ORGANIZATIONAL ALIGNMENT AND THE BALANCED SCORE-CARD

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Abstract

The Balanced Score Card is a methodology that helps organizations clearly articulate their strategy and goals, communicate them across the enterprise, and monitor key performance indicators. But the idea that score cards by themselves, lead to alignment is a fairy tale. The properly defined set of metrics, based on a deep understanding of the true values of a business, within a score card are what truly drive excellence. But to properly define metrics, a company needs to look outside the traditional performance management point of view, in which companies are seen as machines – entities that have input, processes, and a predicable output.

Financial metrics are really bad indicators of the future success of initiatives. So the process of justifying new initiatives by making financially focused business cases is flawed. A good market opportunity is not a good idea if it doesn't match customers' perception of the company trying to take advantage of it. An initiative that matches the core values of an aligned organization is more likely to succeed. Companies' metrics and performance management processes should increase the connection between customer values and organizational values, bridging self and external perception. A company that succeeds in doing this will have the tools to survive and strive!

This paper will develop a model, which will connect organizational values, strategies and performance measures.

Introduction

The 20th century closed with more questions than answers about a wide array of business challenges and ways in which leaders could meet them. On one issue, however, there seems to be a widespread and growing consensus: the central purpose of enterprise is to create value for its shareholders. Recognition

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of what is essential to the achievements of sustainable long-term growth in cash flows has resulted in more weight being put behind these “value drivers” and, in turn the creation of more performance-oriented cultures and incentives.

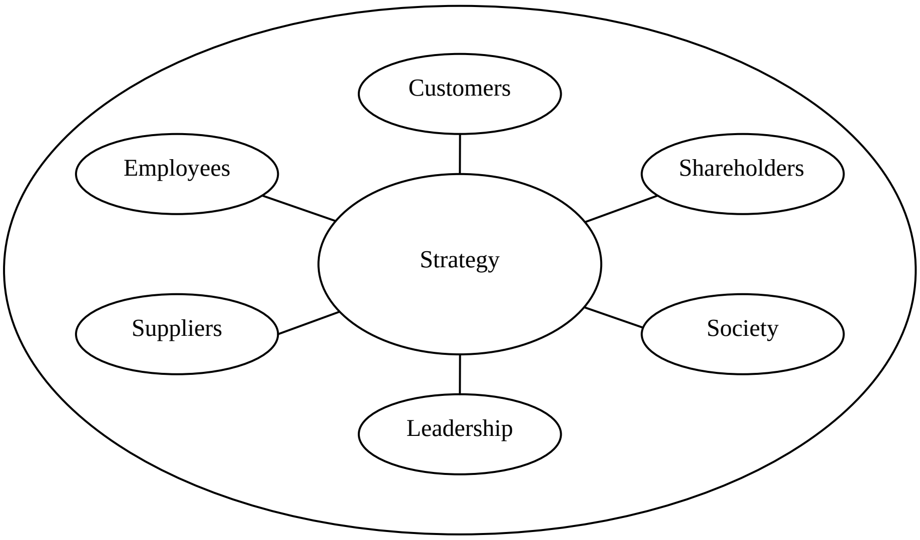
As we moved into the 21st century, the question appears not to be whether the concept is theoretically sound, but whether in its application it is correctly realized. Questions are being issued about whether failure to pay proper attention to real customer satisfaction, employee motivation, the way leaders realize their own purposes, and the broader needs of society as a whole might result in backlashes that may eventually undermine the value-creating process itself, and thus jeopardize shareholders value creation.

The Value Creation System

There are six central stakeholders in the value creation system: customers, shareholders, employees, suppliers, leadership, and society. Each has its own purposes, makes its own contributions to the system’s functioning, and drives its own benefits. Each, intuitively at least, understands that value creation is a system with multiple stakeholders and that there are interdependencies among each. Because of these interdependencies, and partly because of the system’s overall capacity or lack of capacity to create value, the benefits received by each stakeholder may or may not measure up to the original purpose.

The enterprise value-creation process is similarly susceptible to virtuous circles and vicious circles. When the system is in balance and stakeholders perceive equity, value creation is enhanced; when the system is in imbalance and stakeholders perceive inequity, value creation is diminished. Those perceiving inequity may reduce their commitment or even withdraw from the process.

