

# [Implementation of a balanced scorecard for ludwig freytag construction company](https://assignbuster.com/implementation-of-a-balanced-scorecard-for-ludwig-freytag-construction-company/)

Implementation of a Balanced Scorecard for Ludwig Freytag Construction Company

1.        Primary Data Collection

This chapter is based on the interviews that were conducted with the management, employees, as well as one customer of Ludwig Freytag in the period of the 13 th 27 th of May 2016. Furthermore, one expert interview was held to validate the findings and to get more in-depth knowledge on the implementation processes of the balanced scorecard. The interviews have been conducted in the German language due to the company language and culture, with the expectation of the expert interview. All interviews have been recorded and summarized. In this paper the process of primary data collection will be described. Thereafter, the results of the interviews will be presented.

1. 1. Structure

In total, six interviews have been conducted with organisational members of Ludwig Freytag, one customer as well as one expert. The interview partners hold different positions inside Ludwig Freytags branch in Bremen reaching from general management, to contraction management as well as the secretary.

A core customer of Ludwig Freytag, wesernetz Bremen GmbH represents the external perspective. The wesernetz Bremen GmbH is a public network operator for the German state Bremen. The company is responsible for the supply networks of energy, gas and water. Michael Ganzer represented wesernetz Bremen in the interview.  The interview partner for the expert interview was Joe DeCarlo, Vice President International of the Balanced Scorecard Institute. (For CV see Appendix.)

1. 2. Data Reduction

As already discussed in the methodology, semi-structured in-depth interviews have been conducted to answer the raised research questions. Interviewees have been asked the same main questions to follow the principle of data reduction to focus, sharpen and organise the collected data (Bell and Bryman, 2006). Due to the semi-structured nature of the interviews, follow up questions have been included when needed to dive into depth in special segments of the interview.

1. 3. Data display

Data has been displayed based on the data display principle. Therefore, all of the main interview questions have been derived from the research questions and their sub-questions.

How can Ludwig Freytag implement a Balanced Scorecard to measure performance based on its Vision and Mission?

I.                 Is it necessary to improve the performance measurement of Ludwig Freytag?

II.                 What is the Mission and Vision of Ludwig Freytag?

III.                 Who are the stakeholders of Ludwig Freytag that need to be noted in the strategy?

IV.                 What KPIs can Ludwig Freytag use to measure performance in the suggested perspectives of the balanced scorecard?

1. 4. Categorization

Categorising data includes the development of groups and to attach the groups to significant portions of data (Saunders, eta al. 2009: p. 495). According to McLean (2006), there are three main sources to derive categories from:

Utilization of terms that emerge from the researchers findings

Founded on real terms employed by the respondents

Derivation from terms in current theory

Categories used in the data analysis of this research are based on the third principle derivation from terms in existing theory. It is important that the devised groups must be part of a logical position so as to offer a good-structured methodical outline to peruse your testing. Furthermore, they need to have an internal and external aspect. The internal aspect ensures that categories are meaningful in relation to the data, whereas the external aspect ensures meaningfulness in relation to other categories (Saunders, Lewis & Thornhill, 2009: p. 492-3)

The first aspect, meaningfulness in relation to the data, is clearly ensured as all categories have been imitative from the investigative questions. The second aspect, meaningfulness in relation to other categories, is also provided as the research is based on an existing theory in the form of the balanced scorecard. Therefore, all categories are linked closely to each other as they peruse the same aim, the introduction of a balanced scorecard for Ludwig Freytag.  All categories are allocated to interview questions that include suitable context for them. Answers will be separately compared (external & internal), analysed, set in context to secondary research and finally applied to the case of Ludwig Freytag.

2.        Findings and Discussion of the Interviews

2. 1. Performance measurement at Ludwig Freytag

In the following chapter, the results of the interviews with organisational members of Ludwig Freytag on different hierarchical levels are presented, based on the previously mentioned categories. To represent an internal and external perspective the answers of a core customer of Ludwig Freytag are used for comparison. Furthermore, an interview with an external expert in the field of performance measurement was conducted to get a better understanding of the implementation process of a balanced scorecard.

All results were collected in tables to provide the reader with a better overview. The results are described first before they are analysed in order to meet the objective of semi-structured in-depth interviews. Before implementing new systems, it was important to determine if there is a need for change. Therefore, some general questions about performance measurement at Ludwig Freytag were asked in order to find out if the need for a balanced scorecard is given.

