



## Tolko Industries Ltd. Case Study

### The Situation

Emerging out of the worst economic downturn in its 65-year history, Tolko Industries Ltd. was facing serious challenges. Tolko's prior strategy relied almost exclusively on sales to the U.S., resulting in a serious drop in revenue when the bottom fell out of the U.S. housing market in 2007. The 3,500 employees were disheartened by layoffs, and the company was challenged to retain good people.

Tolko is a privately owned forest products company based in Vernon, British Columbia. It manufactures and markets specialty forest products to world markets. Tolko's products include lumber, plywood, veneer, engineered wood products, and kraft papers.

Brad Thorlakson had taken the helm as President and CEO in late 2010 and he and his team knew that change was urgently needed. They needed to change their organizational strategy while somehow getting over 3500 employees in 22 locations across 4 provinces aligned, engaged, excited, incentivized and accountable for their roles in the success of Tolko.

Tolko's challenges also had personal significance to Brad and his team. Tolko is a family-owned business where average tenure is 30 years. The leadership team has deep personal ties to the company, their fellow employees, and the communities in which Tolko operates.

So as the economy slowly improved in 2010, Brad and his team redrew Tolko's strategy. The resultant strategic plan document was thorough, but very complex. And it was clear that the documented plan was not adequately aligning the organization's capabilities, business lines, and leadership with the strategy. So in an attempt to align strategy to business lines and leadership, Brad asked the VP of Human Resources to update Tolko's incentive plan to link executive performance to strategic performance.

### The Decision

Tolko's VP of Human Resources reached out to the Institute for assistance in determining how to measure strategic performance on Tolko's new strategic plan. While VP of Human Resources and Brad had heard of balanced scorecard, neither had thought of it as an integrated strategic planning and management framework. After learning more about *The Institute Way*, Brad realized that simply aligning incentives to a complex strategic plan was not going to re-energize the company. The employees needed to understand the big-picture strategy,



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be excited about it, and enthusiastically contribute to both its development and execution. After several months of research, Brad and his team determined that *The Institute Way* was the right framework, a complete toolkit, to define, execute and measure strategic performance—and to engage the hearts and minds of Tolko employees at all levels.

### **Program Launch: Sponsorship and Engaged Leadership**

Brad served as Executive Champion and six division Vice Presidents (VPs) served as Program Champions. The Leadership Team represented a diverse cross-section of the organization from a product and functional perspective. The VP of Human Resources managed the engagement with the Balanced Scorecard Institute, and served as BSC Champion.

Tolko leveraged its strong leadership and distinctive family-owned business culture. The leadership team has worked together for many years, and has a strongly collaborative decision making style. During many of the working sessions, Brad went around to each team member to ask them where they were on a scale of 1 to 10 and what it would take to get them to a 9 or 10. Brad showed his effectiveness as a leader by letting everyone have a voice and once consensus was reached, he was the primary cheerleader for the execution of the resulting decision.

### **Program Launch: Communication and Change Management**

Going into the process, Tolko recognized the strategic planning at the corporate level would be easier for them than executing it throughout 22 business units. The organization was siloed and it was important to develop a cross-functional understanding between teams. The business units were each in separate geographical locations across the four vast western provinces of Canada, and had been managed in a very decentralized way, with business unit managers accustomed to a high degree of autonomy and profit/loss responsibility. Brad wanted employees to ask—and answer—the question “What do I have to do to make my peers successful?” The Leadership Team knew that early and frequent communication was crucial to the employee engagement needed for alignment and they wanted to pre-position the organization for the heavy lifting of strategy execution.

Tolko was fortunate in that it already had a strong internal communications team. A full-time communications director sat on the executive floor and chaired regular meetings of representatives from each of the company's business units. Meeting with this cross-functional communications team, the Institute's consultant helped Tolko develop a communications strategy which included discussion of the following questions:

- Why is Balanced Scorecard strategic planning and management needed?
- How will the Balanced Scorecard build on the strategic plan and product sector plans we have already created?
- What will change and what remains the same?
- How will this impact the current communications plan?
- Who are the audiences we must address?
- What are their concerns likely to be?
- What is the message?
- How will we deliver the message?

