# Balanced Scorecard development of a strategic business unit

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Innovation through diversity

# ABSTRACT

Research confirms that strategic planning is essential for the improvement of business performance in both small and large organisations. Organisations around the globe all follow similar tactics, namely to attempt to execute a strategy to differentiate themselves from their competitors. A popular instrument used to support the strategic-management process in organisations is the Balanced Scorecard (BSC).

The BSC is a popular performance-management framework strongly associated with managing the implementation of strategic plans. There is a difference between known performance-management programmes and the BSC. The BSC is a full, multi-perspective approach to achieving long-term, sustained growth, viewed more as a strategy-formation system than a pure measurement system.

Constructing the first BSC of a Strategic Business Unit (SBU) is accomplished by a systematic process that builds consensus and clarity about how to translate the mission and strategy of the SBU into performance objectives, measures, targets and initiatives in four balanced perspectives: Financial, Customer, Internal Processes, and Employee Learning and Growth. The aim of the scorecard building and implementation process is to cascade strategy down to the operational level where real value is added. This process is also called "strategic alignment".

The arguments presented in this dissertation are based on a combination of general literature research on performance management, the BSC and the development, strategic implementation and management of the BSC. The selection process of an SBU, and the rationale for the choosing to construct a BSC as a performance-measurement tool has been addressed. The dissertation further addressed the objectives and principles governing the BSC for the specific, chosen SBU.

The development of the BSC comprises of ten steps, from the assignment of the scorecard champion or architect to the senior executive management meeting. Information gained from research done on the South African company under review, GP Retail Operations (Pty) Ltd, and more specifically the SBU of the Ackermans Distribution Centre in Durban together with the literature research have been used to develop the BSC within the specific SBU of the organisation. The BSC was tailor made for the specific requirements of the specific SBU in GP Retail Operations (Pty) Ltd.

The results of the study on the SBU, Ackermans DC, have been summarised in the performance-record sheet and an audit sheet derived from the literature overview and applied practical in-house research. The record sheet was created for each perspective of the BSC.

The development of the BSC involved several challenges in embedding the information systems and the culture that helped receive, process, and analyse information for the creation of the performance-record sheet and audit sheet. A BSC requires time and effort to "get it right" and commitment to implement it.

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# LIST OF ACRONYMS

| **Acronym** | **Clarification** |
|---|---|
| ADI | Analog Device Inc. |
| BSC | Balanced Scorecard |
| CEO | Chief Executive Officer |
| CSA | Customer Self Assessment |
| DC | Distribution Centre |
| EVA | Economic Value Added |
| FAR | Frequency Absenteeism Rate |
| GAR | Gross Absenteeism Rate |
| HR | Human Resources |
| IT | Information Technology |
| KPA | Key Performance Areas |
| KPI | Key Performance Indicators |
| MBOs | Management by Objectives |
| MVA | Market value added |
| OEC | Operational Excellence Charter |
| PPE | Personal Protective Equipment |
| ROCE | Return on capital employed |
| ROE | Return on equity |
| ROI | Return on investment |
| SLA | Service Level Agreement |
| SBU | Strategic Business Unit |
| SPP | Strategic Planning Process |
| TQM | Total Quality Management |

# CHAPTER 1

## INTRODUCTION AND PROBLEM STATEMENT

### 1.1. INTRODUCTION

Research confirms that strategic planning is essential for the improvement of business performance in both small and large organisations. Organisations around the globe all follow similar tactics, namely to attempt to execute a strategy to differentiate themselves from their competitors. Whether there are one or a thousand employees in a company or an organisation, the way to success remains the same (Lawrie, Andersen & Cobbold, 2006:1).

A popular instrument used to support the strategic-management process in organisations is the BSC. The BSC is a strategic performance-management framework that allows organisations to manage and measure the strategy being developed. Robert Kaplan and David Norton developed the BSC to aid organisations in translating vision and strategy into implementation by operating from four perspectives, namely that of the financial perspective; the perspective of the customer; of the business process; and the perspective of learning and growth in the company or organisation.

The BSC is mainly used in larger organisations, but lately the number of small and medium enterprises wanting to use the BSC is increasing rapidly. Research shows that large organisations are clearly benefiting from using the BSC approach. This dissertation discusses the development of the BSC in a SBU within a large company with 3 500 employees.

The arguments presented in this dissertation are based on a combination of general literature research on performance management, the BSC and the development, strategic implementation and management of the BSC. Research has been done under review within the organisation, and the findings from the literature overview, the research within the organisation and within the specific SBU have been used to develop the BSC within the SBU of the organisation.

## 1.2. BACKGROUND TO THE STUDY AND MOTIVATION

Kaplan and Norton first introduced the BSC in 1990 after a one-year study of 12 companies. The results were reported in the *Harvard Business Review* in 1992. The researchers concluded that financial measures alone were not sufficient to measure performance. Other factors in the new economy, such as competence and knowledge, customer focus, operational efficiency and innovation were missing from traditional financial reporting. In 1996, Kaplan and Norton published *The Balanced Scorecard: Translating Strategy into Action* to explain the development and use of the BSC (Gumbus & Lussier, 2006:408).

The new economy refers to the business environment characterised by dynamically discontinuous change, which requires a re-conceptualisation of knowledge management (Malhotra, 2000:2). Further, Cordeiro (2009:36-37) states the following:

> "Knowledge is transforming the economy at a dramatic rate. A knowledge economy introduces an entirely new way of thinking and differs radically from the economies of the past. Unlike natural or financial resources that shrink when they are shared, knowledge multiplies through sharing. Moreover, knowledge does not depreciate with time as money does."

The BSC offers the following benefits to an organisation or a company:

- It focuses the entire organisation on the few key aspects needed to create breakthrough performance.
- It helps to integrate various corporate programmes, such as quality, re-engineering, and customer-service initiatives; and
- It breaks down strategic measures to lower levels so that unit managers, operators and employees can see what is required at their level to achieve excellent overall performance.

Over time, the BSC has been successfully implemented in large organisations, and has reaped excellent results within these organisations. Hence the motivation was there for the researcher to attempt to develop and implement the BSC in a SBU within the company under review, representing a large company. It is hoped that this dissertation will contribute to the current research done on performance-measurement tools and, more specifically, on the use of the BSC in a specific SBU of a large organisation.

Motivating employees and managers and measuring their performance are key challenges in any organisation. The BSC assists the organisation in the following ways:

i. by promoting growth;
ii. by tracking performance to correct and improve it;
iii. by providing focus on what is important to the organisation;
iv. by aligning objectives;
v. by helping to give clarity on goals; and
vi. offering clear provision of accountability for results.

Any organisation, including the employees and managers, can benefit from using this tool of measurement. Rewards are linked to the performance measures on the BSC that assist in motivating the employees and managers. Motivated employees and managers reap good results that lead to the successful performance of the organisation.

The motivation for any organisation to implement the BSC as a performance-measurement tool is based on the premise that measurement motivates behaviour, and in essence facilitates the creation of long-term value for the business (Anthes, 2003:34).

## 1.3. PROBLEM STATEMENT

Researchers have clearly stated that companies of all sizes are good at developing visions and mission statements and strategies, but poor at implementing operational strategies and equally poor at measuring whether they are indeed achieving their vision and mission and executing their strategy. The BSC will address this problem by linking the mission of the company to its strategy and to then translate the strategy into operational objectives and measures (Gumbus and Lussier, 2006:407).

The BSC is increasingly gaining favour world wide as an effective performance-management and measurement tool. The challenge of this study has been to develop the BSC for a SBU within the organisation under review, GP Retail Operations (Pty) Ltd, where there has been no definite performance-measurement and reward system in place for any SBU in the organisation before. Should the BSC prove to be successful in the specific SBU, the possibility for investigating the wider application of the BSC in the other SBUs within GP Retail Operations (Pty) Ltd would be examined. At the same time, a performance-measurement system would be put in place to reward employees and managers for excellent work.

