Chapter 3

Modern Techniques of Performance Measurement
(Balanced Scorecard and Six Sigma)

3.1 Introduction
Recently, there is an increasing trend towards implementing balanced scorecard (BSC) as a set of performance indicators (Zelman, Pink, & Matthias, 2003). In the literature review, the feasibility and value of using balanced scorecard to measure performance has been evidenced. It is argued that the key to achieve the aimed level of performance is to adopt new approaches to performance and performance measurement (Kaplan & Norton, 1992). Balanced scorecard (BSC) is fundamentally a customized performance measurement system that looks beyond traditional financial measures and is based on organization strategy.

To evaluate the organizational and employee performance in performance appraisal management processes, the conventional approach measures the performance only on a few parameters like the action processes, results achieved or the financial measures etc. The Balanced scorecard –an approach given by Kaplan and Norton- provides a framework of various measures to ensure the complete and balanced view of the performance of the employees. Balanced scorecard focuses on the measures that drive performance.

The two basic features of the balanced scorecard are:

- A balanced set of measures based on the four perspectives of balanced scorecard
- Linking the measures to Employee Performance

3.2 Balanced Scorecard Framework and Function
Balanced Scorecard (BSC) is a performance management tool which began as a concept for measuring whether the smaller-scale operational activities of a company are aligned with its larger-scale objectives in terms of vision and strategy. By focusing not only on financial outcomes but also on the operational, marketing and developmental inputs to these, the Balanced Scorecard helps provide a more comprehensive view of a business, which in turn helps organizations act in their best long-term interests.
Organizations are encouraged to measure – in addition to financial outputs - what influenced such financial outputs. For example, process performance, market share/penetration, long term learning and skills development, and so on. The underlying rationale is that organizations cannot directly influence financial outcomes, as these are "lag" measures, and that the use of financial measures alone to inform the strategic control of the firm is unwise. Organizations should instead also measure those areas where direct management intervention is possible. In so doing, the early versions of the Balanced Scorecard helped organizations achieve a degree of "balance" in selection of performance measures. In practice, early Scorecards achieved this balance by encouraging managers to select measures from three additional categories or perspectives: "Customer," "Internal Business Processes" and "Learning and Growth."

In 1993, Robert S. Kaplan and David P. Norton began publicizing the Balanced Scorecard through a series of journal articles. In 1996, they published the book *The Balanced Scorecard*. Since the original concept was introduced, Balanced Scorecards have become a fertile field of theory, research and consulting practice. The Balanced Scorecard has evolved considerably from its roots as a measure selection framework. While the underlying principles were sound, many aspects of Kaplan and Norton's original approach were unworkable in practice. In both firms associated with Kaplan & Norton (Renaissance Solutions Inc. and BSCOL), and elsewhere (Cepro in Sweden, and 2GC Active Management in the UK), the Balanced Scorecard has changed so that there is now much greater emphasis on the design process than previously. There has also been a rapid growth in consulting offerings linked to Balanced Scorecards at the level of branding only. Kaplan and Norton themselves revisited Balanced Scorecards with the benefit of a decade's experience since the original article. The Balanced Scorecard is a performance planning and measurement framework, with similar principles as Management by Objectives, which was publicized by Robert S. Kaplan and David P. Norton in the early 1990s.

**Implementing Balanced Scorecards typically includes four processes:**

1. Translating the vision into operational goals;
2. Communicating the vision and link it to individual performance;
3. Business planning;
4. Feedback and learning, and adjusting the strategy accordingly.

The Balanced Scorecard is a framework, or what can be best characterized as a “strategic management system” that claims to incorporate all quantitative and abstract measures of true importance to the enterprise.

According to Kaplan and Norton (1996), “The Balanced Scorecard provides managers with the instrumentation they need to navigate to future competitive success”. Many books and articles referring to Balanced Scorecards confuse the design process elements and the Balanced Scorecard itself. In particular, it is common for people to refer to a “strategic linkage model” or “strategy map” as being a Balanced Scorecard. Although it helps focus managers' attention on strategic issues and the management of the implementation of strategy, it is important to remember that the Balanced Scorecard itself has no role in the formation of strategy. In fact, Balanced Scorecards can comfortably co-exist with strategic planning systems and other tools.

The grouping of performance measures in general categories (perspectives) is seen to aid in the gathering and selection of the appropriate performance measures for the enterprise. Four general perspectives have been proposed by the Balanced Scorecard:

* Financial perspective;
* Customer perspective;
* Internal process perspective;
* Innovation and learning perspective.

The financial perspective examines if the company’s implementation and execution of its strategy are contributing to the bottom-line improvement of the company. It represents the long-term strategic objectives of the organization and thus it incorporates the tangible outcomes of the strategy in traditional financial terms. The three possible stages as described by Kaplan and Norton (1996) are 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, acquisition of new customers, growth in revenues etc. 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, etc. Finally, the harvest stage will be based on cash flow analysis with measures such as payback periods and revenue volume. Some of the most common financial measures that are incorporated in the financial perspective are EVA, revenue growth, costs, profit margins, cash flow, net operating income etc.

