses within a cost spectrum. After having discussed possible ways to adjust expenses it was decided that keeping price increases within a price spectrum would be more reasonable when bearing the long term strategy in mind when discounting the capital investment of opening a new restaurant. As opening new restaurants while reducing expenses, and invest with the company's capital reserves didn't seem feasible to top management.

Besides those three main financial metrics, it was discussed whether top management currently used any other relative metrics e.g. revenue/employee, profit/employee or profit/restaurant. Several relative metrics were suggested and top management noted that some of the relative metrics discussed would be valuable to start measuring, however it wasn't something that whose growth goal could be decided for this implementation of BSC, as it wasn't something that the company had used before.

The financial targets decided upon by top management were to set growth targets to:

- Annual revenue growth of 10%
- Annual margin improvement of 0,35%
- Annual cost increases within 2-3%
- Annual profit increase of 5%

As explained in the considerations-financial goals headline, KFC Denmark currently doesn't measure a lot of metrics that top management considered useful. As such other metrics proposed will not be implemented in this revision of BSC. However top management decided to find ways to start measuring some of the other metrics proposed.

5.3.3 Customer perspective

When reviewing reference literature and articles about successful and unsuccessful BSC implementations. Those cases usually involve large corporations in the USA that have ways to measure customer satisfaction, retention rate, repurchase rate etc. Many of the companies mentioned in reference cases usually have a share that are private consumers and a share that are corporate clients (Kaplan, Norton, 1996)

When discussing targets for the customer perspective with the top management of KFC Denmark, they were inquired whether they had tried to measure customer satisfaction in the past and whether the data generated proved to be of any value. Top management mentioned that they had tried to measure customer satisfaction in the past in all the restaurants using a survey where customers could rate their satisfaction regarding the food, service and restaurant quality as well as write an open comment for critique or praise. The survey was handed out to all customers in all the restaurants. However when compiling and analyzing the results from the survey, top management considered the data to be of low value that didn't give them enough useful information that could generate activities that could improve the company's customer satisfaction.

Another aspect that is vital to mention, is that KFC Denmark has no way to measure regular core values in the customer perspective such as customer retention rate, customer repurchase rate. Top management commented that due to the nature of the fast food industry where customers expect quality service, quality food and fast service, there simply aren't optimal conditions to register customers and measure who are returning customers and whom are new customers. Any delay in delivering quality to customers would generate more bad affects compared to the data generated in this case.

As such the common core components of BSC (Kaplan, Norton, 1996) had to be revised for this implementation. Since the customers are mainly anonymous, in the sense that the company can't tell if a purchase has been made by a new or current customer, the proposed metrics for measurement in this perspective should be focused on transaction volume, average sum of transactions, margin per transaction, average CHAMPS score. These metrics should be able to

provide insight to top management to how the customer perspective is developing, as to whether the customer base is shrinking or increasing when analyzing transaction frequency.

The targets that top management chose within the customer perspective were:

- Annual transaction volume growth of 2%
- Annual increase in value per transaction of 2-3%
- Achieve an average score of 75 in the CHAMPS report

It was proposed to top management that they measure average margin per transaction to pinpoint the average revenue generated for each sale. However, there was currently no way for management to measure either margin/day or margin per sales, so this metric would be postponed until proper infrastructure was available.

5.3.4 Internal business process perspective

According to top management, the daily operations in KFC Denmark is strictly regulated by KFC guidelines established by the KFC headquarters in USA that then has been passed onto KFC Europe. This means there is little to no possibility to affect the actual work process amongst the restaurants, if there is an off chance that a local restaurant manages to develop an improvement in a work process, it can be submitted to KFC Europe for evaluation, however it will still be a regional solution until it is officially endorsed. Top management mentions that they find it difficult to find further ways to improve either the work flow or work process, as KFC Denmark themselves have tried some small adjustments according to their local conditions to improve the work flow as well as reduce the overhead in the work processes. As such it was difficult to propose an improvement target or a growth/reduction target for this perspective. Some suggestions were made that somehow overlap with the customer perspective, the first suggestion was the complaint rate in regards to customer service related to slow service. The second suggestion was successful conversion rate of complaints from customers, which means that if e.g. 30 customers complains, at least a certain percentage of them should be satisfied with the compensation offered to them. Another suggestion was to separate complaints related to customers purchasing for consumption in the restaurants and customers purchasing for take away, although the work processes to deliver quality food and service to the customer in both cases are the same.

Top management decided that for this perspective it decided to set the targets at

- 0% complaints related to poor or slow service
- 95% complaints conversion rate
- 0% errors in delivery

5.3.5 Learning and growth perspective

After having discussed the implementation process and possibilities with the management of KFC Denmark, it became clear that some essential parts of a fully functional implementation of BSC were not possible in KFC Denmark. There are several factors weighing on this opinion, the first factor is the industry that KFC Denmark is active in, the second factor is the corporate culture in Denmark, the third factor is the degree of centralized/de-centralized control demanded by top management.

The fast food industry, rarely or never have bonus systems for its front line staff. There are exceptions that operation's managers or shift managers have received some kind of bonus tied to the performance of the profit units they work in but the bonus systems rarely encompass all front line staff (Bakker, 2008). The fast food industry mainly employs youths and students for various positions (Tudor, 2011), full time as well as part time employees, for a few years work. It's an industry where few people pursue a full career, working from the front line to top management. As such KFC Denmark doesn't consider a bonus system tied to target goals encompassing all employees a viable alternative for them.

As has been mentioned under the Theory headline, that BSC is meant to bring everyone amongst the working staff towards a common goal by creating relevant goals for different levels in the organization with a proper level of empowerment to the staff. However, after discussing the issue several times with management, it is currently unlikely that any change in empowerment will occur in the implementation of BSC at KFC Denmark. Under the staff rewards & incentive headline are the details of the current reward structure in KFC Denmark.

To create empowerment within the whole organization amongst all employees, it was discussed whether a reward and incentive structure that covered all the staff working in the restaurants could be implemented. Possible ways discussed to empower the staff working in the restaurants would be to create a bonus system with revenue targets that all the staff were part off. Coupled together with more staff training about sales and customer relations it would make the staff more motivated to put in the extra percentages to create fully satisfied customers. This could drive an improvement in sales that would benefit both the company as well as all the staff working in the restaurants' that met the revenue targets.

Another way to create empowerment amongst employees was to tie a reward system together with reduced waste generation coupled with waste reduction targets. An initial estimate of waste generated per day/week/month from all the restaurants was drafted, as well as the product mix of the waste generated. An estimate of the losses incurred by the waste was then made with the draft and shown to management. A suggestion of tying rewards to a continuous flat reduction in waste generated was mentioned, the reward amount would then be tied to the costs saved by throwing away less food. A flat reduction in waste generation would allow the company to

reduce the waste generated which in turn would reduce the amount of food wasted and increase the overall revenue in the company as the food that used to be thrown due to overproduction at the wrong time, can now be produced at the right time and sold to customers which would then fulfill two goals, the first being reduction in waste generation, the second goal being increased revenue for the company.

A proposal indirectly related to the proposal of reduced waste generation, was a proposal to increase the environmental awareness amongst the staff within the company by communicating out that KFC Denmark was aiming to reduce its carbon footprint by reducing waste. The effects that were hoped to be achieved when discussing this topic, was to 1: to improve employee satisfaction/well-being, this would create positive spillover effects into the employee turnover rate, reducing the amount of personnel quitting KFC Denmark on an annual basis. The second effect would be to display KFC Denmark as a proactive company seeking ways to reduce its carbon footprint, a secondary effect of displaying KFC Denmark as a green company would be to create attention and publicity. As KFC Denmark, by their own words, have stated that KFC is still a relatively unknown brand compared to the common fast food brands McDonalds, Burger King and Sunset Boulevard, any positive publicity would just work to strengthen the brand.

