

## THE CHARACTERISTICS OF HUMAN BARRIER THAT AFFECT THE ORGANIZATION TO TRANSLATE STRATEGY INTO ACTION: BALANCED SCORECARD APPROACH

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### Abstract

This paper formulated based on the significance of further research by Kaplan and Norton who identified the barriers in implementing the strategy where the research finding estimated that nine (9) out of ten (10) companies fail to implement the strategy successfully. One of the barriers is a people barrier or another word human resource in the organization. The barriers to implement the strategy formulation are critical in today's fast-paced and rapidly changing business environment. The barrier of translating strategy into action is at the implementation stages. At this stage, no matter how effectively an organization has planned its strategies, it can not succeed if the strategies are not able to identify the barriers that affected the organization performance. To overcome the problem, organization should develop performance measurement system that truly measures the right thing. The suitable performance management system to overcome the problem is the Balanced Scorecard. Balanced Scorecard is management systems that allow organization to view their company from several different perspectives and use metrics designed for these perspectives to determine how well a business strategy is working. In fact the Balanced Scorecard removes the barriers by translating a strategy into objectives and successfully implementing strategy.

**Keywords:** *Performance Measurement System, Balanced Scorecard, Human Resource.*

### 1.0 . INTRODUCTION

The Balanced Scorecard (BSC) uses performance measures that not only consider the outcomes of previous actions but also the drivers of organization future performance. The successful implementation of strategy requires both private and public organizations to overcome four barriers as mentioned before. But many organizations do not even have a strategic management system so that have little chance in achieving their strategic goals. The BSC is a performance management programme that puts strategy at the centre of the process and provides a framework for the Strategy Focused Organization.

BSC approach helps organizations manage the implementation of their strategies. It is an integral part of an organization's strategy execution process that emphasizes communicating strategy to the members and providing feedback to help attain objectives (Mendoza & Zrihen, 2001).

#### 1.1 Statement of the Problem

The barriers to implement the strategy formulation are critical in today's fast-paced and rapidly changing business environment. The barrier of translating strategy into action is in the implementation stages. At this stage, no matter how effectively an organization has planned its strategies, it can not succeed if the strategies are not able to identify the barriers that affected the organization performance.

According to *Fortune*, (Niven, 2002), stated that 70 per cent of the chief executive officer (CEO) did not succeed, not because of poor strategy, but due to poor strategy execution. The question is that why the strategy is so difficult to implement? The previous research has identified that the

problem in the implementation stage is because of the number barriers that they suggested on the strategy execution. Four barriers have been identified for most organization which are vision barrier, people barrier, resource barrier and management barrier.

To overcome the problem, organization should develop performance measurement system that truly measures the right thing. The suitable performance management system to overcome the problem is the BSC. BSC is management systems that allow organization to view their company from several different perspectives and use metrics designed for these perspectives to determine how well a business strategy is working. In fact the BSC removes the barriers by translating a strategy into objectives and successfully implementing strategy.

The statement of the problem for this research is “*What are the barriers that the organizations face to translate its strategy into action and the suitability of using BSC to form effective strategy implementation?*”

### **1.2 Research Question**

The research question out to seek and provide answers to the following question. What are the characteristics of people barrier that affect the organization to translate its strategy into action?

### **1.3. Objective**

The objective of this research was to identify the barrier to translate strategy into action in the perspective of human resource.