First, the team identified specific audiences, such as managers, hourly workers, and suppliers, along with their varying concerns about the new system. For example, managers had already been heavily involved in previous strategic plans for their product sectors. It was important to communicate that none of this good work was being thrown away, just re-framed into a more actionable strategy execution approach. Continuity was assured by emphasizing the elements that would be re-used and the things that would stay the same. Elements of the already existing communications plan were re-purposed, in particular the regular updating of the "CEO Vision" document. Once the strategic balanced scorecard was developed, the CEO personally visited each of the 22 business units and held a two-way town meeting with all managers and hourly workers. To shift the focus from a framework to results, a new name was needed. Rather than refer to this effort as the "Balanced Scorecard," the entire campaign was re-branded as "How We Will Win"—an important message of confidence for an organization that had been severely stressed in the recession.

### **Program Launch: Plan the Project**

Initially the Leadership Team wanted to complete the project in less than one month, but more time and effort was required for the teams to engage in strategic dialogue and thoughtfully develop a strategy that would guide the company through future challenges and changes. Ultimately, it took two months to develop the Tolko Corporate Balanced Scorecard. After the fact, there was agreement that it was an extremely aggressive schedule, but one that kept everyone focused on the project. Table 1 outlines the project timeline.

**Table 1: Tolko Implementation Timeline**

Dates	Event	Outcomes
January	Interviews with Leadership Team	√ Situational understanding
February 2-3	Leadership Team Workshop	<ul style="list-style-type: none"> <li>√ Balanced Scorecard Training for Leadership Team</li> <li>√ Strengths, Weaknesses, Opportunities and Threats</li> <li>√ Review of existing Strategy Elements, including Mission, Vision, Values, Strategic Priorities and Corporate Objective</li> <li>√ Re-crafting of Vision Statement</li> <li>√ Clarification of Customer Value Proposition</li> <li>√ Development of Strategic Themes</li> </ul>
February 16-17	Theme Team Workshop	<ul style="list-style-type: none"> <li>√ Balanced Scorecard Training for managers</li> <li>√ Development of Objectives and Strategy Maps for each of the Strategic Themes</li> </ul>
March 8-9	Leadership Team Workshop	<ul style="list-style-type: none"> <li>√ Presentations from Theme Teams</li> <li>√ Combination of Themes into an overall Corporate Strategy Map</li> <li>√ Development of Objective Descriptions</li> <li>√ Assignment of Objective Owners</li> </ul>
March 15	Communications Team Workshop	√ Development of Communications Strategy
March 16-17	Objective Owner Workshop	<ul style="list-style-type: none"> <li>√ Balanced Scorecard Training, including in-depth training on Performance Measures for Managers</li> <li>√ Development of Objective Descriptions, Intended Results and Candidate Measures for each Corporate Objective</li> </ul>
March 21-22	Leadership Team Workshop	<ul style="list-style-type: none"> <li>√ Review and revision of Objective Descriptions, Results and Candidate Measures</li> <li>√ Identification of supporting Initiatives</li> <li>√ Review of Communications Strategy</li> <li>√ Discussion of Automation Strategy</li> <li>√ Planning for Cascading</li> </ul>
March 29-31	Executive Performance Coaching	√ Individual meetings with Leadership Team members to develop personalized objectives, measures and initiatives for 2011

## Step 1: Assessment

During the initial workshop sessions there were mixed emotions in the room. Some felt that *The Institute Way* could truly influence Tolko's future direction. But Tolko had used strategic planning for years and some felt it was just the "flavor of the month." Others were concerned that prior planning work might be ignored.

As it turned out, the process inherited a number of overlapping, and sometimes inconsistent, strategy elements from prior planning work. In addition to a mission and vision, there were other elements that had been

developed over time in response to various planning needs, including a “corporate objective,” “strategic priorities,” “four pillars” and a statement of “distinctive excellence.” The proliferation of these different elements led one Vice President to quip that the company’s collection of strategic planning “artifacts” called for a garage sale!

The Institute consultants helped the team to sort through the artifacts, salvaging and repurposing what was still valid, letting go of clutter, revising or creating key elements as appropriate, and simplifying the whole system.

For example, the vision itself was no longer accurate in describing the lines of business Tolko was pursuing. The leadership team simplified all of the elements considerably, replacing the old vision with a new one based on the more recent corporate objective. The new vision read, “Tolko will be a top decile forest products company providing strong customer value, while operating sustainably and achieving world class performance.” The particular power of this new vision was that it also included Tolko’s four pillars, which subsequently were modified to become the company’s four strategic themes.

With the new and improved vision driving the mission (see Table 2), the Vice Presidents took ownership for the new shared vision and showed passionate commitment to a successful implementation. It was a pivotal moment of change for Tolko.