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**Fig. 3.1: Balanced Scorecard Illustration-Value Creation**  
*Source: From Becker, et. al. 2001*

The **customer perspective** defines the value proposition that the organization will apply in order to satisfy customers and thus generate more sales to the most desired (i.e. the most profitable) customer groups. 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 (e.g., customer satisfaction, market share). 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.

The internal process perspective is concerned with the processes 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 the 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 & social (by establishing good relations with the external stakeholders).

The innovation and learning 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 innovation and learning Perspective is concerned with the 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. This of course will be in the long term, since an improvement in the learning and growth perspective will require certain expenditures that may decrease short-term financial results, whilst contributing to long-term success.

3.3 Balanced Scorecard Approach to Measure Performance

The balanced scorecard focuses on the measures that drive the employee performance. The balanced scorecard provides a list of measures that balance the organizations internal and process measures with results, achievements and financial measures. The two basic features of the balanced scorecard are:
• A balanced set of measures based on the four perspectives of balanced scorecard,

• Linking the measures to Employee Performance

3.4 A balanced set of measures
Instead of relying on just one instrument or measure, using a balanced set of measures ensures that all the aspects of the employees’ performance are covered and provide relevant support for the decisions taken. Therefore, it is necessary that the manager should be capable to observe and note the several instruments and measures simultaneously. The four perspectives given by Kaplan and Norton are the financial measures, the customer’s perspective, the internal business perspectives and the innovation and learning perspectives.

For each perspective balanced scorecard of the following things are measured:

• **Objectives**: the goals and the targets to be achieved

• **Measures**: the standards which will be used to measure the actual performance and the progress.

• **Action plans**: the initiatives taken and the course of action to be followed to achieve the objectives

3.5 Tie-In to Employee Performance
The balanced scorecard approach can be used and applied at both the individual and the organizational level. It provides a balanced approach to evaluate the employees’ performance (for the purpose of Performance appraisal) in a comprehensive manner rather than a partial view. In most of the organizations, the common practice of measuring the employee performance refers to only the comparison of their action plans and behaviors with the standards set i.e. without actually measuring the results of their actions like profits and increase in market share. This conventional practice can lead to the appraisal of most of the employees without any or little progress towards achieving the goals and objectives of the organization. Thus, the balanced scorecard gives the complete view of the employees and the organizational performance and helps to align the employee performance/action plans with the organizational goals.
3.6 Benefits of Balanced Scorecard

The benefits of the balanced scorecard approach in measuring performance are:

- Gives the complete picture of the employee as well as the organizational performance.
- It guides users in determining the critical success factors and performance indicators.
- Strategic review or analysis of the organizational capabilities and performance.
- Focusing the whole organization on the few key things needed to create breakthrough performance.
- Integrating and directing the performance and efforts from the lowest levels in the organization to achieve excellent overall performance.

Real performance improvement is an exclusive target and sustainable improvement even more so. The challenge is to get people to line up with the organization’s goals and avoid the performance deficit that most organizations experience. The challenge is to change the organization’s culture to one that encourages real improvement. Achieving culture change is getting increasing recognition in management circles, so much so that linking culture change to desired performance is emerging as one of the leading management topics.

3.7 Comparison of balanced scorecard and self-assessment for business excellence

Both methods aim at assessing the current state of the organization or parts of it. Balanced scorecard is, however, monitoring the organization continuously, while self-assessment can be applied at certain intervals, for instance annually. The improvement focus is more evident in self-assessment than in balanced scorecard, as determining areas for improvement is a major part of self-assessment. Balanced scorecard is a continuous process, as opposed to self-assessment that can be utilized at certain intervals. The organizations should collect data and analyze them in order to understand their own operations. The data collecting in self-assessment for business excellence consist of both qualitative as well as quantitative data. In balanced scorecard only quantitative data are collected.
3.8 Failures of the balanced scorecard concept

Numerous case studies indicate that the implementation of the Balanced scorecard (BSC) according to Kaplan & Norton in North America have been disappointing at best, and in Europe and South America even more so (Angel & Rampersad, 2005). An estimated 65% to 70% of organizations within Corporate Canada have adopted BSC’s. A few users, some 10%, insist their scorecards are achieving positive results and meet with spirited rebuttal suggestions that balanced scorecards do not work. In contrast, a much larger group doubts that scorecards achieve sustained financial performance improvement. Our view from hands on experience is that scorecards rarely achieve sustained financial improvement break-through. BSC implementations tend to be insufficiently committed to learning and rarely take the personal ambitions of employees into account. Our position is that organizational scorecards need to be aligned with individuals’ scorecards to turn the BSC into a powerful tool for sustained organizational performance.