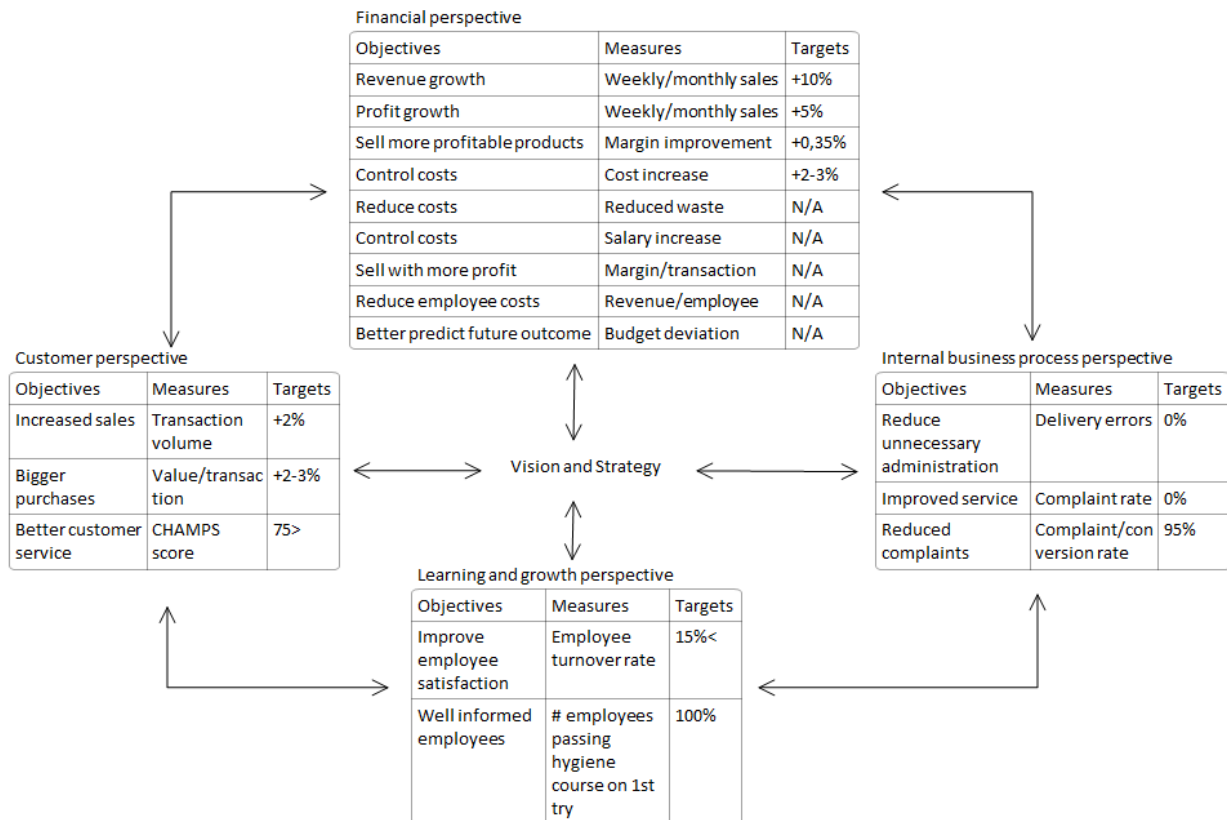
Management was given some time to consider if these two proposals would be possible and suitable to implement in KFC Denmark. Management mentioned that the use of bonus incentives are rare in Denmark and even more rare in the fast food industry, if there would be bonus incentives it would only encompass the operations managers and top management. As such management were reluctant to expand the current reward and incentive plan to cover all the staff in the restaurants, as they thought the structure would create opportunism in the staff, affecting their working behavior that would result in them working towards a bonus target and not customer satisfaction. Another factor that management thought didn't weigh towards the benefit of the draft proposals was that KFC Denmark currently didn't measure some of the numbers required in the proposed drafts. For example to be able to tie reward with reduced waste generation. Management would first have to introduce the routine of measuring waste into the restaurants, and then afterwards measure over a period of time before an actual bonus system tied to waste reduction could be created.

Considering the time frame currently available for KFC Denmark available to implement BSC, management decided that a future revision of the reward and incentive structure could consider the draft proposals, but that it wasn't something that would be implemented in this revision of BSC at KFC Denmark.

Targets decided upon by management were

- employee turnover rate below 15%
- all employees should pass the mandatory hygiene course on the first try

As has been mentioned in the theory-culture and considerations-learning and growth headline, the common core component of employee empowerment to create goal congruence is difficult to implement in KFC Denmark. As such it was decided that a reduction in employee turnover rate and quick installment of new employees by having them pass the mandatory test on the first try to be a sufficient goal for this revision of BSC. (Full size in appendix 5)



(Inspired by Kaplan and Norton, 1996: 9, 68)

5.4 Defining leading and lagging indicators into a strategy map

Within the BSC framework, the performance measures consists of a mix of leading and lagging indicators of performance. Leading indicators can help project future financial performance and includes measures such as employee satisfaction and customer satisfaction (Albright and Lam, 2006). As KFC Denmark has not made much use of metrics in the past to judge future profitability or to assess the profitability of its restaurants, there was some uncertainty to whether the usage of traditional leading economic indicators such as GDP development of Denmark, national reference interest rate of Denmark, unemployment/employment rate could be of use to predict future profitability. Regular lagging indicators such as daily/weekly revenue as an indicator for monthly/annual profitability were used more as comparison to assess the profitability compared to the same period the year before.

Top management decided that they would assess the need to use leading economic indicators further in time, but that it was something they would not use in this iteration of BSC. They also decided to expand the use of lagging indicators to use new metrics.

The author together with top management created a strategy map to get an overview of the different goals in the 4 perspectives (Appendix 6). The strategy map shows the goals to achieve the long term competitive advantage to achieve long term sustainable growth. The strategy map displays the cause and effect relationship that exists in KFC Denmark according to top management. It displays how activities in the learning and growth perspective support the changes in the other perspectives to achieve the strategic goals.

5.5 Ideas for implementing BSC

When implementing BSC one has to consider what is to be achieved when defining the vision and strategy of the company. When BSC is properly implemented it is meant to create goal congruence throughout the organization with a clear understanding of how each individual's action brings the company closer to achieving its strategic goals. This allows the company to unleash its true potential by creating a clear cause and effect relationship between different SBU's goals and actions in a company.

This is what will allow a company to set ambitious visions and goals that distinguishes a time period with BSC as management system from past time periods of strategies and vision. A goal with implementing BSC is to create discontinuous development, to switch from an evolving strategy to a revolutionary strategy. However great this sounds in theory, it is easier said than done. It is common for many implementations of management systems in general to fail in being implemented, failing to deliver according to promises or becoming overly complex.

When implementing the BSC management system, metrics is a reoccurring topic of discussion as a vital core of a proper implementation of BSC, is metrics. It comes down to these points:

- Measuring the right thing
- Measuring right
- Amount of metrics in relation to information gained

As have been discussed, there are numerous factors that could affect how useful the metrics are. In BSC the metrics are vital to a successful implementation, if a clear cause and effect relationship between strategic goals and proposed metrics cannot be established then they probably aren't useful.

5.6 Analysis of KFC Denmark's implementation

The conditions that KFC Denmark operates in provided some obstacles that affected the flexibility in how BSC could be implemented. In KFC Denmark's implementation of BSC, the financial- and customer perspective metrics have a direct impact on the company's desire to achieve its long term goals. When considering some of the core purposes of BSC (Kaplan,

Norton, 1996) together with how KFC Denmark plans to implement BSC, it is apparent that there is considerable discrepancy between theory and practice in this case study. The lack of change in empowerment and delegation of authority in KFC Denmark removes one of the base pillars of a BSC implementation. As the preservation of the status quo towards the staff removes an opportunity to create goal congruence amongst the staff, there is a risk that KFC Denmark will only expand its use of financial metrics and not reap the benefits that has been promoted by Kaplan and Norton in “The Balanced Scorecard” (Rompho, 2011; Hatton, Emerson, Rivers, Mason, Mason, Swarbrick, 1999; Miner, 2003; Mitchell, 1973; Tudor, 2011).

When taking the Danish culture and the culture of the fast food industry into consideration it cannot be directly concluded that the lack of empowerment will cause KFC Denmark’s implementation of BSC to fail, as there was no inherent use of the level of empowerment described by Kaplan and Norton (1996) and Tudor (2011). An eventual introduction of a bonus incentive system could create opportunism amongst employees that degraded the quality of work, as well as it could have created involvement and commitment. The uniqueness of KFC Denmark’s case, Danish culture and fast food industry, makes it difficult to find clear measures that work or make generalizations from implementations of BSC in other SME. While the use of performance metrics in the internal processes and learning and growth perspective are reasonable, they do not align with the long term strategic goal of the company. As the success or failure within some metrics do not affect the company’s long term goals.

The heavy bias towards financial metrics by KFC Denmark will not drive a change in how the organization operates, as the staff is not involved in shaping how to achieve the new financial metrics. Top management’s decision to expand the use of metrics, would mainly result in an increase in administrative work and mark a formalization of some agreements and knowledge that previously was tacit knowledge. While it is beneficial to have tacit knowledge becoming explicit knowledge, it also has to be relevant for the company’s long term goals.

While it would be more suitable to measure the effects at a further point in time to clearly assess, measure and analyze how well BSC scale down into small companies in this case study. It was beyond the scope of this report, as our topic of research focuses on the feasibility of an implementation of BSC in a small organization.

5.7 Set evaluation milestones and follow up processes

When discussing the necessity for top management to set a time frame to revise the BSC implementation it was recommended that it should allow a time frame to implement the changes necessary to accommodate the desire to expand the use of metrics. It was decided by top management that a reasonable time frame for them to evaluate their first implementation of BSC, and revise their infrastructure and work routines to accommodate the additional changes that were proposed would be 6 months from its first iteration. Afterwards depending on the results, either 6 or 9 months until the next reevaluation time point.

When comparing the expected fallout of the first iteration of the KFC Denmark's BSC implementation, it is apparent that there are considerable differences between the status quo and what is to be achieved. If one considers the expectations for iteration 2 of BSC, there is an even larger difference gap to bridge.

At each evaluation point in time, the parameters to evaluate are if the adjustments in administrative work have led to any unwarranted increase in work load that can't be related to a value increase derived from useful economic data.

Chapter 6 Cultural and industry analysis

This chapter covers the analysis of culture and the fast food industry. The author perceived culture and industry affiliation to have an impact on KFC Denmark's design and implementation of BSC. As BSC originates from US, it is deemed to affect KFC Denmark's BSC outcome. The fast food industry and its characteristics are presented to provide additional information about a factor that could impact the design of KFC Denmark's BSC.

6.1 Reviewing the research topic

“How does Balanced ScoreCard scale down into small organizations?”

Studies conducted by other researchers have identified factors related to the failure of BSC, due to lack of resource and commitment, and time and design failure. The author has identified two factors that are case specific for this research. The analysis considered culture, theory, industry affiliation to assess whether KFC Denmark's implementation of BSC is successful, semi-successful or unsuccessful.

Culture is a factor whose exact influence is difficult to pinpoint, but nonetheless it will have an impact on all aspects of society (Hofstede, 2001, 2005). The author's opinion is that culture could have an impact on how top management in KFC Denmark chose to design its BSC, as well as affecting the reasoning behind top management's decisions.

