



MANAGING HUMAN RESOURCE DEVELOPMENT THROUGH BALANCED SCORECARD PERSPECTIVE

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Under score / impact of BSC

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ABSTRACT

The Balanced Scorecard (BSC) is a management system. It is not only a measurement system that enables organizations to clarify their vision and strategy, but translate them into action. It provides feedback around both the internal business processes and external outcomes in order to have continuous improvement on the strategic performance and results. When it is fully deployed, the BSC transforms strategic planning from an academic exercise into the nerve center of an enterprise. This research tried to demonstrate the relationship between BSC as a tool for managing and communicating human resource development in the organization. For the purpose of that, the researcher will using four (4) main perspectives in BSC that was develop by Kaplan and Norton which are financial perspective, internal business process perspective, learning and growth perspective and customer perspective. The most important perspective inside the BSC is learning and growth perspective that have significant relationship with the development of human capital in the organization. These concept papers attempt to facilitate communication and understanding of business goals and strategies at all levels in the organization. Rather than that, organization attempt to develop skilled through education and training, motivated employees, provide access to strategic information, align individuals and teams to business unit objectives. By using balanced measures at the organizational level, and by sharing the results with supervisors, teams, and employees, managers are providing the information needed to align employee performance plans with organizational goals. At the same time, by balancing the measures used in employee performance plans, the performance picture becomes complete.

Keywords: Balanced Scorecard, Human Resource Development.

Background

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

BSC is a management system that enables organizations to clarify their vision and strategy and translate them into action. Meanwhile, according to Lynham *et. all*, (2004) Human Resource Development (HRD) is a process of organized capability and competency based learning experiences undertaken within a specified period of time to bring about individual and organization performance improvement, and to enhance national economic, cultural, and social growth. These concept papers attempt to facilitate communication and understanding of business goals and strategies by using BSC to managing HRD in the organization.

The BSC is an integrated set of financial and non-financial measures. It is an integral part of an organization's strategy execution process that emphasizes on communicating strategy to the members and providing feedback to help attain objectives (Mendoza and Zrihen, 2001). BSC translates an organization's mission and strategy into a comprehensive set of performance measures and provides the framework for strategic measurement and management (Kaplan and Norton, 1992). BSC is used worldwide as a tool for implementing enterprise strategy (Kaplan and Nagel, 2004).

The BSC suggests that we view the organization from four (4) perspectives and to develop metrics, collect data and analyze it relative to each of these perspectives:

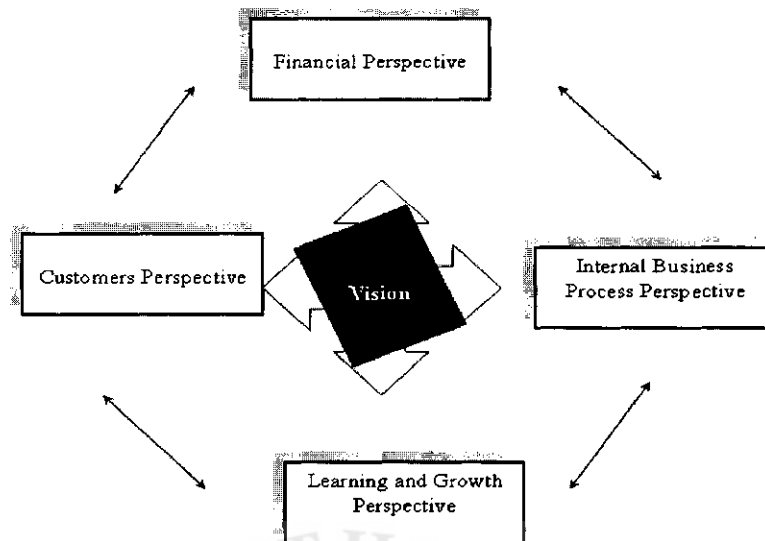
- i. The Learning and Growth Perspective
- ii. The Business Process Perspective
- iii. The Customer Perspective
- iv. The Financial Perspective

Balanced Scorecard Perspective

BSC has received much literary acclaims from its originating protagonist, Professor Robert Kaplan and David Norton. BSC is defined as a set of measurements that give top managers a fast, but comprehensive view of the business including operational measures on customer satisfaction and the organization's innovation and improvement activities, as well as financial measurements (Kaplan and Norton, 1992).