Our conclusion, based on 20 years of research, is that scorecard performance depends on alignment between the goals of the organization and the personal goals of the employees to realize transformational performance change. What we referring to is the aligning of individuals’ personal ambition with the shared ambition, which is a prerequisite for sustainable cultural change and development of organizations. Alignment means linking the organization’s mission, vision, and core values with the individual’s personal mission, vision, and core values. This lies at the heart of successful organizational change and development. Traditional balanced scorecard implementations tend to be insufficiently committed to learning and rarely take the personal ambitions of employees into account.

Without a set of rules for employees that addresses continuous process improvement and the personal improvement of individual employees, the experience is that too little employee buy-in and insufficient change in the organization’s culture underlies BSC disappointment. The result, experienced in so many BSC implementations, is that any improvements tend to be superficial and temporary. We have seen many examples of scorecards that did not achieve alignment and resulted in an apparent performance improvement that dissipated very quickly. In other cases, the improvement never materialized. Frequently in such cases, management’s efforts to improve performance were seen as divisive, viewed by employees as aimed at benefiting senior management compensation plans and fostering a “what’s in it for me” attitude among the employees.
In the aligned environment, metrics needs to support the people alignment to organizational alignment. The ten reasons for balanced scorecard failures are listed below (Angel & Rampersad, 2005).

3.9 Ten Reasons for Balanced Scorecard Failures

1. Accounting approach with a systematic neglect of the human capital; no linkage between the critical success factors of the organization and the personal critical success factors of individual employees — creating human capital tensions between work and non-work aspirations.

2. Emphasis mainly on financial measures rather than non-financial, leading to measures that do not connect to the drivers of the business and are not relevant to performance improvement.

3. No explicit link between shared ambition and specific organizational objectives; results in insufficient employee support to work according to organizational performance measures and an implementation plan that is not grounded in reality and unable to respond quickly to unforeseen events.

4. No explicit link between personal ambition and ethical behavior; a systematic neglect of personal integrity.

5. No explicit link between personal ambition and shared ambition.

6. Poor communication of the new way of working by management; results in creation of an employee mentality that is hostile to management messages.

7. Results in an individual performance plan that focuses too much on the money side and not enough on delivering organizational values, leading to a “what’s in it for me” culture.

8. Self learning and team learning are not stimulated; results in creation of a climate of defensiveness and mistrust and a business strategy that is poorly understood and therefore impossible to execute.

9. Too many objectives defined and too many performance metrics being measured.
10. Data on current individual and organizational performance insufficiently available; poor data on actual performance, neglecting most of the effort invested in defining performance measures by not being able to monitor actual changes in results from changes in behaviour.

3.10 Building & Implementing a Balanced Scorecard: Nine Steps to Success

Award-winning framework, *Nine Steps to Success*, is a disciplined, practical approach to developing a strategic planning and management system based on the balanced scorecard. Training is an integral part of the framework, as is coaching, change management, and problem solving. So the scorecard system can be sustained.

A key benefit of using a disciplined framework is that it gives organizations a way to ‘connect the dots’ between the various components of strategic planning and management, meaning that there will be a visible connection between the projects and programs that people are working on, the measurements being used to track success, the strategic objectives the organization is trying to accomplish and the mission, vision and strategy of the organization.

3.11 The HR Scorecard

The new economic paradigm is characterized by speed, innovation, quality and customer satisfaction. The essence of the competitive advantage has shifted from tangible assets to intangible ones. The focus is now on human capital and its effective alignment with the overall strategy of organizations. This is a new age for Human Resources. The entire system of measuring HR’s contribution to the organization’s success as well as the architecture of the HR system needs to change to reflect the demands of succeeding in the new economy. The HR scorecard is a measurement as well as an evaluation system for redefining the role of HR as a strategic partner. It is based on the Balanced Scorecard framework developed by Kaplan and Norton and is set to revolutionize the way business perceives HR.

Firms with high performance work systems tend to devote considerably more resources to recruiting and selection. There is a strong emphasis on training and performance management and compensation is tied to performance. Teamwork is encouraged, there is
generally less unionization and they have a large and effective HR team. It is important to note, that all these factors in tandem, not in isolation, lead to better performance, once again showing the systemic nature of HR’s role in performance enhancement. The effects of these measures are lower employee turnover, more retention, greater sales per employee and a greater market value for the firm.

It is also important for the HR system to constantly check for alignment of all its parts i.e. how much they reinforce or conflict with each other. An example of misalignment is a policy that encourages teamwork but rewards individual contributions.

In the service sector, the employee-customer relationship is very obvious and visible and so the impact of value creation is unmistakable. But, in many firms, the value is derived from the operational processes and quality of work that the employees generate. This is less obvious to competitors and it cannot be imitated. It is especially in these kinds of firms that the alignment of HR strategy and policy with the overall strategy of the firm matters the most.

