BALANCED SCORECARD COLLABORATIVE
Hall of Fame

Borealis

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Balanced Scorecard Hall of Fame™ Case Studies

Borealis Case Abstract

Borealis plastic applications make possible the kind of products most of us take for granted, but few of us can live without. These products range from disposable diapers and food packaging to cars, pipes, and power cables. Headquartered in Copenhagen, Denmark, Borealis was created from the 1994 merger of Statoil of Norway and Neste of Finland. In 1998, Borealis acquired and successfully integrated the petrochemical business of Austrian company, OMV. The EUR 4 billion, 5,200 - employee firm met the challenge of merging disparate corporate cultures with more than a dozen nationalities by mobilizing change through executive leadership. Financial management and performance measurement was improved, operations streamlined, authority decentralized, and traditional budgeting eliminated. Borealis implemented the Balanced Scorecard to structure new strategic performance objectives, along with other objectives around customers, process, and people. Since the merger, Borealis has averaged an after tax 10% return on capital employed and significantly increased its market value. A leader in the global petrochemicals industry, Borealis achieves customized solutions for its customers.

Borealis Case Report

Borealis is Europe's largest and the world's fourth largest polyolefins producer, Borealis also offers its proprietary technology to the polyethylene and polypropylene industries under the trademark Borstar. Their main competitors are Dow/Union Carbide, Exxon/Mobil, Montell (Shell & BASF), Equistar, BP Amoco, and Dupont.

In 1994 the participating companies in the worldwide polyolefin commodity plastics market experienced the smallest profit margins on record. Not surprisingly, the reduction in margins drove the industry into wide-ranging mergers and acquisitions. This explains the merger between Statoil and Neste petrochemicals divisions to form Borealis. The parent companies needed greater economies of scale in this part of their business in order to reduce their cost structure and provide greater sales volume to make up for lost profit margins. The merger resulted in the creation of a company that was in the top ten globally. (By 2000 they were the largest in Europe and fourth largest in the world.)

Borealis had to merge two different company cultures representing up to a dozen different nationalities. The new company's leadership group decided to use the transition as an opportunity to make substantial changes. They wanted to improve financial management and performance measurement, decentralize authority and decisions, simplify the budgeting process and reduce the resources used to plan and review budgets each year.

After consolidating duplicate and overlapping areas of responsibility between the two companies that formed Borealis, the executive team launched a wide-ranging business process re-engineering program. This effort encompassed, among other things, a change in their financial management system that eliminated conventional budgeting. They also adopted the Balanced Scorecard as the framework for setting and tracking strategic objectives, measures and targets, both financial and non-financial. They felt that this would provide the necessary accountability for managers who were freed from normal budget constraints.

Corporate Strategy

Borealis' strategy was to use economies of scale (derived from mergers and acquisitions), proprietary technology, and internal process efficiencies to achieve a stronger competitive position. Underlying this was an emphasis on improving their "human capital," a variable that they began to measure in the form of an index for internal use.

Borealis' leaders felt that the Balanced Scorecard would provide a broader, more useful framework for declaring, tracking and managing strategic objectives that go beyond their financial goals. Borealis Balanced Scorecard: The Borealis Balanced Scorecard flows from four strategic themes into strategic objectives grouped according to the standard four perspectives of the scorecard, and from there to measures of performance or KPI's

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Key performance indicators are being derived from our strategic direction

- **Shareholder Value Creation**
- **Leading Customer Satisfaction**
- **Improving Overall Competitive Position**
- **Win Through Our People**

Perspective	Performance Objectives	Measures
Financial	– **Outperform Competition** – **Business Growth** – **Leading Cost Position**	– **Relative Opr. Profit** – **Sales Volume** – **Fixed Costs** – **Cash Costs / T**
Customer	– **Leading Customer Satisfaction** – **Borstar Customer Acceptance**	– **Claims Frequency** – **Market Related Production Loss**
Internal Business Process	– **Leader in Operational Performance** – **Industry Leader in HSE&Q** – **Leading Competitive Position For Borstar**	– **Quality Loss** – **TRI Frequency** – **Borstar Project Milestones**
Internal Learning & Growth	– **Develop A Winning Culture** – **Build Capability Platform**	– **Human Capital Index** – **Training Days**

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Cascading the Scorecard

Once the corporate Balanced Scorecard was created, Borealis cascaded it down into their operating business units, so that there are now over 50 Balanced Scorecards in use.

