

# **Assessment of the Balanced Scorecard approach at a photographic company**

by

Natasha Woodall

Student no: 22504923

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**Supervisor:** Prof Anet Smit

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## **ABSTRACT**

The Balanced Scorecard has become vital for companies in order to ensure a competitive advantage in our ever changing global environment. The Balanced Scorecard, if applied effectively, will assess whether the company's vision, mission, strategy and values are achieved.

The Balanced Scorecard system is a management tool that can be used to transform strategy into action. The Balanced Scorecard used at Picture Perfect Photography has been identified as problematic. This study includes a literature study on the Balanced Scorecard system and an empirical study regarding the application of the Balanced Scorecard in a specific Photography company.

The literature study set out to evaluate the efficiency of the Balanced Scorecard as it is applied at Picture Perfect Photography. The secondary objectives defined the Balanced Scorecard, reviewed the evolution and the need for a Balanced Scorecard. The literature study further explored the advantages and disadvantages of the Balanced Scorecard and continued exploring personal development with linking it to compensation.

The Balanced Scorecard should be used to align the company's vision and strategy in order to improve long-term performance. The research indicates that communication and constant feedback play an important role in the successful implementation of a Balanced Scorecard approach. The Balanced Scorecard could be a very useful instrument when implemented and applied effectively.

An empirical study was done including Picture Perfect Photography's employees, at different job levels, work sections and years of service. The aim of the empirical study was to determine how the Balanced Scorecard was used in the alignment with the company's strategy, vision, mission and values. Furthermore, the aim was to determine the problems with the existing Balanced Scorecard and if it helps to focus on quality, re-

engineering and customer services' initiatives. The study indicated more or less the same average responses on specific Balanced Scorecard related issues. The majority of employees responded that feedback and communication of the Balanced Scorecard were not transparent enough nor was it applied effectively.

Conclusions and recommendations were made in order to identify and improve the advancement of an effectively applied Balanced Scorecard used at Picture Perfect Photography for the future.

**Key words:** Balanced Scorecard, photographic, strategy, development, compensation, communication.

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## LIST OF ABBREVIATIONS

TQM	Total Quality Management
KPI	Key Performance Indicator
SMART	Specific, Measurable, Attainable and Time-bound
ROE	Return on Equity
ROA	Return on Assets
ROI	Return on Investment
EVA	Economic value added
PPP	Picture Perfect Photography

## **CHAPTER 1**

### **NATURE AND SCOPE OF THE STUDY**

#### **1.1. INTRODUCTION**

Companies in today's day and age need to change constantly to be able to survive and grow, and in order to meet tomorrow's challenges, companies need to be both strategically and operationally excellent.

The Balanced Scorecard (Kaplan & Norton, 1992:71) is a valuable strategic tool to measure the financial performance, customer focus, internal processes as well as the learning and growth of a company. Additional to the above-mentioned in order to create sustainable competitive advantage a company needs to have a performance measurement system in order to focus on the concepts of value creation as well as value management. The Balanced Scorecard assists management to transform the company's vision and strategy into actions whilst empowering employees to become innovative in carrying out their daily tasks and at the same time achieve the vision and strategy.

The Balanced Scorecard, which was introduced by Kaplan and Norton (1992:71), has become one of the tools widely preferred to improve corporate performance measurement during the last few decades.

The Balanced Scorecard was developed not only to ensure that companies moved away from the constricted focal point of traditional financial accounting measurement of performance, but also to integrate the vision and strategy with the operations of the company in such a way that in the words of Kaplan and

Norton (1992:79) it “keeps companies looking – and moving – forward instead of backward”.

Picture Perfect Photography is a photography company situated in Vanderbijlpark. Its niche market focuses on weddings predominantly, but also include fashion photography, maternity photographs, fine art photography, birthdays and special occasions. Picture Perfect Photography is a family owned business with three generations of family. The empirical study aims to evaluate all employees, the 15 field photographers and their assistants, the 10 Studio photographers and their assistants, and the three administrative office staff.

The Balanced Scorecard which is currently being used at Picture Perfect Photography was chosen for this study to be assessed on its application, how effective it is being applied, and to identify how this system could be improved to ensure employees have a positive attitude towards the Balanced Scorecard system by ensuring that the full benefits are used to encourage personal performance improvements, by employees. In order to apply the Balanced Scorecard system accurately employees need to know what they will be measured against to ensure they sustain a competitive advantage.

## **1.2. PROBLEM STATEMENT**

Currently employees at Picture Perfect Photography are very negative about the Balanced Scorecard. They feel that it does not measure their performance accurately and remunerations are not based on individual performance.

It could be that the performance indicators on the Balanced Scorecard are not aligned or very clearly communicated to the stakeholders which could lead to possible misinterpretations.

It often happens that top management compiles the scorecard using figures and jargon not understood by all levels in the company, making the exercise of the Balanced Scorecard and setting goals a useless exercise.

If this is not well communicated it could happen that the employees at Picture Perfect Photography get the opinion that the Balanced Scorecard is a waste of time and they are being measured on performance indicators which they do not have any control over. This could lead to employees becoming de-motivated and having no goals to work towards.

Some of the problems with the interpretation of the Balanced Scorecard could be:

- ☒ That the Balanced Scorecard is not used correctly in aligning the company strategy, vision, mission and values.
- ☒ Staff might not identify with the performance indicators of the current Balanced Scorecard.
- ☒ The Balanced Scorecard's personal content could be inadequately designed.
- ☒ It could be that there is a lack of communication between management and employees.

To ensure that a more adequate Performance Management system is put in place, the weak points of the existing system needs to be identified, and by doing so a more effective performance evaluation tool can be put in place.

## **1.3. OBJECTIVES OF THE STUDY**

### **1.3.1. The main objective**

The main objective of this study is to evaluate the efficiency of the Balanced Scorecard approach as it is used at Picture Perfect Photography and to make recommendations on how to improve the efficiency of the Balanced Scorecard process so that the employees can gain from it.

### **1.3.2. Sub objectives**

The following sub objectives based on the theoretical research to be done, are as follows:

- To define the Balanced Scorecard.
- To analyse the evolution of the Balanced Scorecard
- To research the acceptability of the Balanced Scorecard as a performance management tool.
- To research the need for a Balanced Scorecard.
- To identify the advantages and disadvantages of the Balanced Scorecard.
- To research linking the Balanced Scorecard to personal development and linking it to compensation.
- To explore the problems to implement the Balanced Scorecard.

The following sub objectives are based on the empirical research still to be done:

- To determine if the Balanced Scorecard is used in the alignment of the company's strategy, vision, mission, and values.
- To determine the problems with the existing Balanced Scorecard.

- To determine if the Balanced Scorecard helps to focus on quality, re-engineering and customer services initiatives.
- To determine if the results of the current Balanced Scorecard is used in linking the employees' compensation.
- Finally, to make conclusions on the findings in both literature and empirical studies and make recommendations for improvements.

#### **1.4. SCOPE OF THE STUDY**

This study will focus on the Balanced Scorecard and the effectiveness of it as a measurement tool, for all employees as a goal setter within Picture Perfect photography situated in Vanderbijlpark, Gauteng, South Africa. The study aims to show how the Balanced Scorecard can be used to improve sustainable competitive advantage and to ensure sustainable growth and wealth creation within the company, by guiding employees to reach their personal and company objectives.

#### **1.5. RESEARCH METHODS OF THE STUDY**

##### **1.5.1 Literature study**

The Balanced Scorecard is viewed and discussed in full to understand the advantages and disadvantages. This is done by reviewing books written by Kaplan and Norton, the founders of the Balanced Scorecard. Research on other authors' opinions concerning the Balanced Scorecard is also conducted. Scientific journal articles on the Balanced Scorecard are also researched. The internet is used to do further research for the necessary information required to expand the knowledge on the subject.

Further to this, research is conducted on other performance measurement tools used in the business to make comparisons. This will be done through using the internet and scientific journal articles.

### **1.5.2 Empirical study**

The empirical study can be described in the way Collins (2004:83) describes it, as being derived from or relating to, experiment and observation, rather than theory.

A research design ensures that the correct questions are asked, to ensure that the best possible information is collected concerning the current Balanced Scorecard system. Employee involvement with the development of the Balanced Scorecard is of the utmost importance in any business. The ground work enables us to examine the theories and practical experience of this discipline. The empirical research was done through questionnaires given to all employees. The questionnaire was designed to include demographic information concerning the employee, for example, Gender, Race, Work Section, Job Level, Years of Service and Age group.

The information gathered was used to explain in more detail what the exact situation is at Picture Perfect Photography. Questionnaires were sent via e-mail to all 15 field photographers and their assistants, 10 studio photographers and their assistants, and 3 administrative office staff members. The field staffs are demographically spread across South Africa, they have been assigned areas to work in, and therefore using the e-mail to communicate with employees was the best option. All employees have access to e-mail; therefore, there were no problems for employees to return completed questionnaires, the only problem was to have these questionnaires returned on time.

The research is defined as descriptive and explorative. Exploratory research is done in an area that has not been studied, whereby the researcher aims to gather information and ideas, so as to be able to be focused on a more specific research problem. According to Levine (2008:3) descriptive research aims in describing something of the data collected, for example, age group, and job levels and years of service, by attempting to provide a complete and accurate description of the situation. The questionnaire had questions which measured the items by means of a 'Likert' scale. The questions were measured on a scale that varies from (1) strongly disagree, (2) disagree, (3) neutral, (4) agree and (5) strongly agree. Part of the questionnaire covered open ended questions to allow employees to express in their own words what their perceptions are of the Balanced Scorecard. Statistical data was extracted from the information gathered and analysed in the following ways:

- ✓ Descriptive statistics.
- ✓ General tables to compare mean values.
- ✓ General graphs.

## **1.6. LIMITATIONS OF THE STUDY**

According to Berg (2007:9), "Researchers are to choose procedures keeping in mind the problems that may arise in specific research settings, among certain research groups, and in unique research circumstances".

Due to the fact that most of the photographers are working in a widespread area, collection of completed questionnaires returned on time, could be a problem, therefore careful planning needs to be done. The researcher had to depend on the participants completing the questionnaires truthfully, and

objectively. Due to the fact that the study was done on only one photography business, the study will be limited to the observations of only one company and not a general perspective of all photography businesses.

## **1.7. CHAPTER SUMMARY**

The aim of Chapter one was to provide a background and holistic overview of the proposed research. Some of the factors that gave rise to the problem statement regarding the Balanced Scorecard as it is currently used at Picture Perfect Photography were discussed. The research objectives, framework, methodology and layout of the study were outlined. Theoretical and empirical aims to address the research problem statement were formulated. The empirical study design is a quantitative study which uses the survey method to collect data, and the methodology was discussed. Finally the layout of the study was described.

In the following chapter; the results and findings of the literature study are discussed.

## **1.8. CHAPTER DIVISION**

The chapters will be presented as follows:

Chapter 1: Nature and scope of the study

Chapter 2: Literature review

Chapter3: Empirical study

Chapter4: Conclusions and recommendations

# CHAPTER 2

## LITERATURE REVIEW

### 2.1. INTRODUCTION

Armstrong and Baron (2005:2), define performance management as a process which contributes to the effective management of individuals and teams in order to achieve high levels of organisational performance. As such, it establishes shared understanding about what is to be achieved and an approach to leading and developing people which will ensure that it is achieved.

Performance management can also be described as a systematic process by which a company involves its employees as individuals and members of a group, in improving company effectiveness in the accomplishment of the company's mission and goals. Employee performance management includes:

- ❖ Planning work and setting goals and expectations.
- ❖ Continually monitoring performance and giving feedback to the individual.
- ❖ Developing the capacity to perform (learning and growth).
- ❖ Periodically rating performance in a summary fashion.
- ❖ Rewarding good performance.

In effective companies, managers and employees practice good performance management naturally all their lives, executing each of the above-mentioned key components in the process well. Goals are set and work is planned routinely while progress toward these goals is measured and employees get regular feedback.

Organisations use different performance management tools; some of the most popular tools are discussed in this chapter.

Six Sigma is a management framework and methodology that focuses on leading the organisation through a continuous improvement process (Rodriguez, 2008:5) by defining, measuring, analysing and controlling the quality of a company's products, processes and transactions (Primus, 2002). The ultimate purpose of Six Sigma is the elimination of defects and errors.

The Six Sigma method is one of the popular performance management tools used in organisations. Several academics and researchers have analysed the Six Sigma framework and implementation process more closely. They came to the conclusion that the methodology resembles in many ways the Balanced Scorecard concept (Primus, 2002). Gupta (2005:30) identified several similarities between Balanced Scorecard and Six Sigma in regards to the finance, customer, internal processes, learning and growth perspectives, but also in terms of the vision and measuring system.

Total Quality Management (TQM) has had a significant impact on the approach to management since its conceptualisation and promotion in the 1980s (Andersen *et al.*, 2004:364). Total Quality Management as defined by Hoque (2000:553) is a set of management concepts and tools that aims to involve both managers and ordinary employees to yield continuous performance improvements. Anderson *et al.* (2004:634) refer to Total Quality Management tools as means to improve growth, profitability and customer satisfaction.

One of the major biases identified as a possible cause for the poor Total Quality Management, is companies results with poor linkage between quality and strategic control methods. It is suggested that the successful application of the Total Quality Management system to the organisational context through one of its associated tools can be significantly strengthened when combined with a

strategic performance management framework, such as the Balanced Scorecard (Andersen *et al.*, 2004:364).

Hoque (2000:553) reinforces the linkage between Total Quality Management and the Balanced Scorecard, acknowledging that by using a Balanced Scorecard approach, organisations that failed in the Total Quality Management initiatives can get back on track by borrowing insights from the Balance Scorecard approach.

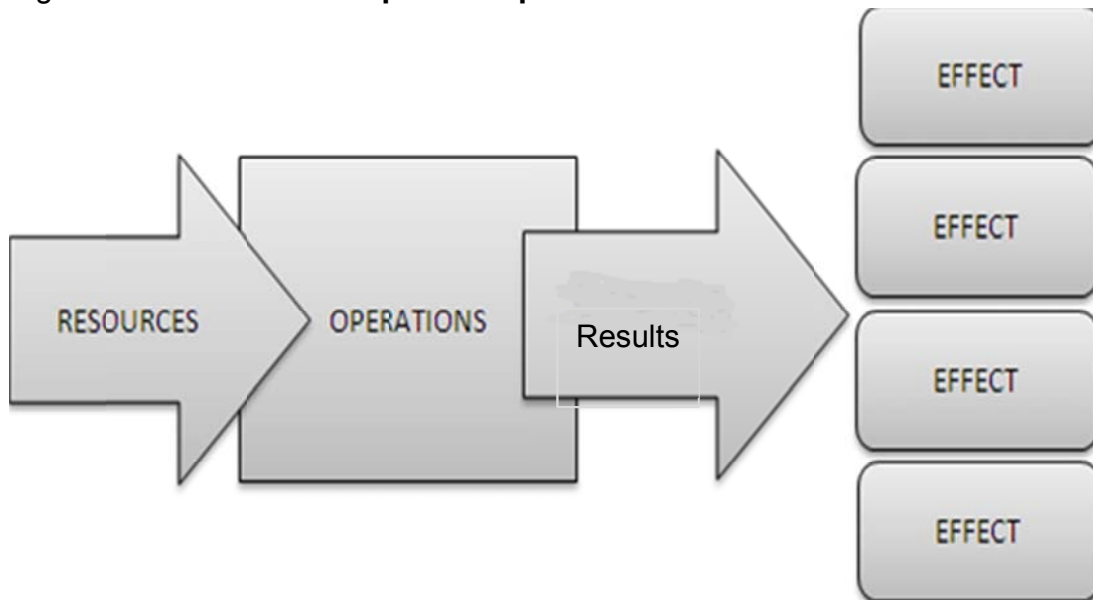
According to Steyn (2007:35), management by objectives replaces the process in which the manager sets objectives to be achieved by a participative process. In this process, the manager and the workers agree on the objectives to be achieved and how it will be monitored. A specific time is set in which the objective should be achieved and regular feedback on progress towards the objective puts the worker in a position to continuously evaluate and rectify his activities if necessary. Managers use objectives to motivate workers instead of controlling them. Subsequently, staff knows exactly what is expected from them and according to which criteria their performance will be measured. Participation in determining objectives increases acceptance of these objectives.