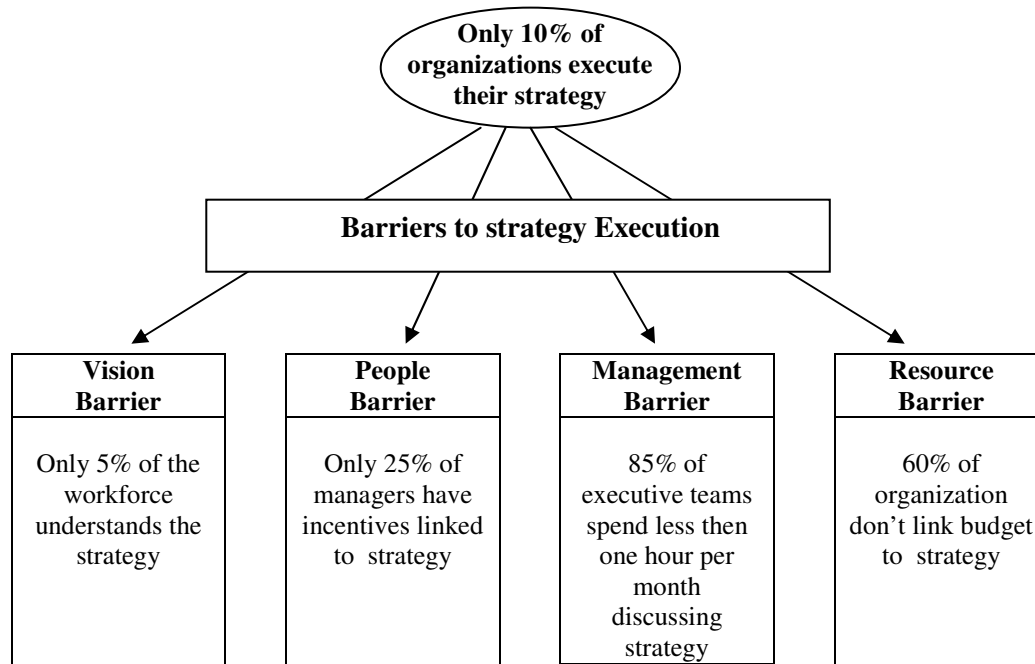
### **1.4. Scope of the Study**

The scope of the research mainly focused on three (3) Universities in Malaysia. Among the Universities selected were Universiti Tun Hussein Onn Malaysia, Universiti Teknikal Malaysia Melaka and Universiti Sains Islam Malaysia. The respondents of the study were from three Universities that only include Deputy Registrar and Assistant Registrar.

The researcher seeks to study the barriers to translate strategy into action based on the Kaplan and Norton previous research. In this paper only the human barrier was illustrate in details.

## **2.0. LITERATURE REVIEW**

According to Kaplan and Norton (2001) research in the area has suggested a number of barriers to strategy execution. The execution of a strategy is more important, and more valuable, than the formulation of a strategy. Niven (2002) stated that strategy execution is one thing to sit down and craft what is seemingly a winning strategy, but successfully implementing it is another thing entirely. The research identified is that the barrier of strategy execution can be divided into four (4) as displayed in Figure 1.



Source: Niven (2002: 11)

**Figure 1: The Barriers to Implementing Strategy**

### **2.1 .The People (Human) Barrier**

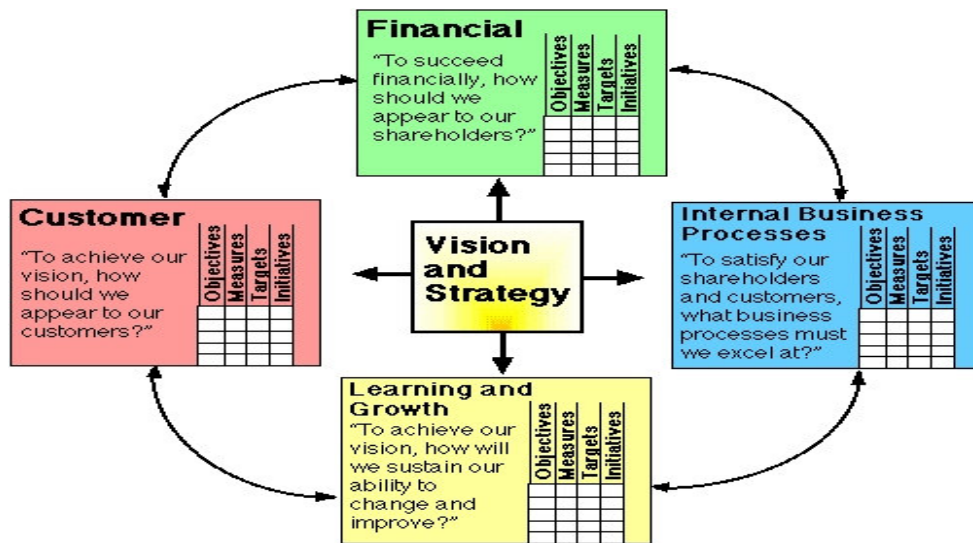
According to Niven (2002) only 25% of managers have incentives linked to strategy. All the organizations studied had programs for developing personal objectives, but these programs did not have the managers who link the development of these personal objectives to the organization strategy. Similarly, the incentives of either rewards or recognition were not linked to the achievement of a strategy. If the incentive compensation does not link well with the strategy, it sends extremely confusing signals to the managers in the organization. The incentive plan should be put into close harmony with the organization strategy at the time it is developed, and it should be kept in close harmony thereafter.