Industry affiliation could also affect the flexibility in designing and implementing BSC. The fast food industry has characteristics that are not easily replicable in other industries (Tudor, 2011). The author deemed that industry affiliation in this case study affected the outcome of KFC Denmark's BSC design.

6.2 Cultural overview

Bearing in mind that BSC is a management control system that has its origins in USA. Which means it is a management control system that is heavily influenced by US corporate culture. As KFC Denmark is a small company operating in Denmark, the disparity that can arise due to the difference in national and corporate culture between the two locations can prove detrimental to a successful implementation of BSC. In this report the author will try and describe the national- and corporate culture of both USA and Denmark in brief. It won't be a thorough explanation into the field of cultural studies. Instead the author will make use of the results and conclusions conducted by Geert Hofstede (1991). While there is an inherent risk in relying on one source for a report, Hofstede's "Cultures and organizations — software of the mind" has been constantly peer reviewed by researchers in several disciplines that is analyzing culture (Milner, Fodness, Speece, 1993; Sondergaard, 1994; Engel, Blackwell, Miniard, 1995; Dawar, Parker, 1994;

Dawar, Parker, Price, 1996; Sivakumar, Nakata, 2001; Lenartowicz, Roth, 1999, 2001), either as an independent variable or as a co-variable in their research (Sondergaard, 1994; Steenkamp, 2001; Milner et al., 1993) (Engel et al., 1995; Dawar et al., 1996; Sivakumar, Nakata, 2001; Shamkarmahesh et al., 2003). Hofstede has also amassed a quantitative mass of data in his research covering over 116,000 questionnaires from over 60,000 respondents in seventy countries in his empirical study. As the author did not have resources to conduct a similar research regarding the difference between Danish and US national- and corporate culture. The use of Hofstede's research as a base platform were suffice for this report, quotes of Hofstede's own definitions and explanations were used in cases where the author could not re-define them in a more simplistic manner.

6.3 Culture variables

While the definition of cultural variables to use has been discussed amongst scholars (Bond, 1987; Clark, 1990; Dorfman, Howell, 1988; Hofstede, 1984, 1991; Inkeles, Levinson, 1969) Keillor, Hult, 1999; Schwartz, 1994; Smith et al., 1996; Steenkamp, 2001; Birnberg, 1988; Lenartowicz, Roth, 1999). Hofstede's definitions are the most widely used in psychology, sociology, marketing, or management studies (Sondergaard, 1994; Steenkamp, 2001). Hofstede outlines 5 dimensions that are used to measure cultural differences between nations in his research:

6.3.1 Individualism–collectivism (IDV)

The individualism–collectivism dimension describes the relationship that each individual in a society has with their surroundings. It is reflected in each individual's reference to the society they exist in with the terms of me or us.

“The high side of this dimension, called Individualism, can be defined as a preference for a loosely-knit social framework in which individuals are expected to take care of themselves and their immediate families only. Its opposite, Collectivism, represents a preference for a tightly-knit framework in society in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for unquestioning loyalty.” (Hofstede, 2005 2nd ed, s76)

6.3.2 Uncertainty avoidance (UAI)

The uncertainty avoidance dimension describes how the individuals in a society feel discomfort at uncertainty and ambiguity. Since the future and relations between people always carry a certain degree uncertainty, there are differences between how cultures react and tackle these uncertainties. A high degree of uncertainty avoidance displays a desire to create frameworks to reduce the degree of uncertainty. It could be with the help of law, rules, guidelines and rituals. A low degree of uncertainty avoidance reflects a more relaxed approach to problems and complications, and where practice and pragmatism is more prevalent (Hofstede, 2005).

6.3.3 Power distance (PDI)

The power distance dimension displays the degree that individuals in a society accept and expect that power distribution is unequal. This also affects how a society tackles inequality in power distribution. A high degree of power distance indicates an acceptance of high hierarchical order where each person has a designated place. A low degree of power distance reflects there is an expectation that power is more equally distributed and will strive to attain a fair degree of power distribution (Hofstede, 2005).

6.3.4 Masculinity-femininity (MAS)

The masculinity-femininity dimension refers to a society's framework of preference for goals. A high degree of masculinity indicates a preference for heroism, assertiveness, monetary and material rewards. A high degree of femininity reflects a preference for cooperation, modesty, compassion and quality of life (Hofstede, 2005).

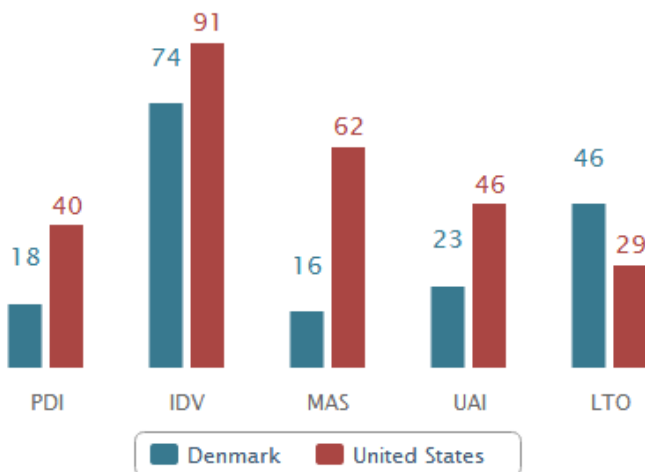
6.3.5 Long term orientation (LTO)

The long term orientation dimension is best described by Hofstede:

“The long-term orientation dimension can be interpreted as dealing with society's search for virtue. Societies with a short-term orientation generally have a strong concern with establishing the absolute Truth. They are normative in their thinking. They exhibit great respect for traditions, a relatively small propensity to save for the future, and a focus on achieving quick results. In societies with a long-term orientation, people believe that truth depends very much on situation, context and time. They show an ability to adapt traditions to changed conditions, a strong propensity to save and invest, thriftiness, and perseverance in achieving results.” (Hofstede, 2005 2nd ed: s229)

6.4 Cultural analysis

In this headline an analysis of the cultures in Denmark and USA were conducted in regards to Hofstede's 5 dimensions of culture. Additionally further analysis and description of characteristics of corporate culture was done.



The results from the data gathered by Hofstede (2005: 44, 112, 121, 169, 223) are illustrated in the diagram above. (Source: <http://geert-hofstede.com/denmark.html> , <http://geert-hofstede.com/united-states.html>)

6.4.1 PDI

Denmark ranks low on the power distance scale with 18 points. This reflects a high degree of power distribution amongst society and business, where supervisors assume a directing role more than a steering role (Döös , Waldenström, 2007). In Hofstede's research he describes Denmark:

“With a score of 18 points Denmark is at the very low end of this dimension compared to other countries. This matches perfectly with what many foreigners in Denmark express: Danes do not lead, they coach and employee autonomy is required. In fact, Denmark ranks highest amongst the EU27 countries in terms of employee autonomy. With a very egalitarian mindset the Danes believe in independency, equal rights, accessible superiors and that management facilitates and empowers. Power is decentralized and managers count on the experience of their team members. Respect among the Danes is something which you earn by proving your hands-on expertise. Workplaces have a very informal atmosphere with direct and involving communication and on a first name basis. Employees expect to be consulted.”

(<http://geert-hofstede.com/denmark.html> 2012-05-16)

USA ranks around medium on the power distance scale with 40 points, and the implications of these results in accordance with US culture is best described by Hofstede:

“The United States score low on this dimension (40) which underscores the American premise of “liberty and justice for all.” This is also evidenced by the focus on equal rights in all aspects of American society and government. Within American organizations, hierarchy is established for convenience, superiors are always accessible and managers rely on individual employees and teams for their expertise. Both managers and employees expect to be consulted and information is shared frequently. At the same time, communication is informal, direct and participative.”

(<http://geert-hofstede.com/united-states.html> 2012-05-16)

6.4.2 IDV

Denmark ranked high on the individualism scale with 74 points, which is described by Hofstede:

“This means there is a high preference for a loosely-knit social framework in which individuals are expected to take care of themselves and their immediate families only. It is relatively easy to start doing business with the Danes. Small talk is kept at a minimum and you do not need to create relationships first. Danes are also known for using a very direct form of communication.”

(<http://geert-hofstede.com/denmark.html> 2012-05-16)

USA ranked very high on the individualism scale with 91 points, which indicates it is a highly individualistic society where individuals are expected to look after themselves in almost all aspects of life. Hofstede describes USA in regards to IDV as:

“This translates into a loosely-knit society in which the expectation is that people look after themselves and their immediate families. There is also a high degree of geographical mobility in the United States and most Americans are accustomed to doing business with, or interacting, with strangers. Consequently, Americans are not shy about approaching their prospective counterparts in order to obtain or seek information. In the business world, employees are expected to be self-reliant and display initiative. Also, within the exchange-based world of work, hiring and promotion decisions are based on merit or evidence of what one has done or can do.”
(<http://geert-hofstede.com/united-states.html> 2012-05-16)

6.4.3 MAS

Denmark ranked very low on the masculinity-femininity scale with 16 points, it shows that Denmark is classified as a country with feminine society. Hofstede describes it as:

“In feminine countries it is important to keep the life/work balance and you make sure that all are included. An effective manager is supportive to his/her people, and decision making is achieved through involvement. Managers strive for consensus and people value equality, solidarity and quality in their working lives. Conflicts are resolved by compromise and negotiation and Danes are known for their long discussions until consensus has been reached. Incentives such as free time and flexible work hours and place are favoured.”