2. 1. 1.        Data description – Internal

Table 1: Need for performance measurement

Need for performance measurement

C1

C2

C3

C4

C5

Summary

Importance of

performance

measurement for Ludwig Freytag

Yes

Yes

Yes

Yes

Yes

Yes: 5

No: 0

How is performance measured

Monthly balance sheet

No answer

Profit margin of projects and services

No answer

No answer

No answer: 3

Balance sheet: 1

Profit margin: 1

Used indicators

Financial

No answer

– Financial

– Customer

Based

Financial

No answer

Financial: 3

No answer: 2

Customer based: 1

The above table shows the answers of the employees of Ludwig Freytag to the question Is it necessary to improve the performance measurement of Ludwig Freytag? The above results show that every participant has the opinion that performance measurement is important for Ludwig Freytag. Only two participants could describe how performance is measured at Ludwig Freytag. Additionally only one, the General Manager, could actually explain the currently used system.

Overall, the used indicators were only of a financial nature, as the used system of a monthly balance sheet was solely based on financial figures. Also, three of the participants referred to financial indicators when asked how they assess success.

Performance measurement is seen as an important topic for Ludwig Freytag

Employees of Ludwig Freytag are not aware of the used performance measurement system

Performance is measured solely through financial indicators

2. 1. 2.        Data description – External

Performance management can be seen as an overall management tool involving avoidance and discovery at attaining conformation of the products or services to your consumer needs. Therefore, it was essential to also include the customers requirements in every performance management system.  One of Ludwig Freytags core customers, Wesernetz Bremen, has stated the following requirements of the services conducted through Ludwig Freytag on their behalf:

() we have introduced a Baustellenbewertungsverfahren (Construction site assessment system) in which Ludwig Freytag is assessed based on grades. If a lack in performance is found in this system a feedback round is conducted immediately with Ludwig Freytag. (Michael Ganzer, 13. 05. 2016)

Quality, customer contact, work quality and costing are important key figures in the grading system. (Michael Ganzer, 13. 05. 2016)

Indicators used by wesernetz Bremen to assess the performance of Ludwig Freytag are mostly customer based key figures with a focus on quality. Hereby, the financial aspect is also taken into account, but is by far not the most important indicator.

Wesernetz Bremen uses a construction site assessment system to measure the performance of Ludwig Freytag.

Quality in service is most important for wesernetz Bremen.

The financial aspect plays only a minor part.

2. 1. 3.        Data analysis: Implication for Ludwig Freytag

The collected data from the category need for performance measurement showed that there is a need for a new performance measurement system at Ludwig Freytag. The internal perspective exposed that employees are not aware how performance is measured, nor do they know the overall strategy. Furthermore, Ludwig Freytags performance measurement relays solely on the financial aspects of a service.

When including the external perspective it gets more obvious, as performance measurement system should involve prevention and detection at achieving conformance with customer requirements. This basic principle is not provided by the current performance measurement system of Ludwig Freytag. The used system relies solely on financial figures, whereas the customer states that the quality of a service is for him most important. Therefore, the system does not provide a base to assure customer satisfaction.

According to past findings, the currently used system has further weaknesses. Each organisational member needs to understand the performance measurement tool in order to achieve alignment with organisational goals and objectives. When the system does not provide strategic direction, tactical execution is not possible. Furthermore, secondary research highlights the need to measure performance with a mixture of financial and non-financial performance measurements. When financial measures are exclusively used, the performance measurement tool is focused on short-term success, hard measures and cannot be used as an indicator for future success.

2. 2. Vision and mission

In the beginning of the creation of a BSC stands the development of the vision and mission. The overall direction of the company is defined by the vision, which concisely formulates the mission. The vision aims to give all organisational members a uniform orientation and direction, inform stakeholders of a future state, and to support the identification with the organisation. Therefore, a vision can be defined as a goal, whereas the mission is the strategy on how to reach the desired goal.

After a vision is defined, it needs to be implemented. To do so, the strategy was formulated based on the vision (Smit, 1999: p. 127-30). To determine vision and mission interviewees were asked about their long-term goals with Ludwig Freytag, the purpose of Ludwig Freytag, the added value it provided for its customers, what Ludwig Freytag does in general and for whom they are doing their work.

