

Integrating Planning and Performance Management at Nordea

By Lauren Keller Johnson, Contributing Writer

After a series of mergers, Scandinavian financial-services firm Nordea had to sharpen its focus and unify its fragmented culture. The BSC — a core element in Nordea's new performance management system — has enabled the bank to define and execute a more effective strategic direction and jump-start a cycle of continual learning about strategy. Nordea's stellar success earned it a place in the BSC Hall of Fame in 2004.

“Making it possible”: that’s the mission of Stockholm-based Nordea. Today, the financial services giant does just that for its 11 million customers (10 million household, 1 million corporate). These customers represent 45% of the Nordic population — and also include 282,000 Polish customers and 61,000 customers from the Baltic region. With a wide array of services offered through its three business lines — retail banking, institutional and corporate banking, and asset management and life insurance — Nordea has secured a market-dominant position, and has done so amid increasing competition and a tough macroeconomic environment. Its dedication to innovation has made it the world leader in Internet banking, with close to 4 million customers online.

But in 2001, three years of mergers with banks in Finland, Norway, Denmark, and Sweden had left the company with a fractured corporate culture. As a result, managers throughout the various business lines worked at cross-purposes. Equally troubling, outdated processes — such as highlighting only past performance during annual budgeting — prevented the company from allocating resources shrewdly and proactively addressing new market challenges or competitive threats.

And those challenges and threats abounded. In Nordea’s retail banking business, for example, a host of new rivals, large and small, had started muscling into the action thanks to a wave of pan-European banking set off by new EU regulations. Meanwhile, in the corporate and institutional banking business, pressure on margins mounted as industry players competed more aggressively on price.

Nordea’s vision was to “be valued as the leading financial services group in the Nordic and Baltic markets.” Realizing that vision — transforming Nordea from a banking behemoth to a streamlined and strategy-focused operation — would require that Nordea clearly define and execute a sharper strategy.

Tying the Scorecard to Planning and Performance Management

Led by CEO Lars Nordström, Nordea’s executive team took action. In mid-2001, team members launched the Planning and Performance Management Model (PPMM), an initiative designed to unify the company’s culture, drive home the importance of enhancing shareholder value, and transform strategy into results. A major goal of PPMM was embodied in the slogan “One Bank,” which expressed the company’s vision of solidifying formerly separate

multicultural and multilingual banks into one merged entity. The team adopted the Balanced Scorecard as one of three core PPMM components.

While the BSC’s purpose within PPMM was to operationalize strategy, the second component, rolling financial forecasts (RFFs), aimed to present a constantly updated picture of future financial performance. Service level agreements (SLAs), the third PPMM component, focused attention on controlling costs and improving the quality of internal service. With an eye toward making strategy formulation and execution a continual process, the executive team laid out a schedule for periodic review and refresh: annual meetings to reexamine strategic direction and set targets; quarterly meetings to review BSCs and RFFs; and monthly meetings to monitor tactical performance and make any needed changes to strategic initiatives.

Creating and Cascading the Scorecard

A larger team comprising senior executives and business-area leaders launched the BSC component of PPMM by first creating a corporate-level strategy map for Nordea. With an overarching focus of

AT A GLANCE

Nordea

Stockholm, Sweden

(All figures 2004)

Total assets: 262 billion

Assets under management:
122 billion

Number of customers: 11 million,
including 3.9 million e-customers

Number of branch offices: 1,205

Number of full-time employees:
29,100, operating in Sweden, Finland,
Denmark, Norway, Poland, and the
Baltic region

