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Performance Management Using Balanced Scorecard

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ABSTRACT *The paper throws light on creating Performance Management in which Balanced Scorecard plays a major role. Leading organizations agree on the need for a structured methodology for using performance measurement information to help set agreed-upon performance goals, allocate and prioritize resources, confirm or change current policy or program directions to meet those goals, and report on the success in meeting those goals. The use of performance measurement information to effect positive change in organizational culture, systems and processes, by helping to set agreed-upon performance goals, allocating and prioritizing resources, informing managers to either confirm or change current policy or program directions to meet those goals, and sharing results of performance in pursuing those goals. The BSC is a conceptual framework for translating an organization's vision into a set of performance indicators distributed among four perspectives: Financial, Customer, Internal Business Processes, and Learning and Growth.*

PERFORMANCE MANAGEMENT
Performance Management is a process that brings together many people management practices including learning and development. It is a process which contributes to the effective management of individuals and teams in order to achieve improved levels of individual and organisational performance and development. Performance management is about establishing a culture where individuals and teams take responsibility for continuous improvement of service delivery and of their own skills, behaviour and contributions. It is therefore a strategic process, long term in nature, aimed at the development of an appropriate culture linking people management, service issues and long term goals. It is not a once off quick fix process.

ORIGIN OF PERFORMANCE MANAGEMENT
Performance management originated as a broad term coined by Dr. Aubrey Daniels in the late 1970s to describe a technology (i.e. science imbedded in applications methods) for managing both behavior and results, two critical elements of what is known as performance. A formal definition of performance management, according to Daniels' is "a scientifically based, data-oriented management system. It consists of three primary elements-measurement, feedback and positive reinforcement."

COMPONENTS OF THE PERFORMANCE MANAGEMENT SYSTEM (PMS)
There are four components to the PMS as described below.

1. A Performance Review Cycle (PRC)
2. The Performance Improvement Plan (PIP), a supportive approach to addressing underperformance
3. HR and Discipline Specific Professional Practices within the organisation
4. Relevant HSE performance measures, HSE performance Reports, Health Stats etc.

ADVANTAGES PERFORMANCE MANAGEMENT:
1. Increased Performance of individuals and department/ organisation:
The main goal of performance management is to improve the performance of individuals to eventually improve the performance of the organisation as a whole. The correct application of performance management will identify development areas of each individual as well as good performance areas. By planning specific outputs linked to specific standards and measuring the success of the individual against this on a continuous basis will have a direct impact on the performance of the individual and indirectly the organisation as a whole. Utilising the results of the performance management discussions to identify focused development programs for employees will further assist in attaining the department/organisation goals.

2. Better Communication
Performance Management focuses on the improvement of communication between the manager and his subordinates. The feedback and planning interview create opportunity for the creation and development of communication channels as well alignment between the manager and his subordinate.

3. Performance Standards and indicators
Performance Management focuses on specific valuable outputs that the individual must deliver which is linked to specific goals and standards that must be achieved during the evaluation period. By clearly defining the outputs, performance standards and performance indicators the subordinate can understand exactly what is expected from him. The impact of the subordinate's outputs on the department and organisation can be explained much easier during the planning phase.

4. Succession and Career planning
The Performance Management process provides valuable information that can be used during succession and career planning. Employee aspirations can be clarified and where possible incorporated into overall planning of the employee's goals and outputs as well as his development plan. Compilation of formal training and development plans per employee to ensure the development of the employee based on the results of the performance evaluation phase of the process.

5. Training and development
The Performance Management process, when applied correctly, will supply valuable information regarding developmental areas of a subordinate. The information is used during the compilation of the subordinate's development and training plan after evaluating the individual's performance. This will also provide a "check point" to determine whether the past training had any positive effect on the employee's performance.

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6. Remuneration:
Performance Management simplifies the linkage of salaries, bonus and allowances because it is comparable and explainable.

7. Recruitment and selection:
The latest requirements and specifications of a specific job and the readiness for promotion of the subordinate are supplied by the Performance Management system. It is a tool that can be used for the selection of the most appropriate candidate for a specific job.

