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FORMING THE LINK BETWEEN STRATEGIC PERFORMANCE AND OPERATIONAL SUCCESS: THE DEVELOPMENT OF A BALANCED SCORECARD AT LISBON CONSULTING GROUP

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Abstract

The purpose of this research is to develop a Balanced Scorecard for Lisbon Consulting Group (LCG) that forms the link between Strategic Performance and Operational Success. Therefore, strategic internal and external analyses, such as SWOT, PEST and Customer Value Proposition Analyses were conducted in order to adapt the Balanced Scorecard to the company's reality. Furthermore, this paper examines the market environment of consulting companies. For this purpose, a value chain for consulting companies was established and the industries' best practices were explored through a Benchmark Approach that followed a qualitative research method. As a result, the Balanced Scorecard for LCG is both, a reflection of the company's reality and the consulting market. Thus, this work serves as well as a general Balanced Scorecard framework for consulting companies. The implementation will contribute to the future value of LCG as it measures the company's performance and sets and communicates targets and initiatives in a short-term and long-term perspective.

Key Words: Performance, Strategy, Consulting, Intangible Assets

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LIST OF ABBREVIATIONS

BI	Business Intelligence
BSC	Balanced Scorecard
CSF	Critical Success Factor
e.g.	exempli gratia; for example
FTE	Full-time employee
GCR	Global Competitiveness Report
HR	Human Resource
i.e.	id est; this means
IT	Information Technology
LCG	Lisbon Consulting Group
KM	Knowledge Management
KPI	Key Performance Indicators
NPS	Net Promoter Score
PEST	Political, Economical, Social and Technological
ROI	Return on Investment
SMART	Strategic Measurement and Reporting Techniques
SME	Small and Medium Enterprise
SWOT	Strengths, Weaknesses, Opportunities, Threats

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I) INTRODUCTION

"What gets measured gets managed" (Willcocks, 1996: 279). Based on this principle, the Balanced Scorecard (Kaplan, 1992: 71) became one of the top ten management tools used worldwide (Bain & Company, 2011: 7). The Balanced Scorecard (BSC) reduces the complexity of a company's ratio system by assigning the firm's operating figures to the Balanced Scorecard's four perspectives, namely the Financial, the Customer, the Internal Processes and the Learning and Growth Perspective and links them through cause-and-effect relationships. Being already implemented in renowned companies such as Microsoft Corporation, Apple Inc. or BMW Group motivated Lisbon Consulting Group (LCG) to adopt this Strategic Management System as well. Therefore, this Work Project aims to develop a Balanced Scorecard for LCG through forming the link between strategic performance and operational success. The first part of this work represents the theoretical framework, in which the Balanced Scorecard as a Performance Measurement System is presented, including its vital components such as Critical Success Factors (CSF), Strategy Map, Key Performance Indicators (KPIs), Targets and Initiatives. Furthermore, alternative Strategy Performance Management Models are discussed. The main body of this work is represented by the development of the Balanced Scorecard. Hence, LCG's Company Profile is presented first, which includes the strategic analyses such as a SWOT, PEST or Customer Value Analysis that have been carried out for generating an individualized Balanced Scorecard for LCG. In the next step a value chain for consulting companies has been created with the purpose to reflect the main processes of consulting companies and adapt the Balanced Scorecard to the needs of the consulting market. The consulting industries' best practices could have been explored through a Benchmark Approach. Based on all these analyses, the Critical Success Factors of LCG could have been set up as well as its Strategy Map. In the next step the general applicability of LCG's Strategy Map for Consulting Companies was examined. The last part of the development of LCG's Balanced Scorecard consists of the elaboration of LCG's KPIs and Initiatives. Although clear targets have been set for all KPIs of LCG, they are substituted by an "X" in this work instead of the real number or the percentage according to the confidentiality commitment that has to be met. After the Balanced Scorecard has been developed, it will be implemented through a specifically elaborated Balanced Scorecard Excel Spreadsheet. Moreover, a Business Intelligence Framework was considered to visualize the company's Balanced Scorecard.

1) Purpose of the Work

The purpose of this Work is to create a strategic planning and management system for LCG as a Small and Medium Enterprise (SME) that aligns the company's strategic goals including its mission, vision and values to the company's business activities and foster the firm's internal and external communication. Since Lisbon Consulting Group is still a small player in the highly competitive and fragmented consulting market, where top-tier consulting companies are already well positioned, it is vital for LCG to establish performance measures and targets in order to expand its market share. This Work Project provides LCG with the necessary tools and capabilities to address this challenge.

2) Literature Review

In order to understand the concept of the Balanced Scorecard (BSC), it is inevitable to consult the works of Robert S. Kaplan and David P. Norton, since they were the first that introduced the Balanced Scorecard in the their article *The Balanced Scorecard – Measures That Drive Performance* (1992). Since that year, the two authors have published five main books on the concept of the Balanced Scorecard and a series of articles that were mainly published in the "Harvard Business Review". For the theoretical part of this Work Project all these five books were of utmost importance as they put emphasis on different subjects of the BSC. *The Balanced Scorecard: Translating*

Strategy into Action (1996) deals with the question of how the Balanced Scorecard as a performance management tool drives the implementation and the conducting of a company's strategy. Since this Work Project aims to translate LCG's strategy into operational terms and carries out strategic analyses for this purpose, this book provides guidance in doing so. The second book *The Strategy-Focused Organization. How Balanced Scorecard Companies thrive in the new Business Environment* (2000) describes more generally how a company aligns its organization to its strategy and how it motivates its employees to adopt the strategy in their working life, which is a good source for getting an overview over important management principles. The third book is called *Strategy Maps. Converting Intangible Assets into Tangible Outcomes* (2004) and refers to the establishment of Strategy Maps. This book is used for this Work Project as a guideline of how to build cause-and-effect relationships across the four perspective of the BSC. The fourth book *Alignment. Using the Balanced Scorecard to create Synergies* (2006) in combination with the fifth book *Execution Premium. Linking Strategy to Operations for Competitive Advantage* (2008) are the most important books for this Work Project as they introduce measurements that help companies to align their organization to their strategy and establish a long life-time Balanced Scorecard, which is the goal of this Work Project as well. Still, as the concept of a Balanced Scorecard is mainly established for the implementation in traditional industry sectors and not explicitly for consulting companies, no literature could have been found that describes the development and implementation of a Balanced Scorecard for consulting companies. Therefore, the above named literature and the examples they provide could not be directly applied to the development and implementation of a Balanced Scorecard at LCG. Therefore, I had to adjust the BSC to the consulting environment peculiarities. This was carried out through using the knowledge that was gained in the previously named books to adapt the BSC to the characteristics of the consulting market. For the same reason Michael Porter's value chain had to be adjusted as well. His concept of a value chain is described in a very detailed way in his book *Competitive Advantage. Creating and Sustaining Superior Performance* (1985). Still, his approach targets only traditional industrial processes. This Work Project in contrast, designed a value chain for consulting companies, which represents a new attempt due to the fact that no scientific articles could have been found, which were published on this subject. Therefore, this Work Project distinguishes itself through adjusting concepts that were originally designed for traditional industries to the consulting environment. The Implementation of the Balanced Scorecard is based on a detailed Balanced Scorecard Excel Spreadsheet, which is further developed into a Business Intelligence Framework. Therefore an SAP Solution, namely the SAP Chrystal Dashboard Designer Program, is applied that supports this transformation.

II) THE BALANCED SCORECARD – A TOOL FOR FORMING THE LINK BETWEEN STRATEGIC PERFORMANCE AND OPERATIONAL SUCCESS

After more than 20 years of operation the Balanced Scorecard is still recognized as one of the most used management tools worldwide (Bain & Company, 2011: 7) as it converts an organization's mission and strategy into an extensive set of performance measures that provide the framework for an elaborated Strategic Management System (Kaplan, 1996: 2). Before the Balanced Scorecard had been introduced, financial control systems were used that enabled companies to monitor their allocation of financial and physical assets and measure its performance (Bloomfield, 2002: 4). Since the Business Landscape had changed rapidly and companies found themselves confronted with an increasing service oriented and competitive environment, they had to adapt their structures to this new business reality in order to create future value for their company. This included investing in Customer Relationship Management, Operational Excellence, Innovation, Technology, Human Capital, Corporate Culture and Brand Image. Consequently, a shift took place from traditional physical – tangible – assets to intellectual – intangible – assets such as motivated and competent employees, an admired corporate culture, high-quality services, reliable internal processes and satisfied customers (Kaplan, 1996: 2). Intangible assets are critical as they represent the driving factors of a company. By reducing the company's effort on strengthening those, the negative effects are directly reflected in the company's income statement. As intangible assets are generally more difficult to measure than tangible assets, a tool had to be created that displays the important interrelation between the key success factors of a company. Bearing that in mind, Robert S. Kaplan and David P. Norton established a strategic measurement system – the Balanced Scorecard – that displays both financial and operational measures (Please refer to Figure 1) and as a part of the Balanced Scorecard a tool that indicates the cause-and-effect relationship between those key success factors – the Balanced Scorecard's Strategy Map.

> "The Balanced Scorecard retains an emphasis on achieving financial objectives but also includes the performance drivers of these financial objectives." (Kaplan, 1996: 2)

The Financial Perspective represents the outcome of the measures from the Customer Perspective, Internal Processes Perspective and the Learning and Growth Perspective. Therefore, Customer Satisfaction, Internal Processes and the organization's Innovation activities are the "operational measures that are the drivers of future financial performance" (Kaplan, 1992:71). Consequently, the main purpose of a Balanced Scorecard is to link these perspectives and serve as a tool for both converting intangible assets into tangible outcomes and aligning corporate strategy with operational success.

