Abstract

The balanced scorecard is a management tool designed for organizational development that provides a concise picture of the overall organization in four quadrants: financial goals, customer perspective, internal processes and learning and innovation. All metrics should link back to key success factors and represent a balance among all stakeholders. Because a balanced scorecard initiates a change process, many stumbling blocks can occur in implementation without strong leadership and top-down support. Experts suggest that organizations focus first upon results-based measures and then evolve into a "change-ready" culture. Identification of drivers and cause and effect relationships is essential to link short and long-term goals. Ongoing efforts to examine and re-examine strategies in an "if-then" format will help align strategies. The most successful programs have involved use of carefully planned scorecards for projects or units of manageable size and scope. Scorecards should be well understood by all employees and backed by strong leaders. Organizations must develop the scorecard to fit their needs. Major challenges occur when developing measures, simplifying the process, handling resistance to change, building in flexibility, communicating organizational weaknesses, gathering data, adapting technology to the process and benchmarking. Considerable time and expense is customarily invested to maintain top management support, keep the scorecard current, train staff and to maintain a positive organizational culture by aligning HR into Business strategy. Organizations that have not involved employees have not achieved desired results.

Keywords: Balanced Score Card Metrics, HR Strategy, Organizational Capabilities.

Introduction

The balanced scorecard is a management tool for organizational development and incentive programs developed by Robert Kaplan and David Norton in 1992. It is designed to give managers a fast, concise and comprehensive picture of both financial and operational measures. Ideally, a small number of critical measures are summarized in one management report. The process simultaneously allows significant operational areas to be examined to see whether one result may have been achieved at the expense of another.

Business consultants on organizational change, management and organizational development advocate that the scorecard is the only method for survival in today's environment. They claim that businesses must develop an overall method of measuring up to the competition and of adapting quickly to environmental conditions (e.g., demographics, economy, and technology). Detailed environmental scanning, competitive analysis and meticulous ongoing scorecard planning is encouraged.

The scorecard presents the big picture while allowing managers to view critical operational factors and their interrelationships with current and future performance in mind. Emphasis is on the organizational vision and long-term success.

The balanced scorecard contains four main measurement categories or quadrants as follows:

Category Key Concepts & Basic Measures
Financial Goals how do we look to stakeholders?
A range of measures from traditional accounting measures to sophisticated value-added measures linking managerial goals to stakeholder interests.
Customer Perspective how do customers see us?
Responsiveness, quality, value added to
customers through services or products, number of repeat customers, fewer errors, etc. See that surveys and questionnaires have an acceptable rate of return and validity.

Internal Processes what must we excel at? Performance in operations or production Learning and Growth or Innovation Can we continue to improve and create value? How the organization develops and improves employee skills, knowledge, and technology and information systems.

A new approach to strategic management was developed in the early 1990's by Drs. Robert Kaplan (Harvard Business School) and David Norton. They named this system the 'balanced scorecard'. Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective.

The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise.

Kaplan and Norton describe the innovation of the balanced scorecard as follows: “The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology and innovation.”

The balanced scorecard suggests that we view the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives.

The Balanced Scorecard and Measurement Based Management

The balanced scorecard methodology builds on some key concepts of previous management ideas such as Total Quality Management (TQM), including customer-defined quality, continuous improvement, employee empowerment, and primarily measurement-based management and feedback.

Double Loop Feedback

In traditional industrial activity, "quality control" and "zero defects" were the watchwords. In order to shield the customer from receiving poor quality products, aggressive efforts were focused on inspection and testing at the end of the production line. The problem with this approach as pointed out by Deming is that the true causes of defects could never be identified, and there would always be inefficiencies due to the rejection of defects. What Deming saw was that variation is created at every step in a production
process, and the causes of variation need to be identified and fixed. If this can be done, then there is a way to reduce the defects and improve product quality indefinitely. To establish such a process, Deming emphasized that all business processes should be part of a system with feedback loops. The feedback data should be examined by managers to determine the causes of variation, what are the processes with significant problems, and then they can focus attention on fixing that subset of processes.