Anthony and Govindarajan (2001:72) describe the Balanced Scorecard as a performance measurement system, which “fosters a balance among different strategic measures in an effort to achieve goal congruence, thus encouraging employees to act in the company’s “best interest”.

Olve *et al.*, (2003:7) state that, “The Balanced Scorecard concept is based on three dimensions in time: yesterday, today and tomorrow. This implies that what we do today for tomorrow may have no noticeable financial impact until the day after tomorrow.” The focus is thus broadened and it is more relevant to keep a continuous watch on non-financial key ratios. **Figure 2.1** below indicates a traditional input-output model before the introduction of the Balanced Scorecard

concept to illustrate how goals and measures may be placed along a connecting chain, from resource input to the effects obtained.

Figure 2.1: **Traditional: Input – Output Mode**



Source: Olve *et al.* (1999:48).

Olve *et al.* (2004:8) believes that what is actually meant is the reflection of cause and effect, or some kind of identified priority, for example, a higher reported profit, a better reputation, or a diminished environmental impact. It could be concluded that several of these effects will, in turn, influence the company's future operations and become a kind of input for the operations of the subsequent period.

According to Spitzer (2007:91), Kaplan and Norton developed the Balanced Scorecard to make the company strategy more implementable through the use of performance management. Measurements in the Balanced Scorecard link current customer, internal process, employee, and system performance to long-term financial success. According to Kaplan and Norton (1996a:21), measurement matters, if you can't measure it, you can't manage it.

Performance measurements should normally allow companies to measure how well they are performing in reaching their strategic goals and objectives and what needs to be done to improve the future of the company and to ensure sustainable competitive advantage.

The objectives of a Balanced Scorecard are to align all members of a company around the common goals, strategies, vision, mission, values and key success factors to link initiatives to the strategy, making prioritising easier, providing feedback to the people on key issues which they can have an impact on, and it is an essential decision-making tool for everyone in the company (Niven, 2008:315).

This is all undertaken to ensure that the company continues with sustainable competitive advantage. It is estimated that about 40% of all Fortune 1000 companies have implemented a Balanced Scorecard system (Niven, 2008:315)

## **2.2. DEFINITION OF THE BALANCED SCORECARD**

“The Balanced Scorecard is a system of financial and non-financial measures that reflect a balance between leading and lagging indicators of performance and between outcome measures and measures that drive performance” (DeBrusk & Crabtree, 2006:44).

The features of the Balanced Scorecard is the appearance of a mixture of financial and non-financial measures as mentioned above, each compared to a “target” value within a single summarising report. The report is not meant to be a substitution for traditional financial or operational reports but a, to the point summary that captures the information most applicable to those using it.

The Balanced Scorecard is effective as it communicates the links between leading inputs, like human and physical processes, and lagging outcomes, it

focuses on the importance of managing these components to achieve the company's strategies.

The creative thinking of the Balanced Scorecard was for it to focus on information describing the implementation of a strategy, and perhaps over time there has been a vague impression of the limits between usual strategic planning and control performance; due to this, a need was created to design the Balanced Scorecard.

The Balanced Scorecard addresses the basic aim of financial profit, the cornerstone of every business, by revealing the driver stone creating long-term financial and competitive performance through investment in areas such as employees, customers, partners and technology, amongst others (McCann, 2000:36). It also aims to close the gap between the business's strategic vision and its day-to-day operations and decision-making (Towle, 2000:12).

The four steps in the Balanced Scorecard's goal is to translate the vision into operational goals, it communicates the vision and links individual performance. It continuously gives feedback and learning whilst adjusting the strategy accordingly.

Managers recognise the impact that measures have on performance in today's global competitive environment. Companies need to have a measuring system which drives actions that will ultimately lead to creating value for its shareholders, while also encouraging employees to be innovative and grow through the process of learning and experiencing.

The four perspectives as identified by Kaplan and Norton (1992:71) are:

- ❖ The **Financial** measurements are important and valuable in summarising the economic consequences of action already taken (Kaplan & Norton, 1996a: 25). Typical financial indicators include: operating income, revenue growth, return on equity (ROE), return on assets (ROA), return on investment (ROI), economic value added (EVA), sales growth and cash flow (DeBrusk & Crabtree, 2006:45). These measures analyse how the business's strategy is affecting the bottom-line. Therefore traditional measures such as growth, profitability and shareholder value are monitored. A number of goals are derived from this area of the Balanced Scorecard.

According to Kaplan and Norton (1996a:62), every measure selected for a Balanced Scorecard, should be part of a link of cause-and-effect relationship, ending in financial objectives. The financial goals are to survive, succeed and prosper. Survival is measured by cash flow, success by growth in sales, operating income and prosperity by an increased market share, return on equity and capital employed.

- ❖ The **Customer** measurements, relates to, "How do existing and new customers view and value us?" (Kaplan & Norton, 1992:71). The answer to this question requires customer involvement, as they need to identify their expectations of the firm and how they measure the firm's ability to achieve their goals. Newing (1995:22) emphasised, that for most companies the price factor only represents 30% of their customers' total cost of acquiring material or services. Therefore, businesses need to pay particular attention to identifying and understanding their customers' requirements. Another question that should be considered is: how are you affecting your customers' results?

It is important that managers translate their mission and strategy statements into specific market and or customer-based objectives. This is the strategy for creating value and differentiation from the measurement of the customer. To be able to formulate this measure, managers should know their targeted customer and market segment. Core outcome measurements in these measures are: share of market, retention, acquisition, partnerships, loyalty, satisfaction and profitability. To develop leading indicators, Kaplan and Norton (1996a:85) suggest that companies strive to select objectives and measures from the following three classes of attributes.

- Product or service attributes of services functionality
- Customer relationships.
- Image and reputation.

The Balanced Scorecard demands that management must translate their general mission statement on customer service into specific measure that reflects the factors that really matter to the customers. Customers are normally concerned with lead-time, quality of products and services, the company's performance with regard to service and the cost-effectiveness of the product or services.

- ❖ The **Internal** business measures, focuses on specific strategies to meet shareholders' and targeted customer expectations through the processes, skills, competencies and technology of the business by typically including operating efficiency and effectiveness such as labour productivity, process cycle time, quality and on-time delivery (DeBrusk & Crabtree 2006:45). The company must decide on what processes and competencies they must excel at and specifically measure each of them. Innovation highlights the importance of identifying the characteristics of the market segment a company wants to satisfy with new products and then also how to design and develop these products. The Balanced Scorecard must thus

allow for considerable weight and measure to encourage research, design and development work.

Kaplan and Norton (1996:96) suggest that a company's internal-business-process measurement can be developed by following a generic value-chain model which encompasses the following three principal business processes.

- Innovations (research the emerging or latent needs of customers and create products or services that will meet the requirements or needs of the customers).
- Operations (producing and delivery of existing products and services to customers); and
- Post-sale service (service to customer after the original sale or delivery of the product or service).

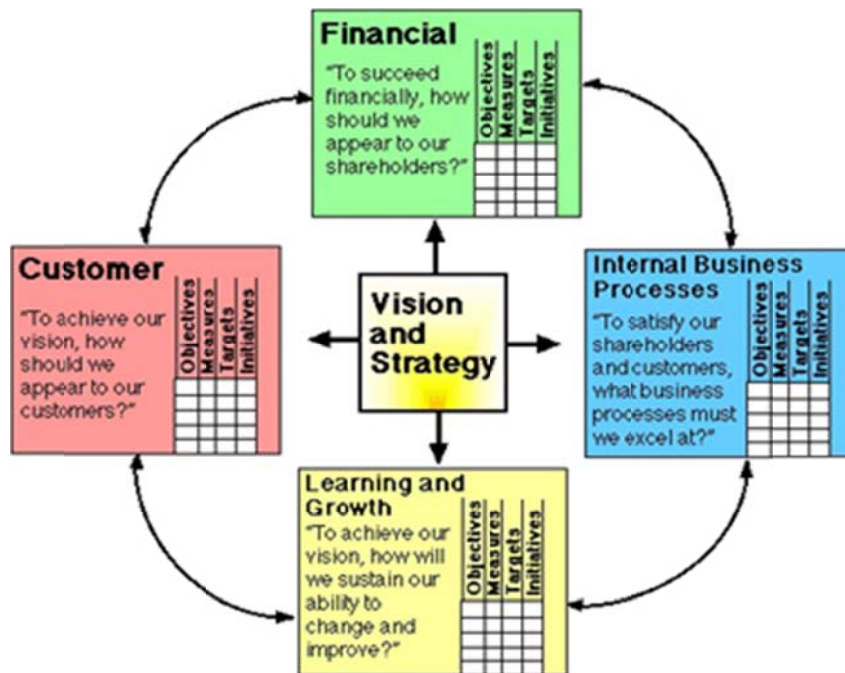
- ❖ The **Learning and growth** measures describes the company's intangible assets and its role in strategy (Kaplan & Norton, 2004:49). These measures are the drivers for achieving excellent outcomes in the business process, the customer and the financial measures. This is the strategy for continuous improvement and creating value. Learning and growth is measured in terms of employee skill levels, training hours and employee turnover (DeBrusk & Crabtree, 2006:45). It focuses on the business's ability to change, improve and adapt their products and processes, as well as the ability to develop and introduce new improved products and services (Kaplan & Norton, 1992:71). The business must set targets that respond to continuous change in customer needs (Newing, 1995:22).

In the Balanced Scorecard approach, the focus must always be on continuous improvement. Companies that do not improve continuously will eventually lose out to their competitors that do (Garrison *et al.*,

2007:452). According to Davies (2009), the Balanced Scorecard is based on the premise that we understand and measure the true drivers of financial success.

The Balanced Scorecard expresses the fundamentals in achieving the company's strategy and is the foundation of a company's present and future success.

**Figure 2.2: The Balanced Scorecard – Focus on Vision and Strategy**



Source: Kaplan, & Norton (1996:76)

### **2.2.1 Evaluation of the Balanced Scorecard**

The motivation for the study came from the belief that existing methods of evaluating business performance usually based on accounting and financial indicators were interfering with the ability of companies to create economic value for the future. Representatives from dozens of companies from a variety of economic sectors met every two months during 1990 to develop a new model of measuring performance. By following the path of the Balanced Scorecard evolution we follow the path of publications by Kaplan and Norton.

The earliest Balanced Scorecards comprised simple tables broken into four sections; these “perspectives” were labelled “Financial”, “Customer”, “Internal Business processes”, and “Learning and Growth”.

The design required selecting five or six good measures for each “perspective”. In the 1990s, an improved design method was created; in this the measures are selected based on a set of strategic objectives or strategic maps. In the late 1990s, the design approach had been changed again.

The new Balanced Scorecard’s thinking has developed considerably since the initial ideas that were proposed in the late 1980s and early 1990s and the 20<sup>th</sup> Century performance management tools including Balanced Scorecard are significantly improved being more flexible and more effective.

### **1992 - Performance measurement tool**

Kaplan and Norton introduced the Balanced Scorecard to the wider public in 1992. The concept was presented at that time as a performance measurement tool, used to capture besides the financial measures, the value-creating activities from a company's intangible assets (Kaplan & Norton, 1992:71). A year later, in a new article, they made the first references about the connection between performance metrics and strategy (Kaplan & Norton, 1993:167).

### **1996 - Performance management system**

By 1996, the Balanced Scorecard was labelled as a strategic performance management system, which formed the basis of a rallying framework for strategic processes, resource allocation, budgeting and planning, goal setting and employee teaching (Kaplan & Norton, 1996a). Same year they published the first book on the topic, entitled "The Balanced Scorecard: Translating Strategy in Action", which included instructions on how the concept should be implemented (Kaplan & Norton, 1996b).

### **2000 - Strategic management and control system**

The shift towards a more strategic use of the Balanced Scorecard was confirmed in a new article published in 2000 (Kaplan & Norton, 2000:167). The following year, their second book (Kaplan & Norton, 2001a) shined more light on the move to use the Balanced Scorecard as an all-encompassing strategic management and control system.

## **2004/5 – Strategy Maps and Office of Strategic Management**

The transition from the management accounting school to the strategy management school is confirmed by the focus on two components of the Balanced Scorecard framework that supports its strategic role: the Strategy Map and the Office of Strategic Management (Kaplan & Norton, 2004, 2005a). The strategy map describes the process for transforming intangible assets into tangible customer and financial outcomes (Kaplan & Norton, 2000).

## **2008 – Integration between strategy and operations**

A new phase in the evolution of the Balanced Scorecard concept is the emphasis on its integration role, aligning strategy with operations (Kaplan & Norton, 2008:62). The Balanced Scorecard is presented as a key company enabler of strategy execution, which in itself is presented as a company capability.

## **2010 – Closer link with risk management and leadership as company capabilities**

As the Balanced Scorecard Forum 2011 illustrated, the emphasis is now on an even closer integration with other company systems and capabilities, such as Enterprise Risk Management.

Many authors have predicted the success of the Balanced Scorecard system, leading us to believe that it will soon become an accepted managerial practice worldwide.

### **2.2.2 The need for the Balanced Scorecard**

Companies continue to struggle with the difficult challenges of our changing environment, which is brought by market demands, new technology, and especially in South Africa, with the pressures being placed on company performance due to a transforming workforce (Rampersad, 2006:147).

Kaplan and Norton (1993:135) further add three implicit reasons why companies need the Balanced Scorecard beyond the benefits mentioned previously. These are as follows:

- i. No single measure or set of measures can adequately guide and motivate the current actions that drive future performance.
- ii. Financial results report past performance but are not adequate predictors or drivers of future performance. Even current financial performance may be distorted by omitting the effects of current actions that have created or destroyed future value. Companies need to balance short term financial performance with long-term growth opportunities.
- iii. Companies must link their strategic objectives to a set of financial and operational measures in order to clarify and communicate the objectives and use them for evaluating performance.

In 1996, Kaplan and Norton argued that the Balanced Scorecard acts as a new strategic management system. The system is expected to link a company's long-term strategy with its short-term actions (Kaplan & Norton, 1996a). The Balanced Scorecard is discussed with respect to four critical management processes, namely clarify and translate vision and strategy,

communicate and link strategic objectives and measures, plan, set targets, and aligns strategic initiatives, and enhances strategic feedback and learning. Mooraj *et al.* (1999:481) agree with Kaplan and Norton (1996a:75) that the Balanced Scorecard may serve as a strategic management system in a company, and advocate further that the Balanced Scorecard in practice is a system, which primarily encourages managers at all levels to make strategic decisions based on the companies' common strategies. In developing the Balanced Scorecard concept further, Kaplan and Norton (1996a:75), present out the benefits from using the Balanced Scorecard in companies. They argue that the Balanced Scorecard can be used to:

- Clarify and gain consensus about strategy;
- Communicate strategy throughout the company;
- Align departmental and personal goals to the strategy;
- Link strategic objectives to long-term targets and annual budgets;
- Identify and align strategic initiatives;
- Perform periodic and systematic strategic reviews;
- Obtain feedback to learn about and improve strategy.

Anthony and Govindarajan's (2007:72) definition of management control may be related to these statements. They describe management control as the process by which managers influence other members of the company to implement the company's strategies. They place management control in between strategy formulation and task control. While strategy formulation focuses on long-term planning, task control includes short-term activities with a focus on current accurate data.

According to Anthony and Govindarajan (2001:72), the Balanced Scorecard is a performance measurement system, which aims at

implementing strategies. The Balanced Scorecard introduced by Kaplan and Norton primarily aims at supporting management control.

Thus, the definition has broadened to include both the nature of the end product and the activity of management control. However, one may reflect upon the long-term and short-term control of the Balanced Scorecard. Although Kaplan and Norton do not describe how to put forth vision and long-term strategies, they argue that the company should work with vision and strategies. One interpretation from their writing may be that a company that wants to adopt the Balanced Scorecard must have reached a certain degree of maturity before it can be fully implemented. There must be a clear vision and explicit strategies before the Balanced Scorecard can be adopted (Speckbacher *et al.*, 2003:361).