The alignment process begins with a clear understanding of what kind of value the organization is supposed to generate and how it should be generated. In the Balanced Scorecard, this is referred to as the ‘strategy map’ that stresses the relationship between the ultimate goals and the key success factors at the four important levels of customers, internal operations, people and systems.

Once the firm has a clear understanding of the value-creation process, it can then design an implementation model that specifies needed skills and competencies and employee behaviours throughout the firm. The HR management section can then be directed towards generating these necessary competencies and behaviours. The stress is not just on the creation of sound HR policies and strategies. How these are implemented is also very important. There has to be a strong alignment with the firm’s competitive strategy. A high performance HR system will also tend to be unique. This is because it depends on the particular organization, its goals, people and strategy. Hence, it proves to be a strategic asset.
3.12 The Balanced Scorecard and Balanced Performance Measurement

The Balanced Scorecard emphasizes the importance of measuring business performance from the perspective of strategic implementation, rather than relying solely on financial results. Senior managers tend to pay far too much attention to the financial dimensions of performance and not enough attention to the driving forces behind those results. Financial measures are lagging indicators i.e. backward looking. They are designed to rectify or change past results. Performance drivers on the other hand are within the control of the management in the present and the Balanced Scorecard methodology encourages management to look at these leading indicators as well. By specifying the important process measures, assessing them, and communicating the firm’s performance based on these criteria to the employees, the managers can ensure that the entire organization participates actively in the strategy implementation process. It is a unifying tool in strategy implementation.

To achieve strategy alignment, firms must engage in a two-step process. As mentioned before, first the managers must understand the details of how value is created in their firm. Once this is done, they can design a measurement system based on their understanding. The first step focuses the organization on two dimensions of the strategy implementation process namely breadth and causal flow. Breadth refers to the fact that companies must study more than just financial results as outcomes of strategy implementation. It must also focus on other key performance drivers.

Causal flow refers to the series of linkages between financial and non-financial determinants of firm performance. This gives the managers a deeper perspective of why certain financial results are the way they are. It allows them to link the financial measures to the non-financial measures of success. The second point is the design of a measurement system. This involves attaching metrics to the financial and non-financial determinants.

The Balanced Scorecard identifies four key perspectives that directly and completely define strategy measurement and analysis. They include the financial perspective, the customer perspective (e.g. customer loyalty and satisfaction), the internal processes perspective (e.g. process quality and process cycle time) and finally learning and growth perspective (e.g. employee skills) that is the leading indicator.
The next important step is communication. The top management that has done the above analysis must communicate their findings and decisions to the middle and front-line managers, who in turn must communicate it to the other employees. In this way, everyone in the organization is made aware and can participate in the strategy implementation process. This also helps allocate resources intelligently and guides employees’ decisions. The Balanced Scorecard model recognizes the importance of both tangible and intangible assets and of financial and non-financial measures. It focuses on the complex connections among the firm’s customers, operations, employees and technology and places an important role for HR. The BSC framework highlights the differences between leading and lagging indicators. Lagging indicators include financial metrics, which typically reflect only what has happened in the past. Such metrics accurately measure impacts of past decisions but don’t help in making current decisions or guaranteeing future outcomes. The leading indicators are the unique indicators for each firm. They include process cycle time, customer satisfaction or employee strategic focus. These indicators assess the status of key success factors that drive the implementation of the firm’s strategy and hence emphasize the future rather than the past.

3.13 Why Implement a Balanced Scorecard?

- Increase focus on strategy and results
- Improve organizational performance by measuring what matters
- Align organization strategy with the work people do on a day-to-day basis
- Focus on the drivers of future performance
- Improve communication of the organization’s Vision and Strategy
- Prioritize Projects / Initiatives

3.14 Integrating HR into the performance measurement system

To integrate HR into a business performance measurement system, managers must identify the points of intersection between the HR and the organization’s strategy implementation plan. These points are commonly called the HR deliverables. They are the outcomes of the HR architecture that serve to execute the firm’s strategy. This is in contrast to the aspects of HR that focus on HR efficiency and activity. The deliverables can be classified into two groups, namely the performance drivers and the enablers. Performance drivers are core people-related capabilities or assets such as employee
productivity and satisfaction. There is no single correct set of performance drivers. Each firm needs to identify its own set based on its unique characteristics.

Enablers reinforce performance drivers. Preventive maintenance can be considered an enabler of on-time delivery, which is a performance driver. A performance driver can have several enablers. Most of the time, each enabler separately may seem rather mundane but it’s the cumulative effect that has strategic importance.