The balanced scorecard incorporates feedback around internal business process outputs, as in TQM, but also adds a feedback loop around the outcomes of business strategies. This creates a "double-loop feedback" process in the balanced scorecard.

**Outcome Metrics**

You can't improve what you can't measure. So metrics must be developed based on the priorities of the strategic plan, which provides the key business drivers and criteria for metrics that managers most desire to watch. Processes are then designed to collect information relevant to these metrics and reduce it to numerical form for storage, display, and analysis. Decision makers examine the outcomes of various measured processes and strategies and track the results to guide the company and provide feedback.

So the value of metrics is in their ability to provide a factual basis for defining:

- Strategic feedback to show the present status of the organization from many perspectives for decision makers
- Diagnostic feedback into various processes to guide improvements on a continuous basis
- Trends in performance over time as the metrics are tracked
- Feedback around the measurement methods themselves, and which metrics should be tracked
- Quantitative inputs to forecasting methods and models for decision support systems

**Management by Fact**

The goal of making measurements is to permit managers to see their company more clearly from many perspectives and hence to make wiser long-term decisions. The Baldrige Criteria (1997) booklet reiterates this concept of fact-based management:

"Modern businesses depend upon measurement and analysis of performance. Measurements must derive from the company's strategy and provide critical data and information about key processes, outputs and results. Data and information needed for performance measurement and improvement are of many types, including: customer, product and service performance, operations, market, competitive comparisons, supplier, employee-related, and cost and financial. Analysis entails using data to determine trends, projections, and cause and effect that might not be evident without analysis. Data and analysis support a variety of company purposes, such as planning, reviewing company performance, improving operations, and comparing company performance with competitors' or with 'best practices' benchmarks."

"A major consideration in performance improvement involves the creation and use of performance measures or indicators. Performance measures or indicators are measurable characteristics of products, services, processes, and operations the company uses to track and improve performance. The measures or indicators should be selected to best represent the factors that lead to improved customer, operational, and financial performance. A comprehensive set of measures or indicators tied to customer and/or company performance requirements represents a clear basis for aligning all activities with the company's goals. Through the analysis of data from the tracking processes, the measures or indicators themselves may be evaluated and changed to better support such goals."

**1. The Learning and Growth Perspective**

This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, *people* -- the
only repository of knowledge -- are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Government agencies often find themselves unable to hire new technical workers, and at the same time there is a decline in training of existing employees. This is a leading indicator of 'brain drain' that must be reversed. Metrics can be put into place to guide managers in focusing training funds where they can help the most. In any case, learning and growth constitute the essential foundation for success of any knowledge-worker organization.

Kaplan and Norton emphasize that 'learning' is more than 'training'; it also includes things like mentors and tutors within the organization, as well as that ease of communication among workers that allows them to readily get help on a problem when it is needed. It also includes technological tools; what the Baldrige criteria call "high performance work systems." One of these, the Intranet, will be examined in detail later in this document.

2. The Business Process Perspective

This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately; with our unique missions these are not something that can be developed by outside consultants.

In addition to the strategic management process, two kinds of business processes may be identified: a) mission-oriented processes, and b) support processes. Mission-oriented processes are the special functions of government offices, and many unique problems are encountered in these processes. The support processes are more repetitive in nature and hence easier to measure and benchmark using generic metrics.

3. The Customer Perspective

Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good. In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups.

4. The Financial Perspective

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the "unbalanced" situation with regard to other perspectives.

There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category.

Balanced scorecards are being used successfully to measure performance on both a broad and narrow scope in the public and private sectors. Scorecards are being designed and implemented for varied purposes, for example:

- The State of Washington uses scorecards to measure overall organizational progress in line with strategic targets for the entire state.
- The Texas State Auditor's Office uses scorecards to measure progress on project management.
- GTE Power Systems uses a scorecard to measure web site usage and business conducted over the Internet at GE Power Systems.