Widely defused, literature about the Balanced Scorecard has evolved over the last two decades divided into three dimensions of analysis, namely the *design*, the *implementation*, and the *use* dimension.

The *design dimension* of the Balanced Scorecard deals with the content of the Balanced Scorecard. Kaplan and Norton (1992) suggest that the Balanced Scorecard framework should include four perspectives, which encompasses financial and non-financial measures and targets. The measures should be aligned to the company's vision and strategy (Kaplan & Norton, 1993). In practice, the content of the Balanced Scorecard is being adopted to the specific company. For instance, in Swedish companies it is popular to include a fifth perspective – employee perspective – as a complement to the model presented by Kaplan and Norton (1992).

The *implementation dimension* of the Balanced Scorecard deals with the building and introduction of the Balanced Scorecard. Kaplan and Norton

(1993) propose an eight-step model for implementing the Balanced Scorecard although they argue that each company is unique and should follow its own path for building a Balanced Scorecard. However, empirical findings show that there are several difficulties in implementing a Balanced Scorecard, which are not highlighted by its advocates (Radnor & Lovell, 2003:99).

The *use dimension* of the Balanced Scorecard deals with the outcome of implementing the concept in terms of company effectiveness. Kanji (1998:633, 2003:715) and Kanji and Sá (2001:898, 2002:13) argue that the Balanced Scorecard is primarily used in two ways, namely as a new information system that helps managers to focus and as a strategic management system based on the criteria presented by Kaplan and Norton (1996a).

Kald and Nilsson (2000:113) show that performance measurement systems are primarily used in decision-making at top management level. Kennerley and Neely (2002:1222) present a framework of factors affecting the evolution of performance measurement systems. All these studies deal with the period after the implementation when the Balanced Scorecard becomes an integrated part in the company's day to day work. The relation between these dimensions can be understood by using a framework for understanding strategic change by Pettigrew and Whipp (1991:264). Their model is based on the basic assumption that strategic change should be considered as a continuous process, which is contextually dependent. The authors argue that there are three interrelated dimensions that need to be considered in order to understand strategic change.

Firstly, the *content* of the strategy including goals, markets and products constitute the area in which the change takes place. Secondly, the *process*

dimension deals with the change process and it's concerned with how the change was implemented.

In this dimension, the content is being realised and formed (Pforsich, 2005:31). Thirdly, the *context* dimension deals with the surroundings in which the change takes place. These three dimensions are related in the sense that the context needs to be considered in order to understand the content and process dimensions and vice versa. The model can be used in studying changes other than only strategic changes, since the model highlights the complexity in general change initiatives.

By using this model on the analytical dimensions of the Balanced Scorecard, it shows that the content corresponds to the design dimension since it deals with the elements included in the Balanced Scorecard.

The process corresponds to the implementation dimension. In the implementation phase the Balanced Scorecard design is formed and integrated in the company (Pineno & Cristine, 2003:28).

The context dimension is primarily considered in the use dimension. This dimension deals with how the Balanced Scorecard design is being applied in work practice with respect to the existing structures, systems and processes in the company. The use of the Balanced Scorecard depends very much on the implementation dimension, since the use reflects the outcome of the implementation of the Balanced Scorecard (Papalexandris *et al.*, 2004:351, 2005:214).

## **2.3 ALIGNMENT OF THE BALANCED SCORECARD OF THE COMPANY STRATEGY**

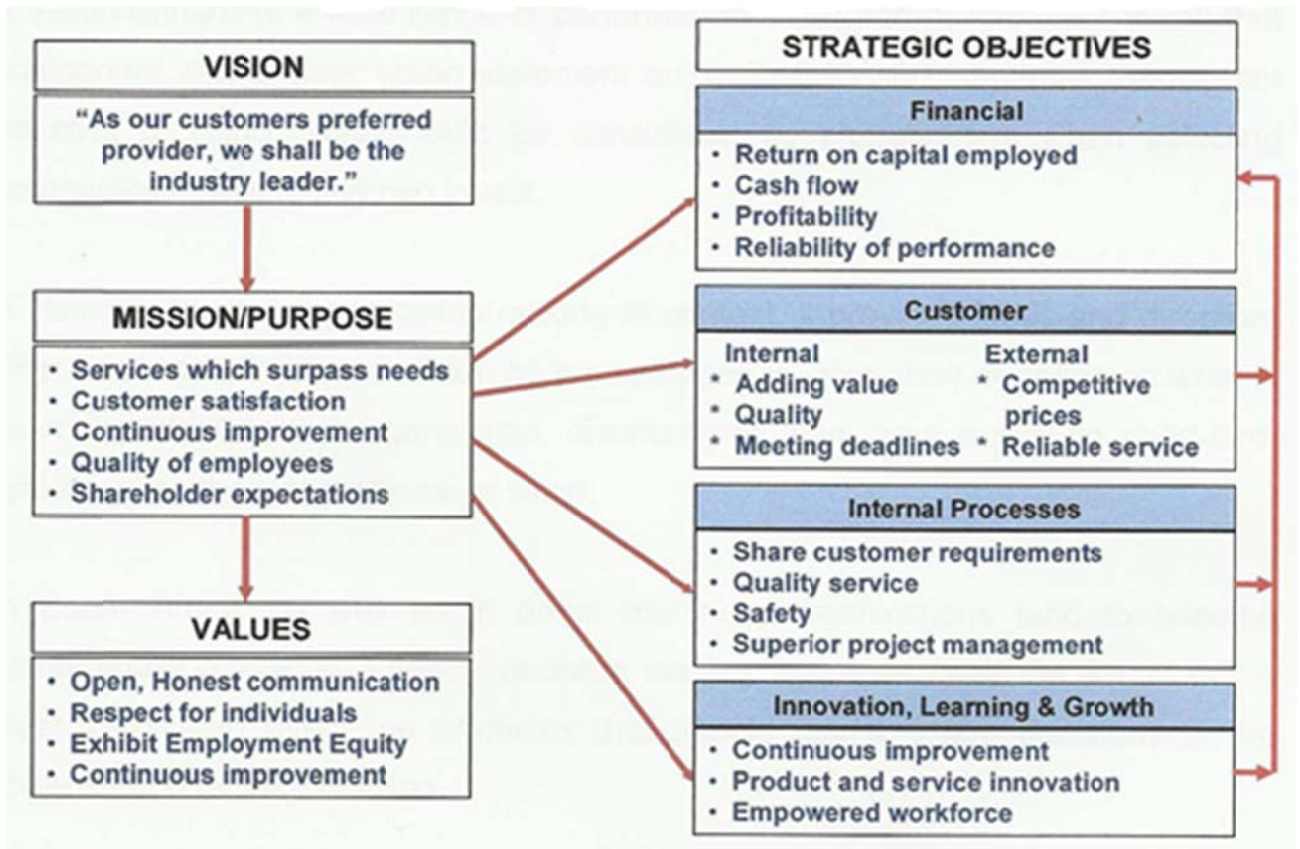
According to Coetsee (2003:27), aligned commitment means that all members of a division or company are committed passionately to achieve the same goal.

In Balanced Scorecard language, the vision, mission and strategy are broken up into different “perspectives”, as seen through the eyes of business owners, customers, other shareholders, managers and employees (Venter, 2004:42).

The effectiveness of a company’s strategic orientation requires knowledge to determine the alignment among different elements (Cummings & Worley, 2005:694). Kaplan and Norton (2004:299) state, that alignment is the necessary condition before empowering and then the individual will empower the whole team. Senge stresses (as quoted by Kaplan & Norton, 2004:299) that broad based company change requires alignment when all team members do not have a commonality of purpose, a shared vision and an understanding of how personal roles support the overall strategy.

According to Niven (2005:129), through alignment, one would be harnessing the greatest resources known to humankind: the minds and hearts of employees. Cascading the company scorecard through the company is one way of getting alignment amongst people in order to ensure the company strategy is achieved. Cascading is the process of developing Balanced Scorecards at all levels of the company. The scorecards measure lower level business units, departments and groups to track its progress, in contributing to the overall goals of the company (Niven, 2005:130).

**Figure 2.3: The components of the Balanced Scorecard**



Kaplan & Norton (1993:135).

Figure 2.3 indicates the relationship between the various Balanced Scorecard components which will be discussed in detail below:

### 2.3.1 The Company vision

The Balanced Scorecard process starts with senior managers translating the company strategies into specific strategic objectives. It thus allows managers within the company to build consensus around its vision and strategy. The vision is made explicit and is shared by all

employees. It is communicated in terms of goals and incentives (Olve *et al.*, 1999:17).

Amaratunga *et al.* (2000:66) reiterated the importance of gaining clarification and consensus about the vision. Its purpose is to guide and control an entire company towards attaining a shared conception of the future.

According to Smit and Cronje (2011:95), for top management to lead the company to success in the future it needs a strong vision. Smit and Cronje (2011:96) indicate that a clear vision is important to a company for the following reasons:

- i. A vision promotes change, it serves as a road map for companies as they move through accelerated change, and thus it is a vehicle for driving change.
- ii. A vision provides the basis for a strategic plan.
- iii. A vision enhances a wide range of performance measures. It has been found that companies with a clear vision statement outperform those companies that do not possess a vision.
- iv. A vision helps to keep decision-making in context, it provides focus and direction. Companies with a clear vision help employees to focus their attention on what is most important to the company, discouraging them from exploiting short-term opportunities they may otherwise take hold of.
- v. In South Africa, as well as in other countries, companies tend to become managerially leaner and flatter; decision-making becomes more decentralised. A clear vision can affect the

premises that people use to make decisions in the absence of direct supervision.

- vi. A vision motivates individuals and facilitates the recruitment of talent. A vision should enable employees to see how their effort contributes to the company's success. The vision should also indicate the attributes valued by company, for example, innovation and knowledge.
- vii. A clear vision has positive consequences. When top management effectively communicates the vision, there is a significantly higher level of job satisfaction, commitment, loyalty, pride, and clarity about the company's values, productivity and encouragement.

Kaplan and Norton (1996:10) agree that a shared ultimate goal or strategy that has gained consensus and translates the direction the company wishes to head in, is the starting point from where a Balanced Scorecard can be formed.

### **2.3.2 The Company mission**

According to Pearce and Robinson (2005:11), the mission can be defined as the fundamental, unique purpose that sets the company apart from other companies of its type and recognise the scope of its operations in (i) product, (ii) market and (iii) technological terms.

A mission statement, therefore, provides answers to the questions:

- a. What is our client, in other words, the product?
- b. Who is our client, in other words, what is your market?

- c. How will we provide this product or service, in other words, what technology will be used?

Pearce and Robinson (2005:11) go on to say the answers to these three questions should clearly set the company apart from similar companies. A mission statement should ensure unanimity of purpose within the company, and serve as the basis for resource allocation. The mission statement also sets the parameters within which all decisions should be made.

### **2.3.3 The Company values**

The value statement of a company is fundamental to how a company achieves its vision. According to Smit and Cronje (2011:247), it also plays an integral role in forming company culture in other words how managers, employees and customers interact and behave towards one another.

A company should state the following in their value statement or incorporate it in the mission statement. This is often referred to as the philosophy of the company (Pearce & Robinson, 2005:11):

- ✓ The company's intention to secure its survival through sustained growth and profitability.
- ✓ The company's culture.
- ✓ The company's public image.
- ✓ The self-concept of the company (company strengths).

#### **2.3.4 The Company strategy**

According to Ehlers and Lazenby (2007:2), they define strategy as the process whereby all the company function and resources are integrated and coordinated to implement formulated strategies which are aligned with the environment, in order to achieve the long-term objectives of the company and therefore gain a competitive advantage through adding value for the stakeholders. Competitive advantage is the edge that a company has over other companies. A strategy can therefore be defined as an effort or deliberate action that a company implements to outperform its rivals.

Strategy is about creating a sense of urgency through the setting of an overarching, ambitious goal that stretches the company and focuses on winning in the long run.

A vision statement focuses on the future, something better, whereas the mission statement focuses on the present of the reality. As a management tool or concept strategy contains elements of both the vision and the mission. On the one hand it focuses on a future goal or dream, and also loses its power once achieved. On the other hand it focuses, in the same way as the mission, on the purpose and strategy of the company. A company's vision and mission statement can articulate or include the company's strategy.

## **2.4 ADVANTAGES AND DISADVANTAGES OF THE BALANCED SCORECARD**

### **2.4.1 Advantages**

Research done by numerous authors and Kaplan and Norton (2004:92-94) have indicated that the Balanced Scorecard has many benefits for companies if applied effectively. According to Coetsee (2003:42), effectiveness is not only doing the right things right, but it is to want to do the right things right.

According to Schneiderman (1996:6), nearly every surviving company has made dramatic improvements to the obvious areas. Now, the vital few areas for improvement are much less visible. The Balanced Scorecard helps to focus the entire company to identify those key areas for improvement through realistic real-time measurement across multiple business measurement (Kaplan & Norton, 1993:136). Thus the Balanced Scorecard needs to be a balance of plenty participation to make it meaningful yet effortless enough to maintain precision and workability.

The Balanced Scorecard can act as an integrating device, in other words, an umbrella, for a variety of diverse, often disconnected corporate programs, such as quality, re-engineering, process redesign and customer service (Kaplan & Norton, 1993:135).

Company-level measures can be broken down to lower levels in the company so that local managers, operators and employees can see what they must do well in order to improve company effectiveness (Kaplan & Norton, 1993:136).

It maintains a balance between building long-range competitive abilities and recognising investors' attention to financial reports. Thus financial measures are viewed in the larger context of the company's long range competitive strategies for creating future value through investment in customers, suppliers, employees, processes, technology, and innovation (Chow, Haddad & Williamson, 1997:22). It provides a comprehensive view that overturns the traditional idea of the company as a collection of isolated, independent functions and departments (Kaplan & Norton, 1993:136). The Balanced Scorecard helps make strategy operational by translating strategy into performance and measurement targets (Kaplan & Norton, 1993:135).

Kaplan and Norton (1993:135) further add these implicit reasons why companies need the Balanced Scorecard beyond the benefits mentioned previously. These are as follows:

1. No single measure or set of measures can adequately guide and motivate the current actions that drive future performance.
2. Financial results report past performance but are not adequate predictors or drivers of future performance. Even current financial performance may be distorted by omitting the effects of current actions that have created or destroyed future value. Companies need to balance short- term financial performance with long-term growth opportunities.
3. Companies must link their strategic objectives to a set of financial and operational measures in order to clarify and communicate the objectives and use them for evaluating performance.
4. The Balanced Scorecard enables a company to integrate its strategic planning with its annual budgeting process.
5. The Balanced Scorecard measures what matters in order to achieve breakthrough competitive performance. It helps the entire company to focus on what must be done to create breakthrough performance.

6. It encourages employees to develop initiatives to support the company's strategic direction.
7. It breaks down corporate level measures for managers, operators and employees to see what they must do well, in order to improve the effectiveness of the company.
8. It forces people to use valid and meaningful data related to key measures.
9. It helps to meet shareholders' expectations.
10. It creates a set of measures for benchmarking, forcing management to consider all operational measures together and focusing on growth opportunities rather than on individual short-term gains.
11. It sets strategic priorities for process enhancements.

In order for companies to achieve some of the benefits listed, it is important that the Balanced Scorecard must be implemented and formulated effectively. An effective Balanced Scorecard will also ensure continuous improvement. The Balanced Scorecard should be the core management system, not only the measurement system. A Balanced Scorecard makes sense primarily for business units and divisions with a well-defined strategy (Kaplan & Norton, 2005c:11)

#### **2.4.2 Disadvantages**

No single system can work for all companies. The Balanced Scorecard has been analysed by many, one of the assessments of the Balanced Scorecard is Norreklit (2000:65) that questions some parts of the Balanced Scorecard. One of the areas that Norreklit analyses is the cause and effect chain, this is seen as the central part of the Balanced Scorecard. One of the problems with this as it is presented by Kaplan and Norton (1996a) is that there is no time dimension presented, therefore it seems like there is no

time lag between the stages in the connecting chain. Additional to this Norreklit questions the fact that Kaplan and Norton takes for granted that there is a relation between different measures.