**Table 2: Tolko Mission and Vision**

New Vision
<i>Tolko will be a top decile forest products company providing strong customer value, while operating sustainably and achieving world class performance.</i>
Mission
<i>To be an environmentally responsible and innovative company that prospers and grows by serving the needs of diverse customers in world markets, with products derived from the forest.</i>

## Step 2: Strategy

Brad and his team admit that it was a challenge to let go of the past, to create something new and better-fitting for Tolko. But Tolko was able to leverage many of the strategic direction decisions from its recently revised strategic plan, while simplifying and organizing the components into a more disciplined framework. Ultimately, the Leadership Team identified four results-oriented strategic themes to define what they needed to do to achieve their vision, mission and strategy. Crafting the themes and results helped further build buy-in and create enthusiasm for the new direction.

Tolko is privately-held company in a highly competitive industry and, therefore, declines to share any more details of its strategy in the form of strategic themes and results, objectives, strategy map, performance measures and initiatives. But they are willing to share learning’s they used from *The Institute Way* to align their organization and achieve break-through results.

### Step 3: Strategic Objectives

At Tolko, members of the Theme Teams were drawn from various parts of the organization. Team members were selected because they knew how key processes worked and how they could be more efficient. By including a wide range of participants from all of the business lines and support functions, Tolko not only developed more complete strategies for each theme, but also engaged more voices in the creation of corporate strategy. Continuity from the first two steps was ensured by having a member of the Leadership Team participate in each of the Theme Teams. This approach, a hallmark of *The Institute Way*, was essential for Tolko in that as many people as possible needed to be engaged in and energized about the future of Tolko.

Each Theme Team defined how it would achieve its strategic result by identifying strategic objectives in all four perspectives. One objective that several of the Theme Teams identified in the Organizational Capacity perspective was “Improve Industry Intelligence” or words to that effect. This idea really resonated due to the challenging competitive environment Tolko was in, and these separate objectives were combined into a single objective when the Tier 1 strategy map was developed later.

### Step 4: Strategy Mapping

Once the Theme Teams identified objectives, they linked them together to validate that the objectives would help them achieve the strategic result on the theme. The Theme Teams and Leadership Team felt that identifying and linking together the objectives was a very eye-opening experience. This exercise exposed areas of misalignment previously unknown. This process led to development of new objectives where gaps were seen, and subsequently the elimination of other objectives that were felt to be less important strategically.

To start the development session for the Tier 1 strategy map, Tolko theme teams presented their strategic theme maps to the Leadership Team. Some objectives from the theme team maps were put in a parking lot and later used in the Tier 2 product sector level strategy maps. Following the affinity grouping process, some 40 strategic theme objectives were grouped into 14 corporate strategic objectives. These 14 objectives have helped the organization develop a cross-functional understanding of the impact of its strategic direction. And the linkages between the objectives on the map ensured that Tolko had a logical, actionable approach for reaching its vision.

Once completed, members of the leadership team took turns using the corporate strategy map as a way to describe Tolko’s story which was dubbed: “How We Will Win.” One executive did such a compelling job telling the story that he was asked to repeat it, and everyone else began recording it with their smart phones! An objective description was written for each of the 14 objectives on their strategy map and then an objective owner was assigned to each objective.

At this point in the project, the Communications Strategy called for the corporate strategy map to be presented by the VPs to each of their business lines to keep everyone informed of the progress. It was also posted across the organization in lunch rooms. Brad personally presented the strategy map at each of Tolko’s 22 locations, and praised it as “an excellent, easy-to-understand communication tool.”

### Step 5: Performance Measures

The Objective Owners and their teams assembled for a training workshop to learn techniques for developing meaningful performance measures. It was important that this knowledge be embedded in the organization so

that as the strategic balanced scorecard is modified in the future, the organization knows how to develop meaningful and aligned measures of strategic performance. Remember that this competency gap was the reason that the VP of Human Resources originally called the Institute.

Each objective team used the techniques to develop candidate measures and then spent a lot of time debating, filtering and prioritizing measures, selecting those that would most allow for efficient tracking and monitoring yet be a meaningful indicator of strategic progress on their objective. The Objective Owners also assessed how they would collect the performance data, how they would determine baselines and targets, and how frequently they would report out on performance.

Tolko really liked the Institute's training-based approach. As in most organizations, Tolko has had to refine some performance measures and their associated baselines and targets over time, but the techniques they learned from Institute training have ensured that the any new or refined measures are meaningful and aligned to the intent of a particular strategic objective. And these techniques allowed the VPs to tailor performance measures to their specific units as the scorecard was cascaded.