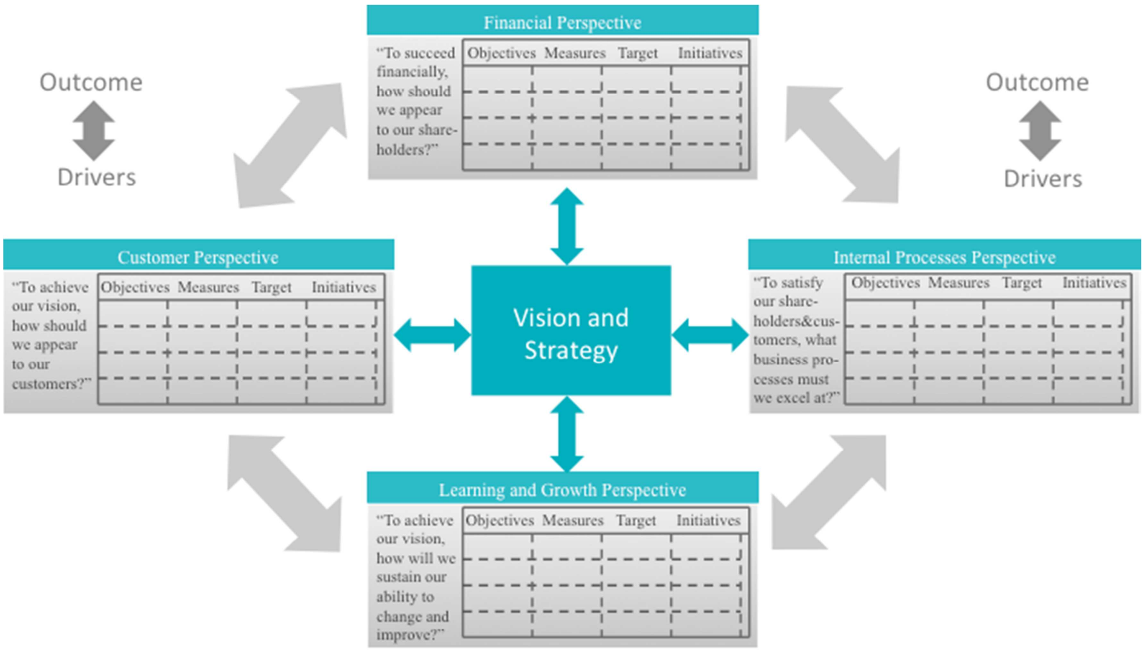

Figure 1: The Balanced Scorecard Framework; Own Diagram based on Kaplan (1996: 11)

1) <u>A Balanced Scorecard's Strategy Map</u>

"A Strategy Map is a logical and comprehensive architecture for describing strategy." (Kaplan, 2000b: 10). Strategy Maps enable companies not only to visualize their strategy but also to illustrate processes and systems that support the implementation of the company's strategic goals. This visual representation of the company's Critical Success Factors and the crucial cause-and-effect relationship among them drive the company's overall performance not at least because employees can precisely identify their roles within the firm and act in line with the company's strategic objectives. These cause-and-effect relationships enable companies to achieve desired outcomes, if they manage to accomplish the determined targets of the Critical Success Factors. Additionally, Strategy Maps serve as a tool for demonstrating how a firm converts its intangible assets like Employee Capabilities, Information Systems or Customer Relationship Management into tangible outcomes (Kaplan, 2000a: 168). In the beginning of this century, intangible assets counted for more than 75% of the company's market value and were considered to a great extent as the company's competitive advantage (Kaplan, 2004: 4). Still, there are hardly significant tools available that describe the dimension of their value creation. Strategy Maps, however, serve as such a tool since they do not only display individual assets but the bundle of intangible and tangible assets (Kaplan, 2004: 30). Moreover, it demonstrates the overall company's strategy that connects these assets and converts them into the desired outcomes. Consequently, establishing Strategy Maps is one of the most important parts of developing a Balanced Scorecard as they serve as a supporting tool to chart and visualize complex business processes. Attention should be paid on how to adapt the Critical Success Factors of the BSC's four perspectives to the company's overall strategy. Thus, the Critical Success Factors have to be defined and more importantly individualized through adjusting each of them to the company's reality. As a consequence, there is neither a unique guideline nor a standardized rule on how to develop Critical Success Factors.

2) <u>KPIs, Targets and Initiatives as performance measures</u>

Key Performance Indicators, Targets and Initiatives are set after having defined the company's Critical Success Factors. KPIs specify how Critical Success Factors can be achieved and serve as performance measures. Being seen as such, Targets for KPIs have to be set in order to be able to measure clearly the performance of the company, i.e. in which KPIs the company improves, over-performs or under-performs. Initiatives are defined actions, which are established in order to achieve the targets that have been set for the KPIs. This can include creating a new business unit, launching a customer survey or building up a talent pool.

<u>Criticism</u>

One main point of criticism consists of the fact that the Balanced Scorecard is a company-centric Strategic Measurement System that does not pay precisely attention to external developments of a company, including the changing market environment and new business needs that potentially cause the necessity to adapt the company's strategy to the new circumstances. In addition to that point, the Balanced Scorecard does not provide a framework for analyzing the company's main competitors or the market evolution. Without knowing the industry's performance standards, it is difficult to set performance measures that compete with the industry's practices. Another lack of the Balanced Scorecard is that it represents a simplified demonstration of a company's reality. As a matter of fact, cause-and-effect relationships are not easily assigned due to the complex business environment as well as the interrelation of the different CSFs. Thus, trade-offs arise between the Critical Success Factors that are not always visible instantly (Gamroth, 2010: 138). Therefore, it is of utmost importance to identify the causes that have the biggest influence on the outcome as well as those that can be influenced by the management. If companies fail in identifying them in the right way, it will not only provoke the failure of the Balanced Scorecard but this misleading can also result in serious troubles for the company. Another deficit is that the Balanced Scorecard indeed provides information on current cash flows and future indicators but it will not directly forecast the company's future cash flows, level of efficiency or survival.

After having defined the main points of criticism, this Work Project attempts to avoid them by directly addressing them through conducting external and internal strategic analyses as well as a Benchmark Approach, through which the Critical Success Factors and its cause-and-effect relationships can be identified accurately. Moreover, short and long-term goals are defined in order to guarantee the sustainability of LCG's Balanced Scorecard.

3.) Discussion of alternative Strategy Performance Management Models

Apart from the Balanced Scorecard Model of Kaplan and Norton, similar tools exist that measure, manage and document companies' activities and strategic performance. In the following, some of them shall be discussed shortly.

3.1) Maisel's Balanced Scorecard Model

Lawrence S. Maisel introduced a similar model to Kaplan and Norton's Balanced Scorecard, which was published in the *Journal of Cost Management* (1992) (Please refer to Figure 2). Maisel's approach examines explicitly the evaluation of the performance efficiency of employees and therefore stresses the Human Resource Area. He replaces the "Learning and Growth Perspective" by the "Human Resource Perspective" and measures the factors of Education & Training, Innovation and Intellectual Assets (BSC Designer, 2012: online). Maisel argues that the company should stress the role of Human Capital and in specific the evaluation of its efficiency, while as Kaplan and Norton regard in their Learning and Growth Perspective especially Employees' Competencies and furthermore Technology Processes and Corporate Culture. In the end, Maisel's Balanced Scorecard has not been enforced neither in research nor in day-to-day business operations.

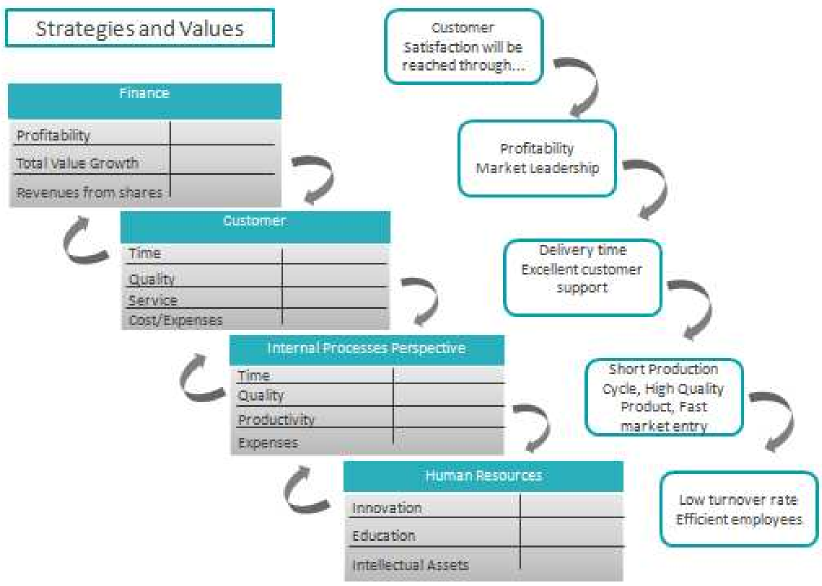

Figure 2: Maisel's Balanced Scorecard; Own Diagram based on BSC Designer, 2012: online

3.2) The Efficiency or SMART Pyramid

C.J. McNair and Richard L. Lunch introduced a customer-oriented model in the journal *Management Accounting* (1990), which is called the Efficiency Pyramid (Please refer to Figure 3). Its key concept is based on linking the corporate vision to corporate internal as well as external focused measures like financial and performance indicators. The Efficiency Pyramid is also known as the Strategic Measurement and Reporting Techniques (SMART) Pyramid and is based on the concepts of Quality Management and Industrial Engineering. The Critical Success Factors are either allocated to the external or internal efficiency dimension. Within those two dimensions four different levels exist that measure the company's overall performance. To the external efficiency dimension belongs the company's vision,

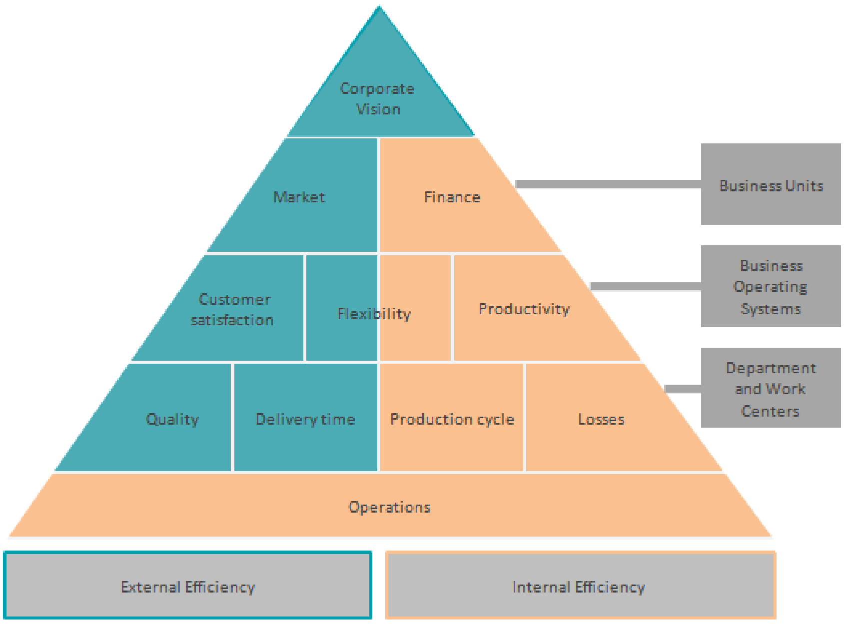

Figure 3: The SMART Pyramid; Own Diagram based on BSC Designer, 2012: online

which simultaneously forms the top of the pyramid. The Pyramid base is formed by the Business Operations, which belongs to the internal efficiency dimension. In order to establish a comprehensive corporate vision that reaches the various management levels of a company the model claims that a two-way communication is of significant (BSC Designer 2012: online). Therefore, the objectives and measures have to become links between the strategy of a company and its activities. In other words, objectives are translated into lower levels of the organization (top-down), while measures are translated into higher levels (bottom-up).

3.3) The EP^{2}M Model

The Effective Progress and Performance Measurement or EP^{2}M Model was introduced by C. Adams and P. Roberts in the journal *Manufacturing Europe* (1993) (Please refer to Figure 4). According to the authors, a company shall focus on four different areas, namely on serving Customer and Markets (external measures), improving Internal Processes (internal measures), which includes increasing profitability and efficiency, managing strategy and change (Top-Down Process) and empowering ownership and freedom of actions (Bottom-Up Process). Therefore, the EP^{2}M regards a company's strategic management in two ways: in developing a strategy and in implementing a strategy. The development of a strategy is an analytical process and clarifies the necessary steps for achieving this (BSC Designer, 2012: online). The implementation process includes setting strategic goals, which belongs to the organization process, and contributes to the enhancement of managerial skills and change management (BSC Designer, 2012: online). The EP^{2}M Model strengthens the position of change management and fosters a corporate culture in which change is considered as a regular process. Moreover, it stresses the need for a continuous and effective feedback system especially for employees that are involved in the decision-making process and the implementation of the strategy (BSC Designer, 2012: online).

