

A People-Oriented Approach to Scorecard Execution



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While most of Corporate America employs these management tools, some obtain greater benefits from them. How?



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Performance is on everyone's mind these days. In the search for performance improvement, over 60 percent of medium- and large-sized organizations in Corporate America have turned to scorecards, or something close to them. However, from our own work we have seen that scorecards work better for some organizations and less well for others. Why is this?

Our experience from several years of hands-on Performance Management implementations is that a people-oriented approach to scorecard execution makes a huge difference. Organizational scorecards need to be aligned with individuals' own personal scorecards to obtain broad buy-in, teamwork and sustained organizational performance.

We tested this by conducting research in late 2004. Our research data showed that most organizations are finding value in the scorecard process. The overwhelming view seemed to be that Balanced Scorecards can be worthwhile in clarifying an organization's strategy and that if this can be accomplished, improved results should follow. Some companies stated categorically that scorecards have made a positive difference in their organization's financial results. A typical statement from an insurance company was: "We did not meet our financial goals previously, but since implementing our Balanced Scorecard, we have now met our goals three years running."

However, there also appeared to be variability in results, and the reason seems to be related to a people-based execution approach that among other things aligns employees and organizational goals. In this article, we will explain what the more successful scorecarding organizations are doing right. We hope it will help you optimize your own Performance Management activities.

The Balanced Scorecard: A Framework for Strategic Performance

Robert Kaplan and David Norton developed existing management techniques into the Balanced Scorecard concept – translating organizational vision and strategy into a coherent set of performance measures. In the decade since Kaplan and Norton wrote their book, *The Balanced Scorecard: Translating Strategy into Action*, Balanced Scorecards have been established as a widely-used tool for the information age, reflecting the increasing shift from managing hard assets (such as buildings and machinery) to managing intangible assets (such as brand and knowledge). The name Balanced Scorecard indicates the need for "the balance

between short- and long-term objectives, between financial and non-financial measures, between lagging and leading indicators, and between external and internal performance perspectives."

Improvements have been introduced, including the strategy – or cause-and-effect – map, which plays a role in our own scorecard work. A series of strategic financial and non-financial metrics are developed for each perspective, typically: financial; customer; internal; and learning and growth. The strategy map incorporates performance measures and linkages beyond just the financial ones, for example: quality, customer satisfaction, turnaround times, and pollution control. Non-financial factors reflect that "employees evaluated according to their ability to achieve short-term targets cannot be expected to consistently make the best possible long-term decisions." (*Applying the Balanced Scorecard, AICPA, 2003*)

Scorecarding Should Be Transformational

Translating the Balanced Scorecard perspectives into results is by no means automatic. The complexity of Balanced Scorecard implementations can often create its own challenges. See the sidebar on page 11 for examples.

To mitigate these inherent implementation challenges, we find it is often best to begin by taking the pulse of the current performance culture, and thus assess the organization's readiness to undertake a transformation to a high-performance culture. We advocate this whether the organization is starting its scorecard implementation, or whether its scorecard is already in place.

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This highlights the performance vision, and the knowledge and learning processes to support the vision. It is reinforced by how well these are reflected in employee attitudes and customer relationships, the acid tests for any organization. A Balanced Scorecard project is a transformational one, so the underpinnings of employee attitudes and customer relationships are crucial if a sustained performance culture change is to take place.

We have seen that scorecard projects fare better in learning and adaptive organizations, where there has been (and continues to be) a wide open discussion of the goals of the scorecard project linked to the aspirations of employees. We believe that finding the sweet spot – the intersection of people, process and technology – is the critical ingredient in transformational culture change.

Too little employee buy-in and insufficient change in the organization's culture can result in improvements that tend to be rather superficial and temporary. If the scorecard implementation is insufficiently committed to learning and does not adequately take the personal ambitions of employees into account, the result can be an apparent performance improvement that dissipates very quickly. In some cases, management's efforts to improve performance are actually seen as divisive, viewed by employees

as aimed at benefiting senior management compensation plans and fostering a “what’s in it for me” attitude among the employees.

