BALANCED SCORECARD COLLABORATIVE

Mobil

Mobil NAM&R

Balanced Scorecard Hall of Fame™ Case Studies

Executive Summary

Basis for Best Practice

Mobil NAM&R is a well-rounded example of virtually all strategy-focused organization principles in action: multilevel scorecard implementation; alignment of both SBUs and SSUs; making strategy everyone's job through awareness campaigns, personal and team objectives, "balanced paycheck" initiatives; making strategy continuous through scorecard-centered planning, budgeting, feedback, and learning; and leadership mobilization of change through initial and continued strong CEO support.

The Problem They Faced

Last in their industry peer group

$15 billion in sales, but required $500 million of cash from parent corporation to survive

Why They Implemented BSC

A new decentralized strategy featuring 18 new market-facing business units and 14 new shared service groups required a new management team and a new way of managing for results

Time Period

BSC/SFO implementation began in 1994 and continued until 1999, when Mobil NAM&R merged with Exxon

Financial Results

20% reduction in the cost of refining, marketing, and delivering a gallon of gasoline

Capacity utilization improved yields by $125 million per year

Non-Financial Results

Safety incidents resulting from lost work were reduced by a factor of 5

Environmental incidents were reduced by 63%

Increase from 20% to 80% in employees who understood the business strategy

Executive Summary (cont'd)

Leader Testimonial

"The Balanced Scorecard has been a major contributor. It helped us to focus our initiatives and to keep them aligned with our strategic objectives. It's been a great communication tool for telling the story of the business and a great learning tool as well. People now see how their daily job contributes to USM&R performance. Our challenge is how can we sustain this performance. We have just seen the tip of the iceberg. I want people to use the scorecard to focus attention on the great opportunities for growth."