### **Step 6: Strategic Initiatives**

The leadership team identified more than 20 new initiatives needed to improve performance on the objectives on the corporate strategy map. A few of the previously existing corporate initiatives were shelved, while still others had to be refined in terms of scope definition. Evaluating the initiatives also helped the leadership team discover and remove duplicate efforts between the corporate groups and the product groups. Before final selection, workloads were considered to ensure key departments were not overloaded with projects. Now Tolko has a periodic check-in to formally assess initiative funding and strategic alignment of their portfolio of strategic initiatives.

### **Step 7: Performance Analysis**

Tolko's Information Technology Department launched a corporate dashboard in February 2012, which leveraged legacy back-office systems and a business intelligence front end to monitor performance effectively. Implementation of the dashboard and initial collection of performance measures revealed some data gaps, so some performance measures had to be revised. But the team was able to leverage their Institute training to develop alternate measures on their own, without consulting help.

### **Step 8: Alignment**

In early 2011, with guidance from an Institute HR Specialist, all members of the Leadership Team developed Tier 3 scorecards with objectives and performance measures linked to the Corporate Scorecard. This was done to ensure an executive level focus on strategy execution. And this provided the linkage that Brad had originally sought - executive incentives were now clearly aligned to strategic performance.

Tolko's Tier 1 scorecard is referred to as the Corporate Scorecard. During the second half of 2011, the VPs led their product groups in the development of Tier 2 Product Sector Level Scorecards. This process began with a pilot of one support (Finance) unit and one product unit (Engineered Products). Tolko utilized Institute consultants to conduct a "Train the Trainer" exercise in order to ready internal facilitators to complete the cascading. Four internal facilitators were designated as part of this process. During the cascade process,



employees really began to understand the fully integrated framework and it became very clear to them that Brad was serious when he said “this is how we will be doing business.”

## Step 9: Evaluation

Tolko’s Balanced Scorecard Strategy Map is a living plan with a 2 to 5 year time horizon and the leadership team meets frequently to review progress and take appropriate mitigating action.

## Sustaining and Managing with the Balanced Scorecard

To manage the ongoing system, a new job position was created which reports directly to the CEO. The person selected for the role is an experienced project manager who had been involved in the Theme Team, Objective Owner, and Cascading workshops. In addition, Tolko has assigned 6 people to be balanced scorecard champions, integrating the role into their daily job responsibilities.

## What Did Tolko Gain?

The Institute asked Brad what benefits Tolko realized from their investment in implementing *The Institute Way*. For an organization involved in four distinct product areas, with 22 locations across a vast area, the biggest benefit he reported was the way that the process helped identify gaps in alignment across the organization. And, as a communication tool, the strategy map was a breakthrough that the organization could embrace to move everyone forward with the corporate vision.

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### About Tolko Industries Inc.

Tolko Industries Ltd. is a family-owned leading manufacturer and marketer of a broad range of forest products to customers around the world. Founded in 1956, Tolko has grown from a small sawmill in Lavinton, British Columbia, to become a company diversified by geography and product. Tolko manufactures lumber, unbleached kraft papers, panel products, co-products, biomass power, and a growing number of specialty wood products in its operations across Western Canada.

Tolko is committed to the well-being of future generations through responsible operational and environmental performance. This commitment applies to all aspects of Tolko’s business. The Company’s Woodlands departments hold third-party certification on the forestland they sustainably manage in British Columbia, Alberta, Saskatchewan, and Manitoba. Tolko strives to play an active and constructive role in the communities in which we operate and where our employees live.

### About the Balanced Scorecard Institute

The Balanced Scorecard Institute provides training, certification and consulting services to commercial, government, and not-for-profit organizations worldwide. The Institute applies best practices gained from hundreds of consulting assignments and 5,000 trainees in balanced scorecard, strategic performance management and measurement, strategic planning, and change management to help executives, managers and analysts transform their organizations into “performance excellence” organizations.

The Institute also provides, through the [balancedscorecard.org](http://balancedscorecard.org) website, extensive resources, including case studies, white papers, articles, and other information based on lessons learned from extensive experience in building strategic management and performance measurement systems using our award-winning *Nine Steps to Success™* balanced scorecard methodology. For more information about the Balanced Scorecard Institute, please visit: [www.balancedscorecard.org](http://www.balancedscorecard.org)

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