From our findings, Freytag Construction Companys is Focusing its customers . It seeks to be number one in delivery of high value to prospective clientele. The manner in which the company has been performing from the outlook of customers has become a top priority for the management. The BSC demands that the management translates the companys general mission statement on clientele service into specified measures, which will reflect that factors that only matter to clients.

2. 2. 1.        Data description – Internal

Table 2: Mission and Vision

Vision and Mission

C1

C2

C3

C4

C5

Summary

Long-term goals

Secure principles

Maintain market leader

Better

orientation on the labour market

Expand

Maintain on the market

Maintain on the market position: 4

Orientation on the labour market: 1

Purpose

Survive on the market

Customer

satisfaction

– Customer

satisfaction

– Orientation on market

influences

Reaching new markets

Survive on the market

Customer satisfaction: 2

Survive on the market: 2

Orientation on market influences: 1

Reaching new markets: 1

Added value

Quality

Reliability

Punctuality

Quality

Quality

Quality

Quality: 4

Reliability: 1

Punctuality: 1

Area of activity

– Classical construction sector

– Civil engineering

– Pipeline engineering

– Plant manufacturing

– Cable installation

– General engineering

– Pipeline

engineering

– General

engineering

– Pipeline

engineering

– Cable

installation

– Public

lighting

– Service for the energy sector

Civil

Engineering

– Civil

engineering

– Pipeline engineering

Pipeline engineering: 4

Civil engineering: 3

Cable installation: 2

General engineering: 2

Plant manufacturing: 1

Public lighting: 1

Classical construction sector: 1

Separation aspect

– Financial aspect

– Quality

– Reliability

– Punctuality

– Quality

– Experience

– Quality

– Highly trained staff

Quality

Quality: 4

Financial: 1

Reliability: 1

Punctuality: 1

Staff: 1

Experience: 1

Target customer

– Private sector

– Public sector

– Citizens of Bremen

– Energy

supplier

Energy suppliers

– Private sector

– Public sector

– Energy suppliers

– Private sector

Private sector: 3

Energy supplier: 3

Public sector: 2

Citizens of Bremen: 1

The above table represents the answers of Ludwig Freytags employees to main and sub-questions that aim to answer research question What are the Mission and Vision of Ludwig Freytag? When asked about the long-term goals of Ludwig Freytag participants referred mostly on the market position of Ludwig Freytag. To maintain market leader, expand and to secure principles were the main statements. Additionally, one interviewer claimed that the long-term goal of Ludwig Freytag should be a better orientation on the labour market.

When talking about the mission of Ludwig Freytag several aspects need to be taken into account, as it is a combination of numerous aspects of an organisation:

Purpose: According to employees the main purpose of the organisation is customer satisfaction, next to the survival on the market. As survival on the market is prerequisite for an organisation to have a purpose, customer satisfaction can be seen as the main purpose of Ludwig Freytag according to the internal perspective.

Added value: Coherent with the stated purpose of customer satisfaction, employees stated that the added value Ludwig Freytag provides to its customers is a high level of quality in its services.

Area of activity: Ludwig Freytag is based on several columns, reaching from cable installation and public lightening to plant manufacturing. For the mission it is important to find an umbrella term that includes all the mentioned areas. During the interviews, the terms pipeline, civil and general engineering have been used mostly. As general engineering covers all engineering aspects it can be used for the mission statement. However, the term civil engineering should also be included in the mission statement, as it lies in Ludwig Freytags field of expertise and covers several aspects of further terms that have been mentioned during the interviews (cable installation and pipeline engineering).

Separation aspect: Almost every participant mentioned that the aspect that separates Ludwig Freytag from its competitors is its quality. This is coherent with the added value and purpose of Ludwig Freytag and can be used for the mission statement.

Target customer: The private sector, the public sector and energy suppliers have been mentioned the most when talking with employees of Ludwig Freytag about their target customers. The term public sector also covers the energy suppliers. Therefore, the target customer of Ludwig Freytag can be defined as the public and private sector.