This is evident from the arguing that increased customer satisfaction leads to increased customer loyalty which automatically leads to improved financial performance (Kaplan & Norton, 1996a). When examining the sources, that these argument are based on, it is obvious that it is not as easy as just saying increased customer loyalty will lead to increased financial performance, partly since the main source used to back-up this statement is Radnor and Lovell (2003:99) who has a definition of customer loyalty which means that loyal customers are the ones that “*involve low costs and give high prices*” (Norreklit, 2000:73).

Should it happen that Kaplan and Norton’s (1996a) arguments are wrong, concerning the connecting chain, and it does not work, as presented in theory, it could result in businesses working with measurements that will not improve their financial performance and hence create adjusted company performance (Norreklit, 2000:65).

For companies considering using the Balanced Scorecard, they need to take into consideration some of the threats of the Balanced Scorecard, so as to ensure that it does not provide future problems for companies implementing the Balanced Scorecard:

- Decline in worker participation. If staff are not prepared or informed about the process of change, resistance will develop.
- The dominating financial measure is another threat. It is dangerous to focus too much on financial factors; this can restrict focus which is linked to planning discussions, and short-term financial

considerations can create a gap between strategy development and implementation.

- Taking on too many measures is another threat. Clarity can be lost. This is crucial as over excess of measures in the scorecard will lead to follow-ups becoming too complicated. Due to this, the clarity in reaching the goals can be lost.
- Keeping the scorecard alive is also very important. It is essential that the Balanced Scorecard is maintained, worked on and improved continuously. The risks of failure increase dramatically if the measures of the scorecard are considered fixed, or are not constantly reviewed (Kaplan & Norton, 1996b).
- Timing is very important. Change takes time – even if the creation of the Balanced Scorecard might just take a few months to create, but it takes years before the whole process is working smoothly throughout the company.

Due to the above, management needs to be patient; they need to continue working hard on the implementation (Venkatraman & Gering, 2004:1; Sioncke, 2005:1023).

Since strategy implementations often fail, Kaplan and Norton have identified four possible reasons for the shortfall. They argue that the main causes of poor strategy implementation are (Kaplan & Norton, 1996a, 2001b):

- Visions and strategies are not actionable;
- Strategies that are not linked to departmental, team and individual goals;
- Strategies that are not linked to long and short-term resource allocation;
- Feedback that is tactical and not strategic.

Kaplan and Norton (1996a, 2006) claim that the first barrier occurs when the company cannot translate its vision and strategy into terms that can be understood and acted upon. Where fundamental disagreement exists about how to translate the vision and mission statement into action, the consequence is suboptimal use of efforts. With lack of consensus and clarity, different groups will work after different agendas according to their own interpretation of the vision and strategy. Their efforts are neither integrated, nor cumulative, since they are not linked coherently to an overall strategy.

Ceelman (1998:128) presents a similar barrier. This is named "*lack of understanding of the strategies in the company*". He means that those that shall execute the strategies may not understand them because they are uneasy to transform into operative goals.

Furthermore, Thompson and Strickland (2003:41) claim that one cannot adopt and implement a leader's vision if one does not know it. If the vision and strategies are not known to us, one cannot act upon them. They present ten commandants needed to be in place for change with a strategic fundament.

They promote that the company's' corporate strategies are the starting point for the change process and the allocation of resources must follow the strategy. Beer and Eisenstat (2000:29) claim that unclear strategies and prioritising; may conflict with poor horizontal co-ordination. This may occur when having different strategies and stakeholders fighting for the same resources. This also indicates that the understanding of the overall strategy and action plan is important. The 22 middle managers can't be expected to cooperate effectively when top management strategies drive them in competing directions (Malina & Selto, 2001:47).

The second of Kaplan and Norton's (1996a, 2005b) barriers, arise when the long-term requirements of the business units and strategy are not translated into goals for departments, teams and individuals. Instead, departmental performance remains focused on meeting the financial budgets, established as a part of the traditional management control process. Likewise, teams and individuals within departments have their goals linked to achieving departmental short-term and tactical goals and not on building capabilities that will enable achievement of longer term strategic goals.

Ceelman (1998:128) is in line with Kaplan and Norton (1996a, 2005b), and presents a barrier where individual goals and competence development is not linked to the implementation of strategy. The author also mentions that the management system often is designed for operational and not strategic control, and that focus remains on the traditional management control processes.

On this point, Ceelman (1998:128) argues that managerial information is connected to budgets and accounts rather than strategy. As the budget is the key instrument to prioritize, it is also the most powerful tool in establishing linkage and relationships between departmental and individual goals and the strategy. Thompson and Strickland's (2003:108) success factors point out that a company's training and education program must be adjusted and harmonized with the company's core values. This is one way to secure that enough resources are used in these areas. Furthermore, personal acknowledgement and incentive systems are important. They argue that employees must feel that their works are appreciated to support the company and what it stands for.

When doing so, the authors claim that the workers are more likely to remain active and enthusiastic, supporting the objectives of the company. This can be seen as a support to the Kaplan and Norton's second barrier.

The third barrier of strategy implementation is the failure to link action programs and resource allocation to long-term strategic priorities. Many companies have separate processes for long-term strategic planning and short-term (annual) budgeting. The consequences may be that funding and capital allocations are unrelated to strategic 23 priorities. Major initiatives may be undertaken with an inadequate sense of priority with regard to strategic impact. Monthly and quarterly reviews focus on explaining deviations between actual and budgeted operations, and not on whether progress is made towards strategic objectives. Ceelman (1998:128) argue that management information is tied to budget and accounts, instead of strategy. Thompson and Strickland (2003:357) argue that successful implementation of strategy requires that the resource allocation must follow the company's strategy.

They claim that the financial focus must emphasise both support of core activities with sufficient resources and reduce the support towards less important ones. By doing this, a link is created between the strategies and the resource allocation.

The final barrier is the lack of feedback on how the strategy is being implemented and whether it is working. The authors argue that most management systems of today provide feedback only on short-term operational performance. They say that the bulk of this feedback is on financial measures, usually comparing actual results to monthly and quarterly budgets. Little or no time is spent on examining indicators of strategy implementation and success. The consequence is that the companies have no way of getting feedback on their strategy, and without feedback they have no way to test and learn about their strategy. This is also pinpointed by Ceelman (1998:128). It concerns whether the company has out-dated systems and only report on budget and accounting figures.

The problem is that they do not report other central parameters for development of strategy drivers. Thompson and Strickland (2003:410) support this by arguing that an incentive system must be connected to the strategy, where it is important to support values that sustain the company's strategies. This is a critical success factor in order for succeeding in implementing strategy changes. One difference between Kaplan and Norton's Balanced Scorecard (1996a, 2005a, and 2005b), barriers and the other theorists is that Kaplan and Norton do not mention leadership style. This is one barrier addressed by Beer and Eisenstat (2000:29) that influences the implementation of a strategy. Furthermore, Thompson and Strickland (2003:359) argue that leaders' involvement is important. The leadership style influences the culture, power, and politics, at the same time as they are responsible for the process.

The Balanced Scorecard does not address leadership 24 motivations and trust. However, Kaplan and Norton (2001a) state that the most important driver of success in strategy implementation is the top management leadership style, and not the tool itself. The authors argue that the leadership style has a larger effect than the analytical and structural strength of the tool. They motivate this by referring to experiences of leaders that have managed a successful Balanced Scorecard implementation emphasising communication as the largest challenge.

These top managers understood that they could not get the strategy implemented without an extensive involvement from middle managers and other employees. Furthermore, the top manager did not know all steps that had to be enforced for a successful implementation. However, they held a clear opinion of how the success should be and the goals that had to be achieved. The top managers depend on the employees to take part in making the vision operational and institutionalized (Kaplan & Norton, 2001a). Top managers' influence and trust will therefore be a critical

assumption for the Balanced Scorecard to work as a strategy implementation tool.

Finally, both Beer and Eisenstat (2000:29) and Thompson and Strickland (2003:420) address how companies' cultures affect the strategy implementation. Bayer *et al.* (1997:3) direct focus on *how* the implementation is made has consequences for the result of the strategy implementation. As pointed out, Kaplan and Norton (1996a, 2005a, and 2005b) do not have one particular implementation model.

According to Kaplan and Norton (as quoted by Bhatia, 2008:137), the basic problem of the Balanced Scorecard is that it sometimes states too many goals. These goals are often difficult to achieve, especially in a company, where there are chances of clashes arising among business units.

Many managers have stated that the Balanced Scorecard is not as straightforward as it appears. Kaplan and Norton (1996:284) suggest that these failures can be categorised in two main categories:

- Structural defects (choice of measures), and
- Company defects (process of developing and implementing the Balanced Scorecard).

Structural defects come about when managers attempt to supplement already existing financial measures with non-financial measures like market share and customer satisfaction. These non-financial measures, however, already contain defects of traditional financial measures – they are generic, lagging and report on how well the company's strategy has worked in the past. Managers need to balance leading indicators with the lagging indicators to achieve excellent long-run financial performance (Kaplan & Norton, 1996:285).

Company defects come about due to not enough development and implementation of the Balanced Scorecard. The Balanced Scorecard development should be led by senior executives and should not be based on general measures used by other industrial leading companies, but be derived for breakthrough performance. The Balanced Scorecard is a dynamic process and should be reviewed continuously – rather start the process and keep on learning how to manage with a balanced set of performance drivers and outcome measures (Kaplan & Norton, 1996:286).

Schneiderman (1996:6) identifies six main reasons for failures of the Balanced Scorecard:

- a. The non-financial variables are incorrectly identified as primary drivers of future stakeholder satisfaction.
- b. The metrics are poorly defined.
- c. Improvement goals are negotiated. These goals should be built on stakeholder requirements, fundamental process limits, and improvement process capabilities.
- d. There is no deployment system that breaks down high-level goals to the level where actual improvement activities reside (loss of line of sight).
- e. No state-of-the-art improvement system.
- f. There is no quantitative linkage between the non-financial and anticipated financial results.

Problems can also occur if the performance measures used by managers in the Balanced Scorecard are not consistent with or follow the company's strategy. Problems can also occur to a significant extent if the performance measures are not understandable and controllable by those being evaluated. This will lead to de-motivated employees. Further problems that could occur if the Balanced Scorecard has too many performance

measures could be a lack of focus and confusion (Garrison *et al.*, 2007:452).

Spitzer (2007:92) said that Balanced Scorecards are viewed as “panacea” and are often used as a quick fix. The Balanced Scorecard system will not work in companies where the strategic differences are not resolved adequately.

Niven (2002:317) state that companies need to be on the look-out not to fall prey to at least one of the following Balanced Scorecard implementation issues:

- ⊕ Premature links to management processes
- ⊕ Lack of cascading
- ⊕ Terminology use
- ⊕ No new measures
- ⊕ Consistent management practices
- ⊕ Timing
- ⊕ No objectives for the scorecard
- ⊕ No strategy
- ⊕ Lack of training and education, and
- ⊕ No executive sponsorship.

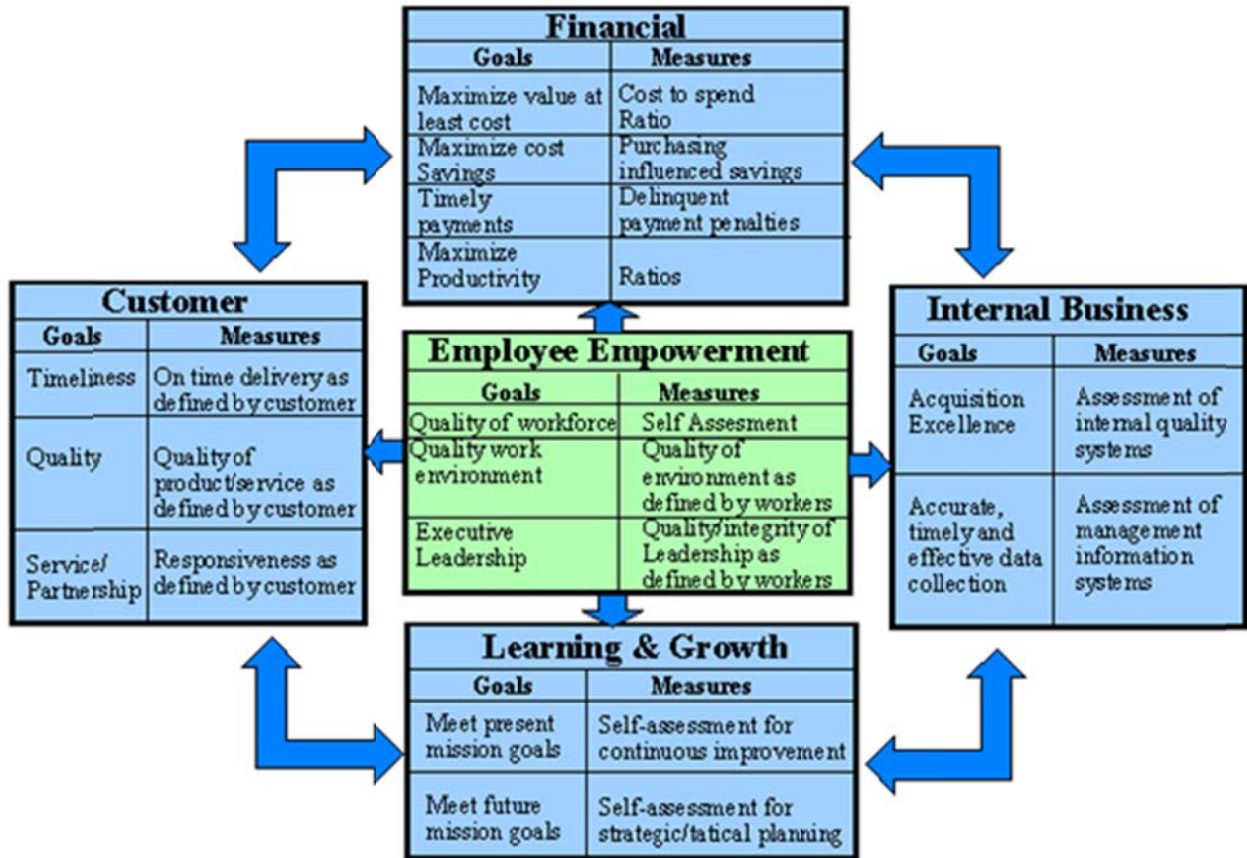
## **2.5 USING THE BALANCED SCORECARD FOR PERSONAL DEVELOPMENT AND LINKING IT TO COMPENSATION AND ORGANISATIONAL LEARNING**

The Balanced Scorecard allows for a merging of factors to be included to measure company and individual performance. These include strategic, well-defined values, strategy aligned structure, sound processes, courageous leadership, skilled people and importantly, a high performance and learning culture. The learning and growth measure of a Balanced Scorecard is the most important factor, as it holds it all together and makes a distinction between the company and its competitors (Rampersad, 2006:148).

The Balanced Scorecard shows the importance of investing in the future. The investments include people, systems and procedures. According to Kaplan and Norton (1996:127), the following three principal categories for the learning and growth measure apply:

- ★ Employee capabilities
- ★ Information system capabilities; and
- ★ Motivation, empowerment and alignment.

Figure 2.4: Federal Procurement Scorecard



Kaplan & Norton (1996a:75).

It is important that this measure is used as a self-development process of an individual. Dr Hubert Ramsperad (2006:15) noted that both individuals and managers can greatly benefit from a well-structured personal Balanced Scorecard.

These benefits include the following:

For the individual

- ★ Better understanding of one's self and increased self-esteem.
- ★ Self-actualisation.
- ★ Greater satisfaction and inner involvement in the work (happiness is enhanced at the work by reducing the gap between company life and private life).
- ★ Working smarter instead of harder (we become more creative as we grow; we become good time-managers).
- ★ Greater usage of individuals' mental capacity and productivity; and
- ★ Increased personal responsibility (the more competent people become the more confident they become to take on more complex work).