BSC can be use as part of a strategic management framework (Andersen et al., 2001). It was originally proposed as an approach to performance measurement that combined traditional financial measures with non-financial measures to provide managers with richer and more relevant information about organizational performance, particularly with regard to key strategic goals. By encouraging managers to focus on a limited number of measures drawn from four perspectives, the original BSC aims to encourage clarity and utility (Andersen et al., 2001).

Bieker and Waxenberger (2003) as Kaplan and Norton (1992) suggested that four perspectives in BSC are financial perspective, customer perspective, internal business process perspective and learning and growth perspective as shown in Figure 1. Each of the perspectives consists of relevant goals, indicators and measures to achieve.



Source: Bieker and Waxenberger (2003)

Figure 1: Balanced Scorecard Perspectives

i. Financial Perspectives

According to Kaplan and Norton (1992), the financial perspectives is relates to how the company's implementation and execution of the organization's strategy affects the bottom line. Some measurements include those related to cash flow, sales growth and market share, as well as measure of operating income and return on equity (Kaplan and Norton, 1992). Bieker and Waxenberger (2003) noted that the key question for this perspective is "How should we act towards our shareholders in order to be financially successful?"

Figge, et al. (2002), has characterized the financial perspective indicates the transformation of a strategy that leads to improved economic success. Thus, the financial measures assume a double role: On the one hand, they define the financial performance a strategy is expected to achieve. On the other hand, they are the

endpoint of cause and effect relationships referring to other BSC perspectives (Figge, *et al.*, 2002).

ii. Customer Perspective

Kaplan and Norton (1992) defined that customer's perspective includes four categories which are lead time, quality, performance, and services (Kaplan and Norton, 1992). The key question for this perspective as stated by Bieker and Waxenberger (2003) is "How should we act towards our customers in order to realize our objectives?" Figge, *et al.* (2002) suggested the customer perspective defines the customer/market segments, in which the business competes. By means of appropriate strategic objectives, measure, targets and initiatives the customers value proposition is presented in the customer perspective, through which firm/business unit wants to achieve a competitive advantage in the envisaged markets segments (Figge, *et al.*, 2002).

iii. Internal Business Process Perspective

Kaplan and Norton (1992) suggested that the internal business process perspective includes the business processes that have the greatest impact on customer satisfaction, such as those that affect cycle time, quality, employee skills and productivity. All these measurement should be decomposed to the local level to provide linkages to upper level measurement on the scorecard to insure that lower level employees have clear targets for actions and decisions that contribute to the company's overall mission (Kaplan and Norton, 1992). Bieker and Waxenberger (2003) noted that the key question for this perspective is "In which business process we have to be the best in class to satisfy our shareholders and customers?" Figge, *et al.* (2002), stated that the internal business process perspective identifies those internal business processes, which enable the firm to meet the expectations of customers in the target markets and those of the shareholders.

iv. Learning and Growth Perspectives

According to Kaplan and Norton (1992) learning and growth perspective comprise goals and measurement that related to continuous improvement in the company's ability to be more innovative, improve and learn. Meanwhile Figge, *et al.* (2002) define learning and growth perspective as the infrastructure which is necessary for the

achievement of the objectives of the other three perspectives which is financial, customers and internal business process perspective. The key question for this perspective as stated by Bieker and Waxenberger (2003) is “How can we foster our potentials to change and growth in order to realize our visions?”

Norton and Kaplan clarify that for organization to be competitive in the information age, transformational change is required not only in the application of performance measurement systems, but also in management systems. The BSC enhances a management system by accomplishing four critical management processes:

- i. Clarifying and translating vision and strategy
- ii. Communicating and linking strategic objectives and measures
- iii. Planning, setting targets, and aligning strategic initiatives
- iv. Enhancing strategic feedback and learning

According to Niven (2002), the relationship between the four (4) critical management processes can be shows in Figure 2.