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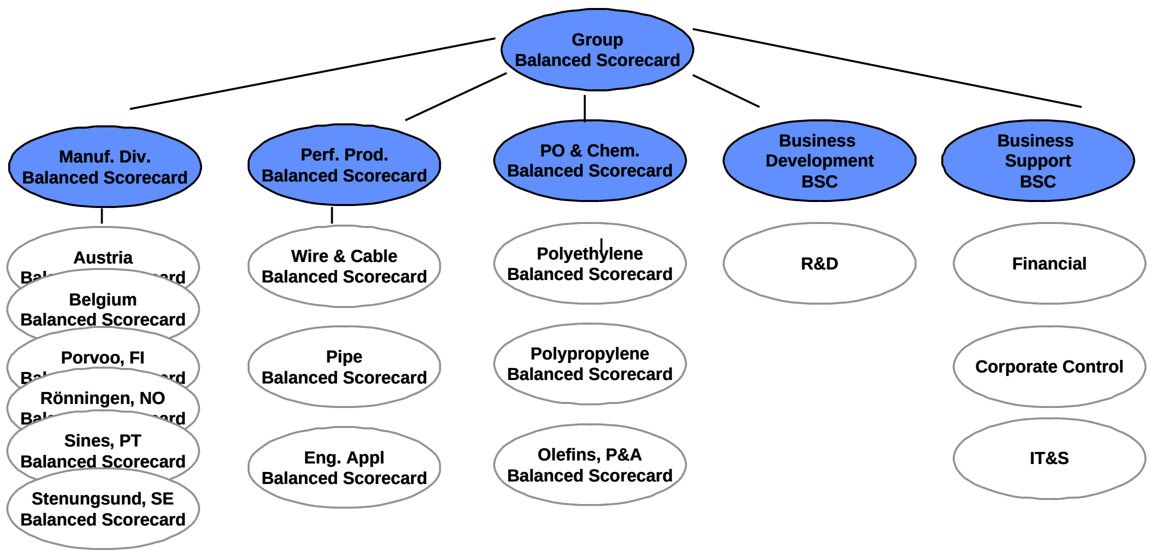
Direction set on Group level, but each unit owns their Balanced Scorecard

Focus on value for owners



Focus on producing the right products at the right time and quality. High safety, Low cost

Focus on 'value added' products. Differentiation

Focus on high volume, and low costs. Economies of scale

Focus on competitive advantage

Focus on defined quality level and low cost

Improvement initiatives aligned with various aspects of Borealis' internal processes are listed in their BPR (business process re-engineering) plan. The Balanced Scorecard became a critically important component of their target-setting and tracking system "tool kit", not only for financial objectives but also for all other strategic objectives. Rather than ask for "actuals vs. budget" in management meetings, they asked for "actuals vs. strategic targets" on the scorecard.

Results

Although Borealis largely abandoned conventional approaches to budgeting and management of resources in 1995, they have maintained a strong position in their marketplace with respectable financial results to show for it.

- Estimated market value of Borealis doubled in the five years of its existence from 1994 to 1999.
- Reductions in major site cost and headcount achieved without forced layoffs.
- Averaged 11% ROCE after taxes over the 5-year period after Borealis was formed, the budget eliminated and the Balanced Scorecard introduced.
- Industry benchmarks of Borealis customer satisfaction rose to higher levels on a year-to-year basis.
- Only 5% of management time is now spent on financial management since conventional budgeting processes have been eliminated.