Balancing People and the Organization

How do some organizations achieve better and more sustained results from their Balanced Scorecard implementations? Our work in scorecards, performance and organizational development has shown us quite clearly that *aligning individuals’ personal goals and ambitions with those of the organization* is what makes the difference.

Alignment means working through core values and critical success factors to link the organization’s vision, mission and core values on the one hand with the individual’s personal vision, mission, and core values on the other.

In our experience, this alignment lies at the heart of successful scorecard implementation. This is what we mean when we say that a people-oriented approach to scorecard execution makes a huge difference towards sustained organizational performance.

Organizational change must “start at the very beginning, that is, with the core of personal identity itself,” according to Hubert

Rampersad in his bestselling book, *Total Performance Scorecard; Redefining Management to Achieve Performance with Integrity*. This means developing a personal Balanced Scorecard of an individual’s own goals and prospective actions, and linking it to personal behavior as well as shared ambition (for example, organizational goals) in the organization’s overall Balanced Scorecard.

Involving employees’ goals in scorecards is a step-by-step process that not only involves individual buy-in but also stimulates individual and team learning. Given that the scorecard relies so heavily on knowledge that quickly becomes obsolete, an integrated approach to organizational improvement, development and learning is a prerequisite for scorecard success.

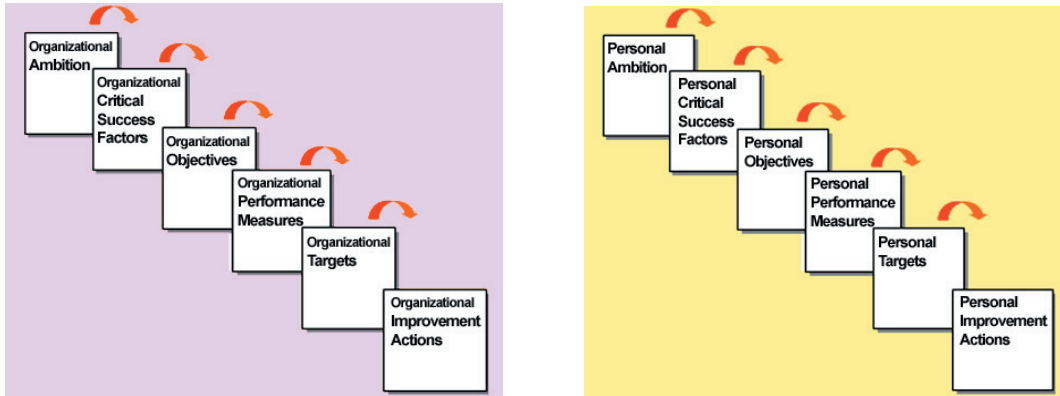
Scorecard Implementation Results

Successful scorecarding goes beyond just measuring activities, which is often the focus of scorecard programs. It goes to developing improvement strategies that work. It is critical to reinforce personal accountability methodologies by identifying personal and shared ambition in order to achieve the strategy, culture and organizational effectiveness goals that triggered this whole process.