(<http://geert-hofstede.com/denmark.html> 2012-05-16)

USA ranked medium on the masculinity-femininity scale with 62 points and is classified as a masculine society. Hofstede describes it as:

“Behavior in school, work, and play are based on the shared values that people should “strive to be the best they can be” and that “the winner takes all”. As a result, Americans will tend to display and talk freely about their “successes” and achievements in life, here again, another basis for hiring and promotion decisions in the workplace. Typically, Americans “live to work” so that they can earn monetary rewards and attain higher status based on how good one can be. Conflicts are resolved at the individual level and the goal is to win.”

(<http://geert-hofstede.com/united-states.html> 2012-05-15)

6.4.4 UAI

Denmark ranked low on the uncertainty avoidance scale with 23 points. This indicates a low desire to structure up too much with rules and guidelines, and a high degree of pragmatism and dynamic in approaching uncertainty. Hofstede describes it as:

“Plans can change overnight, new things pop up and the Danes are fine with it. It is a natural part of their work life. Curiosity is natural and is encouraged from a very young age. This combination of a highly individualistic and curious nation is also the driving force for Denmark’s reputation within innovation and design. What is different is attractive! This also emerges throughout the society in both its humour, heavy consumerism for new and innovative products and the fast highly creative industries it thrives in – advertising, marketing, financial engineering.”

<http://geert-hofstede.com/denmark.html> 2012-05-16)

USA ranked medium on the uncertainty avoidance scale with 46 points, and is best described by Hofstede:

“The US scores 46 on this dimension and therefore, American society is what one would describe as “uncertainty accepting.” Consequently, there is a larger degree of acceptance for new ideas, innovative products and a willingness to try something new or different, whether it pertains to technology, business practices, or foodstuffs. Americans tend to be more tolerant of ideas or opinions from anyone and allow the freedom of expression. At the same time, Americans do not require a lot of rules and are less emotionally expressive than higher-scoring cultures. “

<http://geert-hofstede.com/united-states.html> 2012-05-16)

6.4.5 LTO

Denmark ranked medium with 46 points on the long term orientation scale. Hofstede described Denmark as a short term orientation culture.

“Societies with a short-term orientation generally have a strong concern with possessing and if A is true then B must be false. Focus in business life is very much on what is happening now instead of in ten years’ time. Priority is therefore given to abstract rationality and analytical thinking”

<http://geert-hofstede.com/denmark.html> 2012-05-16)

USA ranked low with 29 points on the long term orientation scale and can also be classified as a short term orientation culture. However the framework that Hofstede describes USA is different.

“It is a culture focused on traditions and fulfilling social obligations. Given this perspective, American businesses measure their performance on a short-term basis, with profit and loss statements being issued on a quarterly basis. This also drives individuals to strive for quick results within the work place. There is also a need to have the “absolute truth” in all matters.”

<http://geert-hofstede.com/united-states.html> 2012-05-16)

2012-05-16)

6.5 General culture analysis

There are stark differences in culture between Denmark and USA (Nørreklit 2006), Hofstede's research has highlighted the situation in modern times. Most of these differences have arisen through history and are a result of how the business and worker culture has developed.

The Danish culture has a long history of amassing power and authority to collective institutions (Schramm-Nielsen, 2001; Ramstad, 1991; Nørreklit, 2006). This allowed few institutions to represent many people in negotiations with larger corporations. The dominant presence of unions in current Denmark can be attributed to its historic heritage. As such, business relations display a high rate of group decision making between groups with concentrated authority (Nørreklit, 2006). Research shows that open communication, negotiation and clear consensus were important in a budgeting process, and that the focus is coordinating resources and delegation of authority instead of focusing on prioritizing and resource allocation (Melander, 2003). The importance of clear communication reflects the desire to balance different stakeholders and special interests (Nielsen, Sørensen, 2003). This emphasizes the collective rather than the individual as was shown by Hofstede's research (2001), while also highlighting the importance of collective cooperating capabilities of the individuals in the Danish society.

The collectivism of Danish culture is also shown in its use of bonus incentive system (Nørreklit, 2006). A past study has shown that the use of bonus incentives in Danish firms were very low amongst managers (Nørreklit, Sørensen, 1998). This does not mean that the Danes dislike autonomy as can be viewed in the above diagram, the low PDI and high IDV value is reflected in the high level of empowerment in Danish business culture. It is expected that the individuals' empowered realizes the responsibility that comes with the increased authority and will act accordingly (Schramm-Nielsen, 2001). The lack of incentive bonus system is also attributed to the fact that such a system requires the capability to measure and control results in quantitatively and non-ambiguous way, this can become a difficulty in service industries where work is performed by several units in a process chain and the value contribution of each unit is difficult to separate from another (Merchant, 1985).

The US culture is highly individualistic with masculine characteristic striving towards monetary- and materialistic rewards (Hofstede, 2001). The delegation and concentration of power and authority that is characteristic of Denmark barely exists in USA. Each individual is expected to look after themselves and be able to negotiate their rewards and performance criteria (Hofstede, 2001). Hence why the US corporate culture is in stark contrast to the Danish, in USA businesses favors the use of individual bonus systems (Hofstede, 2001; Westerman, Beekun, Daly, Vanka 2009), which is in line with the data and conclusions that Hofstede had. When it comes to organizational structure, the corporate culture in USA is best described as a strong formalized organizational structure, with strict hierarchies and careful attention to formalities in regards to position and title. The distance between employees and management are quite high. Denmark

while adhering to the need for organizational structure were less accepting of hierarchies with a high degree of pragmatism in work (Hofstede, 2001)

6.6 Impact of culture

The cultural differences between the two nations had an impact on how KFC Denmark viewed some of the basis of structuring up the implementation of BSC. Most prevalent is the implementation regarding learning and growth. Since the financial, customer and internal processes perspectives contain metrics that do not directly deal with staff in the company, they won't be impacted by the cultural differences.

The learning and growth perspective emphasizes the need to create goals that individual staff within the company embraces to achieve full top down goal congruence. Theory has outlined certain requirements and rewards that need to be constructed in the learning and growth perspective to successfully accomplish goal congruence (Norton, Kaplan 1996). Those requirements concern employee empowerment, involvement, encouragement, reward and recognition.

The Danish culture favored collective collaboration but not individual performance systems, such creating empowerment within KFC Denmark could pose a difficulty from a cultural perspective (Schramm-Nielsen, 2001). There is also the difficulty of properly measuring effort and connecting it with an appropriate reward for each individual (Merchant, 1985). As there is an ambiguity in how to properly reward together with a resistance from top management to install a reward system for all staff, there are considerable difficulties to fully execute the learning and growth perspective. The lack of reward will complicate the ability to receive active involvement from staff as well as to hand out recognition and encouragement. As the staff is the personnel that have the most direct contact with customers, a system to empower and reward the employees could have created that extra enthusiasm amongst employees to make them perform the extra percentages. However, that is not a certain factor, as there is a low cultural acceptance of performance based pay it might as well have back fired.

6.7 Analysis of the fast food industry

The fast food industry has certain characteristics concerning employees' motivation, involvement, creativity, pay, reward and incentives. The difficulty concerning employee empowerment related to cultural factors has previously been discussed, in this headline empowerment concerning industry practices will be addressed as there are certain characteristics for the fast food industry that are not prevalent in other industries, and that cannot be replicated either (Tudor, 2011).

6.7.1 High turnover rate

The fast food industry mainly employs young people and students. This is because working in the fast food industry is not perceived as a long term job, as there are few if any possibilities for advancement. The initial perception of low salary and no career already creates a platform that

will generate a high turnover rate of employees (Harrison, 1992). The high turnover rate is also a result of the working conditions in relation to the pay received, as working in the fast food industry is stressful with low possibility for personal- and skill development. The high turnover rate in the fast food industry makes the use of part time- and short term contracts prevalent and the use of long term contracts is relatively rare, as the possibility to extend part time- and short term contracts until the employee wants to quit are relatively easy (Tudor, 2011; Test, Flowers, Hewitt, Solow, 2003).

6.7.2 Low salary

Salaries within the fast food industry are usually close to the minimum wage set either by law or negotiated by unions. The payment as an important reward factor has been stressed by studies (Flamholtz, Das, 1985; Harrison, 1992), which is why the level of compensation is important, since there are numerous fast food chains that potential employees can work at (Hatton, Emerson, Rivers, Mason, Mason, Swarbrick, 1999; Miner, 2003). A change in compensation for work performed isn't something that the individual can influence as the initial salary was set by other actors. The fast food industry usually does not have direct monetary incentive systems that rewards individual employees in accordance with their performance (Merchant, 1985; Cable, Judge, 1994). Job relevant information and work stress are found to mediate the relation of how a performance measurement system is linked to organizational strategy and employee performance (Burney, Widener, 2007). The lack of benefits is also a factor that reinforces the feeling of low salary within the fast food industry. While for example the apparel and retail industry, which also employs large amounts of unqualified labor, can provide the same basic salary together with benefits such as in store discount will appear as a more attractive employers (Tudor, 2011).

6.7.3 Low barrier for entry and exit

Working in the fast food industry requires no former work experience of any kind, nor any educational experience. As the work routines are often simplified and can be taught in a few days to new employees barring government mandated educations. In some occasions not even language proficiency is required, as the personnel can be staffed in the kitchen or other area where no direct communication with customers is required. Such flexible requirements create a very low barrier of entry and allow almost anyone to work in the fast food industry (Tudor, 2011).

6.7.4 Large pool of potential employees

The low entry- and exit barriers' of the fast food industry enables the employers to constantly have a large pool of candidates to select potential employees from. This is something both the employer and employee is aware off and can cause a demoralizing effect, as both parties are aware of the possibility that the employee can leave or be replaced at any given point in time (Tudor, 2011).