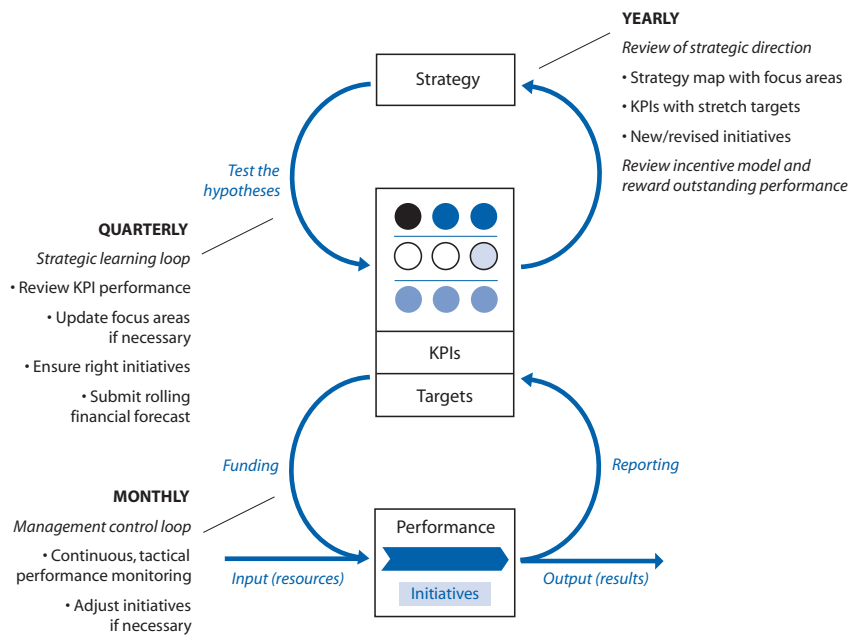
“sustainable growth of economic profit” (which measures value creation from the shareholder’s perspective), the Nordea map contained four major themes:

1. Ensure stable and profitable growth of income.
2. Ensure operational excellence, strict cost management, and reduced complexity.
3. Ensure capital efficiency and high credit portfolio quality.
4. Attract, develop, and retain highly motivated, competent, and performance-oriented employees.

These themes were chosen based on executives’ careful assessment of Nordea’s strengths, weaknesses, opportunities, and threats (SWOT analysis). For example, though the company boasted a large customer base and a strong capital position and brand, it had insufficient cross-border management and suffered from complexity in its information technology and other systems. And though Nordea was well positioned for continued consolidation in the Nordic and European markets, it faced danger in the forms of stubbornly low interest rates and potential outside attacks on its vulnerable IT systems.

With the four themes in mind, business-area heads created scorecards for their own units and then cascaded these down to lower levels, with the business-area maps’ objectives echoing the corporate map’s strategic themes. For instance, the theme “Ensure stable and profitable growth of income” came to life in the retail banking map as “Increase sales to all existing customers,” “Acquire new profitable customers,” and “Sell products in bundles.” This same major theme found expression in the corporate and institutional banking map as “Increase share of wallet,” “Further enhance position among large corporate customers in Sweden,” and

Figure 1. Nordea’s Planning and Performance Management Model



The PPMM operationalizes strategy and makes its management a continual process.

“Increase focus on financial institutions.” And in the map for Nordea’s asset management and life insurance division, the corporate-level theme was translated into two objectives: “Capture share of growth in the long-term savings and life area” and “Grow economic profit in life and pensions at low volatility.”

In addition to their strategic objectives, each business-area head identified initiatives in support of each theme. To illustrate, retail banking’s initiatives for supporting “Ensure stable and profitable growth of income” included establishing a common customer-relationship management (CRM) system in all channels. Corporate and institutional banking’s initiatives for the same theme included turning value-destroying customers into profitable relationships and sharpening the focus on Nordea’s position in Sweden.

The high-level themes were also reflected in support functions’ strategy maps. For instance, to reinforce the theme “Ensure operational excellence, strict

cost management, and reduced complexity,” support functions set strategic objectives such as “Centralize and consolidate production processes” and “Selectively use sourcing alternatives.”

Overcoming Resistance

Perhaps not surprisingly, efforts to cascade the scorecards down to employees met with resistance from individuals working within the newly acquired entities. To overcome that resistance, the company linked senior managers’ incentives to their BSC results. It also initiated a communications program to spread the word about the BSC. As part of the program, the company posted instructions, training packages, and presentations about the BSC on its intranet, making the information available to all employees. Interest in the site has proved intense; the initiative’s home page received more than 6,000 hits per month on average during the first quarter of 2004.