Figure 1. The Value Creation system



Organizational alignment is a highly desired and productive state within an organization where the energies of people at all levels of the organization are focused on achieving the strategic goals and carrying out the strategic initiatives through the application of aligned tactics.

Organizational Alignment: What is it?

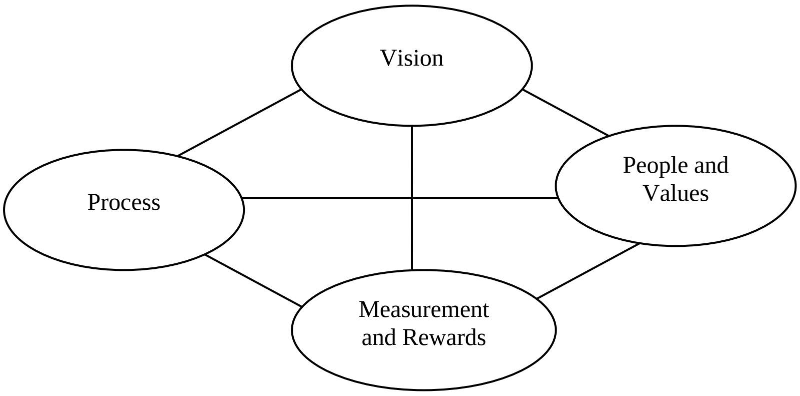
Strategic organizational alignment is a comprehensive change process for senior management teams designed to align vision, culture, strategy, goals, teams and individuals. It guides the organization's ability to execute as one and deliver sustainably successful outcomes. Specifically, the process will clarify and refine direction, identify the culture needed to support it, identify and modify the structural levers affecting execution, ignite and align the leadership behind it, and promote team and individual engagement in the execution.

The organization must align its employees and management processes with the strategy. Having aligned and integrated strategies at all organizational unites yields little if employees are not aware of the strategy and are not motivated to help their organizational unit implement it. Organizations must have active policies to communicate, educate, motivate, and align employees with strategy. They must also align their ongoing management processes – for resource allocation, target setting, initiative management, reporting, and reviews – with strategy.

Elements of Alignment

Alignment is the intentional congruence between goals, functions, and organizational assets. The diagram below depicts the critical organizational assets that can be tapped to complete the alignment process. (See Figure 2.)

Figure 2. Organizational Assets



Vision. A compelling vision or outcome that is well-articulated, shared by senior leaders and effectively communicated down through the organization is truly the most valuable asset from which all organizational alignment begins. A company vision must be "believable" in that employees perceive it as feasible and worthy of people' time and effort, without seeming overwhelming. Companies with a well-understood vision that is internalized by staff employees, managerial employees, as well as senior management will survive, succeed, and grow.

People and Values. People are the most important asset a company has, yet companies often do not take the time to understand how existing resources can work together to achieve desired outcomes. One reason for this is that organizations typically focus too heavily on whether or not an employee has the right "hard" skills to do the job, and not enough on how to leverage an employee's "soft" skills such as demeanor, attitude, and values.

When the values of an individual are the same as the value of their organization, then there is a values alignment. When the values of employees are in alignment with the values of the organization, the organization is more successful and more focused on customer satisfaction and community service.

For an organization to reap the benefits of a strong set of shared values, the values must be lived by the senior people in the organization. They must become part of the organizational culture.

Process. Much of business process re-engineering has traditionally focused on documenting the right way to do something. However, one of the dangers is that it is easy for a process to become repetitive as the focus is always on "know–what" rather than "know–why." The "know–why" breeds innovation and adaptability which is what companies need when they face shifts in strategic direction in today's environment.

Measurement and Rewards

The first step to alignment is creating performance measures that people can understand and control. The next step is linking those performance measures to compensation and other incentives that truly influence behavior. A primary goal to performance measurement is getting people within the organization to do what they are supposed to do. Many high-level performance measures are so abstract they don't mean anything to the people who actually do the work. It is essential to have a few key performance measures, but those high-level measures need to be broken down into a set of more focused measures that are meaningful to employers at every level. Shared and integrated performance measures encourage people to collaborate-boosting the organization's overall performance.