6.7.5 No employee empowerment

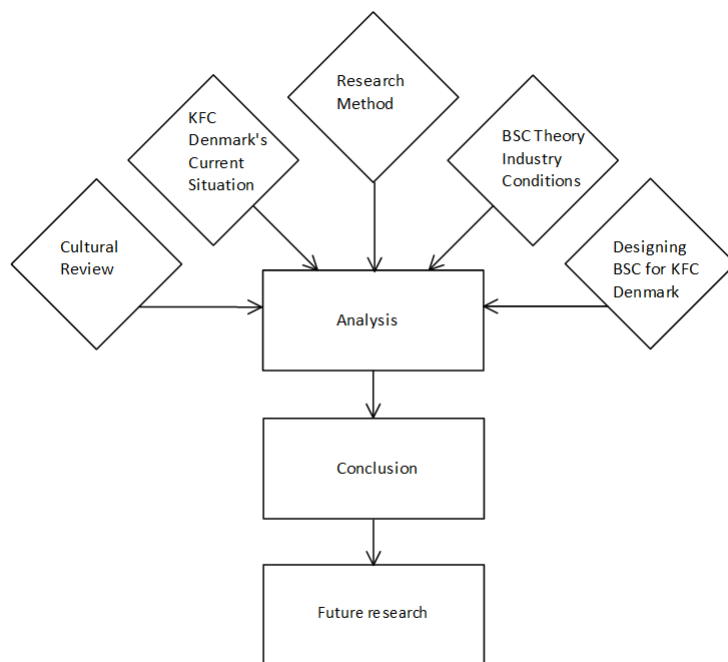
It is an industry norm rather than exception that employees receive no form of empowerment from top management. The nonexistence of employee involvement and support of employee initiatives can make the work places in the fast food industry appear demotivating (Flamholtz, Das, 1985), as the voices of the employees are ignored and potential creativity goes to waste. Employee empowerment such as recognition, delegation and support of initiatives and ideas can create positive effects such as improved employee commitment and employee satisfaction (Mitchell, 1973; Tudor, 2011). In the industry, the employees that are empowered are assigned a team coordinating position, scheduling the remaining staff and having authority over them. In this case the primary objective of a performance measurement system is to motivate managers to make decisions consistent with the long term strategic goals in the company (Kaplan, Norton, 1996; Flamholtz, Das, 1985).

6.7.6 Impact from industry affiliation

The industry affiliation of KFC Denmark in this case, had an impact on the possibilities and decision making regarding 2 perspectives in KFC Denmark's BSC design. The personnel composition of KFC Denmark obstructed a possible metric that would involve employee empowerment. As the industry preconditions weren't optimal, according to top management to initiate a reasonable level of employee empowerment, it was a measure that was discarded.

Chapter 7 Analyzing BSC in small organizations

This chapter will cover the analysis of KFC Denmark. The analysis will cover all the factors that have been previously discussed, method, theory, KFC Denmark's current condition, KFC Denmark's BSC design and culture. Comparison will be made between a theoretical BSC design and KFC Denmark's design. Additionally a comparison will also be made with Rompho's case study of a failed BSC in a SME.



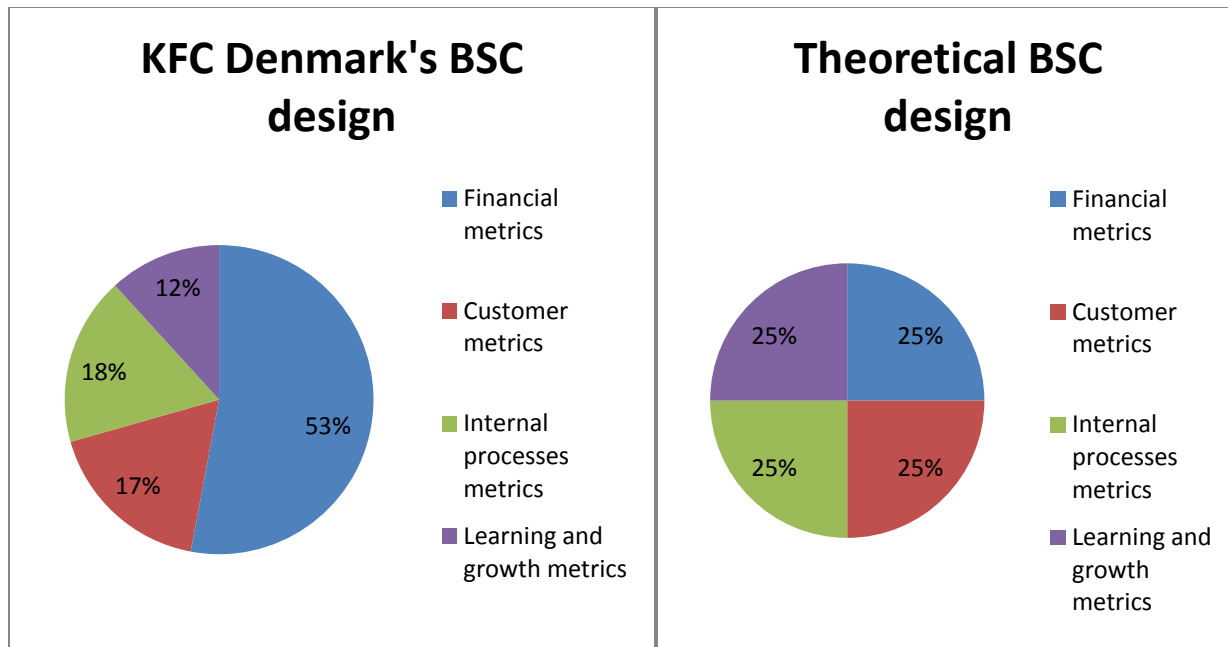
The author will analyze KFC Denmark's implementation of BSC from 2 perspectives:

7.1 Theoretical BSC design and KFC's BSC design

Kaplan and Norton's (1996) intention with BSC was to balance soft and hard metrics in a company. This would allow top management in a company would be able to view relevant metrics from all divisions in a company and act accordingly with the information at hand. This would make it possible to manage a

company with a cockpit view, similar to a pilot in a plane.

Looking at KFC Denmark's BSC design (appendix 5, 7) one can see a considerable imbalance in its design of BSC. With a large focus on financial metrics and less focus on customer-, internal business- and learning and growth metrics. While such an imbalance is not a signal that a BSC design is flawed, in this case it shows that there is a tendency to focus on financial metrics as they were considered easier to understand to understand. The softer metrics were considered relevant, but assessing their impact was considered more difficult.



The difficulty in determining the actual cause and effect relation between the selected metrics makes it difficult for the author to assess whether the selected design is successful or not. As was highlighted by Nørreklit (2000), vagueness in cause and effect relations puts a company at risk in assuming that measured metrics are useful (Selto, 2001), when opposite could be true in some cases. KFC Denmark's BSC design encompasses all 4 perspectives that has been described in theory (Appendix 5, 7), making use of less than 20 metrics in total, the use of few metrics is something that Kaplan and Norton (1996, 2001) has argued that it is more useful to have few metrics with clear underlying cause than many metrics with overlapping causes (Selto, 2001). KFC Denmark's BSC design does not suffer from information overload (Cummings, 2004), rather the problem lies with assessing causality in the BSC design. While the author has both experience and knowledge of the organization and knowledge about BSC, the outcome of an actual implementation cannot be assessed prior to the implementation.

While it was possible to design a partial implementation of BSC encompassing 3 or 2 perspectives instead of having all 4 perspectives (Johanson, Skoog, Backlund, Almqvist, 2006), the choice to have 4 perspectives was deemed more fitting by top management, as it would be easier to remove metrics in a perspective than to add a perspective with new metrics.

The conditions in this case study are very distinct, which makes generalizations difficult. The factors fast food industry and culture makes it difficult to generalize the reasoning and results from this action research. First there is the fast food industry, BSC focuses a lot on a company's internal structure and functions. Companies in the fast food industry do not have any similarities to case studies found in reference cases (Kaplan, Norton, 1996), additionally the size of KFC Denmark cannot compare to any of the companies mentioned in reference cases (Kaplan, Norton, 1996). The author's opinion is that the culture factor had an impact on how KFC Denmark

designed their BSC implementation, though that shouldn't affect the externality of this report. The Danish culture while promoting individuality and employee initiative, did not promote the use of individual based performance rewards. The distinct collective culture of Denmark can in this case together with industry affiliation be attributed to the lack of employee empowerment. The research question focused on how BSC scale down into a small organization, as culture mainly affects the design and selection of metrics. Since the design process that KFC Denmark undergone to design the BSC implementation is not strictly following the theory that Kaplan and Norton (1996) describes. An implementation of BSC regardless if the outcome is successful or unsuccessful in this case, means BSC can be scaled down to small organizations.

KFC Denmark's size and top management's reluctance to create empowerment amongst all employees is a factor that potentially impacted the design of KFC Denmark's BSC. The cultural analysis has highlighted the high level of power distribution and autonomy amongst Danish workers. However, that is something that is conditioned by other circumstances such as industry affiliation. It could be argued that the role of Danish culture could be more prevalent in this case study, the industry affiliation limited the flexibility in decision making though.

7.2 Comparing KFC's BSC design to empirical case

The purpose with comparing KFC's design with a failed SME's BSC, is to identify similar factors between the two cases. While it's too early to judge the success of KFC Denmark's BSC design, it can be beneficial to identify if there are any failing factors in KFC Denmark's BSC that has been identified in Rompho's (2011) case. The empirical reference case that the author used for this report detailed some factors that were prevalent in a failure when implementing BSC in a SME (Rompho, 2011).