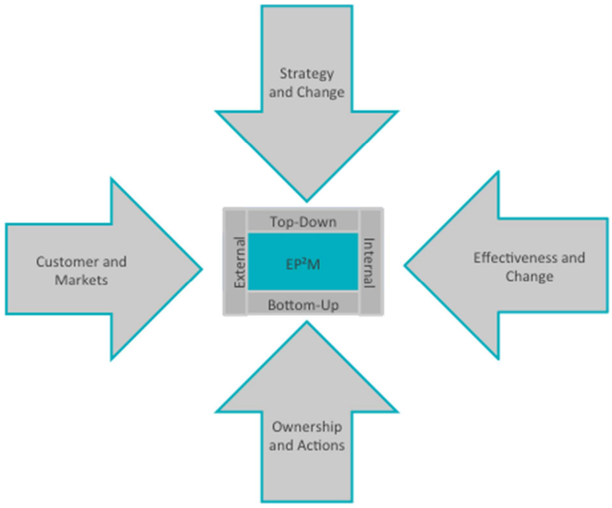

Figure 4:The EP^{2}M Model; Own Diagram based on BSC Designer (2012: online)

<u>Discussion and Conclusion</u>

In comparison to the above-discussed Alternative Models, the Balanced Scorecard represents an autonomous Strategic Measurement System. Moreover, it is the most elaborated concept compared to the three alternative models as its founders Robert S. Kaplan and David P. Norton continued to further develop and optimize it within the last 20 years through various articles and books (Please refer to Point I.2). This enabled the Balanced Scorecard to become a highly elaborated and detailed Strategic Management System that extends the set of business units' objectives beyond the traditional financial measures. The Balanced Scorecard creates a symbiosis between a company's traditional financial measures and the urgency to build long-term competitive advantages through non-financial assets whereas the other three models tried to achieve the same goal but failed in the realization. Maisel's Balanced Scorecard is similar to Kaplan and Norton's Balanced Scorecard but concentrates only on employees' competencies in its Human Resource Perspective and lacks the focus on Technology and Corporate Culture, which build the pillars of a strong, innovative and successful company. The SMART Pyramid is based on Quality Management and Industrial Engineering. Although it includes two important dimensions, namely the internal and external efficiency of a company, it hardly includes soft skills, which are vital for a company as they are recognized as its performance drivers. The EP^2M Model is the most complete of the Alternative Models but by being established in 1993, it still lacks further academic and practical development. Consequently, the Balanced Scorecard is the preferable model since it is not only the most elaborated due to the fact that it is more than 20 years in operation and further developed model but it also enables a company to link its strategy within different business units and thus, improve its performance.

III) THE DEVELOPMENT OF A BALANCED SCORECARD AT LCG

Before being able to establish a reliable Balanced Scorecard, LCG's company reality has to be examined properly in order to adjust the company's Balanced Scorecard to the company's strategy and thus, make it applicable and valuable for the company. Since

LCG is a SME, the structure of the Balanced Scorecard has to be be adapted to this circumstance, which means for example that losing the track of the business' culture is less relevant for a small consulting firm such as LCG than for large-sized corporations whereas setting clear objectives for the Business at this stage are vital and shape the future for SMEs (Acumen Integrat, 2009: online), in this case for LCG.

1.) Company profile

Lisbon Consulting Group was a spin-off of the consultancy department of Grupo Digisis until the year 2009. Due to its verified growth above € 1,5 million, LCG undertook a Management Buy-Out in the year 2009 and became autonomous. LCG is based in Lisbon, has opened an office in Luanda, Angola, in November 2012 and consists of 30 employees (Please refer to the Supplementary Appendix 1 for LCG's organizational chart). Lisbon Consulting Group has the following four functional practices: Strategy, Operations, Organization and IT Systems. Moreover, LCG operates in six different industry areas which are first, Financial Services, second, Industry, Consumer Business and General Services, third, Telecom, Media and Entertainment, fourth, Energy, Transportation & Infrastructure, fifth, Energy, Transportation and Infrastructure and sixth, NGO and Health sectors.

1.1) <u>Mission, Vision and Values of LCG</u>

In order to develop a Balanced Scorecard, which aligns a company's strategic performance to its operational success and which is seen as a tool that creates a systematic framework for strategic planning, it is inevitable to analyze first the strategy that is pursued by the company. The initial step to achieve this is to clarify the purpose of the company. LCG's mission is "To help our customers and staff achieve excellence" (LCG, 2012a: online). Even though the mission is primarily customer-centric it aims as well to create a working environment that enables LCG's Human Capital to develop its potential at its best and pave the way for outperformance. The advantage of the mission's double focus portrays a cycle: If the company enables its employees to achieve excellent results, they can pass on their excellence to customers through their services and help them in turn to achieve excellence in their company as well. The requirement for a clear mission statement is therefore fulfilled as it accurately reflects the purpose of LCG.

LCG's aspiration for future results is stated in its Vision "To Be Leaders in terms of Innovative Business Solutions and Services" (LCG, 2012a: online) and clarifies clearly what LCG claims for, namely leadership within the markets they operate in. The vision is based on long-term goals and outlines what LCG wants to achieve in the future.

The internal navigation system that guides the company's way of acting is the company's values. LCG's values (LCG, 2012b: online) are based on five columns, namely Integrity, Excellence, Innovation, Commitment and Trust (Please refer to Figure 5). These values reflect LCG's culture and define the way LCG acts internally but also externally e.g. with its clients. LCG defines Integrity in the way that it respects customers, partners and employees. Excellence is characterized by the demand of being among the best within its service products and employees. Innovation means to anticipate solutions and identify market trends before the competitors have and directly adapt the company's services and business units to it. Through the value Commitment LCG tries to establish long-term customer relationships through fulfilling or surpassing the customers' needs and expectations. The last supporting pillar of LCG's values is

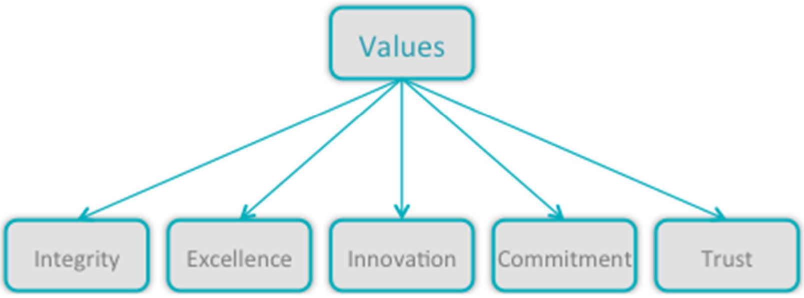

Figure 5: LCG's Internal and External Values; Own Diagram

Trust. LCG invests in the value creation for its clients and respects and protects the clients' confidentiality.

1.2) Customer Value Proposition of LCG

The Value Proposition for Customers is a fundamental element of any company's business strategy but in particular for service industries. It "describes the context in which intangible assets […] become transformed into tangible outcomes" (Kaplan, 2000b: 11). Satisfying clients' expectations and building up long-term customer relationships is the source for a successful customer value creation. The value proposition of a company therefore requires to meet the targeted customers' needs. Intangible assets are the main source of sustainable value creation. An important part of those intangible assets is the expertise and knowledge of the company's employees, the technology, with which the company operates and the working environment that encourages the company's employees to develop their strengths. LCG's Customer Value Proposition is based on three main pillars: first, to provide its clients with high-quality business solutions and services at a competitive price, second, LCG's consultants are highly experienced and have a strong expertise due to their professional background as consultants in top-tier consulting companies like Capgemini or Deloitte and third, LCG has a diversified product portfolio, which includes both, traditional management consulting, in which the company helps their clients to realize their strategic opportunities and overcome their business challenges but also Business Analytics and IT Services, which is used for developing and directly implementing solutions. These three parts of LCG's Customer Value Proposition demonstrates LCG's competitive advantage. An elaborated differentiation strategy is of utmost importance for LCG as it is still a small player in a highly competitive and fragmented market, where top-tier consulting companies like the Big Three (McKinsey, Boston Consulting Group and Bain & Company) or Auditing companies such as Deloitte are already well positioned. The Big Three are traditional Management Consulting Companies and face limited presence in areas related to technology consulting, which could impede their growth in future. Even though these companies offer technology-consulting services to the clients through its Business Technology Office, their scale of technology consulting services is limited, being compared to their peers like Accenture, IBM or Deloitte. LCG recognizes these future trends and reacts by creating two pillars of its core business: the traditional management consulting, which covers strategy, organization and operation and IT consulting, which is becoming increasingly important in the near future.

Figure 6: LCG's Value Proposition; Own Diagram

1.3) <u>SWOT Analysis of LCG</u>

This chapter contains a strength, weakness, opportunity and threat (SWOT) analysis (Andrews, 1966: 1) for Lisbon Consulting Group and the business consulting services it delivers to the global market. Only those aspects are mentioned that have the greatest potential impact on LCG's market position and strategy. Moreover, it has to be taken into consideration that LCG is a SME. Hence, some of the weaknesses can be relativized, for example, that it lacks an elaborated Talent Pool or a strong national and international Brand Awareness, since LCG does not have in many cases the financial resources, capacities or the infrastructure to solve all its weaknesses so far.

A SWOT Analysis conducts two analyses: an internal analysis - i.e. a company analysis - that examines the company's strengths and weaknesses and an external analysis – i.e. business environment analysis – that appraises the opportunities and threats for a company (Dess, 2004: 41) and hence, serves as a helpful tool for a company's strategic planning process. A more detailed external analysis is represented by the Political, Environmental, Social and Technological Analysis (PEST Analysis) that describes the market environment, where the company is embedded. Hence, a PEST Analysis has been carried out for LCG (Please refer to the Supplementary Appendix 2 for a detailed description of this Analysis). The PEST characteristics are seen as universal and self-explanatory factors that affect all consulting companies in the Portuguese business consulting service market. Although the findings have been taken into consideration for creating LCG's Balanced Scorecard, it will not be discussed in further detail.

Due to the fact that the SWOT analysis combines a company's internal and external analysis, the management gets a comprehensive overview of how strengths can be used to pursue opportunities and avoid key business risks and how potential threats can be overcome by the company's strategy. This SWOT Analysis (Please refer to Appendix 1 for a detailed description of this analysis) is adapted to the structure of the four perspectives of the Balanced Scorecard.