DISADVANTAGES OR PROBLEMS OF IMPLEMENTING A PERFORMANCE MANAGEMENT:

1. Decreased Performance of individuals and department/ organisation

➢ It is possible that by implementing performance management within the company could have a negative impact on the immediate performance of individuals and indirectly the organisation. This could be because of the following reasons such as lack of training of the individuals and managers, lack of an formal change management process, lack of addressing the change in the culture of the organisation, lack of management commitment, Subjectivity level to high during evaluations and Performance reviews used as a stick to get back at employees

2. Degrading of Communication
Performance Management is a two-way communication process and managers should neglect this and turn the performance review into a one-way disciplinary interview it will have a negative impact on the employee. Should the employee feel that this interview is just to be reminded of things that went wrong; it will have a negative impact on the employee's performance. There need to be a balance between providing negative as well as positive feedback.

3. Lack of Management commitment
Even though we may spend lots of time and effort in designing and implementing a performance management process for our organisation it may have a negative impact on performance due to the level of management commitment. The most important factor to successfully implement this process is the commitment and support of Top Management as well as Line Management. Employees must "feel" that management is committed to the process and it is to their own benefit to improve their performance, as there are some rewards in the pipeline should they improve their performance.

4. Subjectivity
Subjectivity during the performance management process with specific reference to the manager, is one the most fatal elements that can negatively impact on an employee's performance. Therefore it is extremely important to eliminate subjectivity of performance evaluation by utilising specific measurable performance indicators i.e. financial statistics to prove whether the employee has done his job or not. Usually the "gut feel" evaluations are very subjective and can be influenced by the current emotional state of the manager. Various people provide their inputs regarding the performance of the employee to provide a more objective and fair reflection thereof.

5. Lack of Rewards
Should there be a total lack of rewarding the employee for his performance (either negatively or positively), the performance management process will not be very effective in improving employee performance. There is always a "what's-in-it-for-me" element that will have to be addressed. Employee must see the benefits of the process.

6. Negative Attitudes
Negative attitudes of managers such as Conflicting goals with regard to performance evaluation, lack of knowledge regarding the setting of objective performance standard, Fear of communicating performance evaluation results to the subordinate etc.

Negative attitudes of subordinates such as lack of understanding why performance is evaluated, lack of objectivity and fairness, Subjective measuring used for performance evaluation, Personality evaluation and not evaluation of outputs.

EVOLUTION OF THE SCORECARD CONCEPT
By far the most well known and accepted approach to organisational performance management is the Balanced Scorecard. Some writers have suggested that 60 percent of Fortune 1000 companies have experimented with the BSC (Silk, and the latest data, from the Gartner Group, suggest that over 50% of large US firms had adopted the BSC by the end of 2000). Data collected by the Balanced Scorecard Collaborative suggest that of the firms not currently using the Balanced Scorecard, 43% are planning to use one soon. In a survey of management techniques and tool in 15 countries in North America, Europe, Asia, and South America Rigby (2001) finds that about 44% of organisations in North America utilise the BSC.

Although when first introduced in 1992 it was promoted as a performance measurement system, the Balanced Scorecard has evolved somewhat. That evolution highlights some important issues regarding the management of organisational performance.

Originally the Balanced Scorecard prompted users to identify an equal number of measures in each of four perspectives: Financial perspective; Customer perspective; Internal perspective; Innovation and Learning perspective. This demonstrated the need to balance financial and non-financial measures; internal and external measures; leading and lagging measures; and short and long-term measures.

Balanced scorecard has become common terminology among executives, however since its introduction the concept has evolved. With each of Kaplan and Norton's books on the subject, less emphasis has been placed on the exact balance of measures and more on the need to explicitly link desired performance outcomes to the drivers that enable achievement of those outcomes. This can cause some confusion, particularly as this evolution has also seen emphasis of the Balanced Scorecard change from performance measurement to strategy development and strategic control (a broader performance management view).

Having balance in the number of measures is no longer considered strictly necessary. In fact Art Schneiderman, who developed the first scorecard, which Kaplan and Norton found in Analog Devices, argues that balance is actually harmful and that 'good scorecards will be unbalanced; containing mostly non-financial, internal, leading, short-term measures'.