Purpose Customer satisfaction

Added value Quality

Area of activity General and civil engineering

Separation aspect Quality

Target customer Public and private sector

Vision: Market leader, better orientation on the labour market

2. 2. 2.        Data analysis: Implication for Ludwig Freytag

The collected data from the category Mission & Vision shows in the internal perspective that the long-term goal of Ludwig Freytag is to improve Ludwig Freytags market position. Answers in regards to this have been maintaining market leader, expand and maintain current market share. As the term market leader was used the most it can be used as the desired state for the vision statement.

Furthermore, one participant stated that a better orientation on the labour market should be the long-term goal of Ludwig Freytag. As the internal perspective could not be considered, the vision statement was created based solely on the findings of the internal perspective: At Ludwig Freytag, our vision is to be the leading service and construction company in the area of Bremen. We will strive to attract, develop and retain the best people to offer the best service in the highest quality.

When looking at the mission, consensus can be found between the internal and external perspective. The purpose (customer satisfaction), added value (quality), and target customers (public and private sector) of Ludwig Freytag are perceived similar in the internal and external perspective. Also, consensus can be found in the area of activity, as public lightening is covered under the term general engineering. Furthermore, both perspectives mentioned civil engineering.

However, the separation aspect is perceived differently. The internal perspective states that the separation aspect is quality, whereas the external perspective states reliability.

Here it can also be argued that reliability can be seen as a sub-part of quality. Therefore, quality can be used as a separation aspect.

3. Application Of Findings For The Bsc Of Ludwig Freytag

3. 1. Stakeholders of Ludwig Freytag

This section answers the question Who are the stakeholders of Ludwig Freytag that need to be noted in the strategy? From our findings, the following is a summary the stakeholders of the Company

Table 4: Stakeholders of Ludwig Freytag

Perspectives

C1

C2

C3

C4

C5

Summary

Stakeholders

Principal

Principal

Principal

Customers

Customer

Suppliers

Employees

State

State

Customers

Suppliers

Customers: 3

Principal: 3

Suppliers: 2

State: 3

Employees: 1

From our research findings, the internal perspective of respondents C1-C5 about who is Ludwig Freytag Stakeholders is that: Customers, Suppliers, the State, and Employees are its core stakeholders. They all have different needs in the Company

Customers: they are people or organizations that purchases a good and service from Ludwig Freytag. The main needs of the customers from Ludwig Freytag were: freindliness, fairness, understanding and empathy, control, options and alternatives, and information.  Failure to demostrate this qualities will make the customers reduce their intrest in the company. They are the lagest company stakeholders and thus, must be treated in a good way.

The State: The State regulate the financial system in which the Company operates.  It also levies taxes from this company and additionally inspects the perfomance of this organization within the the nations. Its major needs or objectives are to ensure that the company is successful, jobs are made, taxes are paid, and Ludwig Freytag observes the laws. If the company does not follow the State laws or violets them, the State can close it down and sue its core-founders

Employees: they are people, who sacrifice their effort and time to ensure Ludwig Freytag succeeds. They are interested in employment security, work satisfaction, as well as a contentment amount of salary in favor of their hard work. Employees need to be treated well and failure to do so, this can make the company collapse and make losses ending into termination.

Suppliers: They venture funds inside of the Conmay and obtain returns from such business. The main needs for is profits, and business growth.

3. 2. The Learning and Growth Perspective Findings

This section presents the findings on the Learning and Growth Perspective to answer the research question What KPIs can Ludwig Freytag use to measure performance in the suggested perspectives of the balanced scorecard? The results are summarized in the following table 4

Table 4: Objectives & KPIs

Objectives & KPIs

Summary

Financial Perspective

Objective

Financial independency: 2 / Break-even: 2

KPIs

Liquidity: 5 / Return on sales: 5 / Debt Equity: 2 / Cash Flow: 2

Customer Perspective

Objective

Customer satisfaction: 4 / High quality: 1

KPIs

Market share: 4 / Order quantity: 3 / Ratio of repeated customers: 4 / Complaints rate: 3

Internal Process Perspective

Objective

Employee training: 2 / Quality assurance: 1 / Project management: 1

KPIs

Management continuity: 4 / Error rate: 5 / Project duration: 3 /

Service time: 3

Learning and Growth Perspective

Objective

Highly trained staff: 3 / Fleet vehicle: 1

KPIs

Employee qualification: 5 / Innovation: 3 / Expert knowledge: 4 /

Teamwork: 3

Our findings in the Learning and Growth Perspective show that a highly trained staff and a sufficient fleet vehicle that allows Ludwig Freytags employees to do their work adequately are factors that build a base for future success according to the internal perspective. KPIs view that determinants for future success are: qualification, expert knowledge, innovation and teamwork.