The balanced scorecard, a system developed by Kaplan and Norton, was described as "a system that keeps business units aligned and focused, and at the same time provide feedback loops for continually revising strategies"[1]

The Balanced-Score Card (BSC)

The balanced scorecard is a conceptual framework for translating an organization's strategic objectives into a set of performance indicators distributed among four perspectives: financial, customer, internal business processes, and learning and growth. Some indicators are maintained to measure an organization's progress toward achieving its vision; other indicators are maintained to measure the long term devices of success. Through the balanced score card, an organization monitors both its current performance (finance,

[1] Robert Kaplan and D. Norton; Using the Balanced Score Card as a Strategic Management System", Harvard Business Review, Jan-Feb 1996

customer satisfaction, and business process results) and its efforts to improve processes, motivate and educate employees, and enhance information systems.

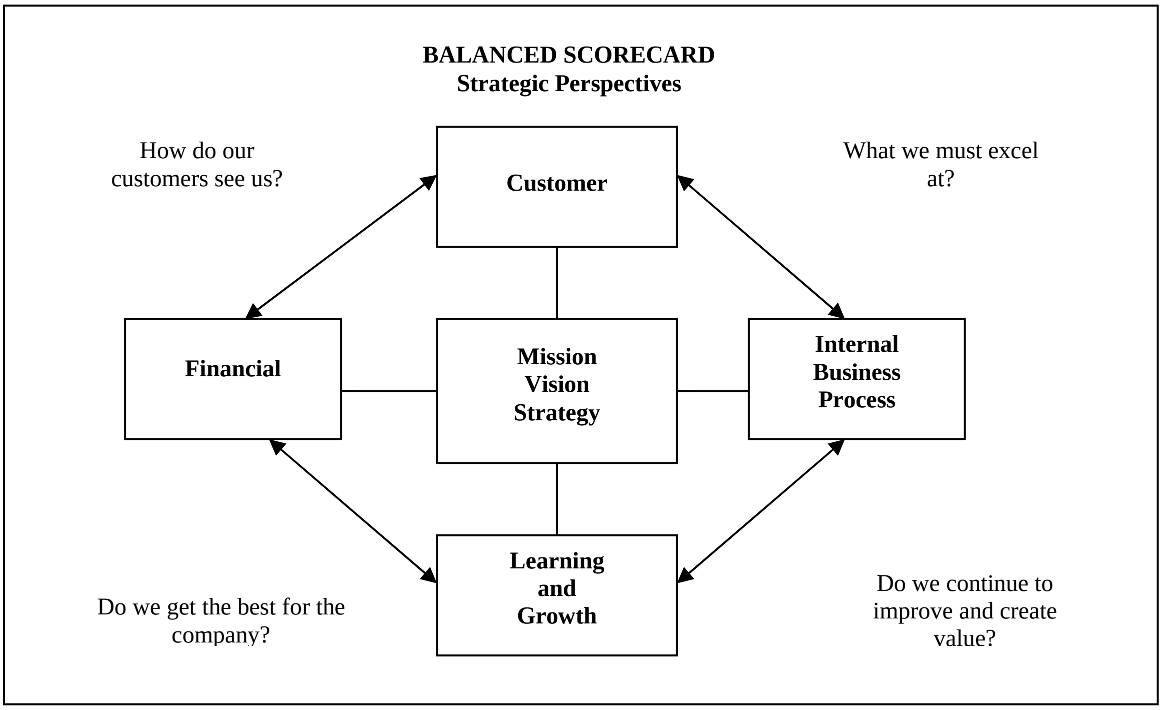
The balanced scorecard is a powerful tool for aligning all the company's resources to work together. It builds consensus among management strategy in clear terms to employees, and builds a framework for ongoing monitoring and measurement of performance.

Implementing a balanced scorecard is an excellent way for a company to:

- Explain corporate strategy.
- Assess current company initiatives and determine which ones support company strategy, and which do not.
- Link strategy to the specific objectives, initiatives and day-to-day work of the organization.
- Implement a measurement system that monitors not only ongoing operations, but progress toward strategic objectives.