## 1.4. RESEARCH OBJECTIVES

The objective of this research project has been to develop the BSC in a particular SBU within an organisation. It introduces a system of measuring business performance that is more balanced than other measurement tools, and is not merely used for short-term financial gains as performance indicators.

Targets and results of the following four perspectives of the BSC, namely the financial aspects of the organisation; customer care; internal processes and learning and growth are typically presented to senior managers on a single sheet of paper, providing a quick but comprehensive and balanced view of performance with the aim of taking the mystery out of implementing company strategies (Kaplan & Norton, 1996:9).

### 1.4.1 Primary objective

The primary objective of the study has been to establish the development of a BSC in a specific business unit within an organisation through literature research and applied practical research.

### 1.4.2 Secondary objectives

To reach the primary objectives of the study, the following secondary objectives were formulated:

- to gain insight into the background of performance measurement by means of a literature study;
- to gain insight into the origin of the BSC approach;
- to understand the BCS as part of performance management;
- to investigate the components of the BSC and to determine of what these components consist;
- to understand the BSC as a method of measurement, its procedures, the various financial and non-financial measures that can be undertaken by using it, and methods for its application;
- to investigate the steps on how to develop the BSC;
- to apply these steps to the warehousing division of GP Retail Operations (Pty) Ltd, namely the Ackermans Distribution Centre (DC) in Durban; and
- to understand the obstacles that can cause the implementation of a BSC to under achieve or even fail.

## 1.5. SCOPE OF THE STUDY

The scope of the study falls within the South African-based organisation - GP Retail Operations (Pty) Ltd. The study of the organisation represents the feasibility and successfulness of implementing the BSC within the specific SBU in the organisation.

### 1.5.1 The background to GP Retail Operations (Pty) Ltd

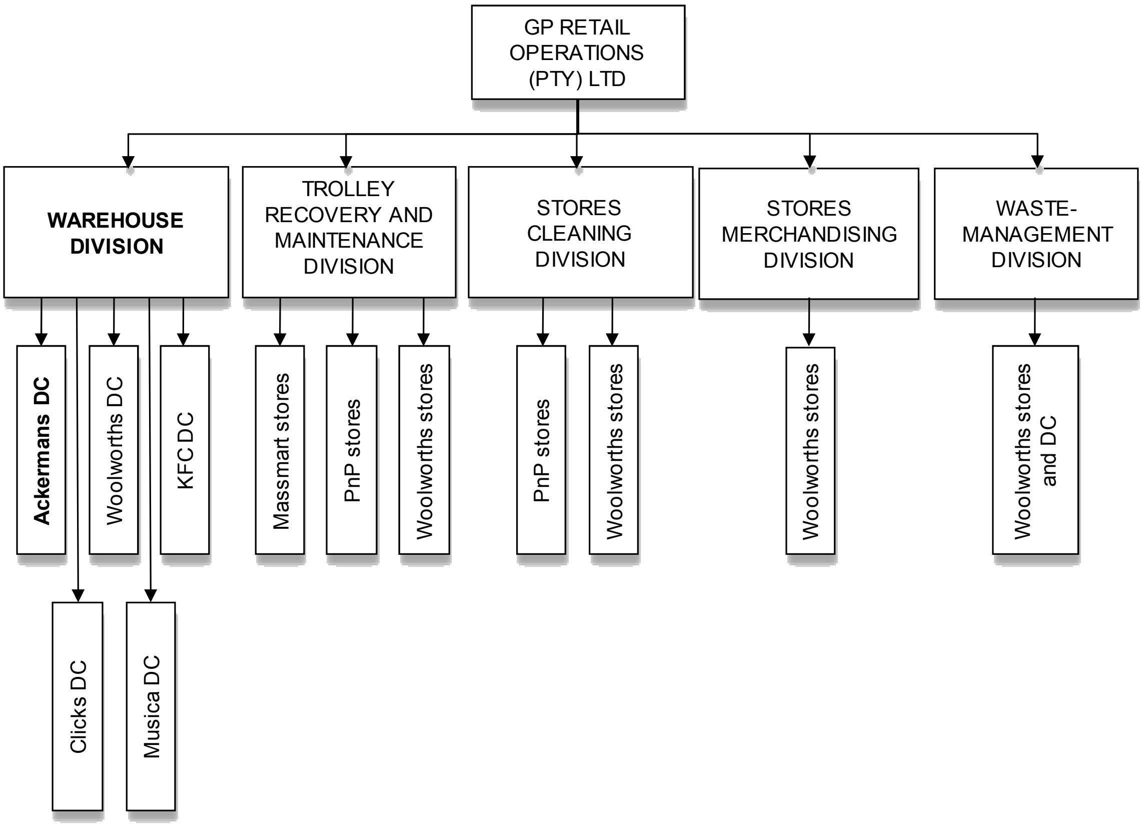
GP Retail Operations (Pty) Ltd was established in 1997 as a service provider to selected niche markets. It now operates nationally with 70 permanent employees and 3 500 contracted employees working in the different retail stores and warehouses.

GP Retail Operations (Pty) Ltd is a functional outsourcing company that specialises in serving companies with an emphasis on special solutions to the outsourcing industry. Special outsourced services include the following: staffing solutions; warehousing; logistical services; merchandising; field marketing; and waste management.

For the scope of the study, the SBU of Ackermans DC, from the warehousing division will be discussed in more detail in Chapter 2 of this dissertation.

Figure 1.1 below schematically represents the divisions of the company and its SBUs. The warehouse division and the Ackermans DC are indicated in bold in the graph.

**Figure 1.1 The organisational structure of GP Retail Operations (Pty) Ltd**


GP RETAIL OPERATIONS (PTY) LTD
WAREHOUSE DIVISION
TROLLEY RECOVERY AND MAINTENANCE DIVISION
STORES CLEANING DIVISION
STORES MERCHANDISING DIVISION
WASTE-MANAGEMENT DIVISION
Ackermans DC
Woolworths DC
KFC DC
Clicks DC
Musica DC
Massmart stores
PnP stores
Woolworths stores
PnP stores
Woolworths stores
Woolworths stores
Woolworths stores and DC

Source: Own

## 1.6. RESEARCH METHODOLOGY

The research methodology consists of two parts, namely a literature review, and applied practical in-house research.

### 1.6.1 Literature review

The purpose of the literature review has been to determine or gain insight into performance measurement; the workings of the BSC, and the steps in designing and developing it for organisations. The aim was further to establish what the reasons for the possible failure of a BSC could be.

The literature review was primarily done by researching the opinions of various authors who are experts in the field in literature, academic journals, and dissertations on the topic that are accessible on the Internet and in libraries.

The literature review starts in Chapter 2 with an introduction, followed by a definition of a BSC, and the implementation of a BSC in an organisation. This section analyses the methods, strategic frameworks, benefits, operational functioning, weaknesses, and competitive advantages derived from using a BCS.

The next section explains the process of developing a BSC in an SBU, followed by the development of a successful BSC.

### 1.6.2 Applied practical research

Research can be defined as an active, diligent and systematic process of inquiry to discover, interpret or revise facts, events, behaviours, or theories, or to make practical applications with the help of such facts, laws or theories. The term "research" is also used to describe the collection of information on a particular subject. The word "research" derives from Middle French. The literal meaning is "to investigate thoroughly" (Wordiq.com, ref. URL).

Applied practical research is undertaken to solve specific, practical questions. Its primary aim is *not* to gain knowledge for its own sake. It can be *exploratory* but is often *descriptive*. It is mostly done on the basis of literature research. Often the research is carried out by academic or in industrial institutions. More often an academic institution such as a university will have a specific applied research programme funded by an industrial partner. Common areas of applied research include electronics, informatics, process engineering and applied science (Wordiq.com, ref. URL).