For the manager

- ★ Higher employee commitment.
- ★ Greater customer satisfaction (employees deliver quality work on time).
- ★ Improved employee performance.
- ★ Essentially motivated employees.
- ★ Less absenteeism and grievances for the company (stress and burnout are reduced).
- ★ Individual and team empowerment (individuals start to trust fellow workers and share personal ambition and knowledge).
- ★ Increased innovation.
- ★ Effective talent management (taking up challenges and developing of related skills).
- ★ Effective diversity management; and
- ★ Sustainable company effectiveness.

The pay component of the equation keeps everyone committed to do whatever it takes to achieve the scorecard targets (Niven, 2005:148). Niven (2002:244) says that linking the Balanced Scorecard to compensation will result in even greater individual differences. He further states, that the base salary of people is normally not affected by the Balanced Scorecard. The Balanced Scorecard is used more in variable or incentive compensation.

In order to ensure the right link to compensation it is very important to do proper planning by focusing on the following:

- Purpose. What is the overall purpose of the linkages of compensation to the Balanced Scorecard? What specific behaviours are you attempting to encourage or discourage? How will the new pay plan affect the culture?
- Communication. Compensation is always an issue; thus it is in a company's best interest to communicate the specifics to the entire employee audience as soon as the Balanced Scorecard plan is developed. It must be ensured that the plan is fair while, equitable and the benefits must also be highlighted.
- Development. It is important that a variety of participants are involved to ensure the different measures and functions are represented.
- System review. It must be made clear that the payment program will be reviewed continuously, normally twelve months after the initial launch. This will also indicate a signal of commitment by management and it will ensure that it is possible to make modifications if necessary.

Niven (2005:150) later also states, that the following key principles must be considered when forging or designing the critical pay-for-performance link:

- Communicate the incentive compensation plan. It is imperative that before launching any compensation plan, the detail of management's intentions needs to be communicated widely. This

information must be shared with the employees in order to ensure the plan is understood, as well as how it advances the company's strategic plan.

- Who participated in the plan? It is important to determine exactly who will participate in the compensation plan. The level or group of people linked to the compensation plan varies between different companies.
- Are rewards based on individual or group efforts? Most work in companies has a cross-functional component and therefore, rewards should represent this reality. An approach that can be followed is to use both group and individual incentives by using an incentive programmes. This will ensure rewards for outstanding individuals and it will also prevent some less motivated employees from earning rewards only on the backs of fellow workers.
- Measurements to be included in the compensation plan. Incentives should be spread across all four measures. This will inspire the team to grasp the greater significance of individual performance metrics as it works together to spell success. Different weights can be linked to each measure in order to ensure focused employee attention on critical drivers for performance in his or her specific area.
- Measured to be used. It is very important to use the right measures on a Balanced Scorecard to ensure the strategic goals are achieved. Selecting the wrong measure can send results spiralling in the wrong direction as people will be compensated on performance while company goals are not achieved.
- Lead and lag indicators. A healthy and appropriate mix of lead and lag indicators ensures that people are focused both on results today and the determinants of sustaining that success.
- Thresholds and targets. It is important that companies must set a threshold that must be met before any rewards are distributed. All

measures forming part of the compensation plan must have targets or multiple target bands that will affect the level of rewards.

- Different types of rewards. Companies can apply monetary awards or recognition in various forms. What is important is to ensure those individuals' desires and preferences must be met.
- Frequent reporting of results. Continuously updated performance information is needed to ensure that people know where they stand and what needs to be done to earn the promised rewards. Linking incentives to metrics that are calculated once a year, will hardly galvanise employee actions because the results are too far in the future.

Personal development form a very important part of the Balanced Scorecard and this learning and growth measure forms the base to successfully manage the other three measures.

According to Garrison *et al.* (2007:454), managers must be confident that the performance measures are reliable, sensible and understood and not easily manipulated by those who are being evaluated. According to Kaplan and Norton (as quoted by Garrison *et al.*, 2007:454), compensation is such a powerful lever that you should be confident that the right measures and good data for measures are available before making the link of tying compensation to the Balanced Scorecard.

Lawler (2003:402) states that performance systems are more effective when there is a connection between the results of the performance management system and the reward system of the company. It is also strongly emphasised that companies should not separate performance from determining pay changes and conclude by saying that it is good practice to tie the results of performance reviews to the financial rewards individuals receive.

Davies (2009) also states, that it is very important that the Balanced Scorecard measurements must be used as part of what determines compensation of employees. If this is not done, the credibility of the process will be undermined.

According to Kaplan and Norton (1996:217), the big question faced by all companies, is where and how to link the compensation system to the Balanced Scorecard measurements. It is important that, for the Balanced Scorecard to create a cultural change, incentive compensation must be connected to achievement of the Balanced Scorecard objectives. Based on this, the issue is not whether, but when and how the connection should be made to compensation.

According to Kaplan and Norton (2007:155), most companies believe that tying financial compensation to performance is a powerful lever, for which a linkage needs to be established. It also states what has been said by the CEO of Pioneer, that linking compensation to the Balanced Scorecard has helped to align the company with its strategy.

It must, however, be kept in mind that as attractive and as powerful as the linkage is, it nonetheless carries risks. Examples of these risks can be identified by asking the following questions:

- Does the company have the right measures on the scorecard?
- Does it have valid and reliable data for the selected measures?
- Could unintended or unexpected consequences arise from the way the targets for the measures are achieved?

Many companies believe that performance measures are more motivational if linked to rewards. The performance measures used in a Balanced

Scorecard are very important for the success of the Balanced Scorecard system. To generalise, according to Correia *et al.* (2008:672), the following factors should be common to all scorecard approaches in order to reduce the likelihood of dysfunctional behaviour:

- The measures should support the objectives and strategy of the business;
- These should cascade down through the various levels of the company;
- The chosen measures should include both short-term and long-term measures as well as financial and non-financial measures.

DeBrusk and Crabtree (2006:47) also say, that providing incentive compensation based on Balanced Scorecards is easier said than done. It is difficult to link Balanced Scorecard measures to compensation and it carries some risk because incentive pay based on a few variables will focus attention only on those variables that can increase compensation.

The remaining variables will be ignored even though also linked to the company strategy. A pay plan that focuses only on a few variables will also tend to focus on financial measures, which are focused on short-term results that can be manipulated easily.

A survey done on members of the Institute of Management Accountants indicates that 65% of the respondents, who did not see an increase in operating performance, did not use the Balanced Scorecard to determine management compensation (DeBrusk & Crabree, 2006:48).

The following methods can be used to link the Balanced Scorecard to compensation (Niven, 2002:249):

- Basing rewards on overall results. Under this method a certain percentage of incentive compensation is available should the company achieve some or all of its goals. Weights are assigned to each of the four measures to the sum of 100%.
- Driving the link to all levels of the company. This is where the cascading technique is used to align rewards with results that hit closer to home for employees. With this method, outstanding performance is rewarded differently on individual levels.
- Competency-based pay. Incentive compensation is directed towards the acquisition of competencies. This method was used the least up to date.
- Gain sharing. This is an improvement system that relies on employee actions to enhance company results. Savings generated from the improved results are shared with employees through incentive bonuses.

Money may or may not make the world go round, but it certainly can grease the wheel of your Balanced Scorecard (Niven, 2005:155).

## **2.6 FORMULATION AND IMPLEMENTATION OF AN EFFECTIVE BALANCED SCORECARD**

Kaplan and Norton (1993) further suggest how the Balanced Scorecard should be built and implemented in companies. Although each company is unique and follows its own process in developing a Balanced Scorecard, they present a general development plan in building a balanced measurement system.

Compared to Kaplan and Norton (2001a), these authors highlight the need of creating a dialogue of the future statement instead of a “top-down”

communication in which employees have a minor role in the discussions. Olve *et al.* (2003) further support the need of assigning responsibility in a Balanced Scorecard project. The design of the Balanced Scorecard technology, training and promoting are some areas that need to be assigned to different people in the company. The authors argue that the company then should deal with how the different scorecards should be related.

Incentives for making the scorecard work and ensuring that measures are competitive need to be considered. The authors discard the idea that incentives or rewards are generic success factors in a Balanced Scorecard project and point out that incentives, and mainly financial incentives, need to be implemented with great care. Although the authors do not support incentives as a way to stimulate “Balanced Scorecard behaviour” among employees, they argue that incentives should be linked to the Balanced Scorecard since it will demonstrate management’s belief in the Balanced Scorecard. Finally, the authors present the issue of implementing an Information Technology support for the Balanced Scorecard. They claim that most companies benefit from having a Balanced Scorecard on the intranet since measures become easily accessible to the company.

Determined measurement is about being effectual, which means the right things need to be done (Spitzer, 2007:91). For a Balanced Scorecard system to be effectual, companies need to ensure that the correct objectives are measured in the correct way so as to ensure lasting successful performance.

The Balanced Scorecard does not eliminate the role of financial management in a management system, which embeds financial measure mention a more Balance management system that links short-term operational performance with longer term strategic objectives (Kaplan & Norton, 1996). The first few steps in the implementation prove of the Balanced Scorecard the following:

- The company's strategy and vision needs to be clarified;
- The corporate strategy needs to be communicated;
- Cross-business strategic initiatives need to be launched; and
- Each department must develop its own strategy that is consistent with that of the company.

Bloomquist and Yeager (2008:24) state, that a key to successfully designing and implementing a Balanced Scorecard system, is alignment with the strategic plan. If a Balanced Scorecard is used effectively, it serves as a component of a measurement-based strategic management and learning system that furthers the company's ability to achieve its strategic objectives. The Balanced Scorecard can be seen as the compass along the journey to achieving the strategic plan. It all sounds very easy but achieving the ultimate Balanced Scorecard, does not happen overnight. Some of the lessons learned to ensure a smooth process, include the following:

- Be flexible. Developing and implementing a Balanced Scorecard is an evolutionary process. Not every measure will be correct the first time.
- Be consistent. Good documentation needs to be created for each measure.
- Be clear. Leadership buy-in and understanding need to be obtained.
- Be open. Frequent communication is needed.
- Be thorough. The existing infrastructure must be used, not something new.
- Be efficient. Ensure the individual goal setting is not too burdensome.
- Be inclusive. Involve multiple departments at any stage.
- Be systematic. It is important to improve the process continuously.

According to Correia *et al.* (2008:685), the following recommendations can be used for the implementation and formulation of an effective Balanced Scorecard:

- Senior leadership involvement must always be obtained. The Balanced Scorecard development process must not be delegated to middle management;
- The firm's business vision and strategy to results need to be identified;
- Performance categories that link vision and strategy to results need to be identified;
- The scorecard must be cascaded to team, division and functional levels;
- Effective measures and meaningful standards need to be developed. Measures must be chosen to optimise the whole;
- The Balanced Scorecard must be viewed as a continuous process, requiring maintenance and re-assessment and updating. Balanced Scorecard's are dynamic and should be continually reviewed to reflect new competitive, technological and market conditions;
- Appropriate budgeting, Information Technology (IT), communication and reward systems need to be deployed;
- It should recognise controllability. When people are responsible for achieving certain performance measures, these measures should relate to activities and processes that are under their control;
- It must emphasise the positive. Performance measures should be expressed in positive rather than negative terms to motivate improvements. It gives immediate feedback and allows that timely corrective actions can be taken;
- It must be timely to ensure that the performance measures are reported as close as possible to the period which they relate to;
- It should include benchmarking. Performance measures must be benchmarked to high external standards in order to lift performance;
- It should embrace participation and empowerment. To encourage managers and employees to accept performance measures as fair, they must be involved in their formulation and operation. Employees may be empowered to identify their own performance measures linked to

business strategies and to take actions to improve performance. It is very important to have buy-in from all the essential players;

- One must believe in the Balanced Scorecard as a facilitator of company and culture players;
- The key to the success of the Balanced Scorecard is its simplicity. One must see a company from four measures, one driving the other. Only a few performance measures need to be included; and
- Linking Balanced Scorecard performance goals to compensation might add additional complexity, but it is a valuable tool in implementing the Balanced Scorecard successfully. Performance measures are more motivational if they are linked to rewards.

Kaplan and Norton (1996:224) found the following four steps in the mid-nineties needed to use the Balanced Scorecard in an integrated long-range strategic planning and operational budgeting process:

- Set stretch targets;
- Strategic initiatives need to be identified and rationalised;
- Critical cross-business initiatives need to be identified; and
- Annual resource allocation and budgets need to be linked.

Strategic feedback and learning constitute a very important process of the Balanced Scorecard as it affects the morale of employees. A case study done on Echo Engineering, as stated by Kaplan and Norton (1996a:256), indicates that improved employee morale will lead to the following:

- Increased customer satisfaction;
- Lower accounts receivable; and
- Higher return-on-capital-employed.

According to Niven (2002:317), many companies will fall prey to at least one of the top ten Balanced Scorecard implementation issues listed:

- Premature links to management processes;
- Lack of cascading;
- Terminology use;
- No new measures;
- Consistent management practices;
- Timing;
- No objectives for the scorecard;
- No strategy;
- Lack of training and education; and
- No executive sponsorship.

For the effective implementation of a Balanced Scorecard, it is very important to make sure the above listed points are addressed to ensure good performance measures of the improvement performance of individuals and that of the company. Gering and Rosmarin (2002:18) state, that if correctly implemented, the Balanced Scorecard is a tool for decentralisation and it will empower the line manager. On the other hand, a badly implemented Balanced Scorecard has the potential to become a centralist trap. Once the Balanced Scorecard becomes viewed as a central planning tool, it rapidly becomes part of corporate politics.

According to the research by Lawler (2003:396), it shows the performance management effectiveness increases when there is on-going feedback, behaviour-based measures are used and present goals and trained evaluators are employed. Many companies are using a forced distribution approach but this represents an unrealistic mandate and it may force managers to make judgements they cannot support with data.

A study that was done on 55 Fortune 500 companies confirms that performance management systems are rated as more effective when a forced distribution approach is not used. It is also better not to use a forced distribution approach when the results of an appraisal will be used for terminations (Lawler, 2003:401). Lawler (2003:398) also states, that when performance appraisals have a great or very great influence on salary increases, they are more effective.

Niven (2005:59) states that the rate at which the Balanced Scorecard is developed, depends on several variables, including company readiness, the sense of urgency within an company, commitment of senior management to the tool, the scope of the work and the availability of resources.

Key performance measures focus on a company's strategic objectives. Managers are expected to define goals and select a limited number of key indicators within each of the measures (Manoochehri, 1999:22). According to Amaratunga *et al.* (2000:66), a measure is "a performance metric that will reflect progress against an objective. A measure must be quantifiable".

Every measure selected should form part of a chain of cause-and-effect relationship that communicates the meaning of the company strategy (Kaplan & Norton, 1996b:149).

If a Balanced Scorecard is constructed correctly, the performance measures should be linked together on a cause-and-effect basis. Each link can then be read as a typical hypothesis; if one improves this performance measure, then the other performance measure should also improve (Garrison *et al.*, 2007:453).

In order for a company to ensure continuous improvement and to remain competitive, it is important that relevant performance measures are selected, the measures are defined and redefined and performance targets must be

made more challenging as measured in Balanced Scorecards (Correia *et al.*, 2008:685). The results of the Balanced Scorecard must be analysed on an on-going basis and it must be used to learn about the effectiveness of strategy execution (Niven, 2005:20).

A scorecard should have a balanced mix of outcomes and performance driver measures. Whereas outcome measures are lagging indicators that display whether efforts have led to acceptable outcomes, performance driver measures are leading indicators. They display what should be done to create future value for a company.

Outcome measures without performance drivers do not always inform how outcomes are to be achieved. Performance drivers without outcome measures may deliver no short or long-term value (Kaplan & Norton, 1996b:150).

## **2.7 SUMMARY**

The Balanced Scorecard has been researched in this chapter, as a performance management tool which can be combined with other performance management tools to improve the accomplishments of the company objectives. Further to this the literature study was done to analyse the background on the Balanced Scorecard, and to research different perspectives of the Balanced Scorecard.

The Balanced Scorecard is used to measure how well the company is doing. The research further indicates that the Balanced Scorecard's objective is to align everyone in the company around common goals, strategies, vision, mission, values and key success factors. The Balanced Scorecard is a way in which management and employees give each other continuous feedback on

progress, allowing for strategic action planning and in-turn the Balanced Scorecard becomes a decision-making tool to everyone in the company.

