

The balanced
scorecard high
performance work
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One of the most difficult things to do is to make a decision or make a choice, especially between two good issues. Here, the Balanced Scorecard (BSC) is a framework that encompasses practically the whole domain of an organization and then High Performance Work Practices (HPWPs) which has the greater flexibility of choosing what is more fitting. The two methodologies are great when applied in different organizations to suit their needs. This paper will strive to illustrate how flexible, encompassing and long-term oriented the BSC and the HPWPs can be. It will compare the two methodologies in these three areas. However, there is no conclusive evidence that one system is better than the other or that one system is more flexible, encompassing or long-term oriented than the other.

The reason is that every organization has a different structure. The needs of the organizations are different from each other, and also their human capital is vastly different from each other. Hence, one framework may be more suitable than the other for a particular organization.

When reading and researching on the BSC and HPWPs, a graphic picture comes to mind. In traditional Chinese medical halls, there is usually a gigantic medicinal cabinet with small pull out drawers. These pull out drawers are supposed to number a hundred. Literally translating, the name of this gigantic cabinet is “ hundred precious compartments”. Out of this hundred-drawer (usually less these days, due to space constraints) cabinet, each drawers contain different Chinese herbs. With the doctor’s prescription, the “ pharmacist” will pull out the drawers and take out the relevant amount and types of herbs needed and then pack them together as the medicine prescribed. The BSC is like the gigantic cabinet which holds these little

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drawers together. The HPWPs should be like the little drawers, each containing different Human Resource Management (HRM) resources and practices. Each drawer is then pulled out and the contents to be put or “bundled” together so that the end package is put into effective use.

The BSC and the HPWPs are two methodologies that can be used as performance measurements. This paper will attempt to discuss which of these is more flexible, encompassing and long-term oriented. Instead of utilizing each on its own, perhaps a combination of these two methodologies could prove to be a viable option. These two methodologies focus on different organizational measures, and should be more effective to utilize the strength of one to supplement or complement the weakness of the other.

This paper will start off, in each to identify their definitions, strengths and weaknesses. A comparison will also be made between BSC and HPWPs, following suggestions on areas of supplementing or complementing each other. It helps to bear in mind, that no one particular measure or methodology is a bullet-proof structure for all organizations, since every organization is different, especially since their human capital is different from each other.

This paper will also bring out the issue of Generation Y (Gen Y) and their work attitudes and values; and discuss how the flexibility, encompassment and long-term oriented drive of the BSC or HPWPs can affect their work attitudes and values since the Gen Y is forming the bulk entrants into the workforce. As organizations move forward into being a Boundaryless (Jack

Welch) and Learning Organization (Peter Senge), BSC and HPWPs can affect the performance measurements and standards.

Organizations are in business with the ultimate objective of earning a profit. One of the most basic methods of measuring the organization's profits is by looking at the profit and loss statement of their annual financial report. However, an organization's total assets are not measured only in terms of profit and loss. There are also fiscal capital, landed capital, knowledge capital, intellectual property capital and also the human capital to be accounted for.

Organizations need the human capital to run the business, no matter what business they are in. Hence, to measure the profitability of an organization, there is a need to measure their human capital too. To measure human capital is to measure how the employees perform their duties and evaluate how their productivity affects the organization's profitability. This performance management is not something new. In fact, Koontz (1971) noted that a parallel of performance management existed in China's Wei Dynasty which was around 221 - 265 AD. He furthered that a formalized structure was set by Ignatius Loyola for the Society of Jesus (the Jesuits). This is the start of human capital performance measurement or management. Hence, there is a need for organizations to measure performance as performance will ultimately affect the profit line of their businesses.

THE BALANCED SCORECARD

The ancient Chinese scholar and founder of Taoism, Lao Tzu said: " Give a man a fish; feed him for a day. Teach a man to fish; feed him for a lifetime."
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Commenting on the difference between other measurements and that of BSC, Kaplan and Norton said that: “ the Six Sigma teaches people how to fish, whereas the Balanced Scorecard teaches them where to fish.” Kaplan and Norton, 2006, page 282.