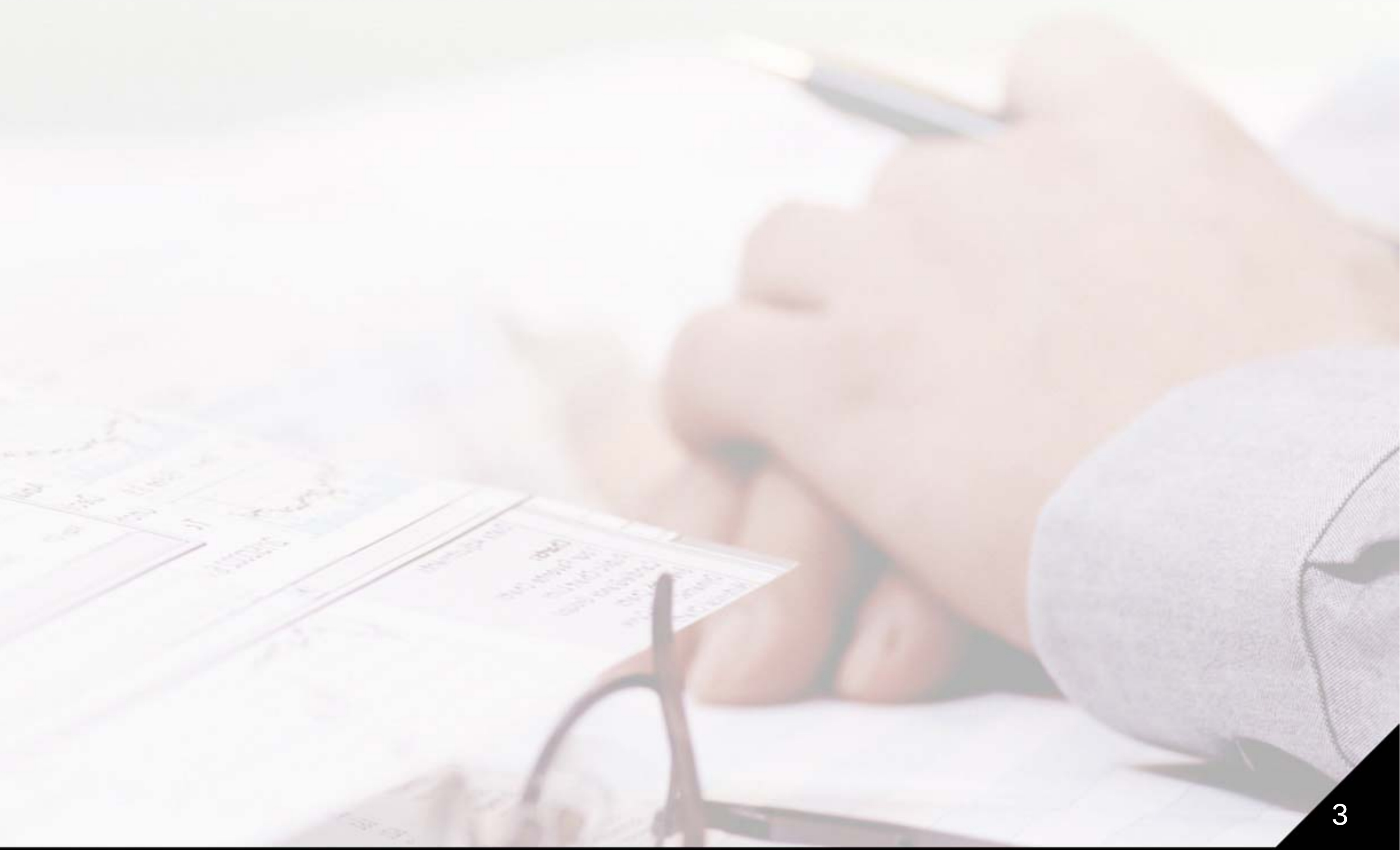
Bob McCool, CEO

Mobil NAM&R

"In 1997 we hit the #1 ranking for our third consecutive year, which is unprecedented for a major oil company. …The Scorecard gets the lion's share of the credit. We created a performance mindset with the Balanced Scorecard… I firmly believe that if I change one measure on my scorecard, change will happen."

Brian Baker, Executive VP

Mobil NAM&R



Abstract

Mobil North America Marketing and Refining (Mobil NAM&R) exemplifies all five principles of the Strategy-Focused Organization. Mobil NAM&R implemented, communicated, and cascaded its scorecard into its 18 business units and 14 strategic partners. The financial results of this effort are impressive: the company metamorphosed from a half-billion-dollar cash drain on the corporation to a cash generator of between $0.5 billion and $1 billion.

Background

In 1992, Mobil NAM&R was a $15 billion per year division of Mobil Oil Corporation that was ranked last in its industry and required a $500 million infusion of cash from its parent company to survive. To respond to this dire situation, a new management team devised a customer-focused strategy and supported it with a newly decentralized organization consisting of 18 market-facing business units, each with P&L responsibility. The new team also reorganized all central staff functions into 14 freestanding service companies called “servcos.” Using the Balanced Scorecard, Mobil’s leaders mapped out a two-pronged strategy for generating higher volume on premium-priced products and services while reducing costs and improving productivity. Providing its customers “fast, friendly service” became Mobil’s key to revenue growth. Mobil NAM&R’s Balanced Scorecard implementation began in 1994 and continued until the company merged with Exxon in 1999.

Mobilize

Mobil NAM&R's initial executive team comprised mainly finance and operations employees who didn't understand market segment nuances and the employee capabilities required to address them. There was no consensus on customer issues. So, a marketing executive and other heads of shared service units, like IT and HR, joined the team. Team members then became accountable for various pieces of the strategy.