Identification of Drivers and “Cause and Effect” Relationships: True drivers for organizational performance should be identified for each category. Determination of drivers can be difficult. It is critical to expose key performance drivers because they provide insight as to what is at the heart of the organization.

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After key drivers are identified, cause and effect relationships must be pinpointed. Customized scorecards can be developed for all business levels right down to each individual. In 1996 Kaplan and Norton set forth a vision and strategy model for the scorecard. After constructing over 100 scorecards, they concluded that financial and non-financial measures should originate with the unique strategy of a business unit for future success.

Measures should relate specifically to desired results. The scorecard must provide a clear picture of what is needed for long-term success. Norton and Kaplan stress the benefits of organizational learning and growth that can be achieved through use of the innovative quadrant on the scorecard. Continuing to examine cause and affect relationships and continually examining alignment with strategy are also recommended as best practices. Strategy may be set forth in an “if/then” format. For example, we could strategize that if we train headquarters staff about the employee suggestion award program, then they can teach the regional staff. If regional staff knows more about the suggestion program, then they will submit more suggestions. If we receive more suggestions, then the organization will save more money. In this case, measurements on training headquarters staff, the knowledge of regional staff about the program, the number of suggestions submitted and the amount of money saved can be taken for the scorecard. An innovative target measure may be to develop an educational web page, paperless process or a new focus group. Measures on drivers of performance unique to a business unit are essential for short-term review of progress. Kaplan & Norton also encourage forecasting a link from long-term to short-term financial measures so that the staff does not become discouraged by a long-term financial goal that may not reflect improvement over the short run subjectively and qualitatively building links from each non-financial measure to a financial measure can test the anticipated chain of drivers and outcomes. In this way strategies can keep pace with the external environment and the scorecard becomes a learning process.

1. The balanced score card limits the number of measures identifying only the most critical areas. The purpose in to focus manager’s attention on measures that most affect the implementation of strategy.

2. The balanced score card highlights less than optimal trade offs that managers may make when they fail to consider operational and financial measures together.

**Seven steps for aligning HR to business strategy**

Professionally managed companies, such as Unilever, Citicorp, Hewlett Packard, AT&T and others use this basic framework to make sure their HR practices are fully and exactly aligned to create the organizational capabilities required to execute strategy in the most powerful way possible.

**Step 1**

Identify the organizational unit for which a human resource strategy is being developed. This would be your SBU or business division.

**Step 2**

Identify and prioritize the externally driven forces and trends in your business environment that are influencing your business unit.

**Step 3**

In the context of the externally driven forces determined in step 2, determine key sources of competitive advantage. Identify 3 to 5 measures of success for each source of competitive advantage.

**Step 4**

Identify the cultural and technical capabilities that you need to have to win in the market place. What mindset and behaviours do we need to have more of in the future than we have had in the past in order to achieve our numbers to a greater extent in the future than we have in the past? Identify behavioral examples for each category of organization capabilities. Do a gap analysis.

**Step 5**

Identify which HR practices will have the greatest influence on creating your ideal human
organization. Ask yourself: What major HR practices will best create an organization with the above cultural capabilities? Which practices will have the greatest influence? In what order and over what time frame should the initiatives be implemented?

**Align HR:** Decide how the identified HR initiatives need to be created or changed in order to create your ideal human organization. Which HR practices will receive attention over the next 12 to 18 months? What changes need to occur in each HR practice so that each practice will be more effective in creating these cultural capabilities in your people?

**Step 6**

**Identify action plans:**

- What will be done? By whom? By what date?
- Who else needs to be involved?
- When will the progress be reviewed? By whom?

**Step 7**

**Measure results:**

- What are the purposes of the measurements?
- What results do we want to measure?
- Who should be the sources of data?
- How should we take the measurements?
- When and where should we take measurements?