Further, in Chapter 2 the components of the BSC was studied in detail, as was the development of the BSC. The outcome of the literature review was then practically applied when the BSC was developed for the Ackermans DC SBU in GP Retail Operations (Pty) Ltd.

In Chapter 3 the development of the BSC in the Ackermans DC SBU is described step by step, built on the literature review done in Chapter 2. To do so, a focus group - comprising the financial manager, the supply-chain manager, and the BSC implementation team - was chosen to analyse the research and to decide on the four perspectives of this measurement tool, namely the financial side, customers/stakeholders, the business processes, and learning and growth/people. They further decided on the objectives and measures for each quadrant of the BSC. The final BSC was approved in a meeting held with the executive managers of the company.

The next step (which falls outside the scope of this dissertation) would be to implement the BSC in the SBU, measure it after a set time and, should the implementation thereof prove to have been successful, implement the BSC in the other SBUs, as well.

## 1.7. STRUCTURE OF THE STUDY

Chapter 1 consists of the introduction to the study; the problem statement; the purpose and scope of study; the research methodology undertaken; and the limitations to the study.

Chapter 2 consists of the detailed literature review that forms the basis for the applied, practical, in-house research. The topics discussed included the following:

i. insights into performance measurement;
ii. the introduction of and discussion regarding the origin of the BSC approach;
iii. the different components of the BSC;
iv. the benefit of implementing a BSC in an SBU; and
v. a discussion on the development of a BSC.

Chapter 3 then focuses on the development of the SBU in the Ackermans DC SBU by discussing it step by step.

Chapter 4 consists of the conclusions derived from the literature review and the applied, practical in-house research; practical suggestions in this regard, as well as recommendations for the implementation and sustainability of a BSC.

## 1.8. SUMMARY

The BSC is a strategic performance-management framework that allows organisations to manage and measure their strategies delivered, based on both financial and non-financial measures.

A formal business plan - including a strategic plan - is an important step in creating a successful organisation. However, if the strategic plan cannot be put into practice or be executed, the organisation will most probably fail. This situation will be solved by means of an effective performance-management system, where the measurement of business activities forms the backbone of the system (van Hoek, Schonken & Watt, 1998:28).

The purpose of this dissertation has been to develop a performance-management system in the form of a BSC. This BSC could be used as a performance-management tool for the company, as well as an individual measurement tool.

For the purpose of this study, the BSC has been viewed as both a performance-management and strategic-management tool. This is based on the ability of a BSC to - through its construction - summarise and formulate the strategic objectives that a company should reach to achieve its vision. By its structure-enhancing performance management system, the BSC aligns the entire company with a single set of objectives that can be translated into production-level goals, with the appropriate measures being put into place to ensure the achievement of those goals.

The developed scorecard sheet provides the basis for the implementation of the BSC within the specific Ackermans DC SBU. Should the implementation thereof be successful, the BSC could be adapted and developed for the other SBUs within GP Retail Operations (Pty) Ltd.

# CHAPTER 2

## PERFORMANCE MEASUREMENT AND THE BALANCED SCORECARD

> There are only three ways of improving performance. Firstly, you can actually improve performance. Secondly, you can cheat the system so that it appears performance is improved. Finally, you can simply lie about the performance achieved.
>
> Anonymous (Bourne & Bourne; 2007: xiv)

### 2.1. INTRODUCTION

An organisation is driven by strategy and strategic objectives. A strategic planning process is the management tool to achieve these strategic objectives. It helps an organisation to identify and create opportunities to meet the needs of its various stakeholders by exploiting the current or potential capabilities of the organisation. The value provided to stakeholders is specified by the vision and mission statements of an organisation, and the success of an organisation is measured by the value it delivers to stakeholders. In an environment of increasing complexity, unprecedented change, unpredictable technology, uncertainty, and non-availability of relevant data, it is a challenge to develop and implement a successful strategy (Pandey, 2005:51). Managers all agree that strategic planning forms a most important part of their work and that they invest a considerable amount of time in formal strategic-planning processes. A well-executed strategy will differentiate a company from its competitors in the market, which will lead to increased market share and increased stakeholder value, which is the main goal of any organisation.

However, strategies provide little benefit to an organisation unless there is an integrated system to decide upon, implement and measure the success of these strategies. This field of business management is loosely known as performance management.

The effectiveness and efficiency with which an organisation carries out tasks in the process of providing products or services, can be related to the performance of that organisation (Kennerley & Neely, 2002:1222). Performance measures can thus be applied to control and improve these organisational processes (Neely, Mills, Platts, Richards & Gregory, 1998:148). Performance measurement is a recurring activity that – for it to be meaningful - has to be benchmarked and compared over time (Hatry, 1999:506). Organisations use performance information as a point of reference for improvement. This information can be based on performance from a previous time-period or on the performance of competitors in the industry (Coulter, Baschung & Bitici, 2000:400).

Halachmi (2005:502) provided a list of reasons in support of performance measurement, and the introduction thereof as a method to improve performance. The fundamental reasons are formulated as follows:

- If an element is understood, it can be measured.
- If it can be measured, it can be controlled.
- If it can be controlled, it can be improved.

A combination of organisational measures is referred to as a performance-measurement framework (Neely, Gregory & Platts*,* 2005:1228). A performance-measurement framework should be representative of the whole organisation, with different types of measures, managed in a coordinated manner (Kennerley & Neely, 2002:1222).

This chapter reviews the definition and development of the BSC as one of these performance-measurement frameworks, as well as the importance and benefit of the BSC in SBUs.

## 2.2. PERFORMANCE MEASUREMENT AND THE BALANCED SCORECARD

### 2.2.1 Performance measurement

Performance measurement is a fundamental building block of Total Quality Management (TQM) and a total quality organisation. Historically, organisations have always measured performance in some way by means of financial performance, be it success through profit or failure through liquidation. However, traditional performance measures, based on cost-accounting information, provide little to support organisations on their quality journey since they do not map process performance and improvements seen by the customer as well as by the results delivered to the other stakeholders, such as the shareholders (Department of Trade and Industry, 2010:1).

Performance measurement plays an important role in:

- identifying and tracking progress against organisational goals;
- identifying opportunities for improvement; and
- comparing performance against both internal and external standards (Department of trade and industry, 2010:1).

Yet the ultimate aim of implementing a performance-measurement system is to improve the performance of the organisation so that it may better serve its customers, employees, owners and stakeholders. (Johnson, 2007:1).

If performance measurement is executed properly, the correct data generated will inform the user of the information what the status of the business is; how it is faring; and where it is going. A performance-measurement system enables an enterprise to plan, measure, and control its performance according to a pre-defined strategy. In short, it enables a business to achieve the desired results and to create shareholder value (Johnson, 2007:1).

An example of a multi-perspective, performance-management tool used in organisations is the BSC that offers four perspectives on measure performance.

### 2.2.2 The origin of the BSC

The BSC dates back to 1988, when KPMG designed a performance-evaluation system for APPLE. Later, in 1990, the Nolan Norton Institute sponsored a research project entitled 'Evaluation of future organisation performance', led by Professor Robert Kaplan of Harvard University as a representative of academia, and the Chief Executive Officer (CEO) of Nolan Norton, David Norton, as a representative of industry to evaluate the performance of 12 companies. The project was completed in December 1990 and published in the *Harvard Business Review* in 1992. Kaplan and Norton mentioned the concept of the BSC, which applies an overall management system covering four perspectives to help managers acquire complete information very quickly, and learn the status of their business. The BSC is a total management system for translating strategy into action. Its core value is achieving the vision and strategy of the company (Hwang & Rau, 2007:218).