Developing a balanced scorecard requires that top leadership take a disciplined approach to analyzing the strategic direction of the company from a variety of perspectives. These include (see figure 3)

Figure 3



1. **Financial** – it represents the long-term strategic objectives of the organization and it incorporates the tangible outcomes of the strategy in traditional financial terms. Kaplan and Norton (1966) describes three possible stages, rapid growth, sustain and harvest. Financial objectives and measures for the growth stage will stem from the development and growth of the organization which will lead to increased sales volumes and growth in revenue. The sustain stage on the other hand will be characterized by measures that evaluate the effectiveness of the organization to manage its operations and costs, by calculating the return on investment, the return on capital employed and otherreturn measures. Finally, the harvest stage will be based on cash flow analysis with measures such as payback periods.

2. **Customer.** This perspective captures the ability of the organization to provide quality goods and services, the effectiveness of their delivery, and overall customer service and satisfaction. The measures that are selected for the customer perspective should measure both the value that is delivered to the customer (value position) which may involve time, quality, performance and service and cost and the outcomes that come as a result of this value proposition. The value proposition can be centered on one of the three: operational excellence, customer intimacy or product leadership, while maintaining threshold levels at the other two.

3. **International Process Perspective**. This perspective is concerned with the process that create and deliver the customer value proposition. It focuses on all the activities and key processes required in order for the company to excel at providing the value expected by the customers both productively and efficiently. These can include both short-term and long-term objectives as well as incorporating innovative process development in order to stimulate improvement. In order to identify the measures that correspond to the internal process perspective, Kaplan and Norton propose using certain clusters that group similar value creating processes in an organization. The clusters for internal process perspective are operations management (by improving asset utilization, supply chain management, etc.), customer management (by expanding and deepening relations), innovation (by new products and services) and regulatory and social (by establishing good relations with the external stakeholders).

4. **Learning and Growth Perspective**. This perspective is the foundation of any strategy and focuses on the intangible assets of an organization, mainly on the internal skills and capabilities that are required to support the value-creating internal processes. The learning and growth perspective is concerned with jobs (human capital), the systems (information capital) and the climate

(organization capital) of the enterprise. These three factors relate to what Kaplan and Norton claim is the infrastructure that is needed in order to enable ambitious objectives in the other three perspectives to be achieved.

Niven's analogy of the balanced scorecard is that of a tree (Figure 4). The learning and growth perspective are the roots, the trunk is the internal process perspective, customers are the branches, and the leaves are the financial perspective[2]. Each perspective is interdependent on those below as well as those above. It is a continuous cycle of renewal and growth. There are definite cause and effects between and among each of the four perspectives. Leaves (finances) fall to fertilize the ground and root system, which stimulates growth throughout the organization[3]. In this analogy, learning and growth is the foundation on which all other perspectives are built which makes alignment the key success variable.

Figure 4

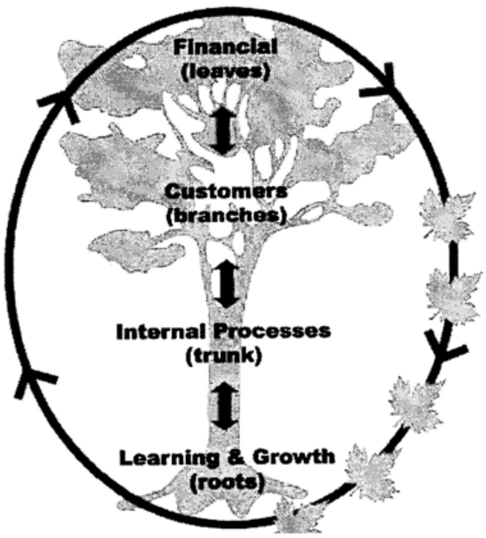


Figure 5 shows how an organization can create an enterprise's scorecard, which describes how synergy will be created.

[2] Paul Niven; "Balanced Scorecard. Step-by Step Maximizing Performance and Maintaining results, John Wiley & Sons Hoboken, NJ; 2006