Financial Perspective: LCG's biggest strength is its diversified sources of revenues, which means that the firm is not dependent on only one industry segment. Consequently, LCG diversifies its risks, which is vital in times of unstable market conditions. Moreover, LCG got accepted for project funds from the European Union. The biggest weakness that LCG faces within the Financial Perspective is that its cash flows are not balanced, which means that LCG invest partially in projects, where the financial outcome is expected only six months later. In addition, the monthly allocation of consulting projects is not balanced, which leads to an unstable cash flow as well. Furthermore, the average time of receiving money from clients is very high and LCG's policy to shorten this period of time is too insufficient. Moreover, LCG has too less opportunities for new investments in growing markets. A financial opportunity for LCG could therefore be to strengthen its position in Angola and Mozambique, where LCG already operates in and leverage LCG's Balanced Sheet through these emerging markets. By offering high value added Business Consulting services at a competitive price, LCG can profit through adapting its competitive advantage to this circumstance. On the other hand, LCG is exposed to financial threats: Having its headquarter in Portugal, LCG has to cope with the stagnant market environment and declining margins due to the current economic crisis. In contrast, the price pressure on consulting day rates increases.

Customer Perspective: One of LCG's biggest strengths is its diversified product portfolio that enables the company to offer clients services within its four functional practices. LCG is a distinctively client-oriented company, which is, inter alia, expressed by the customer-centric mission, its values and its strong focus on a long-term and intense customer relationship. Moreover, LCG sets itself high standards regarding high-quality and innovative business solutions. In contrast, the biggest weaknesses are first, that LCG has still a deficiency in national and international brand awareness and hence, lacks a strong Marketing Communication and second, LCG needs more Industry Experts. The opportunity that is provided in the customer perspective is that the clients' demand on quality as well as on a strong customer relationship are increasing, which is already a strength of LCG. Moreover, LCG should foster its already established innovative partnerships in the Operational, Tactical and Strategic Area. Opposed to these opportunities, LCG is exposed to threats as well. The consulting market is highly fragmented and competitive due to its low barriers of entry and the high industry profitability. Moreover, as the main products of consulting companies are services they are more prone to be substituted because there are hardly switching costs for customers and there is already a high number of Information or Knowledge based products in the market. Another threat is that LCG is so far only a small player in a market that is characterized by international integrated and renowned competitors.

Internal Processes: One of LCG's biggest strengths within the Internal Processes Perspective is its light hierarchical structure that allow its employees to save time and speed business processes. LCG's main weaknesses in the Internal Process Perspective is its lack of formulized and standardized processes and procedures. LCG's biggest opportunities consist of using Outsourcing Services that relieve the company's back office and of using cloud computing that simplifies internal processes. A threat is that LCG's Internal Processes are not aligned, which could cause significant problems with its Internationalization Strategy in the near future.

Learning and Growth: One of LCG's strengths is its Human Capital. The employees of LCG are highly experienced consultants in different sectors with a proven track of record of successful project and renowned companies and have established strong networks and social skills, which are vital in the consulting environment. Another strength is that LCG tries to stimulate a psychosocial working environment that promotes cooperation, team spirit and unity among employees. Moreover, LCG is an innovative company that quickly identifies new markets and opportunities and adapts its service and lines of actions to them. In contrast, one of LCG's biggest weaknesses is its reward system. Moreover, LCG has neither established a talent pool nor a Knowledge Management (KM) Platform, where employees can exchange ideas and expertise. Another weakness is LCG's training possibilities. Moreover, LCG lacks employees that are willing to permanently stay in LCG's international offices. Opportunities for LCG in the Learning and Growth perspective are the active use of a Knowledge Management Platform and Web 2.0 tools to exchange directly with high-potentials. Another important opportunity for LCG is that due to the economical crisis talent resources are available. Moreover, LCG could profit from acquiring new companies with complementary offers. A significant Threat for LCG is to lose accumulated knowledge by key employees due to the high employee turnover in the consulting industry, which is between 15-20% (Batchelor, 2011: online). Another threat is that there is no evaluation system so far that evaluates internal (e.g. FTEs) as well as external (e.g. Freelancer) high potentials.

In order to complete the Internal Analysis that was carried out by the Strengths and Weaknesses Part a value chain will be applied to the consulting industry in the following point.

2. Value Chain of a Consulting Company

The Value Chain Analysis is a widely used analytical tool that identifies the necessary sequence of processes in order to be able to deliver a company's product and services to customers (Kaplan, 2008: 49) and was introduced by Michael Porter in the year 1985.

> "A firm's value chain and the way it performs individual activities are a reflection of its history, its strategy, its approach to implementing its strategy and the underlying economics of the activities themselves." (Porter, 1985: 36)

Even though firms operate in the same industry, their value chains can differ regarding its product line, distribution channels or geographic area, which is considered as a key source of competitive advantage (Porter, 1985: 36). Porter's value chain is divided into two types of activities, namely primary activities and support activities. The primary activities, which are located in the bottom part of the value chain, contribute to the physical creation of the product and consist of five generic categories: Inbound Logistics, Operation, Outbound Logistics, Marketing & Sales and Service. The support functions include the Firm Infrastructure, Human Resources, Technology Development and Procurement. Michael Porter's Value chain is pre-eminently applicable for industries that deal with the production and further processing of tangible products. As business processes of consulting companies are different since their main products of consulting companies are services, i.e. intangible products, Porter's value chain has to be re-formulated to make it applicable to consulting companies (Please refer to Figure 7).

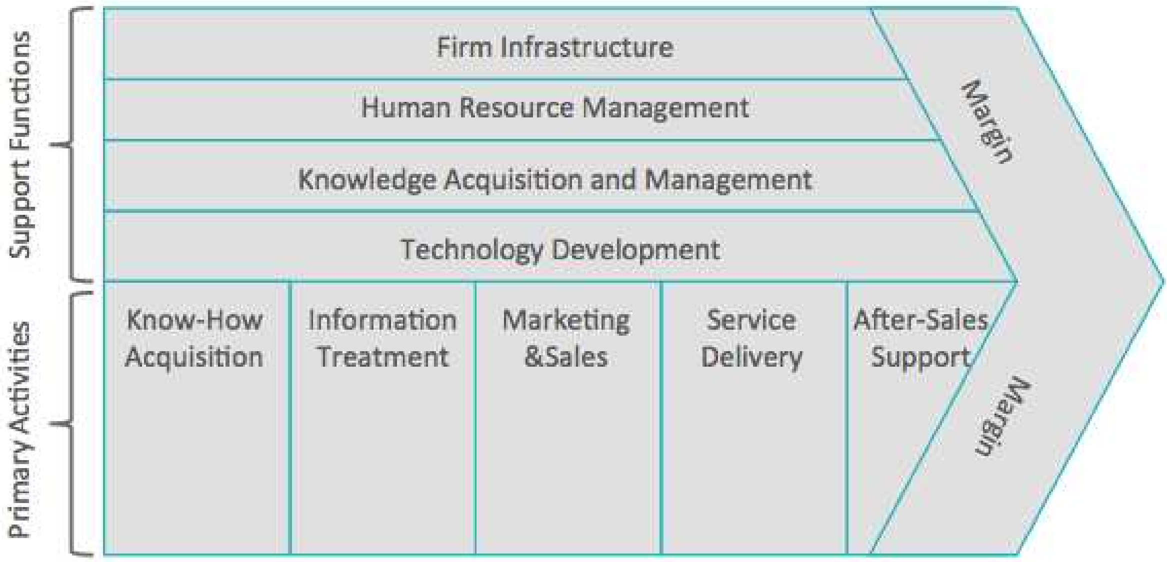

Figure 7: Value Chain of a Consulting Company; Own Diagram; Framework based on Porter (1985: 37)

Although the framework of Porter's value chain will remain, the five generic categories of the primary activities have to be modified. In addition, some of the support functions have to be adapted to the demands of the consulting environment as well. The primary activities of this value chain are Know-How Acquisition, Information Treatment, Marketing & Sales, Service Delivery and After-Sales Support.

<u>Know-How Acquisition</u> consists of acquiring, retaining and distributing knowledge, which includes first gathering market knowledge in order to explore new business trends and upgrade the technology systems, second acquiring industry Know-How in order to understand the exact characteristics of the industries the consulting company is acting in and third attracting high potentials and experts. Retaining knowledge is very important especially for the consulting industry since the employee turnover is exceptionally high. Distributing knowledge does not only mean to encourage employees to share knowledge

but also to guarantee that employees get the best training and educational supports in order to support clients with the highest possible Know-How and solutions. Information Treatment consists of the transformation process from the company's expertise and knowledge into personalized solutions for the clients. Therefore, the company is able to add the best possible value to its clients. This process includes identifying opportunities at potential clients and delivering proposals.

Marketing & Sales is in the value chain for consulting companies as important as in Porter's Value Chain. This includes building up a strong brand-awareness in order to successfully position itself in a highly competitive and fragmented market environment where consulting companies find themselves in.

The Sales Process is completed when the client has accepted the proposal and hires the consulting company for a specific project.

The fourth category is composed of the Service Delivery, which includes the process of carrying out the project at a client and complete it in a specific time on which the client and the consulting company agreed.

After-Sales Support is the last category of the value chain for a consulting company and is currently recognized as one of the biggest weaknesses of consulting firms. Improving this category gives consulting companies that take that necessity into account, a considerable competitive advantage as clients recently claim for this service the most.

The support functions of the value chain for consulting companies are almost equal to the support functions of Porter's developed value chain (Porter, 1985: 37) apart from the category "Procurement" that is substituted by "Knowledge Acquisition and Management". The reason for this is that procurement deals mainly with raw materials and tangible assets such as machinery, laboratory equipment and other consumable items, which is less relevant for consulting companies. In contrast, a well-organized Knowledge Management represents a high competitive advantage, especially for international operating consulting companies, as it guarantees that guidelines are complied and expertise and knowledge are shared within the company.

The Firm Infrastructure includes different divisions of a consulting company like General Management, Finance, Accounting or Legal Affairs. For LCG, this corresponds to Finance, Quality management, Marketing, IT, and Administration. The Firm Infrastructure supports the entire value chain and is therefore a very important part of a consulting value chain. Another important support function for a consulting value chain is Human Resource Management since recruiting, hiring, motivating, training, developing and compensating form to a great extent the competitive advantage of consulting companies and consequently represents a key for success.

The last support function is Technology Development, which is – as the category Human Resource Management – very comprehensive. The development of technology and technological knowledge is not only important for internal processes but for providing clients with technological solutions as well. Technology consulting, which includes the development and the implementation of technological and more specifically IT consulting solutions, depicts the new trend in consulting in general. Hence, the support function Technology Development is increasingly becoming a guarantor for establishing a competitive advantage as it represents both, new business opportunities and smooth running business processes.

3. Benchmark Approach

In order to explore the consulting industries' best practices a Benchmark Approach was carried out through a qualitative research method. Thus, the data that is used for this Benchmark Approach refers only to the answers that were given in this questionnaire. For this purpose, an online survey with 35 questions divided in 4 categories – the Financial, the Customer, the Internal Processes and the Learning and Growth Category – was launched in order to analyze the performance drivers of LCG's competitors and thus, establish Critical Success Factors that take them into account (Please refer to the detailed Online Survey in the Supplementary Appendix 3). Due to confidentiality reasons, the company names stay anonymous.

As already mentioned in Point II.1.2, LCG offers two types of consulting services, Management Consulting and IT Consulting services. Figure 8 demonstrates the Competitive Landscape of Consulting companies, which is divided in Strategic Consulting Boutiques, Global Strategic Consulting Firms, IT Consulting Boutiques and Global IT Consulting Firms. The size of the circle represents the size of the company's employees (the data is taken from the Companies' Homepages and refer to the year 2011).