The first BSC in the world was created and implemented by *Analog Device Inc.* (ADI), USA. It developed a result of the strategic planning process (SPP) of the company and its quality-improvement initiatives. Arthur Schneiderman of *Analog Devices Inc*. invited Robert Kaplan to create an activity-based costing project for its company. Kaplan learned that Schneiderman had created an innovative system for measuring the rate of improvement of the company's TQM. He wished to learn more about it and decided to write a case study about this innovative system. He also came to know about the corporate scorecard that *Analog Device Inc*. was using to evaluate the overall performance and rate of improvement of the company. The corporate scorecard included traditional financial measures, measures on customer performance, internal processes; and new product development. This scorecard evolved to what came to be known as the BSC (Kaplan & Norton, 1998:109).

Kaplan noticed that the multi-purpose scorecard that Schneiderman had put in place was far more useful to strategic measurement. It was decided to test it in 12 companies. Executives experimented with and improved the BSC by developing the four perspectives during 1990. Between 1990 and 1996, Kaplan and Norton created a more advanced BSC and published *The Balanced Scorecard* in 1996 (Kaplan & Norton, 1998:109).

### 2.2.3 Definition of the BSC

Kaplan and Norton first introduced the BSC in 1990 through a one-year study of 12 companies (Gumbus & Lussier, 2006:408). The BSC was developed as a strategic management tool that provides the manager with a clear and concise picture of the business's health and progress in reaching the goals of the business.

Kaplan and Norton introduced this conceptual framework for designing, evaluating and measuring multiple factors that drive the performance of a company. The balance is seen as that between long- and short-term objectives, financial and non-financial measures, lagging and leading indicators, and external and internal performance perspectives. Managers do not have to rely on short-term financial measures as the sole indicators of the performance of the company. Kaplan and Norton concluded that financial measures alone were not sufficient to measure performance. Other factors in the new economy, such as competence and knowledge, customer focus and operational efficiency and innovation were missing from traditional financial reporting. The BSC has the capability of integrating long-range strategic plans with short-term measurable objectives, thereby uniting a company's planning and budgeting processes during operations of its fiscal year (Thomas, Gable & Roger, 1999:41).

The BSC indicates that a company should be viewed from four perspectives, as set out in the BSC framework in Figure 2.1 namely:

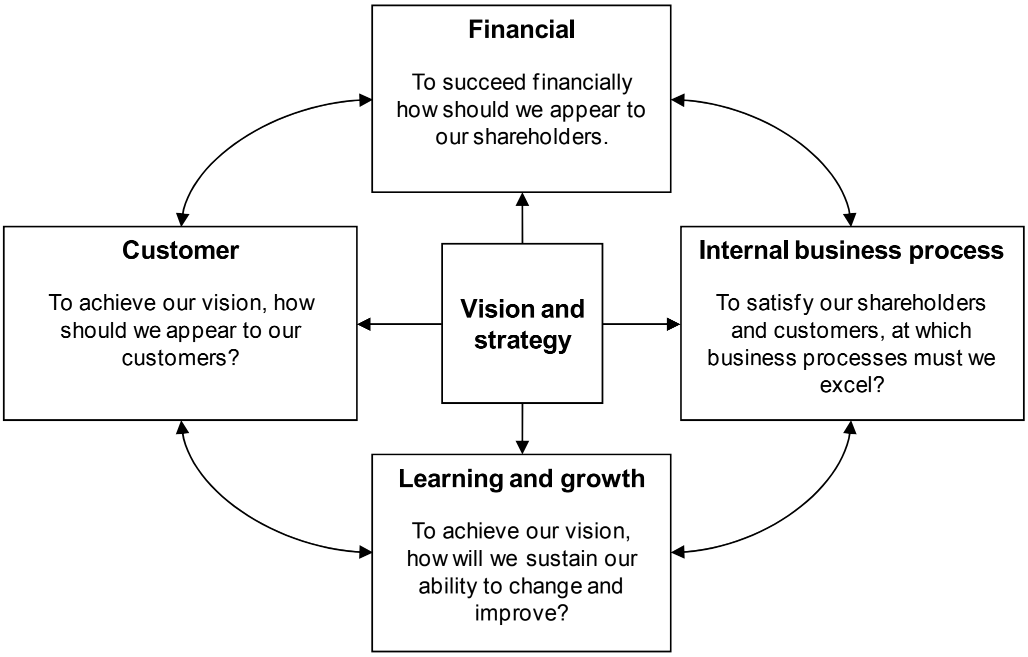
- the learning and growth perspective;
- the internal business-process perspective;
- the perspective of the customer; and
- the financial perspective.

In Figure 2.1 below it is clear that the vision and strategy of the business are placed in the middle of the scorecard to emphasise the importance thereof. When implementing the BSC, the focus should always involve the vision and strategy of the business. The four perspectives are used to allocate the stated measures and drivers of success for each of the business goals.

The *focus* in the development of the BSC is to identify the measures of critical success factors of the business. In a BSC, there are *lagging* indicators and *leading* indicators. The financial indicators are lagging indicators, which represent the past and what has been accomplished whereas the non-financial indicators such as goal attainment are leading indicators and are crucial to the strategy of the business. The non-financial indicators focus on the future and learning new knowledge and skills. Staff learning and personal growth are of high importance to any organisation as it strengthens the ability of the business to manage change.

Good measures, if meaningful to the person using it, can provide feedback for management control. They further communicate the business strategy to all levels in the firm. A good BSC tells the story of a business strategy. Therefore it can be said that it provides the framework, goals and measures against which a performance-management programme is undertaken (Kaplan & Norton, 1992:71 - 79).

**Figure 2.1 The BSC framework**


Financial
To succeed financially how should we appear to our shareholders.
Customer
To achieve our vision, how should we appear to our customers?
Vision and strategy
Internal business process
To satisfy our shareholders and customers, at which business processes must we excel?
Learning and growth
To achieve our vision, how will we sustain our ability to change and improve?

Source: Kaplan & Norton, 1996:76.

### 2.2.4 The benefits of the BSC

The concept and logic behind the BSC are not new. What is new, is its easy-to-understand design and more formalised process of performance management and linking strategy to performance measures and outcomes (Pandey, 2005:64). Many companies are motivated to implement the BSC as it assists the organisation in the following ways:

- The BSC focus. As the BSC focuses on long-term strategic outcomes and not only on short-term operational results, it promotes growth. Pursuing a growth strategy with business excellence requires non-financial initiatives. By using the BSC, a company is able to articulate a strategy and to communicate it down to all levels of an organisation.
- The BSC performance. Individual and collective results are tracked against targets to correct and improve matters.
- Companies use the BSC to provide focus. When measures are aligned to a few critical strategies, the BSC is used to provide focus on what is important to the company. Businesses use the BSC to understand their target customers and their requirements. Companies also acknowledge the need to focus on and invest in intellectual capital and intangible assets as these will carry a competitive advantage in the future.
- A company uses the BSC to align its goals. When one measures what is truly important to success, the measures are linked to and used to support one another. Alignment occurs across the organisation. The BSC enables employees to understand strategy, and to link their strategic objectives to their day-to-day operations.
- Companies need clarity regarding their objectives or goals. The BSC indicates how the company should respond to such issues.
- The BSC demonstrates where accountability lies. Individuals are assigned to be owners of metrics to provide clear accountability for results (Gumbus *et al.*, 2006:4).

According to the *Balanced Scorecard Institute* (2009:1-2), the benefits of employing the BSC for strategic planning and management are as follows:

- It allows for organisational alignment to build collective and individual accountability – from the vision of the company to the desktop of individuals.
- Following the BSC offers improved communication and transparency. Management can build employee buy-in and offer incentives for desired behaviour. Performance information provides a basis for executives and other staff to be evaluated fairly against company standards, and for incentives to be linked to performance.
- Management can set strategic priorities by prioritising employees' projects. The BSC offers a disciplined way to translate the strategic intent of an organisation into actionable programmes, products and services.
- Finally, it offers data-driven decision-making that underscores measuring what matters most to the company, and allows management to focus on results. Performance data better inform decision-making, and helps management to focus their attention on the most important aspects to measure.