Traditional measurements concentrated mainly on financial measures which do not typically encompass all domains of the organization.

Kaplan and Norton has been quoted several times from their Harvard Business Review article, that “ what you measure is what you get” (The Economist). They believe the BSC “ as a strategic management system” and that “ building a scorecard can help managers link today’s actions with tomorrow’s goals.” Harvard Business Review, January - February 1996.

Adapting from Kaplan and Norton, The Balanced Scorecard Institute states that:

“ The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.”

By this statement alone, one can conclude that the BSC is a flexible methodology which can be used by different and different sized organizations. It furthers that this methodology encompasses a broad spectrum of measures in order to be utilized effectively by different organizations, since each organization has varying needs.

In 1992, Robert Kaplan and David Norton identified four significant domains of an organization and formalized a system, the Balance Scorecard (BSC).

They reiterated in Harvard Business Review, January - February 1996, that:

“ A balanced scorecard augments traditional financial measures with benchmarks for performance in three key nonfinancial areas: a company’s relationship with its customers, its key internal processes, its learning and growth. When the performance measures for these areas are added to the financial metrics, the result is not only a broader perspective on the company’s health and activities; it’s also a powerful organizing framework. A sophisticated instrument panel for coordinating and fine-tuning a company’s operations and businesses so that all activities are aligned with its strategy.”

Kaplan and Norton, 1996, Page 1.

In the same article, there is a reminder that “ The scorecard wasn’t a replacement for financial measures; it was their complement.” Kaplan and Norton, 1996, Page 2.

Kaplan and Norton’s original BSC was based on four quadrants or perspectives:

the financial perspective

the customer perspective

the internal processes perspective

the learning and growth perspective

The financial perspective is ultimately to measure the profitability of the organization using hard data such as the amount of customers and sales generated the revenue and frequency of sales, the risks and costs associated with the production of new products etc. The question to answer in this quadrant is “ How do the shareholders see us?”

The customer perspective is accounted for by the increase in customer volume, customer referrals, customer satisfaction, the frequency of their purchases, the on-time delivery of the goods and services to the customer, etc. This quadrant puts forth the question: “ How do the customers see us?”

The internal process perspective question is “ How do employees see themselves”? This quadrant focuses on process such as manufacturing, reduction in production time, reduction in wastage, reduction in production costs etc.

The last quadrant focuses on the learning and growth perspective and the question is “ How can employees improve and develop”? This perspective comprises of training and development for individual and corporate improvement.

The above is a short overview of the four perspectives in the BSC as initially prescribed by Kaplan and Norton in 1992.

The following is a typical model of the BSC initiated by Kaplan and Norton.

Adapted from Robert S. Kaplan and David P. Norton, “ Using the Balanced Scorecard as a Strategic Management System,” Harvard Business Review (January-February 1996): 76.

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It is obvious that the BSC is a carefully thought out strategic measurement plan that is very detailed and comprehensive. It encompasses different domains of the organization that directly or indirectly affects the profitability of the company. Time is needed to get the data of these four domains together before the full BSC can be executed, hence, this would translate into the BSC being a long-term oriented measurement process. In addition, since the BSC is used to align these processes with the organization's mission and vision, it is therefore concluded to be long-term oriented as no organization would change their mission and vision every year or so. Bullard (2004) estimated that for strategic development and planning to be successfully implemented in any organizations, a time line of three to five years is needed.

The BSC seems simple and flexible as that it means to strategically align the measurements of the four domains to the organization's mission and vision.

Some of the strengths of BSC are that it is a better strategic plan for the organizations as the strategies can be seen in quantitative parameter. The BSC improves the communication and execution of all in the organization as communication is much needed to convey the needs and wants from each of the four domains. The objective of the BSC is to align employee goals to the organization's mission and vision, the constant feedback during the planning process will result in successful implementation of the BSC.