The most difficult part in measuring HR knows what to measure, not doing the measurement itself. Once we know what to measure, measurement can occur very quickly. In a complete HR measurement system, you have to measure what HR does, what it delivers and what it impacts. Thus one can show the relationship between what HR does, what it delivers and what it impacts.

Our Executive Overview series takes you straight to the heart of management best practice. Each title focuses on the critical success factors that should be built into your performance improvement initiative. Concise, to the point and authoritative, each title in the Executive Overview series draws on a wealth of exclusive research. The Executive Overviews distil essential knowledge into headlines, checklists and summaries to provide you with instant insights and next-step advice.

In this overview, discover how you can harness the developments in technology to develop, communicate and measure previously untapped value potential. To make the transition from support service to strategic partner, HR needs to reposition itself so that it is clearly seen to add value to the business at several levels. This Executive Overview looks at the twin challenges involved in redefining HR's relationship with the business and building new capabilities, processes and resources inside the function. The overview shows why a closer partnership with the business is essential if HR is to anticipate and enable the business to play a strategic role in business development.

In addition, the overview summarizes the challenges involved in improving cost-effective service delivery through the use of IT, outsourcing and shared services. Not least, the overview provides insights into the development of appropriate skills within the function itself and the decisive role of the head of HR in spearheading the transformation process. Among the 10 critical success factors identified are change management competence, outcome-related measures, the quality of HR leadership and the need to free up staff to focus on strategically important issues.

C The relationship between HR and management is becoming more collaborative. HR executives are beginning to earn a seat at the management table. HR offices are becoming more consultative and involved in day-to-day line management activities. Nevertheless, there is still long way to go if HR is to become a strategic partner at all levels. To do so, HR needs to build its own internal competencies to deal with organizational issues, educate itself on agency and program missions, and find ways to offer creative and innovative solutions to organization wide issues. Although many National Performance Review (now known as the National Partnership for
Reinventing Government initiatives, such as downsizing, reorganizing, streamlining, and delegating HR authorities, were meant to improve HR’s ability to focus on organizational issues; they have not taken hold as quickly or thoroughly as hoped. Therefore, HR is still doing most of the process work, and its ability to focus on alignment has been limited. However, as HR’s role in agency planning, activities, and decision-making advances -- and it is advancing -- so too will the alignment of human resources management with agency mission accomplishment.

Human resources management alignment means to integrate decisions about people with decisions about the results an organization is trying to obtain. Dave Ulrich outlines old myths and new realities of HR as following:

**Old Myths**

1. People go into HR because they like people.
2. Anyone can do HR.
3. HR deals with the soft side of a business and is therefore not accountable.
4. HR focuses on costs, which must be controlled.
5. HR's job is to be policy police and the health-and-happiness patrol.
6. HR is full of fads.
7. HR is staffed by nice people.
8. HR is HR's job.

**New Realities**

1. HR departments are not designed to provide corporate therapy or as social or health-and-happiness retreats. HR professionals must create the practices that make employees more competitive, not more comfortable.
2. HR activities are based on theory and research. HR professionals must master both theory and practice.
3. The impact of HR practices on business results can and must be measured. HR professionals must learn how to translate their work into financial performance.
4. HR practices must create value by increasing the intellectual capital within the firm. HR professionals must add value, not reduce costs.
5. The HR function does not own compliance-managers do. HR practices do not exist to make employees happy but to help them become committed. HR professionals must help managers commit employees and administer policies.
6. HR practices have evolved over time. HR professionals must see their current work as part of an evolutionary chain and explain their work with less jargon and more authority.
7. At times, HR practices should force vigorous debates. HR professionals should be confrontative and challenging as well as supportive.
8. HR work is as important to line managers as are finance, strategy, and other business domains. HR professionals should join with managers in championing HR issues.

**Final Words and Conclusion**

Finally, he writes that "the HR function traditionally has spent more time professing than being professional. The HR function has been plagued by myths that keep it from being professional.

**References**


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