### 2.2.5 **Reasons why BSCs fail**

The section above demonstrates the benefits gained by using the BSC. However, according to Bourne & Bourne (2007:30 - 31), there are a number of different stages at which BSCs fail, namely the following:

- Failure to complete the design. Should a good process be used when designing and developing the BSC, failure is a very rare occurrence.

- Failure of implementation. It is relatively simple to enable the management team to work together to develop a theoretical BSC with a set of measures. Implementing those measures, collecting the data, analysing it, producing the graphs, and so on takes time and effort. As it involves other people, this is the stage at which most BSC initiatives fail. A BSC is never fully implemented until the measures are displayed to the whole organisation; otherwise it is merely viewed as a management toy.

- Failure of use. Designing and implementing the scorecard is an expensive and time-consuming process, but that is only the start. Without review and visible action being taken that are based on the results of the measures, commitment to the process will be lost and the scorecard will decay.

- Failure of revision. Having a high-performance BSC that is out of date can take the organisation in the wrong direction. When the environment changes, strategy needs to be revised. Performance measures need to be realigned as failure to do this will result in the strategy being focused on one or more aspects, and the employees being guided to focus on others.

- Failure of commitment. Lack of commitment can occur at any point of the process. Maintaining commitment is essential until the approach becomes a way of life in the organisation.
- Other reasons for failure of the BSC are due to the company selecting the wrong measures, and the measures selected not being relevant to those chosen to run the business. Further, targets set are unrealistic; the measures are not aligned with the goals; the system is too complex; and people do not understand the system. Essentially not enough time and effort are invested into training and education; poor project management reigns; and there is a lack of support from top management with no performance-review mechanism in place. Measures become dated; or measures are in conflict with the reward system; or they are not used; or they are resisted, and the like (Bourne & Bourne, 2007:90).

## 2.3. THE COMPONENTS OF A BSC

The BSC as per Kaplan and Norton (1996:24 - 29) is made up of four perspectives; these four perspectives are driven by the company vision and mission. This ensures that the measures and goals in each perspective lead the company to its ultimate vision. Figure 2.2 illustrates the relationship between the various components of the BSC. These will be discussed in detail.

### 2.3.1 The vision of the business

A vision is the desired future state or aspiration of an organisation (Johnson and Scholes, 1999:3). The vision for an organisation is a powerful instrument as it creates meaning for stakeholders within the organisation; provides a challenging environment for employees; energises others; brings the future to the present; and creates a common identity. These advantages create a unique competitive advantage for organisations seeking to increase their human capital. Organisations become motivated; they have a purpose and an identity, and these make them uniquely competitive. The vision boosts morale. The vision is an ace up a leader's sleeve, a vital part of his/her toolbox. Leaders have the ability to inspire, attract, align, and energise followers by means of their vision. All action can be aligned with the vision, thereby saving time and money. Clearly defined visions - underscoring multicultural issues and the beliefs and values of employees - will allow for a communicated direction with which the entire organisation can align. Individuals can align their actions with a communicated vision (Sullivan, ref. URL).

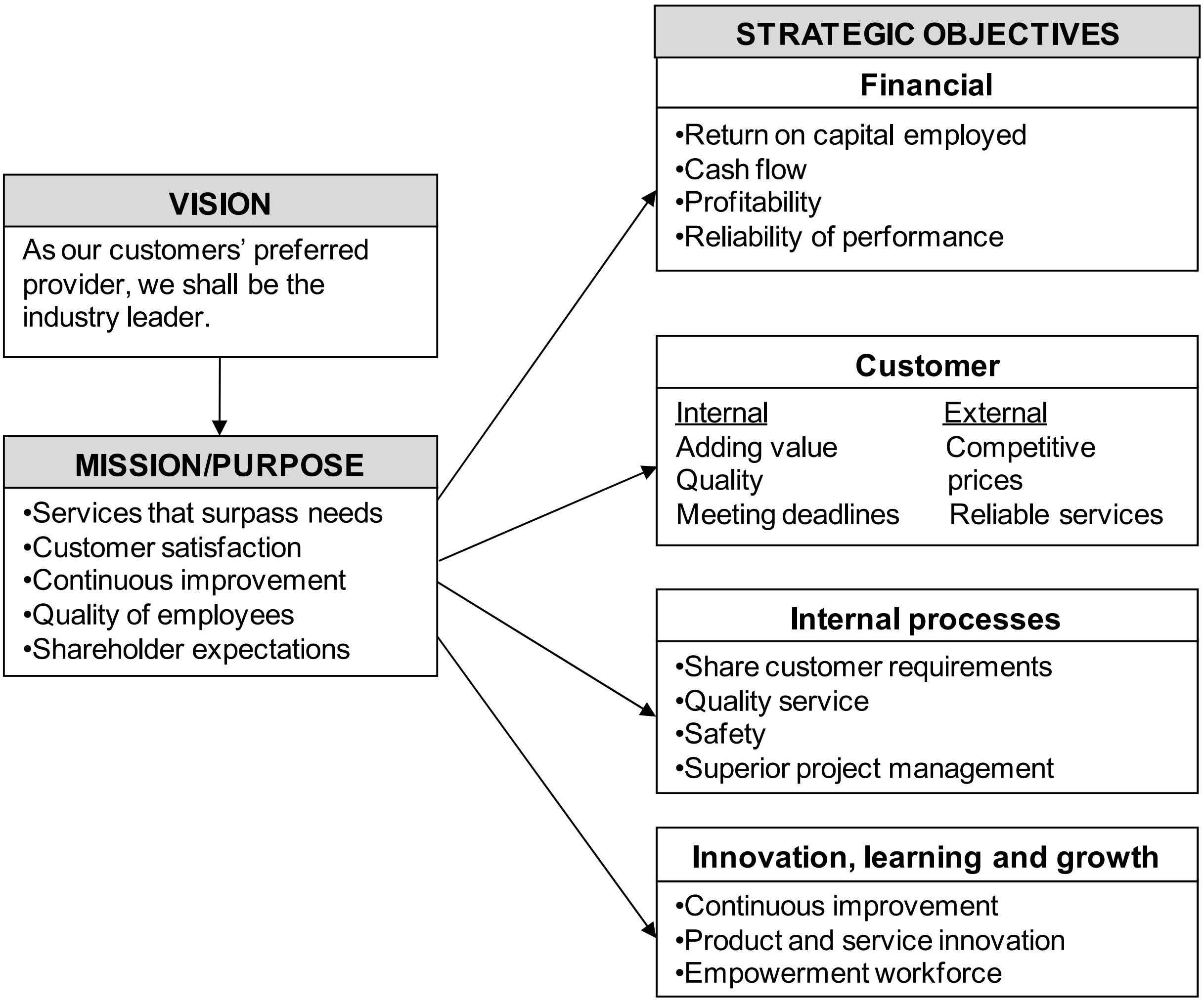
Kaplan & Norton (1996:10) agree that a shared ultimate goal or strategy that has gained consensus and translates the direction in which the organisation wishes to head, is the starting point whence a BSC can be created.

### 2.3.2 The mission of the business

Every organisation has a mission, a purpose, a reason for being. Often the mission is the reason why the organisation first came into being – to meet a need identified years before. A solid mission statement should accurately state why an organisation exists, and what it hopes to achieve in the future. It articulates the essential nature, values and actions taken in an organisation. An effective mission statement must resonate with the people in and for the organisation, as well as with the different constituencies that the organisation hopes to affect. It must express the purpose of the organisation in a way that inspires commitment, innovation and courage. (Radtke, 1998:1-3).

> A mission statement defines the reason for existence of an organisation. It embodies its philosophies, goals and ambitions. Any organisation that attempts to operate without a mission statement runs the risk of drifting without having the ability to verify that it is on its intended course. A clear business mission contains the purpose of the organisation; its values, strategy, and scope; and its standards and behaviours.