Evaluating individual work performance is a form of control because it ties performance feedback to rewards and corrective actions. Employee evaluation is an ongoing process, taking place informally every day in the organization. Performance appraisal is a formal, structured system that compares employee performance to established standards. Assessment of job performance is shared with employees being appraised through one of several primary methods of performance appraisals. Elements in performance appraisal methods are tailored to the organization's employees, jobs, and structure. They include objective criteria for measuring employee performance and ratings that summarize how well the employee is doing. Successful appraisal methods have clearly defined and explicitly communicated standards or expectations of employee performance on the job.

### **2.2 The Balanced Scorecard Approach**

The BSC suggests that we view the organization from four perspectives as shows in Figure 2, 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



Source: Niven (2002: 16)

**Figure 2: The Balanced Scorecard Perspectives**

BSC approach helps organizations manage the implementation of their strategies. It is an integral part of an organization's strategy execution process that emphasizes communicating strategy to the members and providing feedback to help attain objectives (Mendoza & Zrihen, 2001). The scorecard can be used at different levels:

- i. The total organization
- ii. A sub-unit, or
- iii. At the individual employee level as a "personal scorecard."

For each level, the BSC approach identifies the key components of operations, sets goals for them, and finds ways to measure progress toward achieving these goals. Taken together, the measures provide a holistic view of performance both inside and outside the organization, and allow each constituent of the organization to see how his or her activities contribute to attaining the organization's overall mission.

### 3.0 . RESEARCH METHODOLOGY

The rationale of this chapter is to describe the methodology and procedures that have been used in conducting the research. The process includes research designs, operational frameworks, subjects and data sources, instruments, and research procedures and data analysis. In general, the purpose of this study is to evaluate the organizational barriers to translate strategy into action and the practice of using BSC in selected universities. It also attempted to identify organizational variables that will affect the program.

## 4.0 FINDINGS

### 4.1 Finding on the People Barriers.

**RQ1: What are the characteristics in people barrier that affect the organization to translate its strategy into action?**

Most of the respondents agreed that their university has a performance appraisal to trace performance of individual or group. The analysis in Table 1 shows that 94.6 per cent of the respondents agree on the question and only 3.6 per cent do not agree on that matter.

**Table 1: The Universities Performance Appraisal**

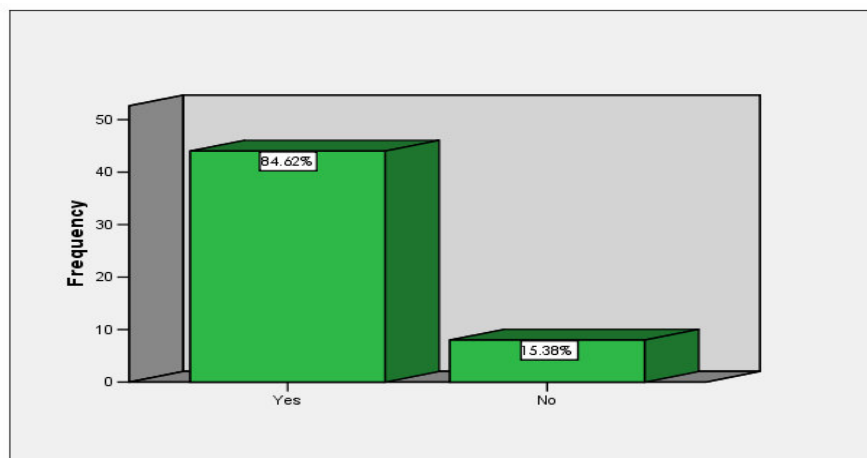
		Frequency	Percent
Valid	Yes	53	94.6
	No	2	3.6
	Total	55	98.2
Missing	99.00	1	1.8
Total		56	100.0

Besides that, 82.1 per cent of the respondents agree that performance appraisal includes individual goals. This analysis is related with the previous statement that is mentioned on performance appraisal to trace performance of individual or group.