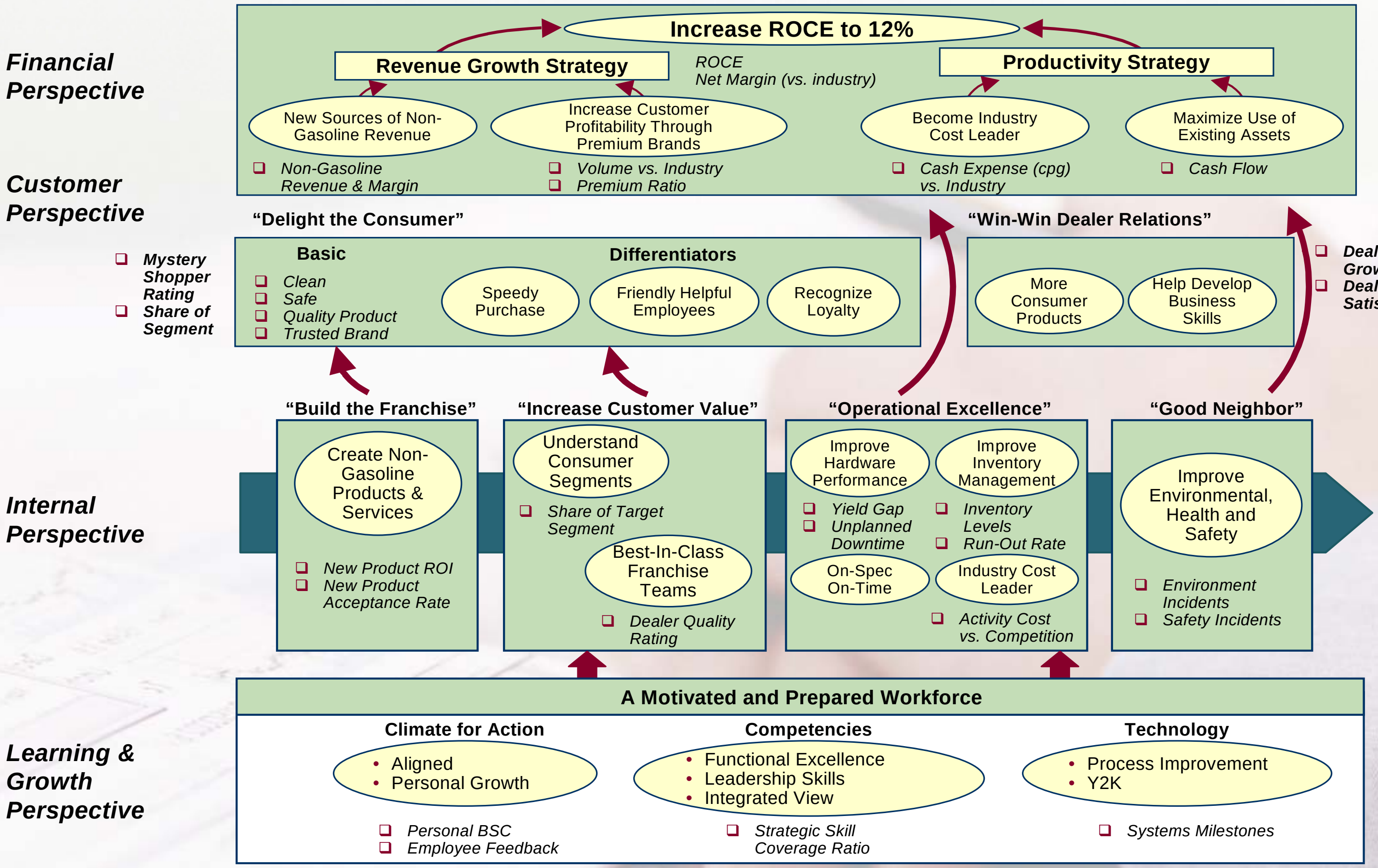
CEO Bob McCool and his successor, Brian Baker, played central roles in communicating their new vision and strategy throughout the organization. They also had a major hand in designing new compensation systems linked to the BSC, and new planning and budgeting processes to support the strategy.

But it was the scorecard itself that proved to be a major aligning force for the executive team. "Forcing the managers to narrow the strategy statements into strategic objectives in the four perspectives really developed alignment to the new strategy," recalls Mobil's Ed Lewis, BSC project leader.

Translate

The NAM&R Strategy Map illustrates all four Balanced Scorecard perspectives with cause-effect linkages from Learning and Growth up through the Financial perspective.

Mobil NAM&R Strategy Map



Mobil NAM&R's business unit scorecards were not required to mirror objectives on the company's corporate scorecard. But the company's 18 newly created business units were asked to choose objectives that supported the corporate scorecard. Therefore, not every measure at the business unit-level rolls up to an identical one on the corporate scorecard. Rather, each business unit's measures are designed to stimulate corporate results in a cause-effect fashion.