**Figure 2.2 The components of a BSC**


VISION
As our customers' preferred provider, we shall be the industry leader.
MISSION/PURPOSE
•Services that surpass needs
•Customer satisfaction
•Continuous improvement
•Quality of employees
•Shareholder expectations
STRATEGIC OBJECTIVES
Financial
•Return on capital employed
•Cash flow
•Profitability
•Reliability of performance
Customer
Internal
Adding value
Quality
Meeting deadlines
External
Competitive prices
Reliable services
Internal processes
•Share customer requirements
•Quality service
•Safety
•Superior project management
Innovation, learning and growth
•Continuous improvement
•Product and service innovation
•Empowerment workforce

Source: Kaplan and Norton (1993:135)

### 2.3.3 Objectives and measures

The BSC is usually constructed by starting at the top and stating its vision, mission, and strategy. Equally important, however, is the bottom-up strategic learning that results from using the BSC. The objectives and measures that are chosen, tell the story of the company's strategy and, over time, the analysis of results will provide the company with a gauge of the effectiveness of the company's implementation of these aspects (Niven, 2002:106).

Between the strategy of the company, which defines the activities and choices the company makes to separate itself as an organisation, and the performance measures the company selects to gauge its overall effectiveness, the company requires a set of performance objectives that describe what it must do well to execute its strategy. Objective statements are concise statements that describe the specific actions. These must be well performed if the company is to successfully implement the strategy that it has selected for the specific performance measures that it will use to determine its progress toward overall goals or objectives.

The best way to create performance objectives is to examine each perspective in the BSC in the form of a question, for example:

- Financial perspective: Which financial steps are necessary to ensure the execution of the strategy?
- Customer perspective: Who are the targeted customers, and what is the value proposition of the company in serving them?
- Internal perspective: At which processes must the company excel to satisfy its customers and shareholders?
- Employee learning and growth perspective: Which capabilities and tools do our employees require to help them execute the strategy?

When the company develops its performance objectives, it helps to start each with an action verb. In this regard, Niven (2002:106 – 109), states the following:

> Objectives should motivate action, but they do not necessarily need to be quantitative in nature. Providing specific numerical representations of success is the domain of the performance measure, not the objective. One has to bear in mind that the BSC is about translation - translating the strategy into objectives, and then determining the best measure to track achievement of that objective.

Performance measures are the tools that the company uses to determine whether it is meeting its objectives and moving toward the successful implementation of its strategy. Measures can be described as quantifiable standards used to evaluate and communicate performance against expected results. Measures communicate value creation in ways that even the speeches of the most charismatic CEOs never can. These measures function as a tool to drive desired action, provide all employees with direction in how they can help to contribute to the overall goals of the organisation, and supply management with a tool in determining overall progress toward strategic goals. Measures are critically important for the BSC, but generating them is not as simple as it may appear (Niven, 2002:114).

### 2.3.4 Strategic perspectives

The BSC comprises four perspectives that Kaplan and Norton (1996:5) believe are generic to all companies. These perspectives are the financial perspective, the customer perspective, the business-process perspective, and the innovation learning and growth perspective.

In the following section, each one of these perspectives will be discussed in more detail.

#### 2.3.4.1 *The financial perspective*

Definition

In most organisations, financial considerations are, as a rule, vital in most situations. Hence any strategic choice, the timely and accurately presented funding data are critical; the sources of funding must be known; and budgeting must be done. The sustainability of funding for the initiative required to implement the strategy is another key concern, which needs to be carefully considered. This component of the BSC is therefore used to consider the projects from a financial perspective, and discusses financial considerations and how the business strategy affects the bottom-line. According to Kaplan and Norton, the question to ask, is how the company should appear to its shareholders to succeed financially. The financial perspective can be viewed as the focus of the BSC it is almost as though the other three perspectives are in essence answerable to the financial perspective.

Measures

The business strategy can be translated into specific objectives that can be classified within each of these four perspectives. Appropriate quantitative measures are assigned to these objectives to report and to monitor the success in achieving these objectives. Examples of commonly used financial measures are listed in Table 2.1 below.

**Table 2.1 Commonly used financial measures**

| | |
|---|---|
| Total assets | Value added per employee |
| Total assets per employee | Compound growth rate |
| Profits as a % of total assets | Dividends |
| Return on net assets | Market value |
| Return on total assets | Share price |
| Revenues/total assets | Shareholder mix |
| Gross margin | Shareholder loyalty |
| Net income | Cash flow |
| Profit as a % of sales | Total costs |
| Profit per employee | Credit rating |
| Revenue | Debt |
| Revenue from new products | Debt to equity |
| Revenue per employee | Times interest earned |
| Return on equity (ROE) | Days sales in receivables |
| Return on capital employed (ROCE) | Accounts receivable turnover |
| Return on investment (ROI) | Days in payables |
| Economic value added (EVA) | Days in inventory |
| Market value added (MVA) | Inventory turnover ratio |

Source: Niven, (2002:119).

Kaplan and Norton (1996:48) further identified three stages in a business strategy, namely the growth stage, the sustainability stage, and the harvest stage.

Kaplan and Norton have found that, for each of the three strategies – growth, sustainability and harvesting - there are three themes that drive the business strategy, namely:

- Revenue and growth mix: This mix includes new products, new applications, new customers and markets, new relationships, and new pricing strategy.
- Cost/reduction/productivity improvement: This includes increasing revenue productivity, the reduction of unit costs, improving channel mix, and reducing operating expense; and
- Asset utilisation/investment strategy: These include the cash cycle, and improving asset utilisation.

The appropriate measures to use in the financial perspective for each stage in the life cycle of the organisation are indicated in Table 2.2 (Kaplan & Norton: 1996:52).

According to Kaplan and Norton (1996:61), financial objectives represent the long-term goals of the organisation, which is to provide superior returns based on capital invested in the business. Using the BSC does not conflict with this vital goal. 'The BSC can rather be seen as the catalyst that spurs organisations to review their financial measurements and to select those that best reflect their strategy and incentivise their managers to achieve it. Eventually all objectives and measures in the scorecard perspectives should be linked to achieving one or more objectives in the financial perspective'.

**Table 2.2 The measures used in each of the strategic financial themes**

| STRATEGY | STRATEGIC THEMES | | |
|---|---|---|---|
| | **Revenue growth and mix** | **Cost reduction/ productivity improvement** | **Asset utilisation** |
| **Growth** | • Sales growth rate by segment<br>• Percentage revenue from new products, services and customers. | • Revenue/employee | • Investment (% of sales)<br>• Research & Development (% of sales) |
| **Sustain** | • Share of targeted customer and accounts<br>• Cross-selling<br>• Percentage revenue from new application<br>• Customer and product-line profitability | • Cost vs. competitors<br>• Cost-reduction rates<br>• Indirect expenses (% of sales) | • Working capital ratios (cash to cash cycle)<br>• ROCE by key asset categories<br>• Asset-utilisation rates |
| **Harvest** | • Customer and product line profitability<br>• Percentage unprofitable customers | • Unit cost (per unit output, per transaction) | • Pay back<br>• Throughput |

Source: Kaplan and Norton, (1996:52)

### 2.3.4.2 ***Customer and stakeholder perspective***

Definition

In today's competitive markets, the key emphasis for most executives will be on the customer. According to Mackay (2004:16), many organisations have taken up the challenge of focusing on customer satisfaction, identifying customer needs and re-engineering their business capabilities from the customer interface. The objectives recorded within the customer quadrant of the BSC may be both contemporary and future orientated. They may relate to both existing and potential customers and markets.

In the customer quadrant of the BSC, organisations identify the market segment in which they will operate. This segment represents the sources that will deliver the revenue component of the organisation's financial objectives.

Measure

'The customer perspective enables companies to align core customer-outcome measures like satisfaction, loyalty, retention, acquisition and profitability to targeted customers. It also enables them to identify and measure explicitly the value propositions they will deliver to targeted customers. The value proposition represents the lead indicator for the core customer-outcome measures and is vital to understanding and satisfying one's customers' (Kaplan & Norton, 1996:63).