The two factors were design and process that caused the Rompho's case study company to fail in implementing BSC. In the empirical case there were large imbalances in metrics as well as vagueness in cause and effect relations between metrics that were measured (Rompho, 2011). While there is an imbalance towards financial metrics in KFC Denmark's case, it is not only bias that can distort the success of a BSC design. Vagueness in cause and effect, and measuring the wrong metrics has a larger impact on the success of a BSC design (Nørreklit, 2000). While the researcher and top management both regard the selected metrics for KFC Denmark's design as having a cause and effect relation between them. Assessing the actual cause and effect relation after implementation and having it peer reviewed seems like the most suitable method to assess the success of KFC Denmark's BSC design.

The 2nd failing variable in the empirical case was the process factor:

- Lack of support from top management
- ScoreCard is only used by top management
- Long development process
- Viewing BSC as a one time performance measurement project

- Hiring inexperienced consultants
- Only using BSC for compensation assessment

Comparing the process failure from Rompho's (2011) case, it is possible to identify some factors that are similar in both cases. In KFC Denmark's case, the BSC will mainly be used by top management and some operations managers in some restaurants to gauge performance. This decision was mainly due to the industry factor described before with high turnover rate and large proportion of young employees. Second factor that is somewhat relevant to KFC Denmark's process is the use of inexperienced consultants. While this action research is the author's first practical implementation of BSC, the author has both experience and knowledge of KFC Denmark. As such the author has a good understanding of what would be feasible in practice, which is something an outside consultant, whether experienced or inexperienced, might not be able to identify when trying to design a BSC.

While there are similar factors in both Rompho's (2011) case and KFC Denmark's BSC design, it is a fact to consider when assessing the results of it in the future. To make a premature judgment based on an empirical case whose conditions do not resemble KFC Denmark is something that would be difficult to argue based on facts.

7.3 Overview

Looking at KFC Denmark's BSC design from 2 different perspectives has shown that it is possible to identify factors that speak for and against a successful BSC design. It also highlights the difficulty in making a judgment on success or failure until the system has been tested over a period of time.

Chapter 8 Conclusion

This chapter covers the conclusions that the author has reached after analyzing KFC Denmark's design, the feasibility of its design, implementation, and consideration regarding alternative approaches. The author's opinion of this report's outcome is presented together with proposals for future research. The conclusion that BSC can scale down into small organizations with all 4 perspectives is possible, though the feasibility could vary between different organizations. As costs for implementation varies, partial BSCs could be more feasible in some cases.

The author sought to research “How does BSC scale down into small organizations” and with the help of this case study, make a judgment on the feasibility of using BSC in small organizations, in this case a company with less than 100 employees. In this study it was possible to implement it, though the author cannot take a stand as to the success of it, as it has to be evaluated at a future point in time.

The analysis brought about 2 different perspectives to look at KFC Denmark's design, and all of them show that it is possible to scale BSC down into small organizations, even those the size of KFC Denmark. However, since the conditions in small organizations differ considerably with organizations used in reference cases (Kaplan, Norton, 1996) it is necessary to treat each case as a unique project (Sandhu, Baxter, Emsley, 2008).

Scaling down BSC into small organizations can also be assessed on the choice of having a full or partial implementation of BSC. In KFC Denmark's case it was possible to use BSC's 4 perspectives on a company with less than 100 employees.

The author would like to highlight some factors that were identified as vital in this research:

- Unique characteristics
- Small companies don't have the best conditions to use BSC
- Difficulty in implementing BSC's 4 perspectives
- Balancing complexity and simplicity
- Centralized power
- Need vs. usefulness in restructuring

While it can't be concluded that BSC can scale down into all small organizations from just one study. It has to be pointed out that when designing BSC for small organizations, each design should be treated as a unique project (Heinz, 2001; Sandhu, Baxter, Emsley, 2008).

Generalizations from large scale BSC designs should be avoided (Heinz, 2001). This is due not

only to the size of the organization, but also due to control characteristics and hierarchies that are vastly different in small organizations compared to a large organization. Treating each case as a unique project is vital (Heinz, 2001), as not all small organizations can amass the time and resources to implement a management and performance measurement system like BSC (Papalexandris, Ioannou, Prastacos, 2004). The resource and time factors make it difficult to implement BSC in a small organization. This difficulty could be reduced by using a partial BSC implementation.

A small company usually keeps control and power concentrated to top management (Child, 2005). This makes it less feasible to empower employees in small organizations, while it is considered a crucial factor for alignment of employee goals to corporate goals (Kaplan, Norton, 1996). Perception of change is vital to keep in mind, in KFC Denmark's case the change was initiated by KFC Europe. While it was necessary for KFC Denmark to design a BSC to use, it was something that was perceived as more useful than necessary. Nonetheless, top management put its support behind the BSC design as a lacking support from top management could cause the BSC to fail. A final point that the author would like to make, is that it is important to keep things simple. This is because of the knowledge gap that can exist between a consultant and top management in a small company. Designing a BSC for a small company requires a delicate approach to balance the complexity of introducing new metrics (Papalexandris, Ioannou, Prastacos, 2004), new way of thinking and new views to an organization that can perceive itself as simple and functional in light of unfamiliar changes. Balancing complexity and simplicity is difficult regardless if one is assuming the role of researcher/consultant or consultant/researcher.

The author concludes that scaling down BSC into small organizations is fully feasible. Delicate care and attention is needed in approaching each case as a unique project (Heinz, 2001). Making adjustments to the design of BSC and viewing the case from the target organizations perspective could substantially reduce the difficulty in implementing BSC in a small organization.

8.1 The outcome of this report

The results from this report have enabled top management at KFC Denmark to implement a BSC encompassing all 4 perspectives into their organization. Top management has throughout this design process been able to understand the formalities surrounding a formalized performance measurement- and management system. The perception of BSC was according to top management demystified.

“Had we been approached by KFC Europe to simply implement measurements to measure different levels of the organization, we would’ve been able to start directly assessing possible measurements. The order to use BSC at first confused us, but now it is not as complicated as the name implies. While we would’ve been able to gather measurements in different levels of the organization, the mindset of aligning all measurements with long term goals presented a new useful perspective.”

Snorri Trastarson, General Manager KFC Denmark

It is the author’s hope that this report can further the research for better performance measurement- and management systems for small organizations. This report has shown it is possible to implement such systems into a small organization that is not accustomed to a formalized management system. While it is possible and feasible it might not always be practical and cost effective. The author’s opinion is that results, conclusions and opinions’ of the author can contribute to the future research related to performance measurement- and management systems for small organizations, and furthermore find cost-effective methods to implement them. The author hopes this report can inspire other small organizations to pursue the possibility to implement performance measurement- and management systems. Furthermore, this report has shown that it sometimes could be more reasonable to design an unbalanced scorecard depending on the target organization’s conditions. While this deviates from Kaplan and Norton’s (1996) intention with BSC, the use of an unbalanced BSC was more suitable in KFC Denmark’s case.

8.2 Future research proposals

As data covering BSC implementations for small organizations is scarce in both theory and practice (Rompho, 2011; Andersen et al., 2001), it is the author’s intention that this report can provide additional data for other researchers to further the research in how to design BSC for small organizations, and hopefully also open up new possibilities for how small companies be managed, controlled and measured. The author’s opinion is that the possibility for small organizations to use complex management and performance measurement systems is something that should be further explored. Not only regarding the use of BSC, but also encompassing the use of other performance measurement systems.

The author's suggestions for further research surrounding the topic that has been presented in this report:

- BSC functionality in small organizations, what knowledge can be derived from implementations effects and results
- Identifying best practices when designing BSC for small organizations
- How to cost effectively design BSC for a small organizations
- Cost-effective performance measurement in small organizations

Two points that have been central in this report has been to understand the use of performance measurement- and management systems for small organizations. This is why the author's suggestions' for further research revolve around those two topics.

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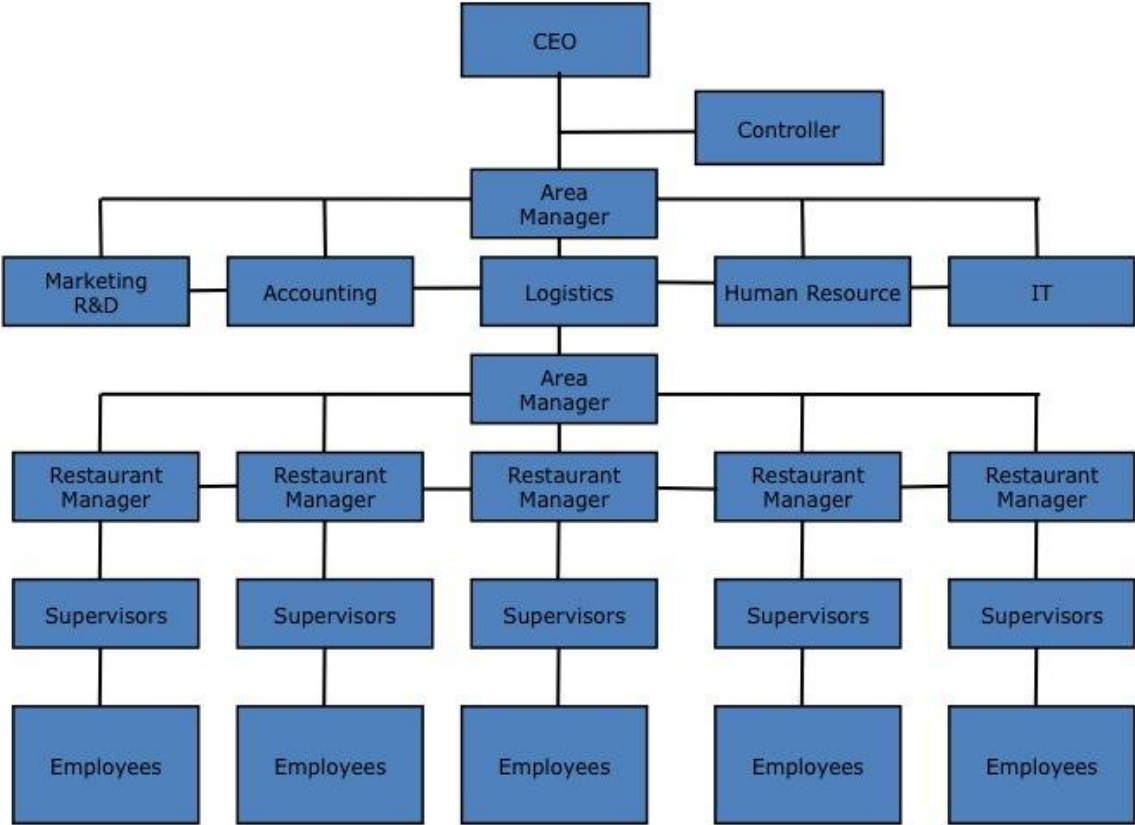
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<http://geert-hofstede.com/denmark.html> (2012-05-16)