Source: Niven (2002: 18)

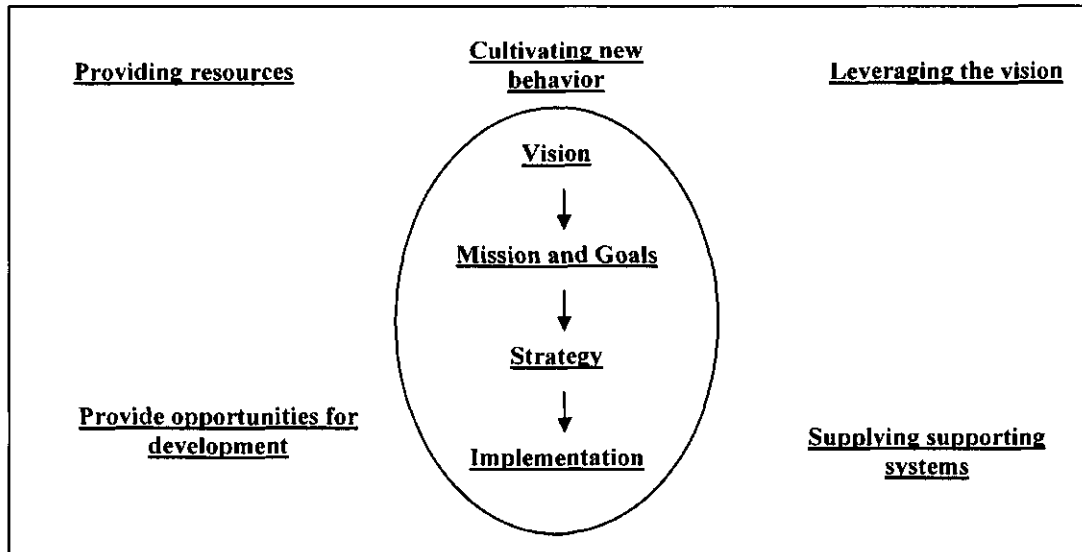
Figure 2: Four Critical Management Processes

From the explanation and the review by the founders of BSC Kaplan and Norton, (1992) the benefits of BSC can be summarized as follows:

- i. Makes strategy operational by translating strategy into performance measures and targets.
- ii. Helps focus entire organization on what must be done to create breakthrough performance.
- iii. Integrates and acts as an umbrella for a variety of often disconnected corporate programs, such as quality, re-engineering, process redesign, and customer service.
- iv. Breaks down corporate level measures to local managers, operators, and employees can see what they should do well in order to improve organizational effectiveness

Human Resource Development

HRD is a systematic process involves behavioral changes of individual potential accordingly to the capacity required by the organization. Organization must provide environment and opportunities to encourage growth. Deb (2006) explains the importance of HRD as shows in Figure 2.

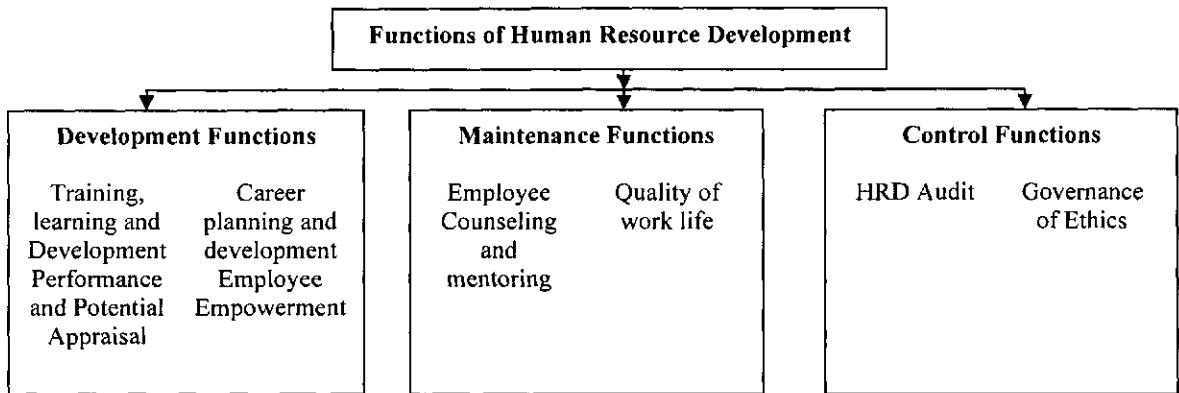


Source: Deb (2006)

Figure 2: Importance of Human Resource Development

Figure 2 explains the importance of HRD through the translation of the organization's vision into action. Before the process can be implemented, the organization first must provide resources, opportunities for the development program, and supply supporting systems. These require the organization to plan and monitor the progress of HRD activities.