It helps to bear in mind that the BSC is not a short term measure. Those using the BSC as a short term measure are just wasting their time and efforts. The BSC needs reasonable time for data collation and it also needs

time for strategic planning to develop an appropriate scorecard for the organization. Organizations who buy scorecards off the shelf are short changing themselves. They essentially do not understand that the essence of BSC is based on the financial and non-financial measures of their own organization and off-the-shelf products are just a mechanistic measure and more often than not, do not portray the right measures for the organization. Tailor-made BSC programs are also a dime too many online. These tailor made BSC are made by outsiders who do not have thorough understanding of the intended organization. Another weakness of the BSC is that while communication and planning can start within a short time, the actual process of planning and execution takes a relatively longer time and needs to be carefully segmented. In addition, unless the intended organization has their own well defined strategy, it is meaningless to implement the BSC based on generic concepts.

Communication plays a very important part in the BSC. This can be seen from the General Motors case when the then CEO, Roger Smith was trying to align the employees so that they share the same vision with their company:

“ I sure wish I'd done a better job of communicating with GM people. I'd do that differently a second time and make sure they understand and share my vision for the company. Then they would know why I was tearing the place up, taking out whole divisions, changing our whole production structure... I never got this across”

Roger Smith, CEO of General Motors,

2009, Page 93 cited by Ron Person in "Balanced Scorecards and Operational Dashboards with Microsoft Excel, Wiley Publishing Inc, Indiana, USA.

Researches and studies have been made by the following companies on companies using the BSC. The Advanced Performance Institute (API) indicates that "the Gartner Group suggests that over 50% of large US firms had adopted the BSC by the end of 2000. A study by Bain & Company finds that about 44% of organizations in North America use the BSC". By 2004, Bain and Company estimated that there were about 57% of global companies utilizing the BSC. Some of the large corporations that have been known to use the BSC are IBM, AT & T, General Electric, Veolia Water North America, National Marrow Donor Program (USA), Citigroup, US Army Medical, Hilton Hotels Corporation Worldwide (USA) and Ricoh Corporation (USA). Other US government agencies known for using the BSC are the Defense Financial Accounting Service and the Federal Aviation Administration Logistics Center. This proves the flexibility of the BSC can be used by varying organizations.

The BSC introduced customer metrics into performance management systems. The BSC features all manner of wonderful objectives relating to the customer value proposition and customer outcome metrics for example, market shares, account shares, acquisition, satisfaction, retention and so on. Hence, the BSC is a much more comprehensive and strategic tool in translating strategy and vision into actionable terms.

BSC stresses on the importance of strategic planning. The definition of strategy is:

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“... the direction and scope of an organization over the long term: ideally, which matches its resources to the changing environment and in particular its market, customers or clients so as to meet stakeholder expectations.”

Johnson and Scholes, 1993, page 10.

Kaplan and Norton (1996) conclude that when objectives and measures are rightly identified and matched, BSC can be successfully implemented.

Otherwise, investments, time and energies on BSC would only go waste.

It is seen from the above that the BSC is a flexible methodology as it can be used by different organizations, be they large corporations, government sectors, non-profit organizations or small and medium companies. The BSC encompasses a wide magnitude of different measures that of external – market share, product sales, customer satisfaction etc; to internal measures of reduction in production time and wastage, employee learning and growth etc. The fact that the BSC encompasses four different domains of an organization means that time is needed to communicate inter-department and to arrive with a well-defined strategy for the organization and again time is needed for these strategic plans to be successfully implemented. The BSC can be used, and have been used as a short-term measure. However, its effectiveness lies in the fact that it is a long-term methodology.

HIGH PERFORMANCE WORK PRACTICES

Due to the economic turmoil of the last decade, focus has been shifted from the traditional reliance on tangible asset measurements to intangible asset

measurement, which is on the skills, knowledge and attitudes of the human capital (Pfeffer, 1994).

Gerson (2006) admits that the High Performance Technology (HPT) can be rather “sterile and mechanistic” and proposes the standard seven steps of HPT can be furthered to increase another step; which is to add “performer” analysis which focuses on the human capital who is involved in the performance process.

High performance work practices (HPWPs) is simply defined as “common sense good practices” that “includes appraisals, flexible working and other practices that deliver business results” (Ashton and Sung, 2002, p3). They further that HPWPs is a “set of complementary work practices covering three broad areas”, which are “sometimes referred to as bundles”. Ashton and Sung, 2002, p 3.