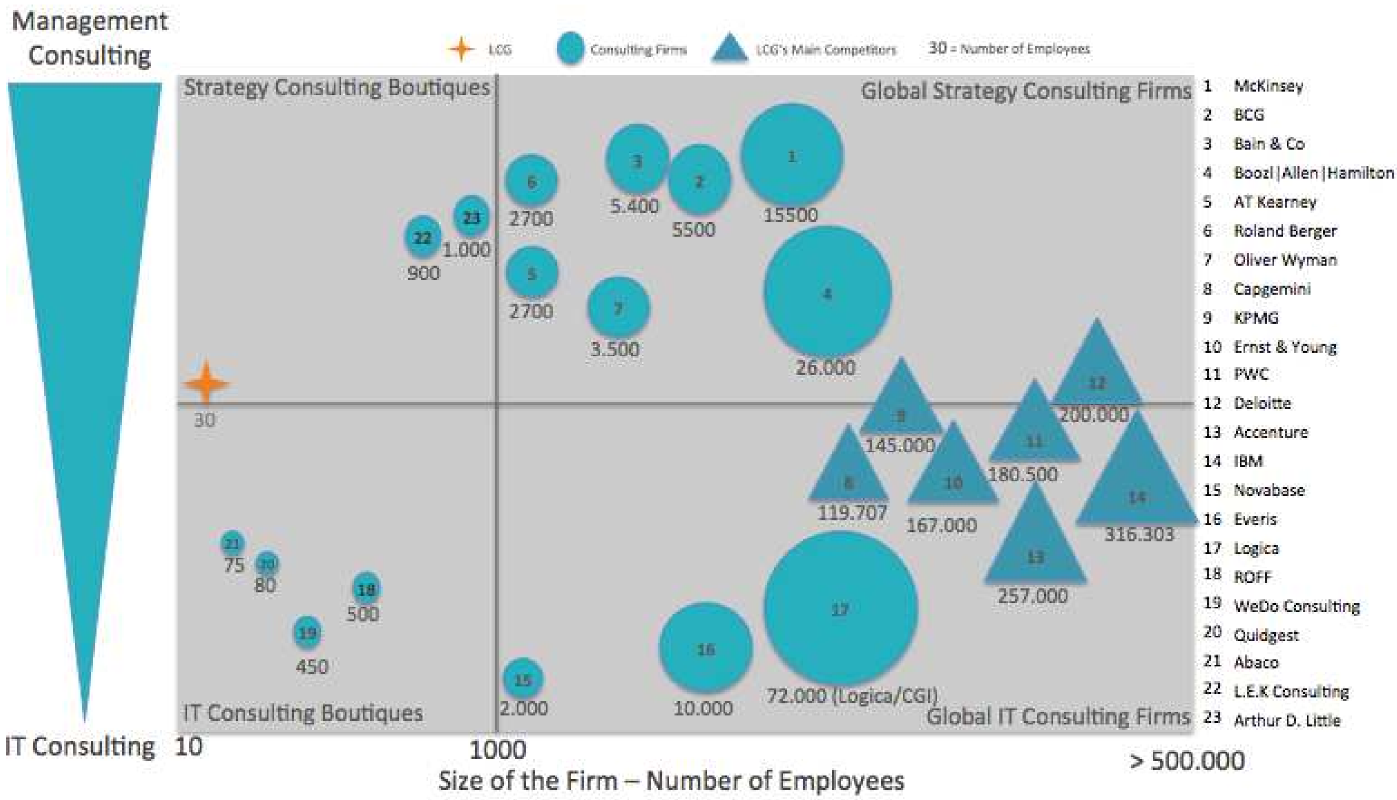

Figure 8: Competitive Landscape of Consulting Companies; Own Diagramm

Boutique or specialized firms such as LCG are typically smaller firms both, in terms of revenues as well as geographical spread. They are usually founded by ex-partners from larger - generalist - consultancies and structured around in-depth expertise and knowledge of either specific functional practices or industries (INSEAD, 2011: 10). In contrast, Global Consulting Firms provide its services to all industries with a wide range of functional practices across a huge geographical area (INSEAD, 2011: 10). LCG's main competitors are consulting companies that are located in the dividing line between Management Consulting and IT Consulting Firms. As a result, LCG considers companies such as KPMG, Deloitte, PWC, Capgemini, IBM, Accenture or Deloitte as its main competitors due to the fact that smaller consulting boutiques specify usually in either Management Consulting or IT Consulting and consequently, do not offer both services like LCG. Still, it has to be taken always into consideration that LCG is a small consulting company that cannot compete so far with these top-tier consulting firms in a global perspective. But since the four analyzed companies operate in the Portuguese Market and moreover, in the same business area, we are able to compare them - always bearing in mind that LCG does not have the same financial resources, capacities and firm infrastructure conditions as its competitors do.

The Benchmark Approach contains four of LCG's competitors and identifies their performance drivers. All four analyzed companies (Company A, B, C, D) stand out in the following four categories: Client Relationship, Innovation, Training possibilities and High-quality services. Not at least due to to these company drivers, the four analyzed companies could achieve strong client satisfaction rates as well as financial indicators, which can be retraced in the Table below (Figure 9).

	Company A	Company B	Company C	Company D
Global Revenues per FTE	US$155.000	US$172.000	US$108.500	US$80.972
Global Market Share	6,2%	5,6%	2,4%	1,8%
Operating Margins	18,5%	17,4%	13%	10%
Percentage of Repeated Clients	95%	90%	85%	90%
Client Satisfaction Rate	98%	93%	94%	100%

Figure 9: Financial and Customer Indicators of LCG's Main Competitors, Own Diagram

Client Relationship: Company A follows a Value-Driven Approach i.e. creating value for its client is an explicit part of its strategy. Day-to-day client approach is embodied in all the models the company uses. By using its Value Map, priority opportunity areas within client organization can be identified. Company A claims to stick to the client engagement until an improvement in the chosen variable occurs. Hence, Company A tries to create the best possible value for its client and in addition offers a value-based billing system in order to share risk and reward with its clients. This leads to a trustworthy, reliable and long-term customer relationship. Company B stated to be ranked on the first place in various international rankings with regard to its offered services as well as its excellent Customer Relationship Management. It claims to create sustainable value for its clients and is able to establish long-term customer relationships by being recognized as a highly trusted brand. Company C identified that client satisfaction is the key for the retention of customers. In order to guarantee the retention of its clients, Company C launches annual Customer Satisfaction Surveys and carries out deep analyses of the results for guaranteeing that it learns from the customers' criticism. Moreover, it leverages a distributed multidisciplinary global workforce employing tested methods and tools, which support the client in reducing risk for the client. Company D stated that it uses a specific client satisfaction assessment, which shall guarantee that the service is always delivered on time and even surpasses the clients' expectations, which shall be achieved not only responding to customer' specifications, but also provide them with a competitive advantage in terms of time, quality and reliability. This philosophy shall ensure and foster a strong client relationship.

Innovation: Company A fosters an Innovation spirit within its company by investing in it. The Company established dedicated programs for fostering innovation, e.g. a online space, which gets people out of their comfort zone through experimenting with new models. Company A's forward looking Initiatives allow the company to grow and create new opportunities. Company B characterizes Innovation through the ability to think differently and create a different experience for clients. Hence, Company B invested as well in the Innovation team in order to provide them with the necessary skills and techniques to be role models for the overall firm. For Company C Innovation stands not only for Product Innovation but also for organizational and business model innovation. Company C tries to meet the company's requirement on Innovation through organizing Innovation congresses and continuously updating the company's Innovation base. Moreover, it capitalizes on Innovation through the best talent available. Company D recognizes the strong competitive environment, which navigates the company to redouble its effort in Innovation. Hence, it established multi-client platforms, became an Enterprise-Resource-Planning Vendor, integrated cloud computing in daily operations and uses cutting-edge projects as way of experiencing new business areas and opportunities.

Training Possibilities: For all five companies training of their employees is of utmost importance and hence, the survey question "What role plays training in your company" was ranked “Very High”. All five companies agreed on the types of trainings they offer to their employees, namely Web-Based Training Programs, On-Job Training, In-class training, a Mentor for Young Professionals, Simulation Programs and internal as well as external Lectures and Conferences. Although the interviewees stated that MBA Programs are not directly part of the company’s training opportunities, these programs are in some cases either supported financially until a limited extent or in some exceptional cases the costs for an MBA Program are covered completely. The interviewees stated in a uniform way that the capabilities that are fostered in those trainings are IT/Business Analytics Skills, Project Management Skills, Leadership Capabilities, Social Skills, Financial Skills and Presentation Skills, whereas Language Skills or Intercultural Communication were not named. The provided training hours per day differ between the four analyzed companies: Company A 12.000 hours, Company B N/A, Company C 16.000 hours and Company D 15.000 hours.

High quality Services: Company A stated that the firm is based on high-quality services, delivered by high quality people to high quality clients. This can be achieved by bringing world-class capabilities and deep local expertise to help clients wherever they operate. Company A claims to offer powerful and especially complete business solutions for local and multinational companies and organizations that even exceeds clients’ expectations. Company B tries to maintain and continuously improve its quality processes and procedures through frequent inspection and assessment and rigorous professional training and development in order to provide high quality services. Company C is recognized for its establishment of a global network of proactive collaborators, specialists as well as a talent pool that consists of skilled business and technology specialists, who collaborate across continents and time zones to fulfill and continuously increase the company’s high quality standards, help to accelerate speed to market and work to power high performance. In addition, Company C stated that it drives its delivery of excellence and productivity gains with quality metrics and standards; the employees are trained in a common set of methodologies, tools, architectures and metrics, which form the basis for high-quality services for Company C. Company D aims to connect personal values and goals to the company's overall strategy and hence, tries to get the best out of their employees. Furthermore, Company D stated that it has ambitious growth objectives and consequently invest in Technology and Innovation in order to be able to offer its clients services of the highest quality.

Comparing LCG with one of the Benchmark Companies, LCG lacks sufficient training possibilities for its employees (Figure 10). Hence, the biggest challenge that LCG faces to compete with its main competitors is strengthening its training facilities.