In addition, Nordea began publishing articles about the BSC in *Nordic Ideas*, its internal

magazine. Published quarterly in five languages, the magazine features interviews with internal BSC users as well as articles explaining how the BSC makes strategy both operational and concrete. Thanks to such efforts, managers and employees throughout Nordea have begun mastering and using a common language to discuss strategy.

To date, Nordea has cascaded a total of 1,700 scorecards, with more planned, so that all employees with direct customer responsibility now have an individual scorecard. Leaders throughout Nordea's three major business areas have grasped the BSC's value. According to Henrik Mogensen, head of the corporate and institutional banking division, "the Balanced Scorecard helps to make the important things a reality. Now everything hangs together, from customer team meetings and upwards to Nordea's goals." Charlotte Buhl, senior relationship manager, says, "The first words to spring to mind [about the BSC] are prioritizing and focus...I have a clear picture of our strategy, since...what I do...is clearly defined and linked with the strategy."

Learning Continuously About Strategy

Besides setting up regular annual, quarterly, and monthly meetings to review and adjust strategy and revisit the SWOT analysis, Nordea has taken other steps to ensure that strategy formulation and execution remain a continual process. Specifically, planning, budgeting, and strategy review are tightly interwoven with the activities of the group planning and control division. According to Sven Edvinsson, senior vice president and head of group planning, this division set up a "BSC Coordinator" team, with representatives from each business area and group. Team members gather quarterly

to share their knowledge of and experiences with the BSC, with an eye toward continual learning about the strategy process. "We have established a common knowledge as a basis for the future development of BSC to always adapt to new challenges," says Edvinsson.

Among Nordea's upcoming challenges, Edvinsson cites "avoiding too strong a focus on the financial perspective" (difficult to resist, for a financial institution) and "further improving linkage of Nordea's incentive system to the BSC" as next steps to becoming a "best practice BSC user." He acknowledges that getting the most from the BSC takes work and patience, and contends that the process must be driven by executive management. "Start to use [the BSC] as soon as possible, even if not all key performance indicators are defined or possible to measure," he advises. "And don't be afraid to update — remember, it is a continual learning process."

Scoring Impressive Results

Embedding the strategy process firmly in its leadership approach has paid big dividends for Nordea. For example, net profits for the first quarter of 2004 rose 64% from the previous year, to €418 million, and during that same period assets under management reached an all-time high of €122 billion, up €27 billion. Meanwhile, total expenses dropped by 10%, and loan losses shrank 50%.

Nordea also jumped from 15th place among 20 peers in Europe in total shareholder return in 2002 to third place in 2003. In addition, the company now boasts a team-based executive management culture, more executive accountability for clearly defined targets, and a sharper focus on strategic direction. "All together with increased performance orientation

and a new management process," CEO Nordström says, "our strategic performance has been improved."

Looking ahead, Nordea's competitive challenges are not unique — encroaching competitors in almost every business line (some from recent mergers), and the growing trend in institutional banking toward a multimanager approach, for example. But Nordea's leaders, while hardly complacent about the bank's position, believe its clear strategies, multichannel focus, and product range — as well as its compliance and risk management acumen — will help reinforce its dominant marketplace position.

Nordea's achievements — remarkable for an organization that is only a few years into its BSC implementation — have also attracted notice from outside the financial industry. For example, the company's experience with the BSC has been documented as one of five case studies in Nils-Göran Olve et al.'s book *Making Scorecards Actionable: Balancing Strategy and Control* (John Wiley & Sons, 2003). Moreover, in 2004, the firm received the "Best Use of IT in Retail Banking" award from *The Banker* magazine. The award recognizes the fact that Nordea's e-banking services are the most widely used in the world, with the most transactions and a steady growth of e-banking customers. The same year, Nordea won a place in the Balanced Scorecard Hall of Fame. ■

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EDITOR'S NOTE: In the November–December 2004 *Case File* ("The Human Advantage at Unibanco"), we mistakenly called Unibanco the fourth-largest bank in Brazil. It is actually Brazil's third-largest privately held bank. Our apologies to Unibanco for this error.