Three distinctive features of HPWPs have been identified as follows (Ashton and Sung, 2005):

HPWPs are not a structured mechanic measure, so there is no progressive stages

HPWPs is a “combination of practices” known as “bundles” to collectively supplement and complement each other

HPWPs are not limited to HRM practices, in fact, any measures that can measure performance are inclusive

In view of the above distinctive features, HPWPs are therefore deemed to be “flexible and encompassing”. There are no standards, no process, no procedures, and no operating manuals on them.

Using the earlier graphic picture of the traditional Chinese medical cabinet, in which the HPWPs are the small pull out cabinets. If person A has influenza, in which his / her cough is worse than his / her running nose, then the “pharmacist” would pull out drawers and pack the right amount of herbs, concentrating more on the cough than the running nose. If person B with seemingly similar fly symptoms, but is diagnosed to have sore throat also, then the “pharmacist” would include some herbs for the sore throat in the final bundle of herbs.

Hence, it is not how many or which types of measures is stipulated in HPWPs. The ‘how many’ has been identified by Ashton and Sung to be 35 in 2005, whilst Guest numbered it at 18 in 2000 and then in 2003 changed it to 48 and Becker and Huselid (1998) consists of thirty or more. The crux of the question is the affect of these practices; how these practices when integrated or “bundled” together, can affect the overall performance of the intended organization.

Some of the common HPWPs are job rotation, flexible working hours, team working, employee motivation with rewards and compensation, self-directed teams, performance-related remuneration, employee appraisal, personal development and employee empowerment are just to name a few.

HPWP is not an instant solution as it requires some years before implementation results can be seen. Ashton and Sung (2002) suggested the following considerations:

Job design should utilize all the practical and intellectual skills of the workers in self-directed teams and in decision making

Knowledge must be disseminated through meetings, briefings and so on, so that employees understand the business environment

Employees must be provided with learning opportunities through training, mentoring, coaching, appraisals and practice

Employees must be rewarded financially, through the learning process and recognition by co-workers and management

Wilson, J (2005)

When “bundled” rightly, there is great potential in HPWPs. The positive links from HPWPs are greater job satisfaction and employee morale, recognition and effective utilization of the skills, knowledge and attitudes of employees and thereby churning employee appreciation. These when bundled with teamwork and empowerment, employees are more energized to carry out their responsibilities to their best, thereby churning the effect of sales target being met easily or increased in sales volumes due to greater customer satisfaction. This funnels the road to increase profitability for the organization.

Another extension of the advantages of HPWPs is that with the heightened morale and satisfaction of the employee, there is reduced absenteeism and turnover and it fosters sense of commitment and loyalty towards the company.

Numerous studies, to name a few: Flood et al (2008), Birdi et al (2008), Patterson et al (1998), Thomson (2000), Guest et al (2003), Ashton and Sung (2005) and Sparham and Sung (2005) have all reported the link between the utilization of HPWPs in association with increased productivity, positive performance, enhancement in training, greater collaboration in teamwork and “ quantifiable benefits that have been identified include increased sales and market value for shareholders” (Ashton and Sung, 2005, p 9).

In their same articles, Sparham and Sung (2005) have also stressed that “ work intensification is a very likely outcome if employers do not implement HPWPs in an appropriate manner” (Sparham and Sung, 2005 p 2). The delicate balance between labour and capital must be equated as capital is almost always, exploiting labour. If this balance is neglected, it will lead to burnt-out employees and thus leading breed negativity and resentment to the organization, to the detriment of HPWPs. Another cautionary point is that the organization has to be wholesome, that is without clichés; otherwise, there is potential problem of increase in office / organizational politics.

HPWPs are thus seen mostly to be effective, flexible and encompassing performance measures that are suitable for any organizations. Case studies have shown on the magnitude of organizations using HPWPs to range from companies with 69 employees and turnover of \$56. 8m (Aspect Capital)

(Ashton and Sung, 2005 p24), to companies with 500 employees and turnover of \$26m (Pannone and Partners) (Ashton and Sung, 2005 p48) and to companies with 550 employees and turnover of \$400m (Bacardi-Martini UK) (Ashton and Sung, 2005 p29).