#### *2.3.4.2.1 The core customer-measurement group*

Kaplan and Norton (1996:68) mention that the core-measurement group from the perspective of the customer is generic across all kind of organisations. The core-measurement group includes measures such as:

1. Market share: The market share reflects the proportion of business in a given market (in terms of number of customers, ZAR spent, or unit volume sold) that a business unit sells.
2. Customer retention: Customer retention measures, in absolute or relative terms, the rate at which a business unit retains or maintains ongoing relationships with its customers.
3. Customer satisfaction: From this perspective, the company assesses the satisfaction level of customers along specific performance criteria within the value proposition.

4. Customer profitability: This is used to measure the net profit from customers after allowing for the unique expenses required to support those customers.

### *2.3.4.2.2 Measuring the customer-value proposition*

To select the most appropriate customer-quadrant objectives and measures, the company should identify the specific "customer-value propositions" that will meet the needs of chosen customer segments. A customer's perception of the value received will vary over the consumption value of the product or service. The customer quadrant can help to shed light on the customer's perception of the "value" they receive from the attributes of the products or services that they purchase or receive (Mackay, 2004:17).

According to Kaplan & Norton (1996:73), the attributes that are common to all value propositions are as follows:

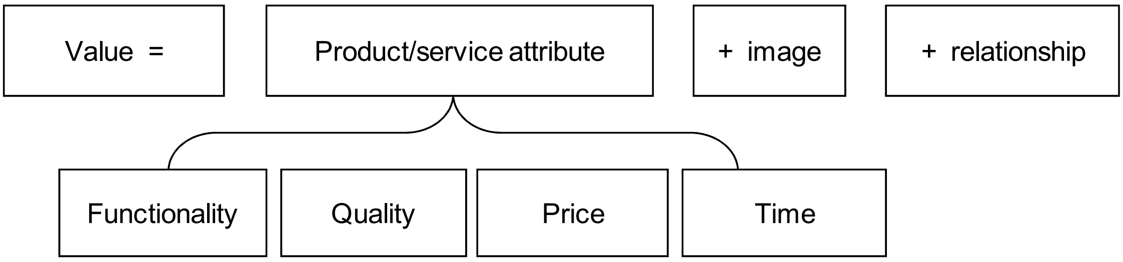
i. Product or service attributes: These include the functionality of the product/service, its price and its quality.

ii. Customer relationships: These include the delivery of the product/service to the customer, including the dimension of response and delivery time, and how the customer feels about purchasing from the company.

iii. Image and reputation: These reflect the intangible factors that attract customers to a company.

Figure 2.3 below illustrates the customer-value proposition and the product-attribute functionalities.

**Figure 2.3 The composition of the customer-value proposition**



Source: Kaplan and Norton, (1996:74)

Hamel & Prahalad (1996:118) stated that, to achieve sustained competitive success, companies need to be focusing on far more than their current products and customers. Companies should strive to continually surprise their customers with products or services that meet needs that they never even knew they had. Organisations need to repeatedly develop the value propositions to be made available to their customers for years to come to remain competitive for future success (Mackay, 2004:17).

Having established who the customer is and having defined their needs, attention can be directed towards the stakeholders. According to Bourne & Bourne (2007:50) the stakeholders of most organisations will include the following:

- owners or shareholders, who want a return on their investment.
- staff, who may want secure employment, fair rewards, safe working conditions, and personal development; and
- regulators, who will want the company to comply with their rules and the law.

Examining the needs of the stakeholders is a useful exercise because it is possible that the customer and stakeholder needs could contradict one another, or are directly in conflict. At the same time, many of their needs will match. A company should draw up a combined record-measure sheet for customers when developing the BSC.

Table 2.3 shows samples of customer measures that can be used when measuring the objectives in this perspective.

**Table 2.3 Samples of customer measures**

| | |
|---|---|
| Customer satisfaction | Win rate (sales closed/sales contacts) |
| Customer loyalty | Customer visits to the company |
| Market share | Hours spent with customers |
| Customer complaints | Marketing cost as a percentage of sales |
| Complaints resolved on first contact | Number of ads placed |
| Return rates | Number of proposals made |
| Response time per customer request | Brand recognition |
| Direct price | Response rates |
| Price relative to competition | Number of trade shows attended |
| Total cost to customer | Sales volume |
| Average duration of customer relationship | Share of target customer spending |
| Customer lost | Sales per channel |
| Customer retention | Average customer size |
| Customer acquisition rates | Customer per employees |
| Percentage of revenue from new customers | Customer-service expense per customer |
| Number of customers | Customer profitability |
| Annual sales per customer | Frequency (number of sales transaction) |

Source: Niven, (2002:127)

#### 2.3.4.3 *Internal business-process perspective*

Definition

This perspective refers to internal business processes. Measurements based on this perspective will indicate to the managers how well their business is running, and whether its products and services conform to customer requirements. These measurements should be carefully developed by the individuals who know the processes most comprehensively, and not by any outside consultant. The internal business perspective focuses on the processes, skills, competencies and technology of the business and its ability to meet the needs of the customers, as well as the potential to add value to customers' businesses (*The Balanced Scorecard Institute*, 2009:2).

According to Niven (2002:128), organisations offering total solutions to their clients through unmatched knowledge must focus on an holistic view of the processes involved, namely marketing, selling, delivery, and service. Every customer "touch point" should have supporting performance measures that complement the entire process. For example, focusing only on marketing without a counterbalancing measure of post-sale service may lead to more customers, but a lack of attention to service could also lead to more frustrated customers and increased defections. With a base of customer information from which to work, it is possible for the customer-intimate firm to measure critical supporting activities such as developing total solutions and providing advisory services.

Measure

The Internal Business Processes perspective revolves around "action". Objectives and measures in this perspective of the BSC focus on the operational aspects of the activities of an organisation.. Non-financial measures - such as quality, timelines, and output volumes - are commonly used for monitoring operational processes. According to Mackay (2004:17), '… such measures, in conjunction with activity-based costing systems, provide a mechanism for control and improvement of an organisation's processes'.

A supply chain is defined as a set of three or more organisations directly linked by one or more of the upstream and downstream flows of products, services, finances and information from a source to a customer (Niven, 2002:128).

For effective supply-chain measurement, the following points should be taken into consideration:

- A company should ensure consistency with strategy and value proposition. The metrics used should mirror the strategy and customer-value proposition as each will entail a different supply-chain measurement focus.
- Customer needs should be truly understood. One cannot assume that a company is aware of what customers expect, and should accept that their needs will change over time.
- A company needs to know the costs involved as deciding how much customer service to offer, requires detailed cost information.
- The company should take a "process view". It should define its measures at the process level, not the functional level; and
- It is important to focus on key measures as functional and activity-related metrics can be derived directly from these (Niven, 2002:129 - 130).

Those organisations that are able to measure their supply-chain performance effectively are sure to derive several benefits from it. Table 2.4 provides a number of supply-chain process measures that can be used by an organisation.

**Table 2.4 Supply-chain process measures**

| **TIME** | **COST** |
|---|---|
| On-time delivery receipt<br>Order-cycle time<br>Order-cycle time variability<br>Response time<br>Forecasting/planning-cycle time<br>Planning cycle-time variability<br><br>**QUALITY**<br>Overall customer satisfaction<br>Processing accuracy<br>Perfect order fulfilment<br>• On-time delivery<br>• Complete order<br>• Accurate product selection<br>• Damage free<br>• Accurate invoice<br>Forecast accuracy<br>Planning accuracy<br>Schedule adherence | Finished goods inventory turns<br>Days sales outstanding<br>Cost to serve<br>Cash to cash cycle time<br>Total delivered cost<br>• Cost of goods<br>• Transportation costs<br>• Inventory-carrying costs<br>• Material handling costs<br>• All other costs<br>• Information systems<br>• Administrative<br>Cost of excess capacity<br>Cost of capacity shortfall<br><br>**OTHER / SUPPORTING**<br>Approval exceptions to standard<br>• Minimum order quantity<br>• Change-order timing<br>Availability of information |

Source: Niven, (2002:131)

There is a distinctive set of processes in each business for creating value for its customers and producing financial results. However, according to Kaplan and Norton (1996:96), there is a generic value-chain model that provides a template that companies can customise in preparing their internal business perspective.