3. 2. 1.        Application to Ludwig Freytag

To close the perception gap in the customer perspective, Ludwig Freytags core customer Wesernetz Bremen has been asked how he assesses the performance of Ludwig Freytags service. Furthermore, the external perspective will help to determine what infrastructure is necessary to satisfy the needs of the Ludwig Freytags customers.

Most important for the customer is that a high quality service is guaranteed to secure customer satisfaction. This is highly important for wesernetz Bremen as Ludwig Freytag represents them as a principle when conducting services on their behalf. Furthermore, safety, billing and the error rate are important aspect for the perceived quality of a service.

The customer wishes a high quality in services. We are a certified company, according to ISO-9001 (Quality management system) and we also expect that from our working partners. Very important objective in this field are the customer satisfaction, service-quality and safety. We, at wesernetz, have very high safety standards and we also demand this safety from our contractors. (Michael Ganzer)

Billing, how many accidents happened during a project/service, error rate and the overall quality of the services are key figures for processes at Ludwig Freytag. (Michael Ganzer) Therefore, the most important key figures to assess the performance of a service are the error rate, process time of a complaint, service time and the overall project duration.

According to the external perspective the requirements can only be reached if Ludwig Freytag maintains a high employee qualification, expert knowledge, fleet vehicle and has a good customer network.

Ludwig Freytag represents customers when conducting services for principles.

A high quality in services is needed to satisfy the customer

Safety, billing and error rate are further important aspects of conducted services

KPIs used by wesernetz Bremen to assess performance of Ludwig Freytag: error rate, process time of a complaint, service time, project duration

Ludwig Freytag needs a high level of employee qualification, expert knowledge, fleet vehicle and a good customer network to fulfil the requirements of the customer.

The above suggested performance measure was found to be inefficient in their functioning and the following are some recommendations that will help Ludwig Freytag improve measuring its financial performance. First, to monitor implementation and effectives of the strategy, strategic KPIs need to be defined. KPIs are performance measures that indicate progress to a desired outcome (objective). By that, they determine the gap between actual and desired performance to assess the organisational effectiveness and operational efficiency.

Second, to define suitable KPIs that monitor the success of the strategy and the progress towards the desired outcome, strategic objective need to be defined. Therefore, organisational members have been asked about individual objectives for each perspective. Subsequently, the participants have been asked about possible KPIs that would be suitable to measure the progress to the desired objective. Third, as a means of placing the balanced scorecard to work, the company ought to lay out goals for quality, time, and performance and service and then transition these goals into specified measures. Also, the stakeholders and senior management at Freytag Construction Company should establish general goals to drive customer performance.

Such goals would include developing innovative products that are tailored to clientele needs, becoming clientele supplier of choice via partnerships with them, getting standardized products to improve the taste of existing products. Furthermore, in order to track the specified goal of offering a constant stream of attractive solutions, Freytag Construction Company should measure the percent of services provided in construction from proprietary products.

Finally, to assess whether Freytag Construction Company is accomplishing its goal of offering reliable and responsive services, the management will have to incorporate the views of customers who have already been served or were once served in the past. The shift to external performance measures with clientele will lead the company to make some refinements and thus match customers expectations.

4. Summary And Recommendations

The research paper aimed to answer three important questions relating to Freytag Construction Company: What is the Importance of perfomance measures in Ludwig Freytag Company, how is performance measured, and what indicators are used. The findings showed that employees of Ludwig Freytag do not know how performance is measured and what the overall strategy of Ludwig Freytag is. Also, the used performance measurement system relays only on financial measures and is non-conformance with customer requirements. Hereby, a focus lies on short-term performance with the consquence that the system cannot be used as indicators for future performance.

The system focuses solely on hard measures while leaving out intangible assets. This imples that that Ludwig Freytag needs a new performance measurement tool. Therefore, branch manager Huseyin Ozkan decided to get an outlook how a BSC can be used and implemented at Ludwig Freytag. In the model of the BSC all organisational members as well as the executing managers were considered and actively integrated in the controlling process. Decisions are made based on jointly defined key figures and target values.