This chapter discussed in detail the four perspectives in the Balanced Scorecard, showing that not only is the financial aspects of a company important but also the non-financial aspects, like customer focus, internal business processes and learning and growth.

We see in this chapter how the Balanced Scorecard has evolved since it was first introduced, showing that the Balanced Scorecard is flexible and can easily be adapted to our ever changing business world. The need for the Balanced Scorecard in companies has been explored and a clear indication of the importance for companies to implement and use a Balanced Scorecard, especially in South Africa. It has also been shown that aligned commitment is important in all companies, the Balanced Scorecard helps improve aligned commitment, allowing the vision, mission, values and strategy, be clearly communicated to all members in the company, in addition giving a clear understanding of each person's role in the company and part they play in ensuring the future of the company and work towards sustaining competitive advantage. Researchers have shown that effective Balanced Scorecards have helped surviving companies, have made dramatic improvements, and have been able to focus on key areas for improvement, and ensures continuous improvement.

The disadvantages were also explored, it was indicated that the cause-and-effect chain, has no time lag visible between stages in the connecting chain. Further to this it would seem that companies tend to implement too many or difficult goals which at the end cannot be reached by employees, having a negative and demotivating effect. It was also pointed out that, failing Balanced Scorecards are due to not enough development, implementation, and performance measures are not understandable and controllable. One of the

important failures is when the organisations do not use the Balanced Scorecard appropriately.

The literature study further investigates the Balanced Scorecard as a personal development tool. The learning and growth perspective is considered important in the Balanced Scorecard, forming the base to successfully managing the other three perspectives. Personal development and growth of employees will have a big influence on an effective Balanced Scorecard as a whole, and an ineffective Balanced Scorecard could lead to a significant level of negativity in a company.

The information gathered during the literature study was used to compile a questionnaire which was used for the empirical study. The results of the empirical study are discussed in Chapter 3. The results were used to validate if the primary and secondary objectives were met. The empirical study reflects if the Balanced Scorecard, currently being used by Picture Perfect Photography is being effectively implemented and if it is working as a performance measurement tool, and a personal development tool.

## **CHAPTER 3**

### **EMPIRICAL RESEARCH**

#### **3.1 INTRODUCTION**

In this chapter the empirical study is discussed and conclusions are made on the findings of the study. Picture Perfect Photography has been using the Balanced Scorecard system for the past 10 years now. In general the employees at Picture Perfect Photography have been reasonably negative when the topic of the Balanced Scorecard was discussed, due to this reaction the decision was made to do this study.

For the Balanced Scorecard system to be effective, employees need to understand the use of the Balanced Scorecard and the benefits it will deliver for all stakeholders involved.

The questionnaire used in this study, was developed together with the transference of the literature study with the aim to be able to achieve the primary and secondary objectives as set out in chapter one.

The main objective of the study was to evaluate the efficiency of the Balanced Scorecard as it is used at Picture Perfect Photography. The secondary objectives were to research the effectiveness of the Balanced Scorecard as a performance measurement tool, as well as the need for the implementation of a Balanced Scorecard. Further to this, research had to be done on personal development and linking it to compensation. The sub objectives of the study were to determine if the Balanced Scorecard was aligned with the company's strategy, vision, mission and values and to explore the existing problems. Also

to determine if the Balanced Scorecard helped to focus on quality, re-engineering and customer services initiatives.

The empirical study was done at Picture Perfect Photography, by distributing a questionnaire to all employees working at Picture Perfect Photography. This questionnaire was used as the measuring instrument; employees were required to complete the questionnaire electronically and return them via e-mail to ensure that they felt comfortable in knowing that management will not have access to their individual responses.

The completed questionnaires were analysed by the Statistical Consultation Services of the North-West University (Potchefstroom campus).

The empirical study was structured to collect the overall general knowledge regarding employees' perception of the need for an effective Balanced Scorecard. Also to identify whether the Balanced Scorecard was aligned with the company's strategy, vision, mission and values.

Further to this, what the perception of the advantages and disadvantages of the Balanced Scorecard was, more questions were asked to compile the opinion of the participants concerning their personal development and how they feel about the compensation being linked to the Balanced Scorecard.

Questions were asked to cover the formulation and implementation of the Balanced Scorecard. Finally the open ended question was asked to cover the employee's perception about the effectiveness of the current Balanced Scorecard.

The questionnaire consisted of three parts, part A consisted of information regarding the respondents' Gender, Race, Work Section, Job Level, Years of service, and Age group, followed by general questions, part B consisted of

specific Balanced Scorecard related questions; part C ended with an open ended question to give respondents an opportunity to elaborate or express their opinions.

## **3.2 METHODOLOGY REVIEW**

### **3.2.1 Target population**

In this study, the geographical demarcation was restricted to the borders of South Africa, as was discussed in Chapter one. The target population is made up of all the employees at Picture Perfect Photography, giving a total of 53 staff members, excluding management.

### **3.2.2 Instrument selection**

This selection of the appropriate instrument for the survey was determined by comparing three different types of questionnaire study methods, as well as considering the issuing and collection method of the completed questionnaires.

The issuing and collection method for the questionnaire was a very important decision, for the following reasons:

- The confidentiality of the respondent should be ensured.
- The method should be done in the least of time, at the same time it would be very cost-effective and the easiest way to reach the targeted population group.
- The method should encourage respondents to complete the questionnaire.

- The method of returning the completed questionnaires would be the most effective and convenient for the participants.

### **3.2.3 Instrument design**

The questionnaire was designed with a cover page, followed by pages containing the questions. The cover page included the following:

- ✓ The title of the research.
- ✓ Short paragraph to ensure employees of confidentiality and instructions as to where the completed questionnaire should be sent.
- ✓ Demographic information required for the study (Gender, Race, Work Section, Job Level, Years of service and Age groups).

A five point Likert-type Scale was used to measure the responses. The Likert-type Scale used, consisted of the following choices: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree. The questionnaire also made allowance for additional comments.

### **3.2.4 Data collection**

The questionnaire was sent out to the target population via e-mail and they were urged to complete and return the questionnaire, with the assurance that the questionnaire will be kept anonymous. It was emphasised that the questionnaire be completed in full and honestly.

The e-mail was chosen as the easiest and most effective way of getting the best feedback as all the people in the target group had access to e-mail.

A log was kept of all completed questionnaires and follow-up communication via e-mails and telephone calls were made to urge prospective participants to complete and return their questionnaires.

The total number of questionnaires received back for analysis was 48, resulting in a response rate of 90.6%. The target population consisted of 53 employees in total. As a result the study population was the respondents who completed the questionnaires.

### **3.2.5 Basic analysis**

Descriptive statistics and frequency distributions were used and calculated on the SAS System.

All the responses were captured on a Microsoft Excel spread sheet and coded as follows:

- ★ Gender – Male = 1 and Female = 2
- ★ Race – Black = 1, Coloured = 2, White = 3 and Indian = 4
- ★ Yes = 1, No = 2
- ★ Strongly Disagree = 1, Disagree = 2, Neutral = 3, Agree = 4 and Strongly Disagree = 5.

One open ended question was asked to get feedback on people's insights whether the Balanced Scorecard system is applied effectively or not; they were also encouraged to motivate their answers. Refer to Appendix A for an example of the questionnaire used.

### **3.3 RELIABILITY AND VALIDITY**

Once the results have been received from the completed questionnaires, it is vital to test the reliability and validity of the newly developed questionnaire.

According to Field (2009:673), a questionnaire that is reliable is expected to provide results that are both accurate and consistent. Ravid (2011:192) explains that the reliability refers to the degree of consistency of a questionnaire and the extent to which the same results are obtained when employing the instrument repeatedly to the same groups or individuals. Further to this Ravid (2011:204) explains that the validity of a test refers to the degree to which the instrument actually measures what it is designed to measure.

### **3.4 RESULTS OF THE MEASUREMENTS IN THE STUDY**

As a result that no random sampling was done, interpretation of comparisons between group means was done according to Cohen's effect sizes,  $d$  (Cohen, 1988:145). Effective sizes indicate practical significance – that is the extent to which a difference is large enough to have an effect in practice (Steyn, 2009).

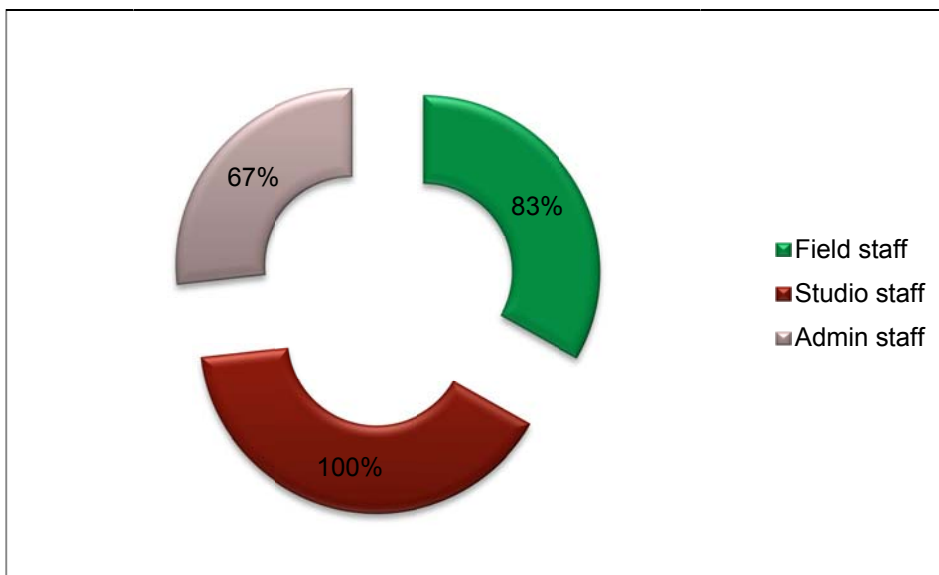
Thus no inferential statistics were interpreted, although  $p$ -values are reported as if random sampling was assumed.

All the respondents confirmed that they did have a Balanced Scorecard; this indicated that everyone knows there is a Balanced Scorecard and that it is being applied in Picture Perfect Photography.

### 3.4.1 Response rates and demographics

The questionnaire had a good responses rate. The breakdown of the different respondents was as follows:

**Figure 3.1: RESPONSE RATE AND DEMOGRAPHICS**



Source (Own research)

There were 53 questionnaires sent out and 48 people responded. The demographic breakdown is shown below:

Firstly, the work section was broken down into Field staff, Studio Staff and admin staff as analysed.

- Work Section

26 Field Staff out of 30 Field Staff responded = 83%  
20 Studio Staff out of 20 Studio Staff responded = 100%  
2 Admin Staff out of 3 Admin Staff responded = 67%

Secondly, the years of service were analysed, three categories of years of service was drawn up, employees working 5 years and less, 5 to 10 years and lastly 11 to 15 years of service.

- Years of Service

13 out of 48 have less than 5 years' service.

18 out of 48 have between 5 and 10 years' service

18 out of 48 have 11 to 15 years of service; most of these respondents have been working for the company since it started.

Lastly, gender responses were analysed.

- Male and Female

From the data of 48 respondents, 22 were male, totalling 46% of the total and 26 were female totalling 58%.

### **3.4.2 Responses of Part A of the questionnaire**

#### Response to Question 1

All the respondents confirmed that they do have a Balanced Scorecard. This indicates that a Balanced Scorecard is applied and known by all employees, although this does not mean that it is applied effectively.

#### Response to Question 2

A total of 90% of the respondents felt that management did not have detailed discussions with employees regarding the Balanced Scorecard for 2012.

### Response to Question 3

94% of the respondents indicated that their direct managers did not have feedback discussions with employees regarding their Balanced Scorecard performance for 2011.

### Response to Question 4

In this question 98% of the respondents agreed that they were not given the opportunity to give inputs towards their new Balanced Scorecard. This would not have been the case had the Balanced Scorecard been implemented and applied effectively.

Descriptive statistics were used to identify or highlight the respondent's perception and attitudes of the Balanced Scorecard system as applied at Picture Perfect Photography.

## **3.5 ARITHMETIC MEAN, STANDARD DEVIATION, MINIMUM AND MAXIMUM**

Levine *et al.* (2008:97) state, that the arithmetic mean (also referred to as the mean) is the most common measure of central tendency, and also the only common measure in which all values play an equal role. Levine *et al.* (2008:108) also state that the standard deviation assists you in knowing how a set of data clusters around its mean. Normally the majority of observed values will lie within an interval of plus and minus one standard deviation above and below its mean.

The obtained results were interpreted qualitatively and quantitative to verify the effects of the Balanced Scorecard system. The criteria for effectiveness was

determined as; < 2.5 indicating in disagreement of the question and 3.5 < in agreement with the question.

### 3.5.1 Responses of Part B of the questionnaire

The following table shows the number of respondents, the mean, standard deviation; minimum and maximum measurement to each question asked in Part B of the questionnaire. A breakdown of the table is discussed in detail below:

**Table 3.1: Measurement of responses to Part B**

Variable		n	Mean $\bar{x}$	Standard Deviation	Min	Max
Q1	You are being measured against the four perspectives of the Balanced Scorecard (Financial, Customer, Internal Business, and Learning and Growth).	48	1.67	0.86	1	4
Q2	The Balanced Scorecard provides managers with an instrument needed to steer for future competitive success of the company.	48	4.52	0.51	4	5
Q3	Top management is committed to ensure the use of an effective Balanced Scorecard system.	48	1.81	0.92	1	5
Q4	At PPP we believe in the Balanced Scorecard as a facilitator of organisational and cultural change.	48	1.73	0.94	1	5
Q5	You understand all the terminology used in your Balanced Scorecard.	48	4.46	0.51	4	5
Q6	Your Balanced Scorecard is simple and easy to use.	48	1.75	0.84	1	4
Q7	The Balanced Scorecard is in line with what is expected from you to ensure good performance for your company in general.	48	1.71	0.85	1	4
Q8	The Balanced Scorecard helps the entire organisation to focus on quality, re-engineering and customer service initiatives.	48	1.73	0.85	1	4
Q9	The Balanced Scorecard helps to	48	1.77	0.83	1	4

	integrate various corporate programs such as quality, re-engineering and customer services initiatives.					
Q10	The communication of the Balanced Scorecard should increase people's understanding of the organisation's strategy and enhance motivation to achieve strategic objectives.	48	4.50	0.51	4	5
Q11	Should the Balanced Scorecard be the only rating to determine your compensation?	48	1.79	0.90	1	5
Q12	Picture Perfect Photography's strategic goals and values form the basis of your Balanced Scorecard.	48	1.79	0.90	1	5
Q13	The overall intent of your Balanced Scorecard is to support and drive Picture Perfects Photography's goals in achieving the strategic objectives.	48	1.75	0.91	1	5
Q14	Your Balanced Scorecard improves your alignment with strategy and the day-to-day operations.	48	1.71	0.85	1	4
Q15	Your Balanced Scorecard is aligned with the organisation's strategy, vision, mission and values.	48	1.71	0.85	1	4
Q16	The Balanced Scorecard is used as a management tool to guide employees towards achieving personal as well as organisational goals.	48	1.81	0.84	1	4
Q17	Helping others to perform will improve your own performance and that of Picture Perfect Photography.	48	4.38	0.49	4	5
Q18	Executive team building and commitment are essential parts of gaining benefits from the Balanced Scorecard.	48	4.52	0.50	4	5
Q19	The Balanced Scorecard provides a mechanism whereby opportunities for synergy across strategic business units can be identified and exploited.	48	4.46	0.50	4	5
Q20	The company's link between Balanced Scorecard and compensation is fair and transparent.	48	1.75	0.91	1	5
Q21	The Balanced Scorecard helps people to understand, develop and apply strategy within their business units.	48	4.48	0.50	4	5