Make Strategy a Continual Process

After Neste and Statoil joined their petrochemical divisions into one entity called Borealis, the natural next step was to create a budget by which to operate the new company. It was a long, laborious undertaking. After they finished, they held a review meeting to see what went well and what could be improved in the budgeting process. At the conclusion of the meeting, one outspoken individual simply asked:

"Hey, what if we don't do a budget?"

Shocking as this proposal was, it also had some merit. They looked at the idea seriously and came up with four major goals or reasons for abandoning traditional budgets.

- Improve financial management and performance measurement
- Decentralize authority and decisions
- Simplify the budgeting process
- Reduce the resources used in the process

They went beyond this to identify six major weaknesses of the traditional budgeting process:

- Conflicting purposes: target setting vs. financial forecasting
- Not only a ceiling, but also a floor for costs
- Promotes centralization of decisions and responsibility
- Inflexible to changes in planning assumptions
- Absorbs significant resources across the organization
- Tends to make financial control an annual autumn event

Furthermore, traditional budgeting in this extremely volatile market meant that annual spending plans based on assumptions about markets such as commodity plastics – viewed a year in advance – tended to be wrong more often than right.

These insights created the foundation for radical change in the Borealis financial management system.

The leadership group looked closely at the fundamental purposes served by traditional budgets and identified alternative means for addressing each of those purposes.

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We achieved what the budget did in a simpler way

The budget was used for:	We achieve the same through:
• High level financial and tax planning	• Rolling financial forecasts
• Target-setting	• Balanced Scorecard
• Controlling fixed costs	• Trend reporting • Cost targets where and when needed • Activity approach
• Prioritising and allocating investment/project resources	• Small projects - trend reporting • Medium - Varying hurdle rates • Major strategic projects - Case by case, the budget was never a tool ....
• Delegation of authority	• Use existing mandates/authority schedules

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Beyond Traditional Budgets

Borealis's leaders felt that their measurement of financial KPI's (Key Performance Indicators) should rest on relative performance (vis-à-vis competitors), not absolute performance in relation to the budget, previous results.

To accommodate the need for a 4-quarter view of future financial outcomes with no fixed budget to rely on, Borealis developed a 5-quarter rolling financial forecast. They forecast and report on the fifth quarter while transitioning through the first quarter in the sequence—which is always the current quarter. This way, there is always a timely 4-quarter future forecast to look at, regardless of when management asks for it during the year.

The advantage of this approach is that corporate planners and SBU managers quickly review/revise their first 4-quarters (already forecasted), then add one more quarter. This happens very quickly each month and results in more realistic forecasts, since managers are not evaluated on adherence to a fixed annual budget and, therefore, have less reason to play games with the budget.

Forecasting vs. Performance Management

Borealis has separated financial forecasting from performance management. The five-quarter financial forecasting described above is not the basis for individual or departmental evaluation. Therefore, the numbers that feed into that forecast are less likely to be "massaged" in order to present a positive (if not exactly accurate) view. Further, site fixed costs and depreciation costs are reported not by the operating managers but by the comptroller network, thus insuring a more accurate rolling forecast.

Individual performance management, on the other hand, is an annual target-setting and tracking process. It is based on total costs and financial returns achieved, along with the other non-financial measures on the business unit Balanced Scorecards. This insures accountability for business results rather than adherence to pre-determined budgets.

However, in some circumstances—e.g., managers showing irresponsible spending patterns markets with strong competitive price pressures—corporate leaders may dictate overall cost "frames" on a selective basis to limit certain classes of spending. In other words, the misuse of financial freedom results in the loss of it. They may also impose frames when benchmarking reveals severe cost competition in the marketplace.

Trend Reporting

In addition to a 5-quarter rolling forecast, Borealis substituted trend reporting and rolling averages for calendar-based reporting.