Six major strategic objectives guided scorecard development for Mobil NAM&R's 18 newly-formed business units and 14 shared service companies:

- Achieve financial returns (as measured by ROCE—return on capital employed)
- Delight targeted consumers with a great food-and fuel-buying experience
- Develop win-win relationships with dealers and retailers
- Improve critical internal processes—low cost, zero defects, on-time deliveries
- Reduce environmental, safety, and other health-threatening incidents
- Improve employee morale

Each business unit adhered to a basic strategy and set of support programs:

- Dealers had to operate under Mobil's sign
- Stations and convenience stores looked the same across regions
- Mobil's segmentation strategy of fast and friendly service was required

But because Mobil NAM&R's customer requirements and competition differed in each U.S. location—as do the economics of operating in each market—CEO Bob McCool didn't dictate individual solutions from headquarters.

"Mobil in the Midwest is not the same as Mobil in New England, or on the West Coast," explains McCool. In each market, the consumer looks at us differently, our competition in each region is different, and the economics of operating in each market are different. I don't want to dictate a solution from headquarters. We have a basic strategy and a set of support programs that we can roll out to each business unit. We do have a few constraints, but if a business unit thinks it has a better driver for success, I'm willing to hear it."

Support Alignment

Mobil NAM&R's 14 shared service units ("servcos") each created an annual service agreement with a buyer's committee representing the business units that they supported.

They used a two-tier scorecard approach to reflect this agreement.

The lower tier:

- Identified the strategies and measures for the servco group
- Focused the financial perspective on operating efficiency
- Included financial measures and targets designed to meet an operating budget that had been specified in the service agreement with the business units
- Handled the "client" (customer) perspective by measures of business unit satisfaction via a survey distributed to the business units

The servco then developed objectives, measures, targets, and initiatives for its internal process and learning and growth perspectives. These objectives were designed to achieve customer expectations within the budgeted cost constraints.

The upper tier (called a “linkage scorecard”):

- Included several financial and customer measures from the client’s business unit scorecard
- Was designed to share responsibility for external customer and shareholder outcomes
- Included measures reflecting the servco team’s greatest opportunities to exert positive influence

For example, the Channel Management Group’s linkage scorecard measured premium gasoline sales volume and customer service by:

- Mystery shopper rating
- Dealer satisfaction
- Consumer satisfaction

These upper-tier measures expanded the thinking of the employees beyond just serving the internal business units to include the division financial outcomes and external customer needs. As a result, servcos evolved from captive internal suppliers into strategic partners with their clients, the business units, and the division.

Mobil Speedpass Program

Getting the entire organization up to speed on its strategy can reap some remarkable results. Mobil's Speedpass program was the direct result of the company's efforts to define and communicate its strategy to all employees. Because he understood Mobil's customer value proposition of "fast, friendly service," a planning manager in the company's Marketing Technology Group set out to enhance customer service. The result of his efforts was the Mobil Speedpass, a small electronic device attached to a key chain or car window. When waved in front of a photocell on a gasoline pump, the Speedpass identified both the consumer and the method of payment, providing a quick and easy transaction. A direct result of Mobil's Balanced Scorecard initiative, the Speedpass became an important competitive differentiator.

Connecting the Division's Strategic Goals to Individual Activities and Performance

The business unit head of Mobil Lubricants used a line-of-site drill down from the division-level scorecard to individual scorecards to integrate the thinking and actions of his employees around concrete business unit objectives:

- All 550 employees of the Lubricants unit developed personal BSCs.
- Each targeted at least one business unit measure outside of their normal job role, hoping to influence that measure in a cross-functional way.

Similar line-of-sight translation of the division scorecard into personal objectives and development plans took place in other parts of Mobil. For example, truck drivers surveyed their non-Mobil counterparts at their normal truck stops to help market researchers in the commercial engine oil business gather feedback on drivers' oil purchases and perceptions.

Communications Program

Mobil NAM&R used a variety of communication vehicles, raising awareness of its strategy from 20% to 80% of the workforce. These included:

Executive presentations: An executive leadership team member explained the new strategy at every NAM&R location and distributed a one-page brochure describing the BSC.

Monthly Balanced Scorecard reports: Prepared by the NAM&R division and each of its business units and shared service companies, these one-page reports provided feedback that was posted on bulletin boards at every site.

Periodic newsletters: Each business unit's newsletter featured some aspect of the BSC. Divisions summarized their performance in their "Balanced Scorecard Digest."