<http://geert-hofstede.com/united-states.html> (2012-05-16)

Appendix

1. Organization structure



2. Top management, background information

Background information regarding the interviewees at KFC Denmark

Bjartmar Trastarson - CEO

Bjartmar Trastarson has worked in this position for 16 years. He is responsible for communicating with the KFC headquarters and informing them if any changes relate to the company's future or present goals. He creates policies and carries out any specific actions that are recommended by the HQ. He makes final decisions on the company to keep it profitable. He sets a budget for the company and oversees investment planning and evaluates all projects and determines their value to the company.

Snorri Trastarson - General manager

Snorri Trastarson has worked in this position for 9 years. He is primarily responsible for guiding employees in achieving the goals and ambitions of the organization. He ensures that all processes and practices are working in a proper manner. He puts together management teams and is in charge of recruitment. He trains, guides and assists newly hired restaurant managers and supervisors, regarding handling daily processes and employee performance and discusses and devises with them any specific goals, which are to be accomplished within a certain time period. He ensures that individuals get along in all departments and finds solutions to problems if any occur. He works to create an efficient, positive environment for all employees.

3. Interview 1, questions

Interview #1 questions

What is KFC Denmark's current vision and strategy?

Has the European headquarters given any guidelines or orders for how KFC Denmark should grow?

How do you think KFC Denmark's long- and short term strategy will be affected by implementing BSC?

Is there room for innovation within KFC Denmark in regards to operations and employee involvement and employee empowerment?

What metrics are KFC Denmark currently measuring and why did you choose those metrics?

What performance metrics is KFC Denmark focusing on?

Why did KFC Denmark choose the current metrics?

Is profitability responsibility delegated to operations managers in the local restaurants or is it centrally managed?

What responsibilities are delegated to operations managers?

Which parts of KFC Denmark's operations are centrally regulated by KFC Europe?

Does KFC Europe decide which products that will be sold in KFC Denmark?

What are the crucial factors when deciding on which products that will be introduced to the Danish consumers?

4. Interview 2, questions

Interview #2 questions

General

What kind of metrics are the main interest of for KFC Denmark?

Would KFC Denmark be willing to expand the use of financial metrics?

How does KFC Denmark view the usage of metrics in areas such as internal process and learning and growth?

How does KFC perceive BSC as a performance measurement- and management system?

Financial

Does KFC Denmark currently measure margin?

How does KFC Denmark measure the profitability of promotion campaigns?

What are the underlying motivations when composing the product mix in a promotion campaign?

Is there any technical- or other obstacles to measure more measurements besides daily sales?

How does KFC Denmark perceive economic conditions to impact KFC Denmark's future expansion possibilities and profitability targets?

Customer

Does KFC Denmark attempt to provide reward incentives for returning customers?

Does KFC Denmark have any way to track customer identity?

How does KFC Denmark attempt to incentivize customers to return?

What strategies does KFC Denmark employ to attract new customers?

Internal Business Process

What possibilities for optimizing the internal processes does KFC Denmark perceive to be available?

Has KFC considered measuring waste disposal volumes?

What aspects of the current work processes can KFC Denmark modify?

Is there room for local innovation?

How common are delivery errors?

Would KFC Denmark like to strive to reduce delivery errors to 0%?

Learning and growth

Would KFC Denmark be willing to introduce a compensation program encompassing all employees?

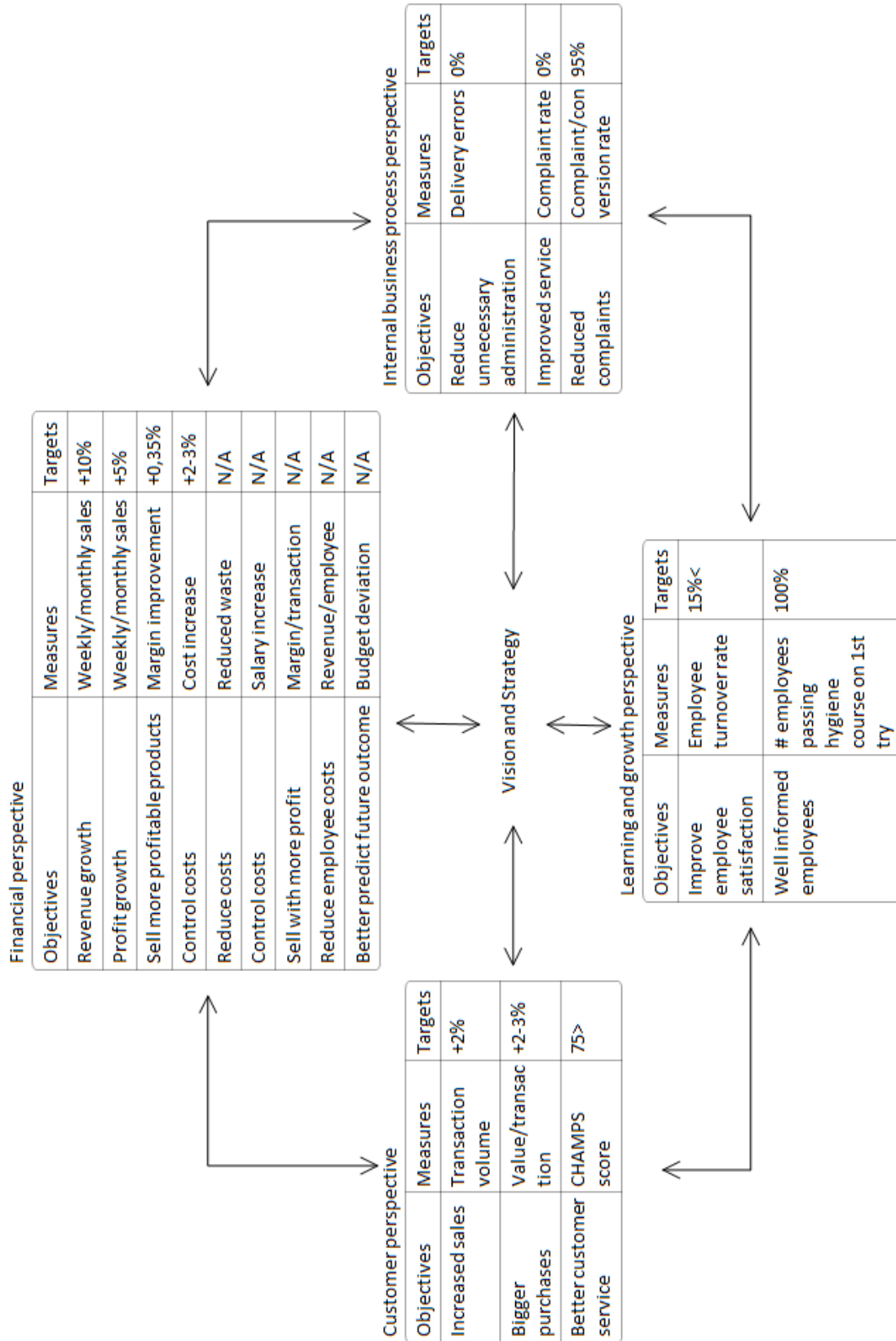
Doesn't KFC Denmark think employee empowerment would create more employee initiative and engagement?

What possibilities does KFC Denmark see in developing in metrics for learning and growth?