Ten Reasons for Balanced Scorecard Challenges

- 1) Emphasis on financial measures rather than non-financial, leading to measures that do not connect to the drivers of the business and are not relevant to performance improvement.
- 2) Too many objectives defined and too many performance metrics being measured to enable the organization to prioritize improvement steps adequately.
- 3) Poor data on actual performance, negating most of the effort invested in defining performance measures by not being able to monitor actual changes in results from changes in behavior.
- 4) Inadequate linkage between the critical success factors of the organization and the personal critical success factors of individual employees – creating human capital tensions between work and non-work aspirations.
- 5) Managers not communicating the cultural change clearly and continuously, supported by management deeds that confirm that management is serious.
- 6) An employee mentality that is hostile to management messages (the obverse of the previous point), often because communications have tended to be one-way and forced on an unwilling labor force.
- 7) An employee compensation plan that focuses too much on the money side and not enough on delivering organizational values, leading to a “what’s in it for me” culture.
- 8) A business strategy that is poorly understood and therefore impossible to execute — it may also be either inflexible, not keeping pace with changes in the marketplace, or too flexible, causing confusion because of frequent changes in direction and an unmanageable scope.
- 9) An implementation plan that is not grounded in reality and unable to respond quickly to unforeseen events.
- 10) A climate of defensiveness and mistrust that leads project participants to respond to missed deadlines and over-spent budgets with buck-passing, bitterness and scapegoat-finding.

Figure 3.1



In the aligned environment, metrics support the people alignment to organizational alignment. For example, employee metrics (internal processes) might focus on motivation measures such as absenteeism, team productivity, leadership quality, and employee satisfaction. Customer-oriented metrics might include share of wallet, retention, recommendations to non-customers and perceived compatibility of front-line staff with customer goals.

Among other things, these can highlight how well employees are functioning as teams, whether personal ambitions are compatible with organizational direction and how quickly the organization can move towards an environment of information-sharing and trust. Such metrics are an addition to, not a replacement for, more traditional metrics, including financial measures such as revenue and costs, as well as business metrics such as customer profitability, share of wallet and retention.

Alignment and engagement meet critical needs in all organizations, both in the executive team and more broadly across the organization. For example, this approach recognizes that every employee will potentially touch customers directly or indirectly and thus can affect customer relationships and business outcomes.

An important implementation outcome is to reduce costs from lack of employee alignment or engagement, as evidenced by

sickness, mental absence, high levels of error, under-performance, and low satisfaction scores.

A multi-disciplinary team is crucial. The Balanced Scorecard encompasses the entire organization from a human capital and operational viewpoint, involving IT, Human Resources, and the operating departments that carry operating goals. Moreover, the finance department is uniquely placed to drive the measurement of results.

Does an alignment approach work? Results from the field increasingly point to beneficial effects. A range of organizations including an integrated oil company, an international bank, a large airline and a consumer technology company all are reporting a positive trend after implementing an alignment approach in major operating divisions. Some have built it into the Balanced Scorecard implementation itself. Others have retrofitted it after the Balanced Scorecard implementation. All have seen a performance lift from greater employee engagement.

These all confirm our experience that lack of alignment is a major inhibitor of sustained performance improvement.

Conclusion: Execution Does Count

Sustained Balanced Scorecard performance is a question of execution. The solution lies in aligning employee and organization-wide goals and addressing real performance culture change. Our conclusion, based on 20 years of research, is that scorecard performance depends on alignment between the goals of the organization and the personal goals of the employees to realize transformational performance change. All this may seem a long way from the beginnings of Balanced Scorecards in measuring financial metrics – but it does make a dramatic difference!

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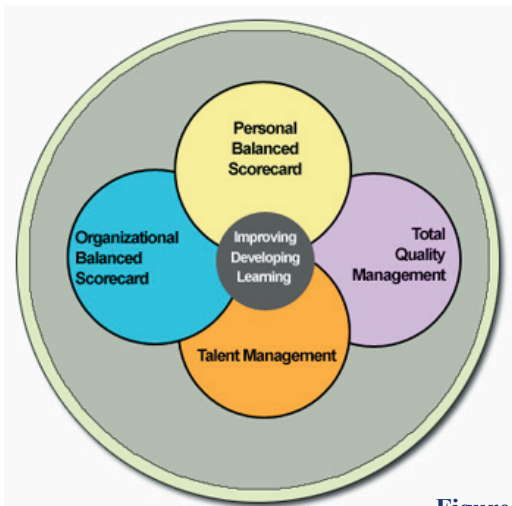


Figure 3.2