**Table 2: The Connection between Performance Appraisal and Individual Goals**

		Frequency	Percent
Valid	Yes	46	82.1
	No	6	10.7
	Total	52	92.9
Missing	Not Applicable	4	7.1
Total		56	100.0

The fact is that incentives program related to the employees' performance. Incentive somehow appears in the performance appraisal. These researches attempt to evaluate the relationship between incentives and individual performance in university. The University has a performance appraisal to trace performance of individual or group. Figure 3 shows that 84.62 per cent of the respondents agree that the performance appraisal is link to the incentive program and only 15.38 per cent disagree with the statement.



**Figure 3: The Connection between Performance Appraisal and Incentive Program**

Previously, Kaplan and Norton (2000) research found out that only 25 per cent of managers have incentives which link to strategy. 44.6 per cent of the respondents believe that 1-20 per cent of incentive program links to the strategy and 20 of the respondents (35.7 %) think that 21 to 40 per cent of the university incentive program links to the strategy.

**Table 3: The Connection between College Universities Incentive Program and Strategy**

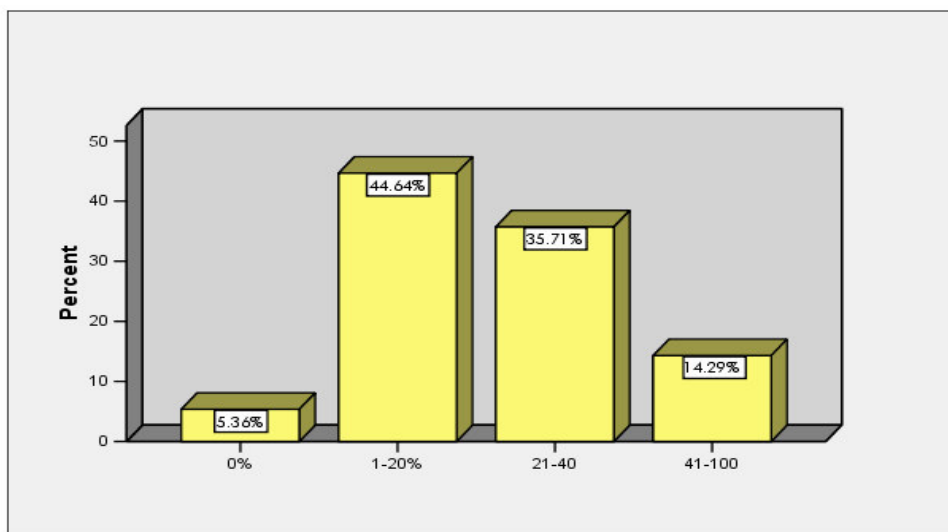
	Frequency	Per cent
Valid 0%	3	5.4
1-20%	25	44.6
21-40	20	35.7
41-100	8	14.3
Total	56	100.0

Analysis on evaluating individual work performance as a method in relation with the incentive programs shows (Table 4) most of the respondents agree that there is a significant connection between work performance and incentive program. Only 1.8 per cent does not agree on the statement.

**Table 4: Evaluating Individual Work Performance and Incentive Programs**

	Frequency	Per cent
Valid Not at all linked	1	1.8
Weakly linked	12	21.4
Linked	35	62.5
Extremely well linked	6	10.7
Don't know	2	3.6
Total	56	100.0

Analysis on the percentage between incentive program and university / faculty / department / centre strategy shows that 44.64 per cent of the respondents believe that the relations are between 1 to 20 per cent and 35.71 per cent believe the link between 21 to 40 per cent.



**Figure 4: The Connection between Incentive Program and University / Faculty / Department / Centre Strategy**

## 5.0 DISSCUSIONS AND RECOMMENDATIONS

### 5.1 Discussions

An organization that lacks a formal incentive strategy is like a train without an engineer. Management need to know where the organization wants to be in order to spend the total compensation effectively. Developing the right philosophy, then implementing the best, most supportive compensation programs, requires thoughtful planning that involves the right, bright people throughout the organization.

In this discussion about people barriers, it is related to the incentives which are linked to the strategy. Kaplan and Norton in their previous research discover that only 25 per cent of managers have incentives which are linked to strategy. Incentives can increase productivity through the establishment of clearer linkages between pay and performance. According to Kaplan and Norton managers, do not put priorities over incentive linked to strategy.