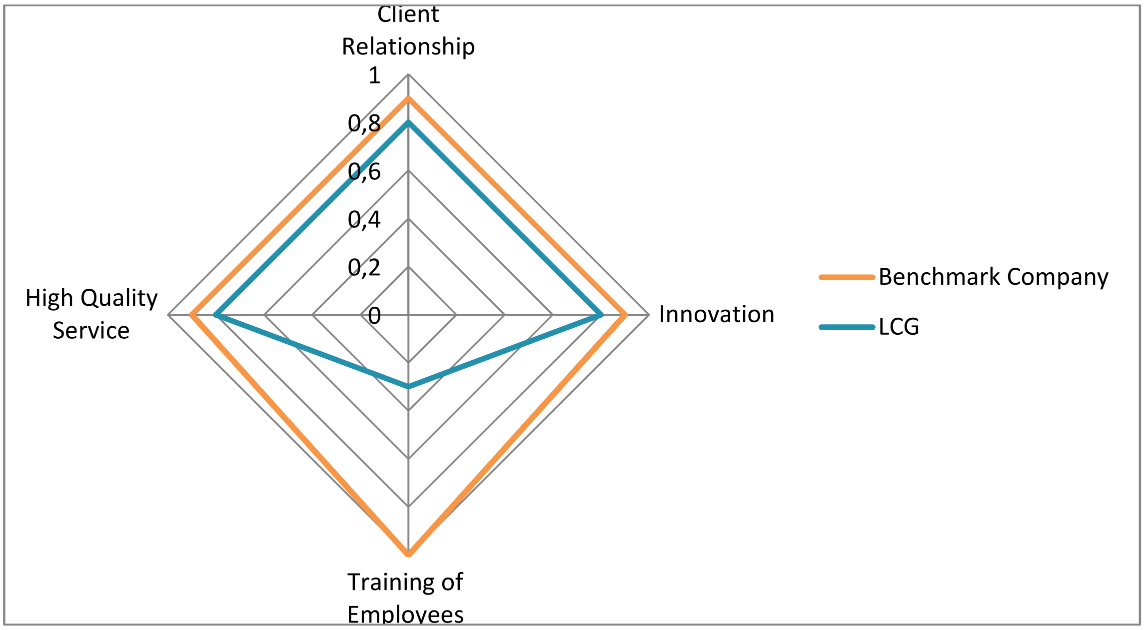

Figure 10: Comparison of LCG and a Benchmark Company; Own Diagram

Having revised the surveys and analyzed LCG's main competitors and their performance drivers, the Balanced Scorecard for LCG can be established by taking into account the identified key factors of success of the four analyzed firms. Moreover, it is vital to know the competitors' strengths not only to profit from their experience and identified Critical Success Factors but also to develop ways and niches where LCG can even surpass its globally renowned competitors such as offering (potential) clients the same high quality services but at a competitive price.

4. Development of LCG's Critical Success Factors and its Strategy Map

After having conducted these internal and external analyses and understood the company's reality and the performance drivers of its main competitors, a proper Strategy Map for LCG can be created (Please refer to Figure 11).

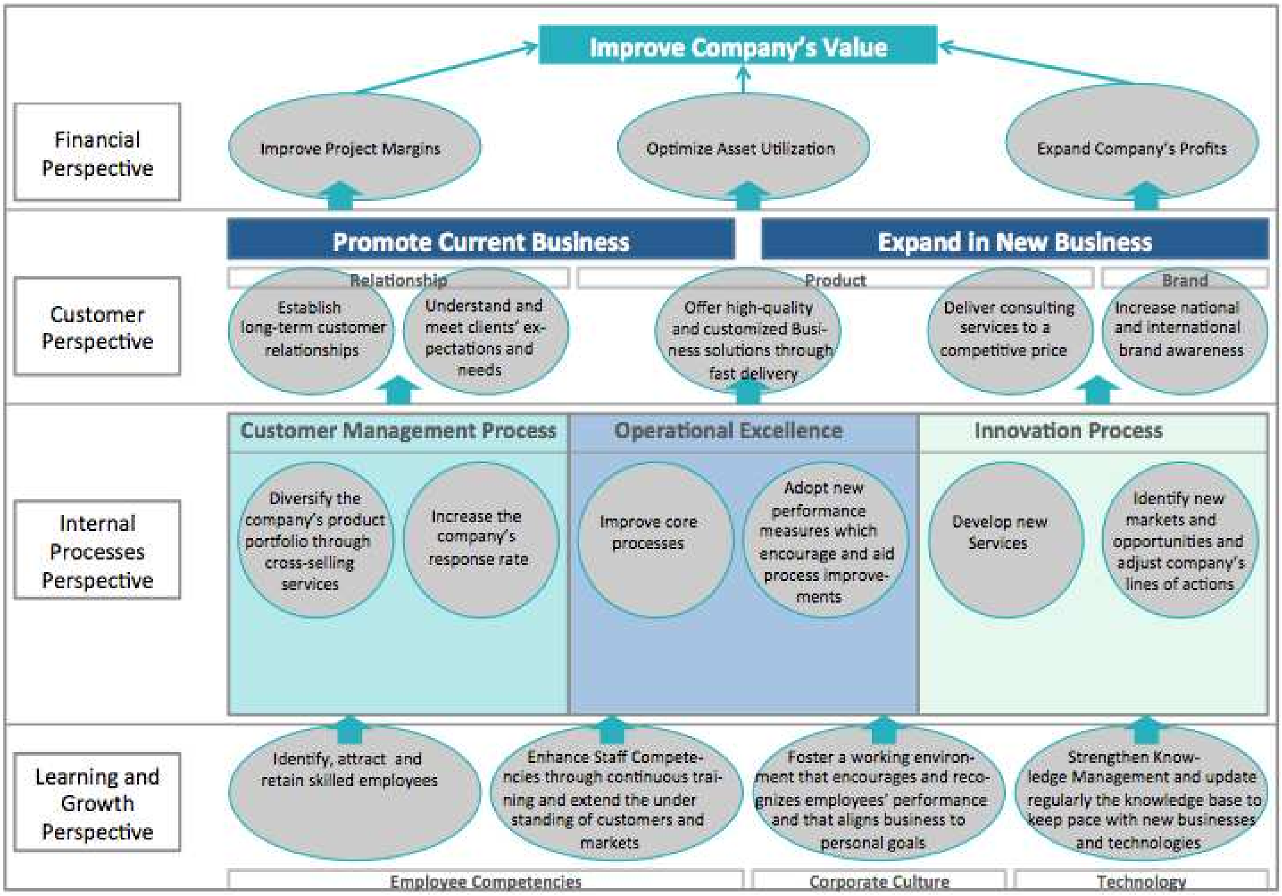

Figure 11: LCG's Strategy Map; Own Diagram

LCG's Strategy Map is based on short-term as well as long-term goals in order to guarantee the sustainability of the Balanced Scorecard. This approach follows a bottom-up principle, in which the Critical Success Factors are first defined for the Learning and Growth Perspective as "(t)oday, more than 50 percent of the gross domestic product (GDP) in developed economies is knowledge-based; that is, it is based on intellectual assets and intangible people skills" (Dess, 2004: 107), which are recognized as the company's main performance drivers. Affecting the other three perspectives, the Learning and Growth Perspective is seen as the BSC's ground line and thus, settled in the bottom of a BSC Strategy Map.

As already mentioned, a Strategy Map is a set of Critical Success Factors that are interrelated through their cause-and-effect relationships. With regard to the **Learning and Growth Perspective** three main categories are essential for LCG, namely Employees' Competencies, Corporate Culture and Technology. The Learning and Growth Perspective is long-term oriented, i.e. for a period of three to five years. The category Employee Competencies can be expressed through two different Critical Success Factors, which are first identifying, attracting and retaining skilled employees and second enhancing staff competencies through continuous training and extending the employees' understanding of customers' needs and the market LCG operates in. Those two Critical Success Factors are of utmost importance, which has been proved as well by the Benchmark Approach in Point III.3. The analyzed companies are outstanding in the area of employee competencies as this category is recognized as one of the most important performance driver of a company.

The CSF for LCG's Corporate Culture is to foster a working environment that encourages, recognizes and rewards the performance of the company's employees. Moreover, business goals shall be aligned with personal goals. In January 2013, the results of the first internal employee survey will be published, where the personal goals of each employee are analyzed and identified. These results will allow LCG to connect the employees' personal goals with the firm's business objectives.

Technology is another substantial category of LCG's Learning and Growth Perspective. Since LCG's international operations and international client base like Bosch, BMW Group or AXA is increasing, LCG has to establish a Knowledge Management Platform through which its employees can interact with each other, share their expertise and profit from the company's knowledge. By establishing a Knowledge Management Platform, LCG guarantees that the knowledge stays within the company. LCG is therefore able to face the challenge of losing accumulated knowledge of key employees. This Critical Success Factor has a short-term and long-term component as LCG should implement a Knowledge Management Platform such as SharePoint next year (short-term goal) but has to keep pace with new technologies and businesses, which also includes updating the Knowledge Management Platform, in a long-term perspective.

After having established the Critical Success Factors for the Learning and Growth Perspective, the next step is to create CSFs for the **Internal Processes Perspective**. The Internal Processes Perspective can be divided in three main categories, which are applicable for the whole consulting industry (Please refer to Point III.5), namely Customer Management Process, Operational Excellence and Innovation Process. All the established Critical Success Factors are long-term oriented.

The two CSFs that are defined for the Customer Management Process are to diversify the company's product portfolio through cross-selling services, which means that LCG shall identify other opportunities apart from the already carried out project at a client. An example therefore could be to carry out a project in the area of Work Flow Optimization (Operations) and identify the client's need of assistance in the design and implementation of SAP Solutions in the Human Resource Area (IT and Organization), which should result in handing in a proposal for this opportunity. The second Critical Success Factor is to increase the company's response rate, which refers to the time it takes to respond to the complaint of a client and to LCG's After-Sales Service.

The Operational Excellence is represented by two Critical Success Factors, which are first improving the company's core processes and second adopting new methodologies such as the Balanced Scorecard for the year 2013, which encourage and aid process improvements. The last category of the Internal Processes Perspective is the Innovation

Process, which includes first, to develop new services and as a second CSF to identify new markets and opportunities and adjust the company's lines of actions.

The CSFs of the Internal Processes Perspective have direct impact on the **Customer Perspective**. LCG's Customer Perspective is divided into "Promote current Business" and "Expand in New Businesses" and consists of long-term oriented Critical Success Factors. Positioning itself in both is of utmost importance for LCG as it is a SME that has to clearly position itself in the market. The Customer Perspective itself is divided in three subcategories, which are "Relationship", "Product" and "Brand".

The Critical Success Factors for "Promote current Business" are first to establish long-term customer relationships and second to understand and meet client's expectation and needs. Both are subordinated under the category Relationship. The importance of these two CSFs have also been demonstrated by the Benchmark Approach in Point III.3. The next category is Product. The Critical Success Factor that is vital for both categories namely for "Promoting current Business" and for "Expand in New Business" is offering high quality and customized business solutions through a fast delivery. The other CSF that is set for category Product but belongs to "Expand in New Business" is to deliver consulting services at a competitive price, which was already discussed in LCG's Customer Value Proposition. The Critical Success Factor that was set for the category Brand is to increase LCG's national and international brand awareness.

The **Financial Perspective** represents the outcome of all actions that were taken in the former three perspectives. Hence, the financial CSFs are defined in the end. As LCG is a fast-growing consulting company, the Financial Perspective has to be modified to the company's reality each year. Consequently, the Financial Perspective is short-term oriented. The defined Critical Success Factors for the Financial Perspective are to

Improve Project Margins, to Optimize Asset Utilization and to Expand Company's Profits, which all in all leads to an improvement in the company's value.