Kaplan and Norton propose the use of strategy maps (sometimes referred to as success maps) to understand how the drivers of performance affect the top level objectives. Strategy or success maps explicitly link performance outcomes to the drivers of those outcomes. It explicitly shows how non-financial, internal, leading, short-term measures such as Employee Development or Employee Satisfaction affect financial, external, lagging, long-term measures such as Return on Capital Employed or Profit Growth. The success or strategy map provides a model of the performance of the organisation which tells the story of the organisation's strategy that can be presented on a single piece of paper

Designing performance measurement systems is all about deciding which measures to select, and just as importantly, which measures to ignore. The principle behind the Balanced Scorecard and Performance Prism is that the number of measures should be limited to give clarity to what the organi-

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sation is trying to achieve. Therefore developing the right performance measures is all about selecting the key objectives that the organisation needs to improve and designing appropriate measures to track this improvement.

When management teams do this together it clarifies their thinking on what is important. Having a debate refines their views and makes explicit the mental models each holds in their heads about how they believe the organisation works. Our experience shows that this process in itself is highly beneficial. It can help the top team to clarify and agree strategy even if the measurement process doesn't progress further.

The success map should show all the key objectives the organisation is trying to achieve over the coming period on a single sheet of paper. They are linked showing the main cause and effect relationships between the objectives. This is an extremely good communication tool both within the management team and for communicating the objectives by demonstrating how the actions of employees throughout the organisation contribute to its overall objectives. Whilst the origin of the Balanced Scorecard concept is as a measurement system, success or strategy maps have always been intended to represent the strategy of an organisation. They explicitly show a vertically and horizontally integrated picture of the objectives of the organisation making clarifying what should be managed to achieve the organisation's performance objectives.

BEYOND THE BALANCED SCORECARD

Despite its popularity the Balanced Scorecard is not without its critics, Norreklit for example, questions the existence of a causal relationship between the different perspectives of measurement (financial, customer, internal processes, and innovation and learning); the fact that this system does not address the needs and wants of all the stakeholders of a company; and the lack of theory behind the scorecard concept. Brignal makes similar criticisms of the balanced scorecard arguing that the interrelationships among performance variables are not confined to a universally valid one-way linear chain of cause and effect; nor a series of interdependencies. Additionally, he claims that a Balanced Scorecard cannot be balanced and integrated. Rather than that, some managers may rationally de-couple their scorecard in an attempt to maintain balance among stakeholders of unequal power affecting the relationships among balanced scorecard dimensions. Finally, he stresses the fact that social and environmental aspects of organisational performance are a major omission from mainstream performance management models.

It is commonly stated that one of the main benefits of the Balanced Scorecard in particular, is that is translates strategy into action, and that measures should be derived from strategy. This is such a conceptually appealing notion that few people stop to question it. Strategies are reactions to opportunities or threats in the organisation's operating environment. Understanding the operating environment must, therefore, be the starting point.

According to Teddy Wivel, senior partner in the Danish arm of Ernst and Young "It will not be possible to create shareholder value without creating stakeholder value". Since Freeman's (1984) work there has been considerable attention paid to the stakeholder approach to management of organisations. In the Tomorrow's Company report, the RSA suggested that competitive success in the future will increasingly depend on taking an inclusive approach to management, reflecting the need for consideration of the requirements of all stakeholders to be central to performance measurement and management activities (RSA, 1995). Authors such as Freeman, Alkhafaji and Nasi highlight that "the stakeholder concept is probably he most consistent with the environment that organisations face on a regular and contemporary basis". Hence taking a stakeholder approach is most appropriate if organisations are to identify objectives and manage performance which is consistent with the environment in which they operate.

Knowledge of stakeholders' changing wants and needs and how well the organisation is satisfying them is both the output of prior strategies and the basis of new strategies. The starting point for deciding what to manage should be "Who the organization's key stakeholders are and what do they want and need?" Therefore, stakeholder satisfaction is the first viewpoint on performance encapsulated in the Performance Prism a stakeholder focused approach to developing an organisations performance measures and success map. Furthermore, an organisations strategies, processes and capabilities have to be aligned and integrated with one another if the organisation is to be best positioned to deliver real value to all of its stakeholders.