This research would like to overview the statement from Kaplan and Norton. To discuss it in details, the researcher asked the respondents about performance appraisal in the organization. 95 per cent of the respondents agree that their university has a performance appraisal to trace performance individual or group. Most of the respondents agree that performance appraisal measure individual goals in the organization. Organizations need to view performance appraisal as a strategic activity, crucial to achieving results, not merely measuring them. Measurement can help in transforming strategy into operational activity and yield intended results. A key aspect of this principle is first understands what should be measured versus what is being measured. Therefore, at the performance appraisal is the first stage in linked the incentives and strategy in the organizations.

Not only that, the performance appraisal exercised is also link to the incentive program. Findings show that 84.6 per cent of the respondents agree that incentive program is related to the work performance that can be traced from performance appraisal. Performance is a very important tool to determine the right incentives to the workers. Through workers performance and individual goals, organization can identify and quantify the source of variations, and then eliminate or control the key variables in the process that influences the output.

An important aspect of finding is the per cent of the incentives programs that are linked to the university strategy. From the finding, data shows that management does not put high priorities to the incentives and strategy. Even though analysis shows the per cent of incentives linked to strategy is higher (44.6 %) compared to the research by Kaplan and Norton (25 %), but the priorities are still lower. Incentives become increasingly complex and global, the challenge to create and maintain effective compensation program required organization to understand, creative and have vision. Incentives program are very important to motivate and retain the best workers. Employees make external comparisons between their pay and the pay they believe is received by employees in other organizations. Such comparisons may have consequences for employee attitudes and retention.

In conclusion, the researcher indicates that there are people barriers in term of incentives program which are linked to universities strategy. Kaplan and Norton describe that only 25 per cent of the managers have incentives, linked to strategy. Even in this research, the percentage is higher, but still organization does not put incentives program as part of the strategy. It is useful to think in terms of matching incentives strategies to organizational strategies. In choosing an incentive strategy, one must consider how effectively it will further the organization's overall organization strategy. Incentives strategies can increase motivation and finally could contribute to a higher working satisfaction. On the other hand, incentives strategies are a choice for organization such as University to promote an organization's success and create effective working environment.

## 5.2 Recommendations

Performance appraisals traditionally have been conducted by an individual's immediate superior, the presumption being that since the immediate superior is responsible for the subordinate's performance. To create effective method, some specific issues to keep in mind in order to reduce errors and improve appraisals including the following;

- i. Train rates so that they understand the evaluation process rationale and can recognize the source of measurement error
- ii. Make sure that raters observe rates on an ongoing, regular basis and that they do not try to limit all their evaluations to the formally designated evaluation period.
- iii. Make sure that the performance dimensions and standard are stated clearly.

Through effective performance appraisal the College University can design and implementation effective reward or incentives program. When using the BSC in human resources to measure and manage strategic contribution, there are five guiding principles that are keys to success, starting with and continuously focus on the Corporate Strategic Plan, aligning and operationalize the human resource strategy through appropriate structures, systems, processes and projects, measuring and evaluating progress in achieving outcomes, engaging leadership and staff at all levels, and be open to improving and refining the indicators.

While the logic of linking the compensation system to the BSC is obvious, there are a number of practical difficulties in creating this linkage.

Because the performance of each employee is evaluated across several measures, the compensation system must be able to deal with trade-offs between the measures. Using an effective employee evaluation process is another common problem. If they have one at all, it is rarely based on clear performance measures. The organization scorecard can be break down for each individual to provide meaningful measures that support the organization success. This can be the first step of creating a "Pay for Performance" system in a organization, though setting up such a system will not be covered in the steps to Developing a BSC.

One possible approach is to adopt an explicit weighting for each measure and calculate an overall 'compensation score' which determines the level of compensation to be paid. The compensation system may set minimum thresholds for each measure. If actual performance is below this minimum level, no bonus is paid. Alternatively, a negative score could be calculated for targets which were not achieved, effectively penalizing the employees by reducing overall compensation score.

The dynamic nature of the BSC can cause difficulties in designing a satisfactory linkage to compensation. If the driver and outcome measures are changing over time, the compensation system will also have to change. This could lead to confusion on the part of management and undermine the alignment of employee effort that the BSC seeks to achieve.

Apart from the issues that arise in linking the BSC to compensation once the BSC is implemented and well developed, particular problems will arise in attempting to make the linkage in the early stages of the BSC's implementation.

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