Q22	The Balanced Scorecard increases the visibility of the organisation for senior management and improves communication.	48	1.71	0.85	1	4
Q23	If the Balanced Scorecard is updated regularly: it can give early warnings of problems ahead, or signal opportunities.	48	4.42	0.50	4	5
Q24	Senior management supports the Balanced Scorecard system.	48	1.81	0.87	1	4
Q25	Communication of the Balanced Scorecard objectives and measures is a first step in gaining individual commitment to the company's strategy.	48	4.46	0.50	4	5
Q26	For the Balanced Scorecard to create the cultural change, incentive compensation must be connected to the achievement of the scorecard objectives.	48	4.56	0.50	4	5
Q27	The Balanced Scorecard must be viewed as a continuous process, requiring maintenance and re-assessment and updating.	48	4.56	0.50	4	5
Q28	The Balanced Scorecard breaks down strategic measures to lower levels so that all people can see what is required at their level to achieve excellent overall performance.	48	4.48	0.50	4	5
Q29	Your performance measures in your Balanced Scorecard are SMART (Specific, Measurable, Attainable, Realistic and Time-bound).	48	1.75	0.91	1	5
Q30	You have focused feedback and continuous communication sessions regarding your Balanced Scorecard.	48	1.69	0.93	1	5
Q31	You have clear monthly visibility of the progress on the key performance indicators (KPIs) you are measured against.	48	1.73	0.92	1	5
Q32	You have an influence on all the KPIs listed in your Balanced Scorecard.	48	1.71	0.92	1	5
Q33	Challenging but obtainable performance goals motivate you to perform better.	48	4.48	0.50	4	5
Q34	Your Balanced Scorecard rating is a reflection of your compensation.	48	1.75	0.84	1	4
Q35	Your Balanced Scorecard is a simple and transparent process.	48	1.77	0.83	1	4
Q36	When human, informational and	48	4.42	0.50	4	5

	organisational capitals are aligned with the organisation's strategy, the organisation will have the ability to mobilise and sustain the process of change required to execute its strategy.					
Q37	With a clear understanding of the role and function of the Balanced Scorecard, one can take the business to higher levels of service.	48	4.54	0.50	4	5
Q38	The real power of the Balanced Scorecard occurs when it is transformed from a measurement system to a management system.	48	4.48	0.50	4	5
Q39	Effective measures and meaningful standards are used to determine your Balanced Scorecard ratings.	48	1.83	0.83	1	4
Q40	The Balanced Scorecard develops a clear understanding of how strategy is operationalised.	48	4.44	0.58	3	5

Firstly, questions 1 to 40 were analysed, the results shown in table 3.1 give an indication that respondents did not agree:

Question 1, mean = 1.67, indicating that the respondents felt that they are not being measured against the four perspectives of the Balanced Scorecard. The low Standard deviation ( $\sigma = 0.86$ ) indicates (as shown in Table3.1) that respondents understood the importance of being measured against the four perspectives.

Question 3, mean = 1.81 interprets that respondents did not agree that top management was committed to ensure the use of an effective Balanced Scorecard system. The low Standard Deviation ( $\sigma = 0.92$ ) indicates that respondents understood the importance of top management's commitment towards ensuring an effective Balanced Scorecard.

Question 4, mean = 1.73 respondents do not believe in the Balanced Scorecard as a facilitator of organisational and cultural change. The low standard deviation ( $\sigma = 0.94$ ) showed that respondents understood the question.

Question 6, mean = 1.75 indicates respondents felt their Balanced Scorecard is not simple and easy to use.

Question 7, The Balanced Scorecard is not in line with what is expected from employees to ensure good performance for the company in general; this is shown in the mean of 1.71 and the low standard deviation of 0.85.

Question 8 & 9, the mean of 1.73 and 1.77 indicates according to respondents, that they did not agree that their Balanced Scorecard helped the entire company to focus on quality, re-engineering and customer service initiatives, at the same time integrating various corporate programs.

Question 11, 16, 20, 29, 34, covered questions on the personal development and compensation of employees. All respondents disagreed that the Balanced Scorecard does not meet their goals and needs. The mean values are shown in Table 3.1.

In question 14 and 15, respondents did not agree that the Balanced Scorecard is not aligned with the company strategy, vision, mission and values. Secondly, questions 1 to 40 were further analysed, the results give an indication that respondents did agree with these questions:

In question 2, the mean value is 4.52 showing respondents agreed that the Balanced Scorecard provides managers with an instrument needed to steer the company towards future competitive success.

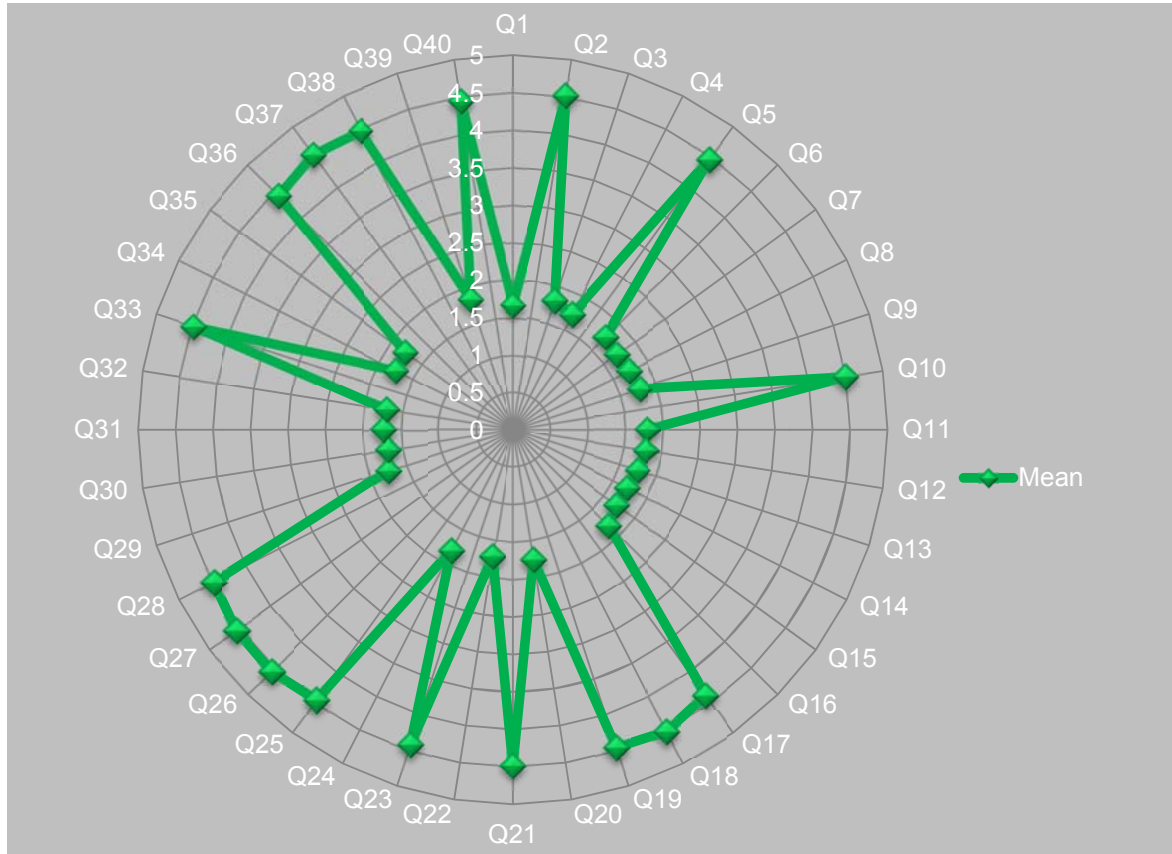
Question 18, asked if executive team building and commitment are essential parts of gaining benefits from the Balanced Scorecard. Respondents agreed with this, as indicated by the mean value of 4.52 and standard deviation of 0.50.

In question 23, respondents agreed that if the Balanced Scorecard is updated regularly, it can give early warnings of problems ahead, or signal opportunities.

Lastly in question 40, respondents agreed that the Balanced Scorecard develops a clear understanding of how strategy is operationalised.

Figure 3.2 below shows the response rate average mean values, meaning that all values play an equal role. The mean is greatly affected by any value that is greatly different from the others in the data set, in this case we see the mean is measuring central tendency, the data set does not contain any exceptionally small or large values, as seen in the radar graph; all questions answered with a 1 and 2 have low mean values, and all questions answered with a 4 and 5, have high mean values.

**Figure3.2: Response rate average mean values- Part B of questionnaire**



(Source: Own Research)

### 3.5.2 The responses regarding Part C's open ended question

The open ended question was intended to allow respondents to answer the question using their own words. Every answer started with a yes or no; therefore the statistical response rate was measured as seen below in figure 3.3.

**Figure 3.3: Part C – Response to open ended question**



(Source: Own research)

In the open ended question, 90% of the respondents started their answer with No, indicating that they felt the Balanced Scorecard is not effectively applied.

Most of the respondents answered the open ended question, generally using the questions in the questionnaire to express the way they felt about their Balanced Scorecard. The respondents varied in their responses from identifying a communication problem to no realistic measurements set out in the Balanced Scorecard.

These answers were categorised in positive and negative responses towards the Balanced Scorecard.

➤ Positive – Yes

- Yes it is.
- Yes, the Balanced Scorecard is effective, as it is clear to understand.
- Yes, the Balanced Scorecard is effectively applied, management are committed to employees.
- Yes, the Balanced Scorecard is effectively applied.
- Yes, the Scorecard is effectively applied.

➤ Negative – No

- No, effective communication lacks as well as feedback about the Balanced Scorecard.
- No, employees have no say in setting the Balanced Scorecard objectives and goals, how can we be expected to reach such high goals.
- No, I do not have feedback on any Balanced Scorecard.
- No, I do not know how the Balanced Scorecard can motivate me to perform better.
- No, I do not understand all the terminology on this Scorecard.
- No, I do not understand how I will be measured against the Scorecard.
- No, I do not understand how this Scorecard can motivate me to perform better.
- No, I do not understand the terminology of the Scorecard.
- No, I don't know how I can gain benefit from the Scorecard.
- No, I have never had a say or a chance to participate when they work on the Balanced Scorecard; this make me very angry.
- No, I have no idea what our strategy is in this company.
- No, if only management would support and set understandable objectives it would have more value to us as employees.
- No, in my opinion the Balanced Scorecard is not a simple and transparent process.

- No, it does not measure my compensation.
- No, management makes us targets which we can't reach.
- No, our Balanced Scorecard does not help us to achieve my goals.
- No, our Balanced Scorecard is drawn up in the beginning of the year and not looked at again until the end of the year.
- No, our Balanced Scorecard is not a transparent process; we don't always know management compiles and arrive at the objectives set out.
- No, our Balanced Scorecard is not easy to understand.
- No, our Balanced Scorecard is not in line with the organisation's missions, vision, and strategies.
- No, our company doesn't determine the Balanced Scorecard by effective measures and standards.
- No, our Scorecard is not updated on a regular basis.
- No, our senior management does not support the Balanced Scorecard.
- No, ours does not work correctly, it makes us negative and we cannot do what we want. Management is dominating.
- No, the Balanced Scorecard is not applied properly.
- No, the Balanced Scorecard is not applied properly.
- No, the Balanced Scorecard is not simple and easy.
- No, the Balanced Scorecard does not measure my performance properly.
- No, the communication between everyone is lacking.
- No, the company's link between the Balanced Scorecard and compensation is not fair and transparent.
- No, the measures are not reachable for us.
- No, the Scorecard does not motivate me to understand this company's strategy.
- No, the terminology used in the Balanced Scorecard is not always understandable.
- No, they do not have effective measures
- No, this Balanced Scorecard does not work for me or any of my colleagues.
- No, this Scorecard does not help me to understand the strategy in

operations.

- No, I do not understand KPI they don't explain it to me.
- No, it does not explain to me how the Scorecard can ensure good performance.
- No, it does not have a proper management system.
- No, our Scorecard shows the four perspectives but that is that.
- No, to ensure good performances how do I use the scorecard for this?
- No. our Balance Scorecard does not have meaningful standards to measure our ratings.
- No. the Balanced Scorecard being used is clear and understandable.

### **3.6 COMPARISON OF OBSERVED AND EXPECTED BEHAVIOURS**

According to Steyn (2002:10), it is almost never practical to deal with an entire population when conducting research; random samples are drawn from the population and tested for statistical significance allowing conclusions to be reached about the population from which the sample was drawn. Researchers calculate the p-value as a criterion to determine if the results obtained are statistically significant. The p-value gives the probability that the obtained result could be achieved applying the assumption that the null hypothesis is true, that there is no difference between the populations means (Ellis & Steyn, 2003:51). It is pointed out by Ellis and Steyn (2003:51) that while a small p-value indicated statistical significance, practically the result may not be important.

A non-probability purposive sampling was used for this study; the p-value is reported as if probability sampling was done. As highlighted by Ellis and Steyn (2003:51) data which is obtained via convenience sampling is often analysed erroneously as if it were obtained via probability sampling. They therefore suggest that in such cases data should be considered as small populations for which statistical inference and p-values is not relevant.

Many measures of effect size have been proposed in the literature. However, one of the most commonly used for the effect sizes of differences is Cohen's d (Field, 2009:57). Cohen's d for samples from populations can be estimated from the sample means using the following:

Calculation of Cohen's d

$$d = \frac{\bar{X}_1 - \bar{X}_2}{s_p}$$

Where:

$\bar{X}_1$  = mean of sample 1 (Observed dataset in this study)

$\bar{X}_2$  = mean of sample 2 (Expected dataset in this study)

$S = \sqrt{\frac{s_1^2 + s_2^2}{2}}$  (estimate of pooled standard deviation)

S1 = standard deviation of sample 1

S2 = standard deviation of sample 2

Source: Steyn (2000:2)

Cohen (1988:40) provides the following guidelines for the interpretation of the effect size given the value of d.

- d = 0.2 small effect
- d = 0.5 medium effect (noticeable with the naked eye)
- d = 0.8 large effect (practically significant and therefore of practical importance)

Job level and Age groups were statistically compared with Cohen's d value, to compare respondents' answers to the 40 questions asked in Part B.

### 3.6.1 Job level comparison

Upon comparing job levels, between the Photographers and the assistants, the respondents did not agree with each other on the following two questions, the d-value indicates this, as seen above, if  $d = 0.5$ , it is a medium effect:

Firstly, Question 10, which asked if the communication of the Balanced Scorecard should increase peoples understanding of the organisation's strategy and enhance motivation to achieve strategic objectives.

**Table3.2: Question 10 – Job level comparison**

Level	N	Mean	Standard deviation	p-value	d-value
Photographers	23	4.61	0.5	0.08	0.52
Assistants	23	4.35	0.49		

The d-value of 0.52 indicates a medium effect; therefore, the photographers and assistants did not see eye to eye on this question.

Secondly in question 35: Your Balanced Scorecard is a simple and transparent process.

**Table 3.3: Question 35 – Job level comparison**

Level	N	Mean	Standard deviation	p-value	d-value
Photographers	23	1.57	0.90	0.08	0.50
Assistants	23	2.00	0.74		

The d-value for question 35 was 0.50, indicating that the photographers and assistants did also not agree with the question.

The results show that the photographers and their assistants agreed on 38 out of 40 of the questions except for questions 10 and 35. This result indicates that photographers and assistants jointly know about the Balanced Scorecard and see the present problems with the Balanced Scorecard at Picture Perfect Photography.

### 3.6.2 Age group comparison

Upon comparing age groups, between 20-35 years and 36 and older, the following three questions had respondents in disagreement with each other.

Firstly in question 18 the question “executive team building and commitment are essential parts of gaining benefits from the Balanced Scorecard”

**Table 3.4: Question 18 – Age group comparison**

Age Group	N	Mean	Standard deviation	p-value	d-value
20 – 35 years	26	4.38	0.496	0.07	0.53
36 and older	20	4.65	0.489		

The responses between 20-35 years and 36 and older did not agree that executive team building and commitment are essential parts of gaining benefits from the Balanced Scorecard.

Secondly, question 36: “When human, informational and organisational capitals are aligned with the organisation’s strategy, the organisation will have the ability to mobilise and sustain the process of change required to execute its strategy”.

**Table 3.5: Question 36 – Age group comparison**

Age Group	N	Mean	Standard deviation	p-value	d-value
20 – 35 years	26	4.31	0.47	0.05	0.58
36 and older	20	4.60	0.50		

The d-value for question 36 is 0.58 indicating once again that the two age groups did not agree with this question.