[3] Ibid

Figure 5. The Enterprise Score Card

Synergies	Enterprise Value Proposition	Enterprise Score Card
Financial Synergies "How can we increase the shareholders value?"	Internally Funded Growth • Aggressively invest in growth business • Harvest cash from mature business	• Sales growth • Investment level • Free cash flow
Customer Synergies "How can we share the customer interface to increase total customer value?"	Migrate Customers • Migrate mature customer base to new growth business	• % revenue from common customers • Total sales per customer
	Build Brands • Build niche brands around dominate categories	• Market share in dominant category
Internal Processing Synergies "How can we manage our business to achieve economics of scale or value-chain integration?"	Destination Stores • Build mall clusters to encourage cross-brand traffic	• Sales per store • Multi-store traffic
	Sourcing Economies of Scale • Build long-term partnership to ensure access to high-quality and reliable products	• Returns • Order Fulfillment
Learning and Growth Synergies "How can we develop and share our intangible assets?"	Build the Infrastructure • Share strategic jobs & skills • **Create organization alignment** • Share key systems and knowledge	• Human capital readiness • Key staff notation • Alignment index • Common systems • Best practice sharing

Commitment Vs. Alignment

Organizational alignment is a state within an organization where the energies of the people at all levels of the organization are focused on achieving strategic goals and carrying out strategic initiatives. Organizational Commitment is the realized strength of an employee's attachment with an organization.

Meyer and Allen[4], identified three types of organizational commitment: affective, continuance and normative.

Affective Commitment is defined as employee emotional attachment to, identification with, and involvement in the organization and its goals. Mottaz[5],

[4] Meyer, J., & Allen N.; Commitment in the Work Place", SAGE Publications, Thousand Oaks, CA. 1997

[5] Mottaz, C.J., Determinants of Organizational Commitment", Human Relations, Vol. 41, 1988

identified factors which help create intrinsically rewarding situations for employees to be antecedents of affective commitment. These factors include such job characteristics as task significance, autonomy, identity, skills variety and feedback concerning employee job performance, perceived organizational support or dependence (the feeling that the organization considers what is in the best interest of employees when making decisions that affect employment candidates and work environment), and the degree that employees are involved in the goal-setting and decision-making process. So, affective commitment will result in an organizational alignment.

Continuance Commitment is defined as willingness to remain in an organization because of personal investment such as retirement investments and career investments, acquired skills which are unique to a particular organization, and other benefits that make it too costly for one to leave and seek employment elsewhere.

Normative Commitment is induced by a feeling of obligation to remain with an organization. Such a feeling of obligation often results from what Wiener (1982) characterized as "generalized value of loyalty and duty". This is an almost natural predisposition to be loyal and committed to institutions as a result or culture of religion.

Common to all of the three types of commitment is the view that commitment is a psychological state that (a) characterizes the employee's relationship with the organization and (b) has implication for the decision to continue or discontinue membership in the organization. Employee with a strong affective commitment remains with an organization because they want to, they are happy to be at that organization because they have shared values. Those with a strong Continuance Commitment remain because they have to, they don't share any values and they don't align their interest with their organization.

People with a strong normative commitment remain because they feel they ought to. Their contribution to the organization's goal will depend on their level of commitment and its reason. Some may argue if the reason is religion where values are shared, can lead to goal congruence.

Translating a Mission into Desired Outcomes

A Balanced Score Card strategy map is a generic architecture for describing a strategy. Each measure of a Balanced Score Card becomes embedded in a chain of cause-and-effect logic that connects the desired outcomes from the strategy with the drivers that will lead to strategic outcomes.

Strategy is one step in a logical continuum that moves a firm from a high-level mission statement to the work performed by frontline and back-office employees – it starts with why the companies exists (Mission), what they believe in (Values) and what they want to do (Vision). These are translated into the game plan, implementation, initiatives and objectives on a personal level. The strategic outcomes are satisfied shareholders, delighted customers, effective processes and a motivated and prepared workforce.

Conclusion

As organizations prepare for the inevitable change that marks our dynamic world today, greater synchronization between their goals, the means by which they are achieved and the rewards available for participants in their attainment is required. A good reward system should be based on sound performance measures which are understandable, broadly applicable, uniformly interpreted and economic to apply. The Balanced Score Card captures all the above characteristics. It is a powerful tool for aligning all the company's resources to work together. It 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. Some indicators are maintained to measure an organization's progress toward achieving its vision; other indicators are maintained to measure the long term drivers of success. Through the balanced score card, an organization monitors both its current performance (Finance, customer satisfaction and business process results) and its efforts to improve processes, motivate and educate employees, and enhance information systems – its ability to learn and improve. With this systematic approach and by aligning the strategic intent with the operational reality, there will be great pay-offs for employees, customers and of course, shareholders.

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