Although HPWPs are recognized as a positive performance measure, there are organizations that would not want to implement HPWPs. Osterman (1994) and Stevens (2000) pointed that international competition; quality and service are key indicators why organizations do not implement HPWPs. Ichniowski (2000) drives in the fact that it may not be worthwhile for organizations with high labour turnover to even introduce HPWPs. Mason (1999) reiterates that mass-production and low value-added industries may not appreciate the essence of HPWPs to begin with.

To summarise HPWPs in the words of Huselid:

“ All else being equal, the use of high performance work practices and good internal fit should lead to positive outcomes for all types of firms.”

Huselid, 1995

COMPARISON BETWEEN BSC AND HPWPs ON THEIR BEING FLEXIBLE, ENCOMPASSING AND LONG-TERM ORIENTED IN THE CONTEXT OF TODAY'S WORKFORCE.

We have seen earlier in this paper that BSC and HPWPs are described as flexible measures that can be used in almost any sized organizations. They encompass a broad spectrum of different measures and practices when balanced together benefits the organization in their profitability. BSC and <https://assignbuster.com/the-balanced-scorecard-high-performance-work-practices-business-essay/>

HPWPs are both long-term oriented as both need time for strategic planning and successful implementation.

This paper strives to illustrate that in today's working society HPWPs would seem to be more flexible, encompassing and long-term oriented, as organizations have to contend with the bulk of their employees who are from the Generation Y.

Generation Y or Gen Y or Echo Boomers, are those born in the 1980s and later. This generation is noted for markedly late for starting their career. During the years when they are expected to start their career, this generation had to face several economic down turn globally: the Asian Financial Crisis of 1997, the dot. com crisis in 2000, the SARS epidemic especially in Hong Kong in 2003, the United States sub-prime crisis which snowballed into the collapse of the Lehman Brothers, a hundred-fifty-year traditional icon on Wall Street in the late 2007. Moving into 2008 with the gradual and subtle aftermaths which embroiled into the Financial Tsunami leading to the closures of several banking and financial institutions globally. Record highs of unemployment rates are seen from the United States, Canada and across Europe.

Owing to the external and internal environment they have grown up in, there are several notable characteristics of Gen Y which affects their work attitudes and values. This paper will list some of the prominent characteristics of Gen Y and parallel how HPWPs can help to supplement and / or complement their working attitudes and values.

Technologically savvy. The Gen Y grew up in the midst of global computerization boom. They are more technologically inclined and are always seen to be connected to some type of computerized or technological gadgets like iTouch, iPod and so on.

Continuous learning and development. The World Wide Web is their whole wide world as they are always seemed to do everything online. They prefer to study online than the traditional classroom lectures. In addition, during the financial crises, and to forestall the unemployment rate, several government agencies teamed up with educational institutions to revamp and reinforce the concept of continuing education. Thus Gen Y has popularized blended learning, e-learning and distance learning.

The Gen Y are more family oriented and would choose to have work / life balance in contrast with their senior counterparts who generally view work as their main existence in life and thus treat the Gen Y as being less committed, less loyal, less disciplined and in some cases, unethical. Gen Y too, has a very different mentality and expectations of their work.

The BSC is more concentrated on the employees learning and growth. HPWPs on the other had, has the flexibility to give employees a work / life balance as it encompasses job rotation, flexible working hours and performance based rewards. In the long term, HPWPs should transform the Gen Y into more committed and loyal employees. HPWPs root into the attitudes and values of the employee. The same cannot be said for BSC which does not have any focus on the humanitarian side of the employee.

Gen Y is seen to be pampered and grew up in a very sheltered and protective home environment. They are ambitious and high achievers and challenging. The HPWPs has the flexibility to promote and reward achievers based on their merit. In HPWPs, Ashton and Sung (2002) advocates that: "Job design should utilize all the practical and intellectual skills of the workers in self-directed teams and in decision-making".