According to Deb (2006) HRD functions include three major activities as shown in Figure 3.



Source: Deb (2006)

Figure 3: Human Resource Development Functions

Meanwhile according to Garavan (1999), the dimension of HRD from an analysis of the literature includes;

- i. HRD related to overall activities in business strategy
- ii. HRD is investment in human resource rather than employment cost
- iii. HRD concern about overall changes at all levels in organization
- iv. HRD is concern with enhancing the core competencies
- v. HRD focuses on the delivery of training activities
- vi. HRD concern with both individual and organization
- vii. HRD focus on human resource strategies.

Measuring Organization Performance

A performance measurement system is used by the organization to motivate management, managers and employees to perform the specific activities monitor whether the defined activities are being performed, and evaluate whether the defined activities are consistent with the organization strategies. The key to measure organization performance is to relate it to the mission and vision of the organization. Rather than that measuring performance allow an organization to align its business activities to its strategy, and to monitor performance toward strategic goals over time.

According to Kaplan and Norton, BSC is a performance measurement system. Organizations do not rely on traditional financial accounting measures like earnings per share or return on investment, but often focus on operational measures such as cycle time and defect rates. The focus on operational measures is consistent with the organization's strategic objectives and goals that focus on customer satisfaction and other items that cannot always be measured using financial information. Accounting measures, like cash flow and sales, are lagging indicators. Leading indicators include such conditions as customer satisfaction, product and service quality, process quality, and an innovative and motivated workforce. When performance measures include leading indicators, they facilitate achievement of ultimate goals.

Managing Human Resource Development through Learning and Growth Perspective

This perspective includes employee training and corporate cultural attitudes related to individual, organizational self-improvement, organizational alignment to manage the business and adapt to change. In a knowledge-worker organization, people are the only repository of knowledge. People are the main resource and should be in a continuous learning mode. Appropriate metrics can guide managers in focusing training funds where they can help the most.

Frequently cited BSC measures for the learning and growth perspective emphasize of:

- i. Employee capabilities such as employee education and skill levels, employee satisfaction scores, employee turnover rates
- ii. Information systems availability, for example percentage of front-line employees with on-line access to customer information, percentage of business processes with real-time feedback
- iii. Motivation and empowerment. For example number of suggestions per employee, percentage of employee suggestions implemented, and percentage of compensation based on individual and team incentives. Three core measurements in terms of employee motivation are employee satisfaction, employee retention and employee productivity.

Finally, through the learning and growth perspective, managers are able to identify the organizational infrastructure that would best fit strategic goals. While in the other three perspectives, the managers identified where the organization stands now and

where it has to be in the future in order to be successful, this fourth perspective really tells them about how to get there.

According to Nair (2004) learning and growth perspective contributes to future capabilities of the organization. Some measures in the learning and growth perspective includes are;

- i. training
- ii. retention numbers
- iii. redeployment percent
- iv. satisfaction
- v. careers
- vi. employees development plan
- vii. turnover rate
- viii. employee productivity
- ix. absenteeism
- x. knowledge management
- xi. employee satisfaction
- xii. employee suggestion
- xiii. Careers development