3.15 Performance Drivers
HR managers tend to focus on performance drivers in an attempt to demonstrate their strategic impact. However, in most cases although they do stress on these drivers they are unable to make a solid case for it since they do not have the right measures. Without measures one cannot display HR’s actual contribution to the overall mission. Most of the measures used are very simplistic and it undermines HR’s credibility in the organization. This credibility is very important since it is what matters when a manager is faced with a conflict between financial and non-financial reports. For example, if people measures are good but financial measures are bad, the manager will go for the solution that supports the credibility of finance or HR. In most cases it is finance and the immediate decision is reducing bonuses etc. as the CFO might feel it is not warranted when there is no proof of performance. The point that is being missed is that the CFO is looking at the lagging indicators. Balanced performance needs one to look at the leading indicators such as HR measures as well since these are the ones that create value in the organization. High HR scores in the face of low finances actually signal improved finances in the future (provided other leading indicators are also on the positive side). Similarly, strong financial measures and weak leading measures such as HR measures are indicative of a financial problem in time to come. Thus, managers must interpret these measures in a balanced manner looking at the past and into the future. Identifying HR performance drivers can be very challenging since it is unique to the firm. It is important to identify the performance drivers and integrate them directly into performance criteria giving them equal weight with the more traditional performance measures. For example, one half of the bonus pays can be based on the financial results while the other half is based on the employee’s adherence to the value behaviours.
3.16 HR enablers

HR enablers reinforce the core performance drivers. If employee productivity is identified as a performance driver, re-skilling and training can be considered an enabler. Some enablers might be specifically HR focused i.e. they enhance the effectiveness of HR performance drivers. There might also be some HR enablers that do have profound positive effects with respect to the other perspectives as well, such as customers, operations and the financial segment. It is important to identify these and keep them up to date with the current goals of the organization. Without the properly aligned enablers, it is not possible to implement new strategies. The systemic aspect of HR once again comes to the forefront, whereby the entire HR system can influence employee behaviour from different points. Thus, HR managers should evaluate the degree to which their firm’s system of enablers support the HR as well as non-HR performance drivers as listed in their Balanced Scorecards. By identifying the links between enablers and universal performance drivers, the HR team can play a much larger role and suggest ideas that can affect other sectors in the firm as well.

Basically, the direct impact on the HR systems’ high performance characteristics is non-linearly related to the increase in market value. This is because in the lower ranges of performance, increase in market value is basically because HR stops making mistakes it used to make in the past. It is almost like it is getting out of the way and avoids blunders and wrong practices that worsen the situation. In the middle range of performance, HR starts consolidating its efforts. It is learning from its mistakes and in the process does not actually add much to the market value of the employees and the company, but once a certain threshold is crossed indicating that the firm has adopted the appropriate HR practices and implemented them effectively, the market value soars exponentially. This is mainly because the HR system starts getting integrated into the overall strategic system of the firm. Basically, the firms must consolidate the appropriate HR policies and practices into an internally coherent system that is directly aligned with business priorities and strategies that are most likely to create economic value. This can lead to significant financial returns to the company. It is this plan that must be made concrete and shown as a strong case to make senior management believe in HR’s potential.

It is important to note however, that simple changes in an HR practice do not make a difference. The HR measures describe the whole HR system and changing the system to
cross the threshold mentioned above needs time, effort, insight and perseverance since results are not directly proportional. This clearly indicates the requirement of an HR transformation rather than a change. It is this very character of transformation, which is difficult and time-consuming to achieve, that makes HR a strategic asset.

Along with value creation, there must also be a strong case for HR’s role in strategy implementation. Strategy implementation rather than strategy content separates the successful from the unsuccessful firms. It is easier to choose an appropriate strategy than to implement one. This once again shows the strategic nature of HR’s role in performance improvements. Successful strategy implementation is driven by employee strategic focus, HR’s strategic alignment and a balanced performance measurement system. The most important HR performance driver is a strategically focused workforce. Effective knowledge management combined with the above-mentioned a factor creates a strategically focused organization.

3.17 Aligning the HR architecture with the HR deliverables
It is also important to consider how the HR system made up of the rewards, competencies; work organization etc. needs to be structured to provide the deliverables that are identified in the strategy map. This step enhances the value creation aspect of the firm by aligning the HR system with the firm’s larger strategy implementation system. For this, internal alignment and external alignment are important.

Internal alignment refers to the aligning components within the HR system. External alignment refers to the alignment of the HR system with the other elements in the firm’s value creation process. These two are not isolated processes. They are closely related. Internal alignment is necessary but not sufficient in itself for external alignment to occur. Basically, highly cohesive HR strategies will work as long as they are aligned well with the overall strategy of the company.