Through the inclusion in the process of defining key figures and target values, the management hopes to achieve communication and organisational-wide identification with the strategic orientation. Furthermore, the BSC can be seen as a management system that includes the analysis of processes and the determination of strategic targets and allows a fast distribution of information inside an organisation. Also, the vision and the mission (strategic goals) are made measurable.

It must be noted that project participants in Freytag Construction Company have acknowledged that they cannot execute the balanced scorecard without the engagement of the senior management who hold the most complete picture of the firms priorities and vision. The balanced scorecard adopted by Freytag Construction Company should be tailored in a manner that puts vision and strategy at the center. It should establish goals, but also to assume that people within the organization would inculcate whatever behaviors and undertake whatever actions are key in arriving at those goals. Such measures are designed at pulling the people toward the overall company ys vision.

Secondly, the new approach to performance measurement should always be consistent with set initiatives in the company. These would include continuous improvement, global scaling, customer-supplier partnerships, cross-functional integration, and team accountability. Through direct combination of innovation, customer, financial and internal process with organizational learning perspectives, the resultant balanced scorecard will assist managers in comprehending many relationships. Such understanding will assist the management to transcend the traditional notions regarding functional barriers that would eventually lead to improved problem-solving and balanced decision making.

The management team exhausting the BSC do not necessarily rely on short-term monetary measures to act as the sole pointers of the companys performance. The approach of balanced scorecard is to enable Freytag Construction Company to introduce new governance as well as renewing the process that focuses on strategy. Though it relis on short-term financial processes as the benchmark of performance operation; it still does not follow supplementary functions.

The management of this company should understand that it is difficult to incorporate a firms scorecard into its resource allocation process, budgeting and planning, specifically when scorecard metrics are altered. To better reinforce the balanced scorecard and more practical, the management should encompass a huge number of financial and non-financial measures; the latter should be constantly modified in accordance with the dimension feedback.

Everyone in the company should be able to tell a story about their strategy. Very quickly they need to understand what their strategy, objectives, targets and initatives are. (Joe DeCarlo, 27. 05. 2016). This Quote highlights the importance of an alignment between organisational objectives and performance measurement. The performance management system needs to identify key areas, which drive the performance of an organisation and measure them. Based on these measures, performance targets need to be identified to provide the business with a clear strategy and direction. Only when a strategic direction is given, the tactical execution is manageable. Therefore, every employee needs to understand the strategy and how performance is measured to contribute to the overall success of the organisation.

Conclusion

All results were collected in tables to provide the reader with a better overview. The results are described first before they are analysed in order to meet the objective of semi-structured in-depth interviews. Performance management can be seen as an overall management tool involving avoidance and discovery at attaining conformation of the products or services to your consumer needs. The overall direction of the company is defined by the vision, which concisely formulates the mission. The vision aims to give all organisational members a uniform orientation and direction, inform stakeholders of a future state, and to support the identification with the organisation. Customers, Suppliers, the State, and Employees are the companys core stakeholders. Most important for the companys customers is that a high quality service is guaranteed to secure their satisfaction.

Reference List

Bell and Bryman 2007. Business Research Methods . Oxford University Press Inc.,      New York.

Caldwell T 1995. Introduction: The Model for Superior Performance , New York:   Irwin Professional Publishing, pp. 1-17.

Cooper, Donald (2005). Business research methods . Irwin/McGraw-Hill; 9Rev Ed edition.

Creswell, J. (2003). Research Design: Qualitative, Quantitative, and Mixed Method Approaches (2nd ed), Thousand Oaks, CA: Sage.

Eling M, Faust R 2010. The performance of hedge funds and mutual funds in emerging markets, Journal of Banking & Finance , 2010 Elsevier Journal of Banking & Finance Volume 34, Issue 8, pp. 19932009.

Gibson I & Donnelly K 2006. Organizations, Behavior,         Structure, Processes . New York: McGraw Hill.

Johnson B 2004. Educational Research . Allyn & Bacon; 2 edition.

McLean G 2006. Organization Development, Principles, Processes and Performance . San Franciso: Berret-Koehler Publishers Inc.

Yin R 2003. Case study research . Sage Publications, Inc; Third Edition.