Total Cost Tracking

Instead of tracking budget variances in relation to an annual budget, Borealis migrated to a more top-level view which tracks total cost targets, especially in relation to marketplace competitors. The idea is that if targeted financial returns can be secured, costs on a particular project are not such an important item to track. Instead, cost trends across multiple initiatives are more reflective of the overall management system in action. In any case senior management review of project-level costs is the exception rather than the rule and is mostly reserved for large-scale investments.

Investments without Budgets

Borealis' decisions about investments are driven not by annual investment budgets, but rather by the investment capacity that their rolling financial forecast says is currently available

Reporting of investment appropriations is tracked against available cash flow and investment funding arrangements over a multi-quarter view. Such a top level view allows leaders to make on-the-fly investment decisions in the face of changing circumstances, thereby allowing more financial flexibility while still staying in overall control.

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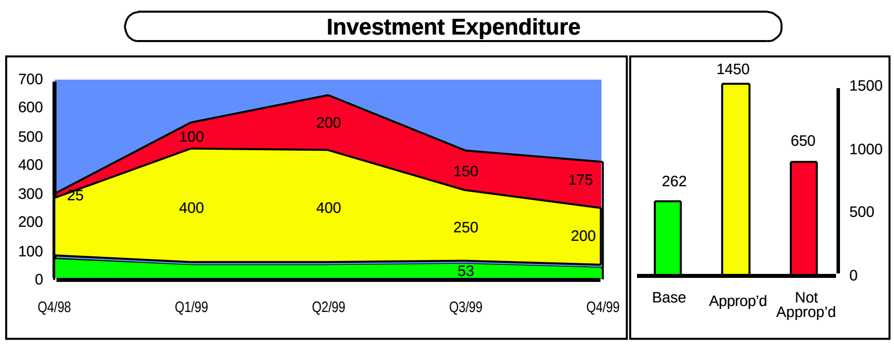
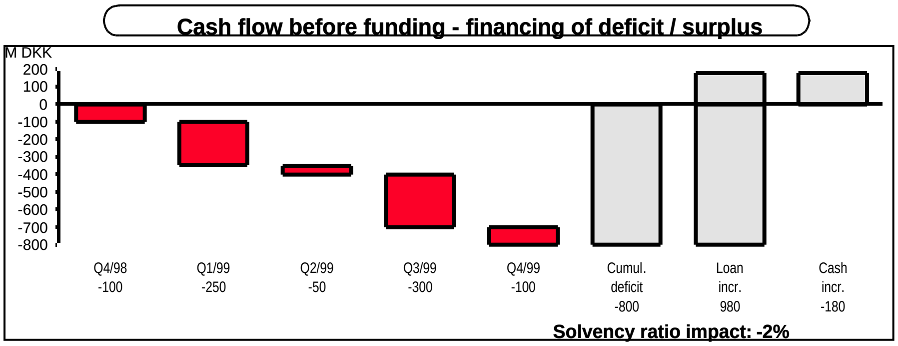
Investment reporting allows action in due time





No Budget, No CFO?

The Borealis CFO now spends more time on value-added activities than before. Typical of this activity is to ask two questions that reflect Borealis' more purpose-driven approach to financial management:

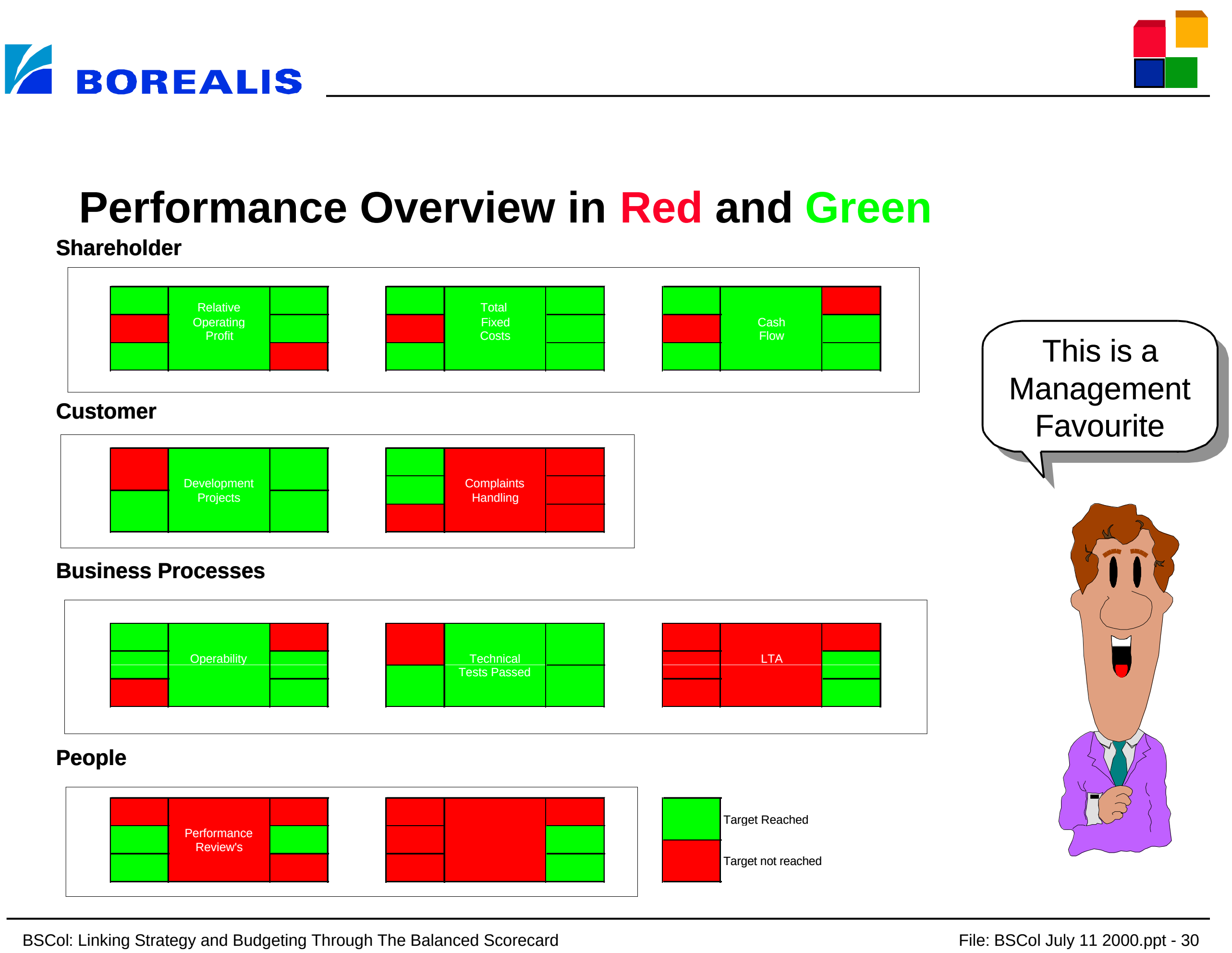
"How are we doing it today?"

"What purpose does it fulfill to do it that way?"

Moreover, all managers with financial responsibility spend more time working strategic issues and developing synergistic partnerships within the corporation, rather than fighting over money.

Feedback Systems

Borealis developed a clever way of showing both corporate and business unit performance together on their Balanced Scorecard reports. In essence, they used a large rectangle with a text box inside to represent aggregate corporate performance on a specific strategic measure—color coded green for "target reached" or red for "target not reached". Surrounding this rectangle are smaller color-coded squares to represent performance of the six business units that combine to create the corporate result.



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 are: implement the Balanced Scorecard as defined by the Kaplan/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.