It will fail if it is not periodically reshaped so as to align it with the overall strategy. However, for a particular fixed overall strategy, all firms need an internally aligned HR strategy in order to achieve the overall goals. Misalignment between the HR system and the strategy implementation system can destroy value. In fact, the wrong measurement system can have the exact opposite effect than intended.
3.18 Designing the Strategic HR measurement system
The above steps guide the development of the HR architecture and lay the groundwork necessary to measure the performance relationship between HR and the firm’s strategy. The next step is to design the measurement system itself. This requires a new, modern perspective on measuring HR performance. It also requires HR to resolve several new technical issues that it might not be familiar with. To accurately measure the HR-firm performance relationship, it is imperative that the firm develops valid measures of HR deliverables. This task has two dimensions. Firstly, HR has to be confident that they have chosen the correct HR deliverables. This requires that HR have a clear understanding of the causality in the value chain for effective strategy implementation.

Secondly, HR must choose the correct measures for those deliverables. During this process of developing the HR scorecard, the firm might go through several stages of increasing sophistication. The first stage is normally the traditional category of measures. These mainly include operational measures such as cost per hire, activity counts etc. These are not exactly strategic measures. In the second stage, HR measures have a strategic importance but they don’t help much in making a case for HR as a strategic asset. Firms may declare several people measures such as employee satisfaction as strategic measures and these might be included directly into the reward systems. In this stage, there tends to be a balance between financial and non-financial measures but there is less of an agreement on how exactly they combine together to implement the strategy. These are normally hasty decisions and the firms might have not gone through all the previous steps mentioned above. The next stage represents a transition point whereby the firm includes non-financial measures such as HR measures into its strategic performance measurement system. The links between the various measures are also identified i.e. they are placed appropriately in the strategy map. The HR measures now actually track HR’s contribution to strategy implementation. In the final stages, the HR measurement system will enable the firm to estimate impacts of HR policies on firm performance. If the value chain is short and the strategy map is relatively simple, the complete impact of HR on the overall performance can be measured. For more complex value chains, the impact can be more accurately measured on local segments or sectors of the strategy map. These local impacts can then be assimilated to give a good measure of the total impact on the firm’s performance. Thus, each level of sophistication of the measurement system adds value to
the non-financial measures and forces in the firm and enables a better performance appraisal.

3.19 Implementing the strategy by using the measures
The previous step completes the HR scorecard development process. The next step is to use this powerful new management tool in the right way. This tool not only helps the firm measure HR’s impact on firm performance, but also helps HR professionals have new insights into what steps must be taken to maintain HR as a strategic asset. It helps the HR professionals dig deeper into the causes of success and failure and helps them promote the former and avoid the latter.

Implementing the strategy using the HR scorecard requires change and flexibility as well as constant monitoring and re-thinking. The process is not a one-time event. HR professionals must regularly review the measures and their impacts. They must review the HR deliverables identified as important and see to it that the drivers and enablers and internally as well as externally aligned.

Special reviews of the HR enablers must be conducted as these have the maximum direct impact on specific business objectives. Enablers that do not tend to play a positive role should be replaced.

3.19 Seven Step Implementation Model of HR Balance Scorecard
A 7-step model suggested by Becker et al. (2001) is given below:

- Step 1: Clearly define business strategy
- Step 2: Build a business case for HR as a strategic asset
- Step 3: Create a strategy map
- Step 4: Identify HR deliverables within the strategy map
- Step 5: Align the HR architecture with HR deliverables
- Step 6: Design the strategic HR measurement system
- Step 7: Implement management and measurement
3.21 Benefits of the HR Scorecard
The HR Scorecard offers the following benefits:

- It reinforces the distinction between HR do-ables and deliverables: The HR measurement system must clearly distinguish between the deliverables that
influence strategy implementation and do-ables that do not. Policy implementation is not a deliverable until it has a positive effect on the HR architecture and creates the right employee behaviours that drive strategy implementation. An appropriate HR measurement system will encourage HR professionals to think both strategically as well as operationally.

- **It enables cost control and value creation:** HR is always expected to control costs for the firm. At the same time, HR has to fulfill its strategic goal, which is to create value. The HR scorecard helps HR professionals balance the two and find the optimal solution. It allows HR professionals to drive out costs where appropriate, but at the same time defend investments in intangibles and HR by outlining the benefits in concrete terms.

- **It measures leading indicators:** Just as there are leading and lagging indicators in the overall balanced performance measurement system, there are drivers and outcomes in the HR value chain as well. It is thus important to monitor the alignment of the HR decisions and systems that drive the HR deliverables. Assessing this alignment provides feedback on HR’s progress towards these deliverables and lays the foundation for HR’s strategic influence.

- **It assesses HR’s contribution to strategy implementation:** The cumulative effect of the HR Scorecard’s deliverable measures provides the answer to the question regarding HR’s contribution to firm performance. All measures have a credible and strategic rationale. Line managers can use these measures as solutions to business problems.

- **It lets HR professionals effectively manage their strategic responsibilities:** The scorecard encourages HR managers to focus on exactly how their decisions affect the successful implementation of the firm’s strategy. This is due to the systemic nature of the scorecard. It provides a clear framework to think in a systemic manner.