5. Applicability of LCG's Strategy Map to Consulting Companies

Although a Strategy Map has to be adapted to the company's reality and strategy, the Strategy Map for LCG serves as a base for the development of a Strategy Map at any consulting company as it is already aligned with the Businesses Processes of the Value Chain for Consulting Companies. Still, the Critical Success Factors have to be adapted to the company's needs, in this case of LCG's needs as a SME, even though the categories within the different Perspectives, such as Customer Relationship Management, Operational Excellence and Innovation Process of the Internal Processes Perspective or Employees Competencies, Corporate Culture and Technology of the Learning and Growth Perspective are relevant for any consulting company. For modifying the Critical Success Factors, it is very important for every consulting company to identify its mission, vision and values, its strategy, its customer value proposition, and carry out a SWOT Analysis before being able to create a Strategy Map that is adapted to the company's reality.

6. Identification of LCG's KPIs and Initiatives

After having established the Critical Success Factors for LCG, the KPIs can be created. The KPIs that have been set for the **Financial Perspective** and in specific for the Critical Success Factor "Improve Project Margins" are Gross Margin per Project/Consultant (Please refer to Figure 12). For the Critical Success Factor "Optimize Asset Utilization" the KPIs Percentage of overhead costs from LCG's revenues and Team Allocation Rate have been established. The KPIs for "Expand Companies Profits" are Equity Ratio and Revenue Growth Rate.

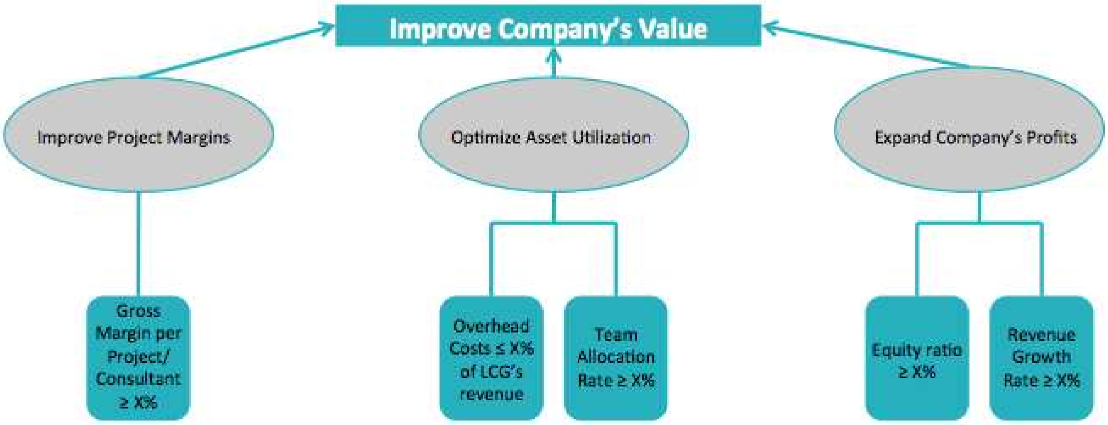

Figure 12: LCG's Critical Success Factors and KPIs of the Financial Perspective; Own Diagram

With regard to the **Customer Perspective**, LCG puts emphasis on the area of "Promote Current Business", which results in the claim that 90% of LCG's overall revenues shall come from repeated clients. Hence, one of LCG's goals is to keep the current customer portfolio, which consists of medium and large companies with significant business growth and annual revenues over €30 Million. The reason for this is that LCG acquired already highly renowned and big players in different industries. Moreover, they can keep their expenditures lower by working with repeated clients. Consequently 10% of the company's revenues shall be obtained from new clients. In order to "Establish these long-term customer relationships" the KPIs are <u>Sales Volume on Top 10 clients</u>, <u>Purchase of at least one new project to existing clients</u> and <u>Percentage of repeated clients</u> (Please refer to Figure 13). Moreover, it is vital for LCG to "Understand and meet clients' expectations and needs". Therefore, LCG's KPIs shall be established on the <u>Success Rate of submitted Proposals</u> and on a <u>High client satisfaction rate</u>, which shall be measured by the Net Promoter Score. The Net Promoter Score (NPS) is a customer loyalty metric, which was established by Frederick F.Reichheld - director emeritus of the consulting company Bain & Company - in the year 2003. The customers of a company are divided into detractors, passives and promoters that value a company from a rating scale between 1 and 10. The customers that respond with a nine or ten are promoters, the customers that assessed the companies with a seven or eight are passives and the clients that valued the company from zero to 6 are detractors. The NPS is then calculated by subtracting the percentage of detractors from the percentage of promoters (Reichheld, 2003: 53).

In order to "Offer high-quality and customized Business solutions through fast delivery", the KPI that were set are Projects completed on time and the Perceived added value to client. Rather than using the perceived added value to client, the author suggested to use the Return on Investment (ROI). Due to difficulties in calculating it for LCG this suggestion was rejected and replaced by the perceived added value. Nevertheless, Consulting companies require greater accountability.

> "With expenditures growing for consulting services and with increasing dissatisfaction with the quality and success of consulting assignments, there is tremendous pressure to show accountability measured in terms that managers, executives, and administrators clearly understand – return on investment." (Philipps, 2011: xi).

Using the ROI for calculating the promised outcome and the actual contribution to the client's problem solving, results in a high level of trust in the consulting firm. Furthermore, if the consulting company has proved its quality work, it can expect an excessive client satisfaction rate, a long-term customer relationship, a high rate of repeated customers as well as a meaningful rate of new customers, which all in all leads to a significant competitive advantage. The Formula that Philipps (2011: 39) suggests for calculating the ROI for consulting firms is:

$$\text{ROI \%} = \frac{\text{Net consulting monetary benefits}}{\text{Consulting costs}} \text{x} 100$$

Nevertheless, calculating the perceived added value to the client can be seen as the initial step in the right direction of measuring the added value of consulting projects to clients. The KPI that was established for the Critical Success Factor "Deliver consulting services to a competitive price" is Price satisfaction of clients. In order to increase national and international brand awareness, the KPI that measures this CSF is Web page traffic, i.e. the clicks on LCG's homepage.

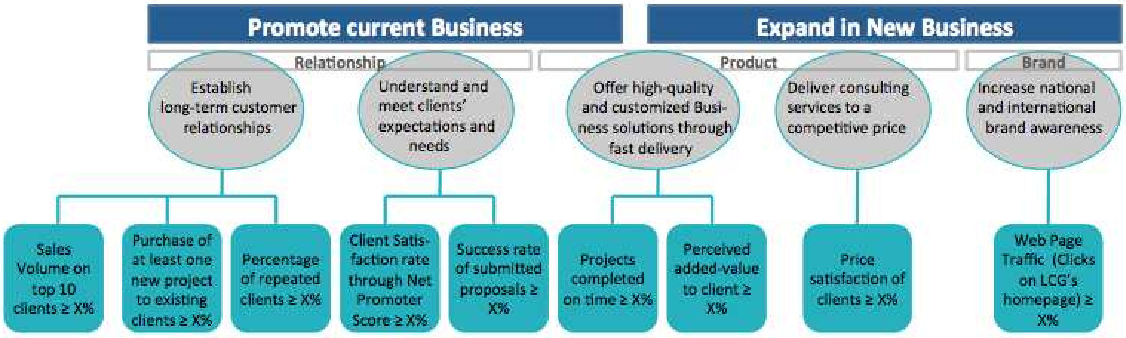

Figure 13: LCG's Critical Success Factors and KPIs of the Customer Perspective; Own Diagram

The KPIs that are set for the **Internal Processes Perspective**, in specific for the Customer Management Process, are first, Purchase of Cross-Selling Products in order to "Diversify the company's product portfolio" and second, Response time to tickets in days for the Critical Success Factor of "Increasing the company's response rate" (Please refer to Figure 14). For the category Operational Excellence two KPIs were established in order to "Improve the company's core processes", namely the Delivery rate of Proposals and the Commercial Initiatives. The Critical Success Factor "Improve core processes" can be further specified, namely by dividing it into "Increase productivity ratio" and "Increase Company's efficiency". The KPI that has been set for measuring the "Productivity Ratio" is Revenue per FTE and the KPI for "Increasing the Company's efficiency" is the Cost-Income-Ratio. Another Critical Success Factor, which belongs to operational excellence, is "Adopting new tools which encourage and aid process improvements". The KPI that has been set for this CSF is the Implementation of new performance measures. The last two KPIs that have been set for the Internal Processes Perspective are first the Number of new product developments which is set for the Critical Success Factors "Develop new Services", and second, Impact of new business on the company's revenues, which is the KPI for the CSF "Identify new markets and opportunities and adjust the company's lines of actions".

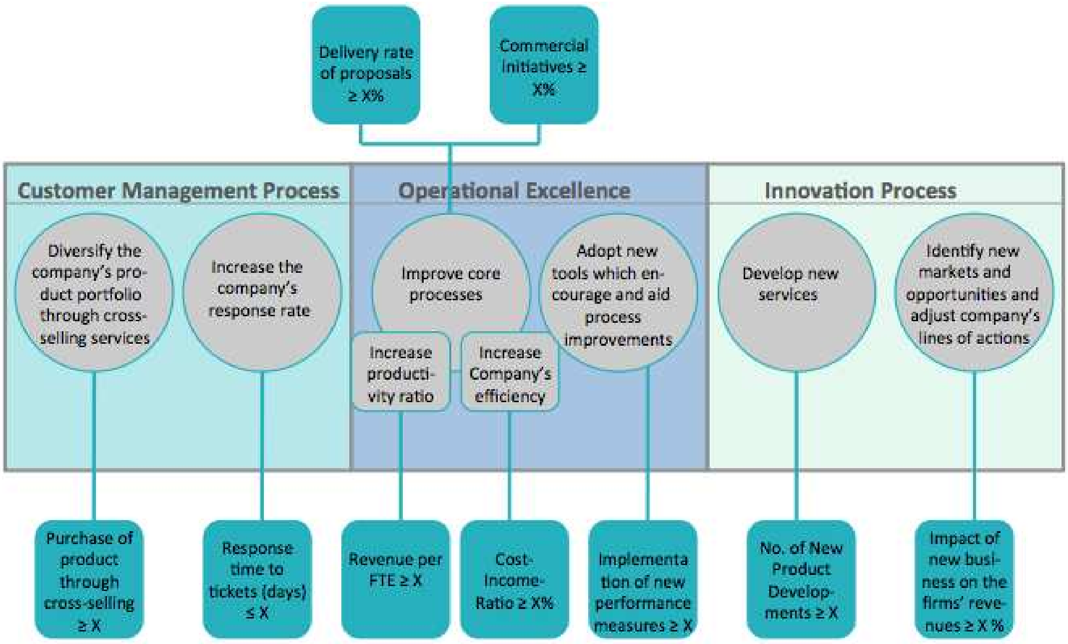

Figure 14: LCG's Critical Success Factors and KPIs of the Internal Processes Perspective; Own Diagram

LCG's competitive advantage arises, among others, from its employees, which have a long and profound expertise and experience in consultancy and in industries and markets where consulting companies operate in.