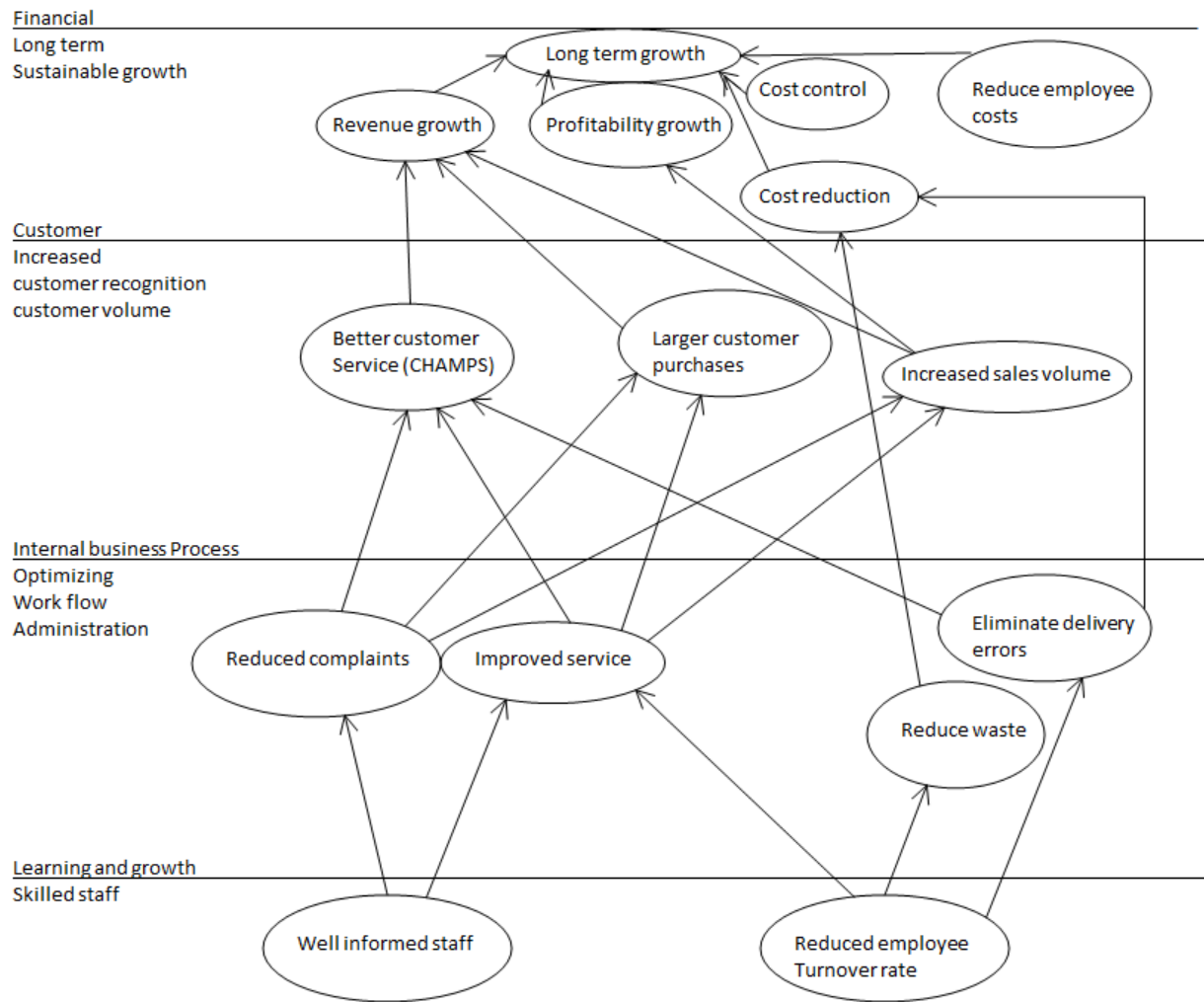
What value does KFC Denmark see in developing in metrics for learning and growth?

Is there any risk to further empower employees further down the hierarchy?

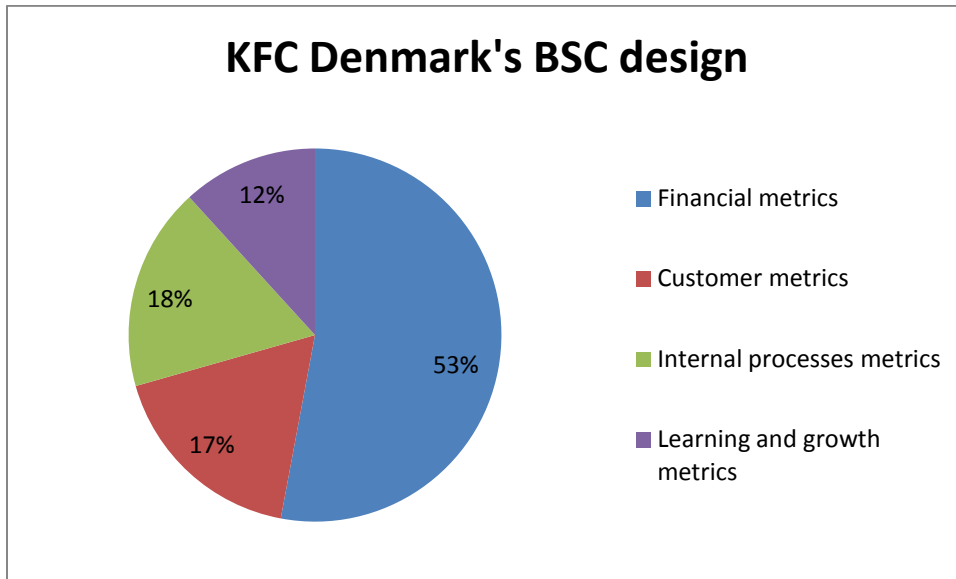
5. KFC Denmark's BSC targets



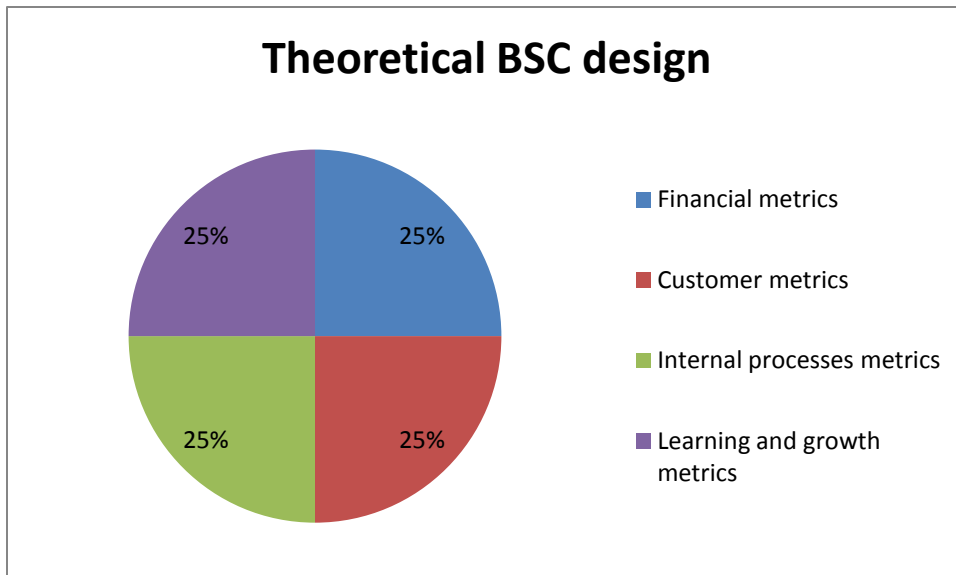
6. Strategy map



7. KFC Denmark's BSC design and theoretical BSC design



Distribution of the metrics from Appendix 5



8. Article

Can a small organization function like a large corporation?

Author: Zhiyi You (Jenny)

As a small company succeeds, it can invest and grows. The complexity both in the products and services sold and the company's internal processes and structure increases. The possibility of having an organizational structure and management system that can scale, as company size and employee numbers grow from 10s of employees to 1000s of employees would enable a company to have a competitive edge. This advantage would enable a company to focus on its core competencies in delivering value in services and products to clients, and not having to spend resources and time to restructure after growing beyond a certain thresholds.

Balanced ScoreCard (BSC) is a performance measurement- and management system developed by Kaplan and Norton, it is designed to balance an organization by employing a scorecard that encompasses an organization from four different perspectives: financial, customer, internal business processes and learning and growth. This design is meant to balance the use of non-financial and financial metrics in an organization. The use of BSC should create goal alignment throughout an organization. There are numerous cases about how BSC has been designed, implemented and used in large organizations. But theory and data surrounding the design and implementation of BSC in small organizations is scarce. There is also the question of whether it is necessary or useful for a small organization to implement a system that is mainly used by large corporations.

The author conducted a case study and action research on a small organization, the design and implementation of BSC encompassed all four aspects of a BSC. The results showed a substantial bias towards financial metrics, representing over 50% of the metrics. The distribution of the remaining metrics was evenly shared across the customer-, internal process- and learning and growth perspective. While the study resulted in an imbalanced scorecard, the early use of BSC will allow the organization to grow and make slight adjustments to its targets, as there will be adjustments to the scorecard in the future as the organization revises its targets.

The focus on financial metrics in the study is a trait that is reoccurring in both large and small organizations. Company size affects the time and resources that can be devoted to fully understand the benefits of having a BSC. While it might seem vague

at first sight to spend time and resources to invest in a management system, one has to bear in mind that financial metrics only represent historic performance. It does not show how the organization will perform in the future. Using BSC will enable the organization to measure metrics that affects the future outcome of how it will perform. However, if the target organization does not fully understand the implications regarding the benefits of BSC, they won't strive to achieve it.

Balancing complexity and simplicity is vital when it comes to small organizations and management systems. Small organizations usually have no or few layers of hierarchy, while they often have a formalized structure and an informal workflow in day to day operations. The use of a performance measurement- and management system can be perceived to add complexity to an organization that is perceived as fully functional.

While the study showed that it is fully possible and reasonably feasible to implement a BSC, on an organization with less than 100 employees encompassing all four perspectives, a generalization should not be made from this case study. The author emphasizes the importance of approaching each BSC design as a unique project. Though it is impossible to draw inspiration from other BSC designs, the final design for each project should be based on the target organizations conditions.

While use of metrics across four different perspectives can be perceived as complex, using more simple and relevant metrics in a partial implementation of BSC could generate better results for some organizations, instead of a forced implementation encompassing all four perspectives. Since BSC can be perceived as complex, designing a BSC with two perspectives and then expanding it over time as the organization grows is a feasible alternative.

The early implementation of BSC would allow an organization to make slight adjustments to the performance metrics involved, and focus its resources and time to keep delivering value to clients and stake holders. A good BSC design and implementation will make it possible for an organization to align all the employees towards a common goal, creating a competitive edge for the long term competitiveness■