- **It encourages flexibility and change:** The basic nature of the scorecard with its causal emphasis and feedback loops helps fight against measurement systems getting too standardized. Standardization is good for things that don’t tend to have
a dynamic nature but firm performance is a dynamic phenomenon. Every decision needs to be taken based on the past and future scenarios. One of the common problems of measurement systems is that managers tend to get skilled to obtain the right numbers once they get used to a particular measurement system. The HR scorecard engenders flexibility and change because it focuses on the firm’s strategy implementation, which constantly demands change. With this framework, measures simply become indicators of the underlying logic that managers accept as legitimate. It helps them look at the bigger picture and since there are no perfect numbers it makes it easier for managers to change direction when needed.

**Leveraging HR Performance Drivers**

Strategic HR and performance are the most dominant factors for achieving maximum throughput of any organization (Pathak et al. 2006, Sushil 2000). Herein, briefly the ‘HR Performance Drivers’ is going to be touched upon in the succeeding paragraph.

**3.22 Organizational Work Culture**

Any change programmed is dependent for its success on the culture in which it operates. It is a fundamental prerequisite that in order to implement benchmarking successfully we have to look at culture and understand the problems and opportunities that may result. Benchmarking may indeed show that in some key areas the company is flying high, but the need for change is still wanting. An organization adopts benchmarking for a variety of reasons; it continues benchmarking for only one reason- it recognizes the need to change. This will be charge that embraces the incremental, continuous change inherent in total quality Management. The 7-S McKinsey model is value-based management (VBM) model, which effectively organize a company into a productive enterprise. The various, seven dimensions (McKinsey 7S Framework, 2007 & Waterman et al. Business Horizons, June 1980) are Strategy, Structure, Systems, Staff, Style, Skills and Shared values. Much of the change that will be required will be step change that enables the organization not only to catch up with, but to outpace its competitors.

**3.23 Balance strategic high performance culture**

Strategy alone is inadequate in itself unless we have strategic vision & strategic thinking (Pathak et al. 2007). Taken together with a possible need to change how the organizations work, how its people are managed and how process overcome barriers caused by functionality. This is a business important role that is available to an HR group that has
its thinking right. All too often the personal/HR function operates in the control zones of establishment control, low level recruitment, training and running the company canteen. Personal/human resource specialists have more opportunity than any other departments to test out consult with employees on proposed changes. HR must become the ‘internal consultant of the future. They have experience as catalysts across the whole organization and someone has to provide the necessary support for projects such as benchmarking. The role of HR is as a deliverer of change. However to do this HR must be able to make a contribution that adds value through it’s understand of culture and possible sources of resistance.

**Fig.3.3: A Balanced strategy for a high –performance culture**

Figure 3.3 relates a model of high performance culture that will be able to cope with the investigable change that benchmarking will show is necessary.
Starting at the bottom of Figure 3.3 is the recognition that what people feel is crucial to behavior, and thus to organizational health. This leads onto ethical consideration of openness and trust. With these in place it is possible to develop empowerment, teamwork and a willingness to accept change. At the top of the figure are the vision and goals that are essential to providing a high quality service to customer.

Senior executives must understand the new value system and be given there own workshop on what it means in proactive. This should be backed up by asking employees, trade union and other stake holders what the values mean to the business excellence approach is a good way of finding out whether our action is meeting our aspirations. There is no easy way of implementing a changed value system. It must be identified and then the values lived in practice at every opportunity.

3.24 Key Themes of Organizational Dynamics

3.24.1 HR Balanced Score Card
The exponent of Balance Score Card (BSC) techniques are Kaplan and Norton (1996), which stresses on measurement of performance in the organization. Primarily the Balance Score Card complements financial measures of past performance with measures of the drivers of future performance. The objectives and measures of the scorecard are derived from an organization’s vision and strategy. The objectives and measures view organizational performance from four perspectives:

(i) Financial
(ii) Customer focus
(iii) Internal business processes, and
(iv) Learning and Growth

Thus, it is observed that Balanced Score Card (BSC) expands the set of business unit objectives and goes beyond summary financial measures. It is a strategic management system. Through a series of cause-and-effect relationships embodied in BSC, the inherent/inbuilt capabilities of an organization eventually become translated into superior financial performance.
Becker et. al (2001) have further done value creation from the ‘human capital’ and linked people performance with organizational Strategy, HR Balance Scorecard. Develops the ‘Causal model’ into ‘high performance drivers’ by igniting into the people’s ‘HR core competencies’. This framework of an organization fundamentally rests on the promise of its measurement system. We cannot measure something that we cannot describe. Measurement is the only language used to all this is possible according to Warren Bennis, authority on leadership, only by unleashing the brainpower of the people of the organizations (Becker et. al., 2001; Gibson, 2002).