Therefore, the KPIs that are set in the **Learning and Growth Perspective** are of utmost importance (Please refer to Figure 15). The KPIs for "Identify, attract and retain skilled employees" are first, to Retain the key employees and high-potentials of the company although a high employee turnover in the consulting industry is often intended and second, to Meet the needs of recruitment. For "Attracting high-potentials and key employees" the author of this Work Project suggested as another KPI to increase the company's presence in Web 2.0 activities but due to its potential risks this KPI was put on hold. As LCG is clearly underperforming with regard to training possibilities for its staff in comparison to its competitors (Please refer Point III.3), clear metrics had to be set for the CSF "Enhance Staff Competencies through continuous training and extend the understanding of customers and markets". The KPIs that were defined are Number of Training hours spent per FTE and the Index of LCG's Training Plan. The KPIs that were defined for LCG's Corporate Culture are first, Fulfillment of individual development plans and second, Overall satisfaction of employees. As LCG increasingly operates international, a Knowledge Management Platform is vital. Therefore one KPI is to Implement a Knowledge Management Platform at LCG. The other KPI, which is Percentage of eligible employees that are trained on Business Analytics Systems, is meant for the second part of the CSF, namely for "keeping pace with new businesses and technologies".

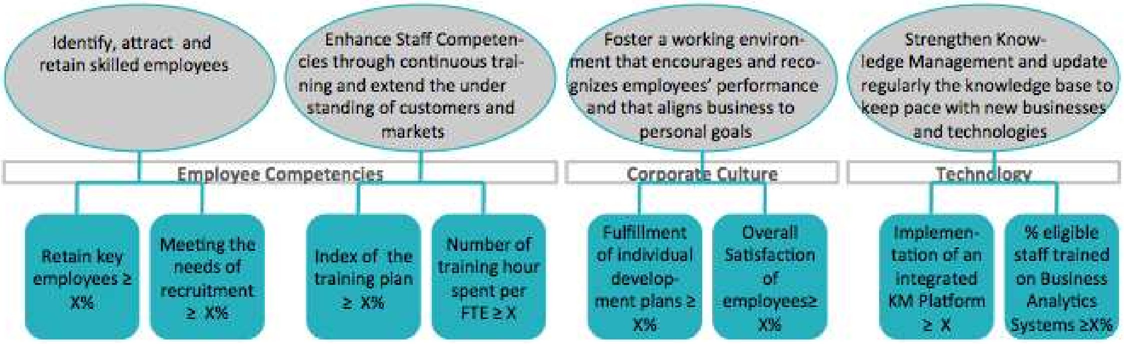

Figure 15: LCG's Critical Success Factors and KPIs of the Learning and Growth Perspective; Own Diagram

Initiatives

The Initiatives for 2013 that supports LCG to achieve its set targets are developing and go-to-market with innovative and value-added offerings and increasing LCG's commercial activity, which shall be carried out through involving all LCG Team Members. Moreover, customers' behavior shall be analyzed through various client satisfaction enquiries in order to be able to offer customized Business solutions and to calculate the client satisfaction with LCG's price and the perceived added value to the client. Moreover, a Knowledge Management Platform will be implemented that fosters the exchange of expertise between LCG's employees, keeps the knowledge in the company and therefore tackles the threat of the consulting industry's high employee turnover. Moreover, the interaction between LCG and the leading Portuguese universities will be strengthened in order to guarantee that LCG will attract high potentials and profit from the available talent resources in the market. Another reason for establishing a close relationship with universities is to create a stronger brand awareness, which consequently leads to new initiatives in the marketing segment. Moreover, LCG identified Brazil as new target market and will enter this emerging market in 2013. In addition, LCG could take advantage of the identified best industry practices in the Benchmark Approach in Point III.3, e.g. to use Value Driven Approach and to share risk and reward with its clients. Furthermore, the Balanced Scorecard will be implemented in the company, which encourages and supports LCG's process improvement.

IV) IMPLEMENTATION OF LCG'S BALANCED SCORECARD THROUGH A BUSINESS INTELLIGENCE FRAMEWORK

The Implementation of LCG's Balanced Scorecard requires the creation of an Excel Sheet that displays LCG's Critical Success Factors, Key Performance Indicators, Targets, Comments and Initiatives, Actual Performance and an Alarm, that is automatically triggered if the company underperforms in one KPI. The range of the Alarm follows the colors of a traffic light: Green is programmed as "Excellent", Yellow as "Cautious" and Red as "Alarm" (Please refer to the Supplementary Appendix 4 to see an excerpt from LCG's Balanced Scorecard's Excel Spreadsheet). Moreover, two Types of KPIs were automated: Type A KPI is used for positive KPIs, which means that an increasing of the company's measure is intended (e.g. company's Equity Ratio). In contrast, the decreasing of a measure (e.g. % of overhead costs) is regulated by Type B KPI.

Moreover, the Excel Sheet contains a Graph for each Key Performance Indicator in order to provide a visual overview of the data (For an excerpt of the company graphs, please refer to the Supplementary Appendix 5). Every graph contains three columns: The company's current performance (Blue), the company's target (Green) and the company's underperformance column (Red). For having a better overview of the different contents of LCG's KPIs, a handbook was created, which shall serve as a orientation tool. It is composed of 31 slides and consists of one slide per Key Performance Indicator, which includes its Critical Success Factor, targets, the identified initiatives, the short-term or long-term orientation of each KPI and the alarm for each target that warns LCG if it is underperforming (Please refer to the Supplementary Appendix 6, which gives an Example of a Slide of the Handbook).

Apart from the Excel Spreadsheet, a Business Intelligence Framework is established in order to visualize LCG's Balanced Scorecard. For this purpose, SAP Crystal Dashboard Design was used in order to summarize the company data through a visual and interactive tool. The Excel Sheet is added into the SAP Crystal Dashboard Design Framework. The next step is to adapt different visual diagrams to the company's notions. Apart from the software that supports the implementation of the Balanced Scorecard, it is substantial that the implementation is well communicated. "Employees are the ones who improve the processes and run the projects, programs, and initiatives required by the strategy" (Kaplan, 2008: 12). Hence, it is vital that LCG's employees understand the implemented Strategic Measurement System in order to successfully link their day-to-day operations to it as well as to be motivated to achieve the set targets. The communication plan of the Balanced Scorecard contains workshops, training sessions, career development plans and the communication of how LCG aligns the employees' personal objectives to LCG's strategic goals. Another component of a successful BSC implementation is sustained management commitment to drive the necessary behavioral changes within the company (Acumen Integrat, 2009: online).

Moreover, a cost benefit analysis has to be carried out in order to consider additional costs of the Balanced Scorecard. At this stage, the Implementation was completely free as the author of this work developed the Balanced Scorecard and its different tools like the Strategy Map, KPI handbook and the BSC Excel Spreadsheet i.e. there were neither overhead nor personnel costs. The professional use of SAP Crystal Dashboard Design will cost the company depending on the version between approximately €470 and €1800 (SAP Online Store, 2012: online). Moreover, the training and maintenance costs have to be calculated.

V) CONCLUSION

Many organizations contain business and support units that consist of highly trained and experienced employees but that are not coordinated. This results in lost opportunities and reduced performance. Therefore, the Development of the Balanced Scorecard at Lisbon Consulting Group was very important as it lacked those important measures and targets that usually coordinate and drive a company's performance. Identifying and especially forming the link between strategic performance and operational success through a new Performance Management System, the Balanced Scorecard, enables LCG to supervise and measure the company's performance and hence, enable the firm in a long-term perspective to realize its vision. Through the identified Critical Success Factors and the established Key Performance Indicators, LCG's corporate executives can measure LCG's tangible and intangible assets. By having conducted different analyses in this work, for example the SWOT Analysis and the Benchmark Approach, the weaknesses of LCG could be identified and directly addressed by the Balanced Scorecard Model. Still, it has always been taken into consideration that LCG is a SME with 30 employees so that at this stage some weaknesses like the lack of a strong national and international brand awareness, a talent pool, evaluation tools that identifies internal as well as external high potentials and extensive training possibilities have to be relativized. But since LCG is growing and since it want to keep pace with its competitors, these weaknesses have to be addressed in order to create a sustainable and foresighted Balanced Scorecard. The recommendation of this work is to carry out an exact Cost Benefit Analysis for the Implementation of the Balanced Scorecard, even though the initial costs for the development, e.g. personnel or overhead cost, were free. Still, communicating the benefits and tasks for every employee, train the employees to use the BSC and keep the BSC up to date, require additional expenditures. In order to create a great competitive advantage the use of ROI instead of the "Perceived added value for the client" is advisable. Admitting to clients that the impact of an extensive, costly consulting service is not measurable has already evoked doubts with regard to the added value of consulting projects and will continue to do so. Concluding, the Implementation of the Balanced Scorecard for LCG is an excellent opportunity for measuring the company's performance and forming the link between LCG's Strategic Performance and Operational Success, which was missing at LCG so far. Being implemented in the right way, the Balanced Scorecard will help LCG to speed up its business processes, improve its company performance and consequently, will create a remarkable future value for the company – in a long-term as well as short-term perspective.

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APPENDIX

Appendix 1: SWOT Analysis of Lisbon Consulting Group

SWOT ANALYSIS				
	Strengths	**Weaknesses**	**Opportunities**	**Threats**
Financial	• Supported by funds from the EU • Small cost structure • Diversified Sources of Revenues	• No balanced cash flow • Client risk • Average time of receiving money from clients • Too less investment opportunities in growing markets	• By offering high value added Management Consulting services at a competitive price, LCG can profit through gearing its competitive advantage to this circumstance • Leverage LCG's Balanced Sheet through emerging markets • Better credit conditions in Banks due to LCG's revenue growth	• Stagnant market environment • Declining margins in the current economic crisis • Price pressure on consulting day rates
Customer	• Diversified product/ service portfolio • Offer of customized, high-quality and innovative Business solutions • Customer-centric vision and mission • Maintaining an intensive and positive relationship with clients • Functional expertise • Word of mouth from client base to prospects	• National and International brand awareness • PR and Marketing Communication • Industry experts • Market Expenses	• Quality demand and client's price sensitivity • Acquire industry expertise in the Insurance Industry • Innovative Partnerships - Operational Area - Tactical Area - Strategic Area • Expanding in North European Countries	• Highly competitive and fragmented market due to low barriers of entry and high industry profitability • Information based products are more prone to be substituted - There are hardly switching costs for customers - High number of already existing substitutes • Small player in a market that is characterized by large international integrated and highly acknowledged competitors • Client's demand on 24/7 availability
Internal Processes	• Light hierarchical structure • Speed of Business Processes	• Search Engine Optimization • Formulized processes and procedures	• Use of Outsourcing Services (e.g. Marketing Activities, Travel Agency) • Leverage of internal processes based on cloud computing	• Back office Overload • Internal Processes with regard to Internationalization Strategy
Learning and Growth	• Highly experienced consultants in different sectors with a proven track record of successful projects • Stimulating a psycho-social work environment, promoting cooperation, team spirit and unity among employees • Innovation-oriented	• Reward system • Training possibilities • Talent Pool • Knowledge Management • Special Programs for High-Potentials • Permanent staying employees in international offices	• Knowledge Management Platform • Web 2.0 activities • Due to the economical crises talent resources are available • Acquisition of new companies with complementary offers	• Due to the high employee turnover industry , there is a great danger of losing accumulated knowledge by key employees • Software/ IT Knowledge has to be up-to-date • No evaluation of external and internal high potentials