Lastly, in question 40:“The Balanced Scorecard develops a clear understanding of how strategy is operationalised”.

**Table 3.6 Question 40 – Age group comparison**

Age Group	N	Mean	Standard deviation	p-value	d-value
20 – 35 years	26	4.31	0.62	0.042	0.55
36 and older	20	4.65	0.49		

The d-value of 0.55 indicates that the two different age groups did not agree with the above question.

By comparing age groups, 20-35 years and 36 and older, the respondents agreed on 37 out of 40 of the questions asked. The results indicate that no matter what the age of staff, the respondents appear to know what the Balanced Scorecard entails.

### **3.7 CHAPTER SUMMARY**

An empirical study was done by distributing questionnaires to all employees working at Picture Perfect Photography, except management. The questionnaire was divided into three parts, part A covering the general questions, part B exploring the respondents' experience with the Balanced Scorecard, finally finishing off with part C, an open ended question, and allowing respondents to elaborate on their views.

From the 53 questionnaires sent out, 48 were returned and analysed. The study showed that 46% of the respondents were male and 54% were female.

The analysis showed 26 Field staff, 20 studio staff and 2 admin staff completed the questionnaire.

The data analysis in part A, showed that all the respondents knew that there is a Balanced Scorecard at Picture Perfect Photography, further to this 90% felt that management did not discuss the new Balanced Scorecard with them. The next question asked if management have had feedback discussions with employees regarding the performance of 2011; 94% of the respondents said no. Respondents were asked if they had the opportunity to give inputs towards the new Balanced Scorecard; 98% said No.

The analysis on the primary objective of evaluating the efficiency of the Balanced Scorecard at Picture Perfect Photography showed that 90% of the respondents did not think that the Balanced Scorecard is being applied effectively.

The empirical research further showed that the respondents felt that the Balanced Scorecard is not being used correctly in the alignment with the company's strategy, vision, mission and values.

Further to the above, the empirical study showed through various questions that there are existing problems with the Balanced Scorecard being used at Picture Perfect Photography.

It is evident in the empirical study that respondents do not believe that the Balanced Scorecard presently helps the entire organisation to focus on quality, re-engineering and customer service initiatives, as seen by the answers given in question 8 and 9. The results from the descriptive statistics showed that 92% respondents answered with a 1 (Strongly disagree) or 2 (Disagree).

The empirical study further determined that the Balanced Scorecard is not linked to compensation. The analysis done on question 20, asking respondents if the company's link between the Balanced Scorecard and compensation is fair and transparent, 92% either strongly disagreed or strongly disagreed. It is evident from question 33, that respondents agree that if challenging but obtainable performance goals are set, it will motivate them to perform better.

In general, looking at how the distribution of the questions in Part B, which showed a left-skewed distribution, indicates that the Balanced Scorecard is not applied effectively enough.

In conclusion, the overall response point out that the Balanced Scorecard need more work to be done to be able to apply it effectively. The major concerns which need to be addressed would be communication and feedback, implementing goals and challenges which employees can reach and work towards. Finally, the link between the Balanced Scorecard and compensation needs to be transparent.

The next chapter gives final conclusions of the findings from Chapter 3 and recommendations will be made for possible improvements of using the Balanced Scorecard more effectively, to encourage employees.

## **CHAPTER 4**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **4.1 INTRODUCTION**

While the previous chapter discussed the meaningful results gathered from the structured questionnaires distributed to employees at Picture Perfect Photography this chapter concludes the outcomes of all the information gathered from the literature review in chapter 2 and the empirical study in chapter 3. This information gathered relate to the research objectives as set out in chapter 1 on the effectiveness of the implemented Balanced Scorecard presently used at Picture Perfect Photography

Following on from the conclusions, recommendations are made for further research actions related to the topic of an effective Balanced Scorecard.

#### **4.2 CONCLUSION**

The study has provided a picture of the current Balanced Scorecard being used at Picture Perfect Photography. The following conclusions were made on the Balanced Scorecard in general as used at Picture Perfect Photography:

- The Balanced Scorecard offers ample benefits if applied effectively.
- The Balanced Scorecard is not being applied effectively at Picture Perfect Photography, as there is poor communication between management and employees.

- A lack of employee involvement with regard to giving inputs of the Balanced Scorecard yearly.
- No feedback is given to employees during the year concerning the outcomes or progress of the individual's performance on the Balanced Scorecard.
- The utilisation of the Balanced Scorecard is seen as unfair and not transparent by employees.
- In order to continue the benefits of the Balanced Scorecard, there must be a direct link between the Balanced Scorecard and employee compensation.
- A large number of respondents indicated that they do not have an influence on the KPIs listed on their Balanced Scorecard.
- More time and effort need to be put in structuring the individuals Balanced Scorecard to ensure the correct objectives and measures are in place to drive the overall strategy. The initial implementation takes hard work, but once it is in place, sustaining it will be easier, improving employees' performance and they will feel part of the process.
- In general, the majority of the people are negative about the Balanced Scorecard at Picture Perfect Photography; they see it as meaningless.

This was evident in the empirical study outcomes.

Further to this, the job level comparison showed respondents having a noticeable difference in opinion, concerning two of the questions, the first one being about the communication of the Balanced Scorecard, in that it should increase people's understanding of the company's strategy and enhance motivation to achieve strategic objectives. In the second question, the respondents did not all feel that the Balanced Scorecard was a simple and transparent process.

The Balanced Scorecard process develops a clear direction as to how strategy should be operationalised

In line with the theory in chapter two and the findings in chapter three, concerning the job level comparison, respondents had the same response to 38 out of the 40 questions asked in Part B indicating that the employees feel there is a problem.

In the age group analysis, it was found that respondents generally had the same response to 37 out of the 40 questions asked in Part B.

### **4.3 RECOMMENDATIONS**

The objective of the study was to evaluate the Balanced Scorecard process as applied at Picture Perfect Photography and make recommendations to improve the effectiveness of the Balanced Scorecard. Some of the factors contributing towards the Balanced Scorecard to being applied effectively at Picture Perfect Photography have been identified are poor communication, poor feedback, no linkage between the Balanced Scorecard and compensation resulting in poor employee commitment.

With the key findings it would be recommended that more research needs to be done to simplify the Balanced Scorecard process used in this company. This should include training modules for all levels in the company. The training modules should concentrate on the advantages of the Balanced Scorecard; this can be accomplished by relating a full outline of the objectives consistent with the company's strategy.

To ensure that a smooth performance management process is developed, management needs to be flexible for adjustments and changes, they need to be consistent, management needs to be open through regular communication and

ensure that goals set are reachable. It is important that the terminology used in the Balanced Scorecard is kept simple and understandable to everyone.

The linkage between compensation and the Balanced Scorecard should be explored in order to apply easy to understand systems. The study reflected that employees are given goals and challenges beyond their reach; these are creating huge problems in companies. By giving employee goals and challenges more realistically reachable, it will have significant practical implications not only for the employees but also for the decision-makers, it will encourage employees to take the Balanced Scorecard more seriously and be more committed, in turn creating a more positive working environment. Innovation should be encouraged, as this gives employees the opportunity for improvement. When linking compensation to the Balanced Scorecard, management needs to do proper planning. Focus should be placed on the overall purpose by linking the Balanced Scorecard to compensation, if the compensation will be part of the salary or an additional payment in the form of a bonus or percentage annual increase. Management should involve a variety of people in the development of the compensation package to ensure that it is fair, and will be seen a motivator.

During the development of the plan, management should decide if the compensation will be based on individual performance or group performance. Ensure that the correct compensation plan is chosen to reach the strategic goals.

Once the plan has been drawn-up, management should communicate this plan to all, and ensure that everyone understands. With this said, it should be made clear that this compensation plan will be reviewed annually. Continuous feedback and communication on the updated results of performance need to be done, to ensure that people know where they stand and what needs to be done to earn the promised compensation.

The study showed that employees have a good understanding of the principles and the need for a Balanced Scorecard. Managers should take the time to support the employees to be able to develop their plans, have regular discussions to work through the difficulties, and provide support.

Ensure that the measures and targets support the objectives and strategy of the company. These measures should cascade down through the various levels of the company. The chosen measures should include the short-term and long-term measures and the financial and non-financial measures. The Balanced Scorecard should become part of the overall day-to-day operations of the company. Just keep in mind that if you can't measure it, you can't manage it. Management should always show their support and commitment with regards to the proper application of the Balanced Scorecard.

#### **4.4 SUMMARY**

This chapter covered the conclusions and recommendations made from the study on the Balanced Scorecard, by referring to the primary and secondary objectives as set out in chapter 1. It shows that the research done in both chapter 2, the literature review, and in chapter 3, the empirical study, have confirmed that the set of objectives were achieved.

This chapter concluded that the Balanced Scorecard process was not used effectively in the company under scrutiny due to poor communication and no feedback; furthermore, there were no links between the Balanced Scorecard and employee compensation. The study also showed no real statistical significant differences between responses from people in different job levels, as well as in the different age groups.

The recommendations made to encourage further research are done to simplify the Balanced Scorecard process. It was also recommended that the linkage

between the Balanced Scorecard and compensation be explored, and to set reachable goals, objectives, measures and targets to encourage employees to become more serious and committed. Aligned commitment, a shared vision and a clear understanding of how each person's role supports the overall strategy, will allow management to reap the benefits.

Employees will benefit from an effective Balanced Scorecard, through a better understanding of themselves and it will increase their self-esteem. Furthermore, it will enable them to work smarter and not harder, and it will increase their personal responsibility.

The managers will benefit, as employee's commitment will increase, essentially employees become more motivated, employee innovation will increase, and through this customer satisfaction will increase.

An effective Balanced Scorecard will create value for the company as well as bring continuous change and improvements which in turn will give the company the sustainable competitive advantage needed for the future.

To ensure future growth and sustainable competitive advantage the research shows a need for management to implement an effectively applied process when using the Balanced Scorecard as a measurement tool.

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## ANNEXURE A – QUESTIONNAIRE

### THIS QUESTIONNAIRE IS TO ASSESS THE BALANCED SCORECARD SYSTEM AT PICTURE PERFECT PHOTOGRAPHY

The completed questionnaire should be return to Natasha Woodall, natashaw1972@gmail.com per e-mail. They survey is completely anonymous, so please answer the questions honestly. The aim of the questionnaire is to give constructive feedback to management and to ensure a positive outcome for all employees. Please mark the appropriate box with a X.

<b>Gender</b>		<b>Race</b>	
<b>Work section</b>		Field staff	
		Studio staff	
		Office staff	
<b>Job level</b>		Photographer	
		Assistant	
		Admin	
<b>Years of service</b>		< 5 years	
		5 to 10 years	
		11 to 15 years	
<b>Age group</b>		20 - 25 years	
		26 - 35 years	
		36 - 45 years	
		46 - 55 years	
		55 years and older	

Part A: Answer to the following general questions regarding the Balanced Scorecard system at Picture Perfect Photography.

1. Do you have a Balanced Scorecard?                      Yes                           No
  
2. Did your direct manager have a detailed discussion with you regarding your Balanced Scorecard for 2012?                      Yes                           No
  
3. Did your direct manager have a feedback-discussion with you regarding your Balanced Scorecard performance for 2011?                      Yes                           No
  
4. Were you given the opportunity to give inputs in your new Balanced Scorecard?                      Yes                           No

Part B: Please answer all the questions regarding your Balanced Scorecard by evaluating the following statements. Indicate whether you strongly disagree (1) to Strongly agree (5).

Please tick to appropriate check box.

	QUESTION	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
1	You are being measured against the four perspectives of the Balanced Scorecard (Financial, Customer, Internal Business, and Learning and Growth).					
2	The Balanced Scorecard provides managers with an instrument needed to steer for future competitive success of the company.					
3	Top management is committed to ensure the use of an effective Balanced Scorecard system.					
4	At PPP we believe in the Balanced Scorecard as a facilitator of organisational and cultural change.					
5	You understand all the terminology used in your Balanced Scorecard.					
6	Your Balanced Scorecard is simple and easy to use.					
7	The Balanced Scorecard is in line with what is expected from you to ensure good performance for your company in general.					
8	The Balanced Scorecard helps the entire organisation to focus on quality, re-engineering and customer service initiatives.					
9	The Balanced Scorecard helps to integrate various corporate programs such as quality, re-engineering and customer services initiatives.					
10	The communication of the Balanced Scorecard should increase people's understanding of the organisation's strategy and enhance motivation to achieve strategic objectives.					
11	Should the Balanced Scorecard be the only rating to determine your compensation.					

	QUESTION	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
12	Picture Perfect Photography's strategic goals and values form the basis of your Balanced Scorecard.					
13	The overall intent of your Balanced Scorecard is to support and drive Picture Perfects Photography's goals in achieving the strategic objectives.					
14	Your Balanced Scorecard improves your alignment with strategy and the day-to-day operations.					
15	Your Balanced Scorecard is aligned with the organisation's strategy, vision, mission and values.					
16	The Balanced Scorecard is used as a management tool to guide employees towards achieving personal as well as organisational goals.					
17	Helping others to perform will improve your own performance and that of Picture Perfect Photography.					
18	Executive team building and commitment are essential parts of gaining benefits from the Balanced Scorecard.					
19	The Balanced Scorecard provides a mechanism whereby opportunities for synergy across strategic business units can be identified and exploited.					
20	The company's link between Balanced Scorecard and compensation is fair and transparent.					
21	The Balanced Scorecard helps people to understand, develop and apply strategy within their business units.					
22	The Balanced Scorecard increases the visibility of the organisation for senior management and improves communication.					
23	If the Balanced Scorecard is updated regularly: it can give early warnings of problems ahead, or signal opportunities.					
24	Senior management supports the Balanced Scorecard system.					
25	Communication of the Balanced Scorecard objectives and measures is a first step in gaining individual commitment to the company's strategy.					
26	For the Balanced Scorecard to create the cultural change, incentive compensation must be connected to the achievement of the scorecard objectives.					
27	The Balanced Scorecard must be viewed as a continuous process, requiring maintenance, re-assessment and updating.					

	QUESTION	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
28	The Balanced Scorecard breaks down strategic measures to lower levels so that all people can see what is required at their level to achieve excellent overall performance.					
29	Your performance measures in your Balanced Scorecard are SMART (Specific, Measurable, Attainable and Time-bound)					
30	You have focused feedback and continuous communication sessions regarding your Balanced Scorecard.					
31	You have clear monthly visibility of the progress on the key performance indicators (KPI's) you are measured against.					
32	You have an influence on all the KPI's listed in your Balanced Scorecard.					
33	Challenging but obtainable performance goals motivate you to perform better.					
34	Your Balanced Scorecard rating is a reflection of your compensation.					
35	Your Balanced Scorecard is a simple and transparent process.					
36	When human, informational and organisational capitals are aligned with the organisation's strategy, the organisation will have the ability to mobilise and sustain the process of change required to execute its strategy.					
37	With a clear understanding of the role and function of the Balanced Scorecard, one can take the business to higher levels of service.					
38	The real power of the Balanced Scorecard occurs when it is transformed from a measurement system to a management system.					
39	Effective measures and meaningful standards are used to determine your Balanced Scorecard ratings.					
40	The Balanced Scorecard develops a clear understanding of how strategy is operationalised.					

Part C: Open-ended question about the Balanced Scorecard system  
(Please motivate your answer in the field provided)

- Do you feel that the Balanced Scorecard system is effectively applied at Picture Perfect
1. Photography?

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15 November 2012



**To whom it may concern**

**Re: Letter of confirmation of language editing**

The MBA dissertation "*Assessment of the Balanced Scorecard approach at a photographic company*" by Natasha Woodall (22504923) was language, technically and typographically edited. The sources and referencing technique applied was checked to comply with the specific Harvard technique as per North-West University prescriptions. Final editing and printing remains the responsibility of the student.

A handwritten signature in black ink, appearing to read 'Antoinette Bisschoff'.

**Antoinette Bisschoff**

*BA (Languages); MBA*

*SA Translators' Institute (SATI)/SA Vertalersinstituut (SAVI) Membership: 1001891*

*Officially approved language editor of the NWU*