And the High Performance Work Practices (HPWP) or High Performance Work System (HPWS) has four manifestations of HR capital:

(i) The Personnel Perspective
(ii) The Compensation Perspective
(iii) The Alignment Perspective and
(iv) The HPWS (High Performance) Perspective

3.24.2 Six Sigma Philosophy

Six Sigma is primarily a management philosophy that attempts to improve upon customer satisfaction to near perfection. Six Sigma is a smarter way to manage a business or a department by managing with facts, figures and data. Herein, the overriding philosophy is ‘customer satisfaction’. The objective of Six Sigma is to drive process improvements by focusing on defect elimination, rather creating and improving products/services that results in a very small number of defects.

Six Sigma is equal to 3.4 defects parts per million opportunities. This says a six-sigma company has little more than, 3 bad customer experience (3.4) for every million opportunities (Ecke, 2001(a) 2001 (b)). As per Pande (2002) and Ecke Six Sigma efforts target the main areas of improvement as under:

- Improves customer satisfaction
- Reducing cycle time
- Reducing defects

It has also three CSFs (Critical success factors)

- Strategic components
As per Ecke, the ‘cultural component’ of the CSF is most important as the ‘cultural acceptance of change’ or resistance to change is the single most dominant factor which broadly confront all of us in the improvement process. Ecke has further suggested a performance based formula for continuous improvement. Six Sigma, thus, is about asking tougher and tougher questions until we receive quantifiable answers that changes behavior as well as takes us out of enveloping comfort zone. It is this formidable promise which takes as to amazing heights of excellence. There are main five breakthrough strategies of Six Sigma philosophy (D-M-A-I-C) as under:

- **D–Define:** The goals of the improvement activity
- **M–Measure:** The existing system
- **A–Analyze:** The system to identify ways to eliminate the gap between the current performance/or process) and
- **I–Improve:** The system
- **C–Control:** The new system

There are three more parameters, like recognize, standardize and integration. The improved system may be institutionalized by modifying compensation and incentive system, policies, procedures, MRP, budgets, operating instructions etc. (Ecke, 2001).

A following case study example has been cited for better comprehension of Six Sigma philosophy.

### 3.25 Case study example
A case-study for six-sigma cultural transformation has been carried out in one of the DRDO training unit (Pathak, et.al, 2004). The Performance of personnel in the unit on the year wise basis has been considered for the study.

### 3.26 Finding of the Study
A format of appraisal system was given to all concerned personnel (divisional heads and sectional head) and explained what is a required out of them and how to fill up. The Performance Evaluation considering the Six Sigma Approach has been specified in Table: 3.1 below.
Table 3.1: Performance Evaluation: Six Sigma Approach

<table>
<thead>
<tr>
<th>Q x A Score</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 20</td>
<td>Wasted efforts and money on six sigma</td>
</tr>
<tr>
<td>21 – 40</td>
<td>Some tactical results appear, but initiative may likely die down</td>
</tr>
<tr>
<td>41 – 60</td>
<td>Significant tactical results achieved, initiative will focus on projects for the life of six sigma</td>
</tr>
<tr>
<td>61 – 80</td>
<td>Cultural transformation takes place, but requires reviewing for survival/staying</td>
</tr>
<tr>
<td>81 – 100</td>
<td>Cultural transformation has taken place–a world–class six sigma organization has emerged</td>
</tr>
</tbody>
</table>

If the value of Performance Evaluation(E) is measured as per Table 3.1 and is answered 60 per cent then cultural transformation takes place but requires reviewing and only after 80 per cent of E value, the transformation of an organization takes place—a world-class six sigma organization comes to stay. At around 40 per cent, only cultural transformation visibility starts, which requires lot of initiative to be taken, otherwise it will die down.

From the calculation and further validation from individual higher value of performance was found to be 87 per cent and average 75 per cent. This clearly shows that six sigma meaning higher performance cultures, is setting in (> 60 scale). A graphical representation is given below in Figure 3.4.
3.27 Concluding Remarks

In this chapter, a review of general concept of traditional and modern management has been made with an evolutionary angle of approach. Strategic HR dimensions, HR functions and other aspects of HR Architecture have been discussed. Further, Six Sigma philosophy, and HR Balance Score Card (BSC) have been briefly covered, which are identified as the key themes for the study. Also, a case study of six sigma performance measurement has been presented and validated from the actual feedback of the participants as well as employees working in one of the training establishment of DRDO.

Finally, the HR performance drivers have been deliberated for achieving organizational excellence. Passionate work-culture and ‘rethinking’ critical business principles coupled with core competence usher-in amazing results. Strategy-breaking it down to actions-plan, course of actions and finally implementing with passion-nonstop fire-is considered one infallible tool for synergizing human capital into High Performance Work System (HPWS) mechanism. Unleashing the brain-power of people of the organization and revisiting the business aiming at core strategic vision, may decidedly help converting an organization into a ‘passionate-organization’.