While growing up, the Gen Y were taught to question and clarify their queries. Hence, Gen Y is unafraid of questioning and their quest for directions or answers. This is an advantage in a Learning Organization as Gen Y wants not only proactive work but also learning. The BSC is based on a hierarchal structure and is a very top-down structure. The top management and employees from different perspectives might not have the flexibility to have their strategic plans and prescribed measures to be constantly questioned. HPWPs on the other hand, have the flexibility to advocate employees to speak their minds and supports creative and innovative through their teambuilding and sharing programs.

The Gen Y is perceived to be spoiled and entitled. The reality is that these Gen Y grew up with Baby Boomer parents who were always quick with their praises, encouragements and rewards. The Gen Y's growth is stunted by their parents' removal of any and all obstacles and negative experiences. Gen Y has to realize that the working society is very different from home environment and that their employers neither have the time nor sufficient resources to be always patting their backs like their parents do. Employers should provide constructive feedback to the Gen Y and this would boost their confidence. In HPWPs, one of the four main areas suggested by Ashton and <https://assignbuster.com/the-balanced-scorecard-high-performance-work-practices-business-essay/>

Sung (2002) is that “ Employees must be provided with learning opportunities through training, mentoring, coaching, appraisals and practice” (Ashton and Sung, 2002).

HPWPs encompass teamwork, and this is what the Gen Y is comfortable with. Gen Y grew up actively participating in sports, school activities and other group activities. Personally (not in regards to work), they value loyalty, commitment and seek to be bonded with others. As the HPWPs is a very human oriented methodology, it encompasses many of these humanitarian traits that are valued by the Gen Y.

Gen Y needs constant assurance and attention through feedback and guidance. Mentoring and / or coaching should help to guide their development and career path. In HPWPs, one of the four main areas suggested by Ashton and Sung (2002) is that “ Employees must be provided with learning opportunities through training, mentoring, coaching, appraisals and practice” (Ashton and Sung, 2002).

In comparison hence, the HPWPs would be a preferred methodology when working with Gen Y as the flexibility of HPWPs is more inline with the attitudes and values of the Gen Y. The BSC is flexible in its own ways, but it is a top-down, hierarchical structure which would not be enthused by the Gen Y. Although the BSC encompasses four different perspectives of an organization, it does not prescribe to the human capital issue. The Gen Y would thus appreciate HPWPs more especially on the fact that they value work / life balance which parallels that of HPWPs.

Well, if a Gen Y was to do simple arithmetic on the scoring between the BSC and HPWPs based on three aspects of being flexible, encompassing and long-term oriented, the result would really be a close call. The BSC and HPWPs would each score one point, as both are similar that they are long-term oriented methodologies. Another point each for BSC and HPWPs since both encompasses different perspectives and aspects. The final score goes to HPWPs because of its flexibility versus the structure of the BSC.

With reference to the graphic picture of a traditional Chinese medical hall again, the BSC should be the well structured medical cabinet that holds these small compartments together. The strengths, the flexibility and the encompassment of one methodology are being utilized to support the weakness of the other.

Personally, I have been through the planning stages of the BSC while I was working with an international airline with domiciles in the United States and the Asia Pacific. It was tremendously tough to juggle reports from the finance department that our market shares are down because customer satisfaction was low, marketing department reported that because on time arrivals and departures targets were not met, hence customer satisfaction is low, baggage came with statistics that showed a daily average of 30% of mishandled, missing or damaged baggage, catering came with the best news that 73% customers enjoyed our in-flight meals and beverages, and in-flight showed satisfactory survey results on their in-flight customer service. We enhanced our training programs for ground check-in personnel, in-flight, baggage and cargo. We trained our flight attendants to assist the ground

staff to speed up the customer boarding stage so as to meet target of on time arrival and departure.

Everything seemed fine and cheery at first. We had a mission, we had our own departmental targets, we communicated with all the different departments, we did our researches and analyses, we had the commitment of all the different departments liaising with each other and across the continents.

We did everything according to the books of the BSC. However, the BSC failed, due to two factors. Factor one is that the BSC does not address the human capital. The airlines is such a dense mass of human capital from in-flight to check-in (there was no e-ticket or automated check-in some 15 years ago), to baggage to cargo handlers. There was no recognition for the employee as a person contributing to the success of the organization. In fact, there was i