Quarterly business review ("Town Meeting"): One-hour briefings by the division president. The sessions were broadcast live and videotaped.

Annual "state of the business" meeting: Held for Mobil's top leaders to review the past year's performance and present plans for the coming year. Exemplars from the business units and shared service units presented their innovative programs.

Business unit "line-of-sight" Strategy Maps: These cascaded understanding of business strategy to a deeper level. For example, Mobil Lubricants created a "Strategy Cause and Effect Tree" illustrating each worker's points of influence on the Lubes business unit.

Motivate

Pay Is Linked to Results

In 1996, Mobil began linking compensation to scorecard-based outcomes. Salaries at that time were 90% of the market average. Rather than restore base pay to parity with the market, NAM&R instituted a bonus of up to 30% of base pay, applied to all salaried workers. The 30% potential bonus consisted of:

- 0 - 10% based on two corporate financial performance measures, ROCE and EPS growth, applied to determine Mobil's relative rank against its seven industry peers
- 0 - 6% based on performance of the NAM&R divisional scorecard
- 0 - 14% based on key performance indicators taken from the business unit or shared service unit Balanced Scorecards.

The full 30% bonus would be received only if Mobil ranked at the top of the industry in every measure. Bottom of the industry performance resulted in zero bonus, and mid-industry performance garnered an 8%—14% bonus.

"For one hour each month, employees are taking out the scorecard and looking at the most important things in their business and whether we are winning or losing against the targets. They're doing this to see how much money they are going to get. We would not have gotten that same focus on the scorecard, and on the individual business objectives, if we hadn't made the link to pay," asserts NAM&R's executive VP, Brian Baker.

Feedback Systems

In addition to being a communication tool, monthly Balanced Scorecard reports provided regular feedback at every site, displaying

- Objectives and measures in the four perspectives
- Current and year-to-date performance
- Comparisons with last year's results and this year's targets

Another feedback mechanism was to weight the SBU measures. Each business unit assigned weights to their scorecard measures. These percentages determined the relative contribution of each scorecard measure to the bonus pool. All summed to 100 across the targeted measures. Only one business unit put more than a 50% weight on financial measures.

Finally, measurement targets were also weighted. To encourage and reward "stretch" targets, rather than "sandbagging" and "overachieving," the NAM&R business units assigned "performance factors" analogous to the "degree of difficulty" multiplier used in competitive diving. A performance factor assigned to an SBU measurement target could range from 0.7 (easy target) to 1.0 (average difficulty) to 1.25 (best-in-class performance level).

Assigned "metric owners" from the SSUs collected and reported the SBU performance data. This responsibility forced them to establish reliable processes with good internal controls and validity. In most cases, a team did the actual data collection and reporting.

Results

Within two years of introducing the Balanced Scorecard management system, Mobil NAM&R enjoyed a wide range of successes. First of all, it soared from dead last in profitability among its industry peers to first place and remained in that position four years in a row—an accomplishment unequaled by any previous industry competitor.

The division also enjoyed significant financial gains, including a 20% reduction in the cost of refining, marketing, and delivering a gallon of gasoline. And its capacity utilization yields improved by $125 million per year.

Another marker for success was organizational results. Not only did a much greater percentage of the division's workers understand the strategy, but safety incidents resulting in lost work were reduced by a factor of 5. There were benefits to the community as well—environmental incidents were reduced by 63%.

Finally, there was an increase from 20% to 80% in employees who understood the business strategy.

BSCol Hall of Fame

Balanced Scorecard Collaborative Hall of Fame winners have achieved breakthrough performance largely as a result of applying one or more of the five principles of a Strategy-Focused Organization: Mobilize Change Through Executive Leadership; Translate the Strategy to Operational Terms; Align the Organization to the Strategy; Make Strategy Everyone's Job; and Make Strategy a Continual Process.

Other selection criteria include: implement the Balanced Scorecard as defined by the Kaplan and Norton methodology; present the case at a public conference; achieve media recognition for the scorecard implementation; produce significant financial or market share gains; and demonstrate measurable achievement of customer objectives. Hall of Fame honorees are nominated by the Collaborative's in-house experts and are personally selected by Balanced Scorecard creators Dr. Robert Kaplan and Dr. David Norton.

Balanced Scorecard Collaborative, Inc.

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