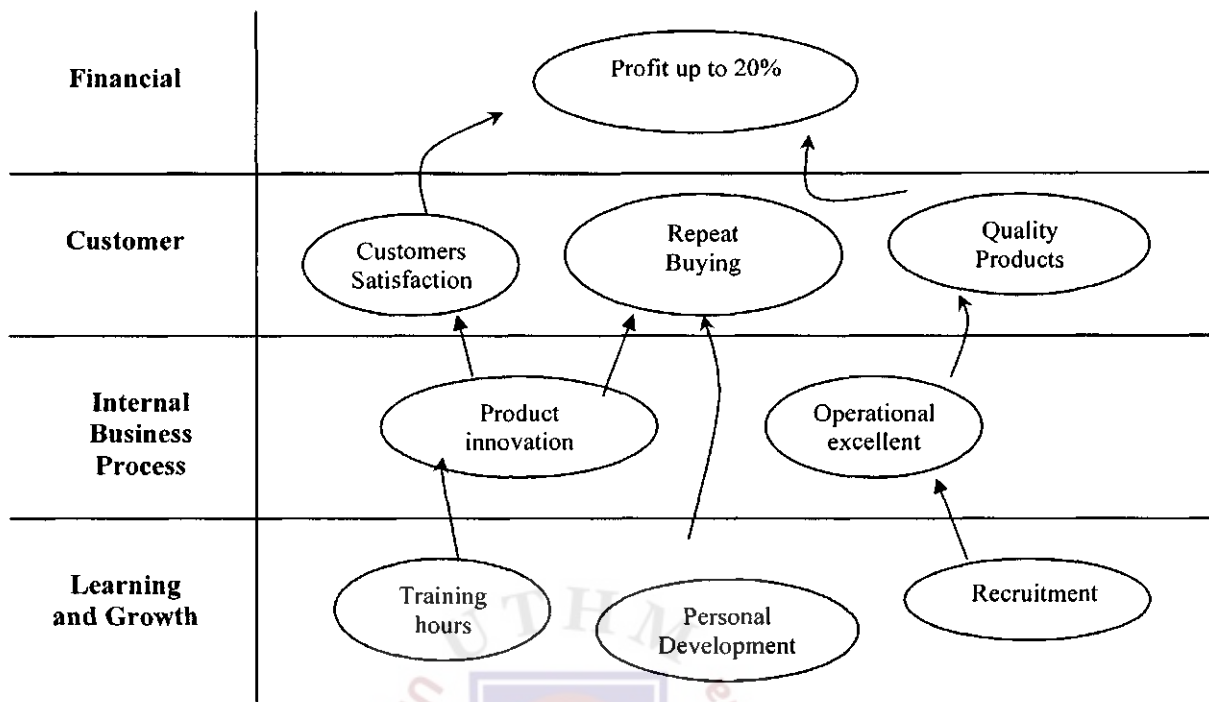


Figure 2: Balanced Scorecard Strategy Map

Figure 2 shows an example of BSC strategy map. In the BSC learning and growth perspective form a chain of cause and effect relationship. For example, cause and effect of learning and growth perspective has been linked using arrows that results to the better business processes with improvement to customer perspective and finally increase sales. The cause and effect are demonstrated by clear objectives, measures, target and initiatives as shows in Figure 3 and Table 1.

| | Strategic Objectives | Measures | Target | Initiatives |
|----------------------------------|-------------------------|--|---------------------------------|---|
| Internal Business Process | Product innovation | | | |
| Learning and Growth | LG1.1 Training hours | LG1.1 Total hours of training program | LG1.1 20 hours training/year | LG1.1 In house training program Develop monitoring alert system |

Figure 3: Example of Balanced Scorecard Cause and Effect Relationship

Table 1: Balanced Scorecard Cause and Effect Relationship

| | Objectives | Measures | Target | Initiatives |
|---------------------------|------------|----------|--------|-------------|
| Financial | | | | |
| Customer | | | | |
| Internal Business Process | | | | |
| Learning and Growth | | | | |

Conclusion

The BSC emphasizes measurement in four key business areas or perspectives. These four perspectives provide for a more comprehensive evaluation of the organization than the traditional emphasis on tangible and financial assets of the organization. Incorporating these perspectives in the BSC offers a framework for translating strategic objectives into performance measurements that gauge the effects of implemented strategies and provide feedback on the performance of strategic initiatives

The secret of the BSC and the reason it has gained such wide acceptance is quite simple: It lets organizations reach their full potential. The breakthrough results of the organizations in the BSC Hall of Fame were created not by new strategies, new people or new processes. Instead, the results were created by focusing the entire organization on the strategy and rewarding people for executing on the strategy.

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