This model encompasses three principal business processes, namely:

- Innovation.
- Operations.
- Post-sale services.

Innovation process: The emerging and hidden needs of customers are researched by the business unit, and then products and services necessary are produced and delivered to the customer.

Operation process: This process targets where existing products and services are produced and delivered to customers.

Post-sale service: The post-sale service defines the service to the customer after the original sale or delivery of the product or service.

The internal process perspective is important for any organisation. Organisations should identify the cost, quality, time and performance characteristics that will enable them to deliver superior products to targeted customers. Post-sales service processes enable a company to grow by way of referrals and cross-selling of products, and are therefore of the most important aspects for any business.

#### 2.3.4.4 ***Learning and growth/people perspective***

Definition

In a knowledge-worker organisation, people are the main resource. It is becoming necessary for knowledge workers to be in a continuous learning mode due to the current climate of rapid technological change. Organisations should implement human-resource management measures, thereby recognising that people are the true drivers of learning and improvement in a company (Mohamed, 2003:52). This is the reason why organisations need to invest in developing people's skills and capabilities, information systems, and enhanced organisational procedures such as motivation and empowerment. It is important to continuously invest in learning and the improvement of strategy, goals or measures. Organisations should encourage feedback from staff and bottom-up information flow, by enhancing skills through education and training; improving supervisor/worker relationships; and empowering workers. Kaplan and Norton emphasise that learning is more than mere training. It includes mentors and tutors within the organisation and individuals learning from one another through communication by ways of, for instance, the Intranet.

The learning and growth quadrant focuses on enabling the organisation in terms of its return on human capital. The objectives within this perspective deal with the cultivation of an infrastructure for future development and organisational learning. These objectives deal with the strategic investment in people, processes, information systems, and organisational culture. The identification of the key strategic and organisational culture in this quadrant, the identification of the key strategic measures to be used, and the organisational culture to be developed represent a challenge for management. Although most businesses would agree with the logic of investing in skills training and efficient information systems, it is not always clear how to identify the strategic significance of the so-called "soft" issues such as team motivation, cultures of creativity, and knowledge management (Mackay, 2004:17).

Measure

The BSC indicates the importance of investing for the future and not only in the traditional areas of investment, such as new equipment and new product development and research. Equipment, research and development investments are important, but they are unlikely to be sufficient by themselves. Organisations must also invest in their infrastructure, people, systems and procedures if they are to achieve ambitious, long-term financial growth objectives (Kaplan & Norton, 1996:126).

In Table 2.5, Niven suggests some examples of objectives and measures to use in the learning and growth perspective.

**Table 2.5 Examples of the learning and growth perspective objectives and measures**

Employee participation in professional or trade associations
Training investment per customer
Average years of service
Percentage of employees with advanced degrees
Number of cross-trained employees
Absenteeism
Turnover rate
Employee suggestions
Employee satisfaction
Participation in stock ownership plans
Lost-time accidents
Value added per employee
Motivation index
Outstanding number of applications for employment
Diversity rates
Empowerment index (number of managers)
Quality or work environment
Internal communication rating
Employee productivity
Number of scorecards produced
Health promotion
Training hours
Competency-coverage ratio
Personal goal achievement
Timely completion of performance appraisals
Leadership development
Communication planning
Reportable accidents
Percentage of employees with computers
Strategic-information ratio
Cross-functional assignments
Knowledge management

Source: Niven, (2002:134)

Kaplan and Norton (1996:129) have found that most companies use employee objectives drawn from a common core of three outcome measurements, namely:

i. employee retention, which is the percentage of employee turnover.

ii. employee satisfaction, which is determined by how much staff is involved in decision-making; whether they experience job recognition; whether they have sufficient information to take action in their jobs; whether their initiatives are encouraged; whether the staff function is supported; and how much company satisfaction employees have; and

iii. employee productivity, namely revenue per employee, factoring in costs involved in generating the revenue.

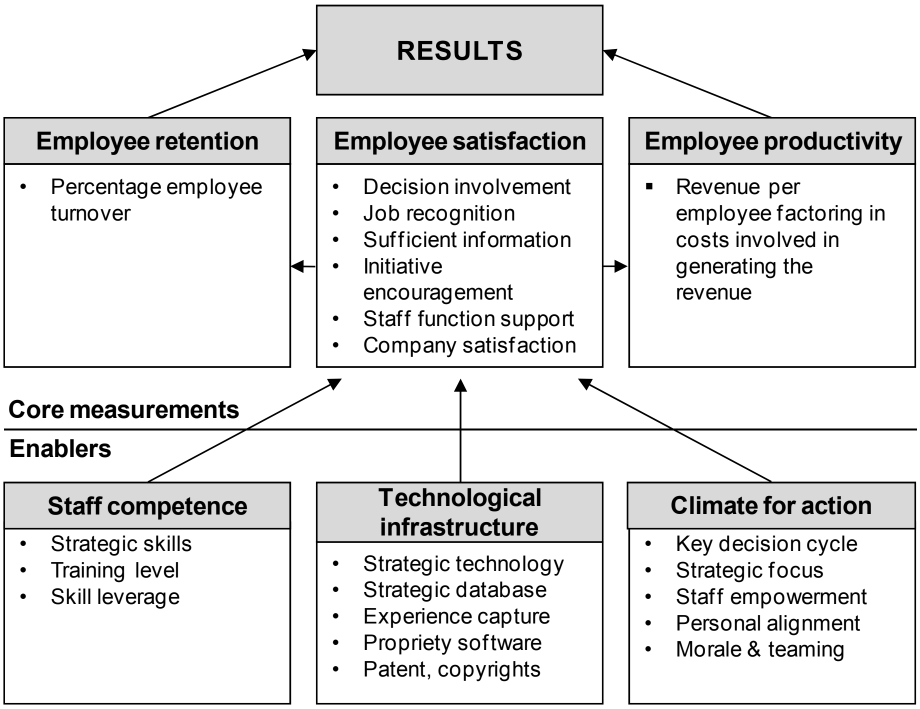
These core outcome measurements are then supplemented with situational-specific drivers of the outcomes or enablers, namely:

i. Staff competence: These are the strategic skills, training level and skill leverage of staff.

ii. Technological infrastructure: These include the strategic technology, strategic database, the capturing of experience; propriety software, and the patents and copyrights of the organisation; and

iii. Climate for action: This climate refers to the key decision cycle, strategic focus, staff empowerment, personal alignment, morale, and teaming in the organisation.

**Figure 2.4 Learning-and-growth measurement framework**


RESULTS
Employee retention
Percentage employee turnover
Employee satisfaction
Decision involvement
Job recognition
Sufficient information
Initiative encouragement
Staff function support
Company satisfaction
Employee productivity
Revenue per employee factoring in costs involved in generating the revenue
Core measurements
Enablers
Staff competence
Strategic skills
Training level
Skill leverage
Technological infrastructure
Strategic technology
Strategic database
Experience capture
Propriety software
Patent, copyrights
Climate for action
Key decision cycle
Strategic focus
Staff empowerment
Personal alignment
Morale & teaming

Source: Kaplan and Norton (1996:129)

Figure 2.4 represents the core employee measurement group and its enablers. The figure illustrates the influence on employee satisfaction through the enablers, namely competence, technological infrastructure, and the correct organisational climate. This promotes the non-financial measures; employee retention and productivity; and then finally leads to improved results, which is *the* driving financial measure.

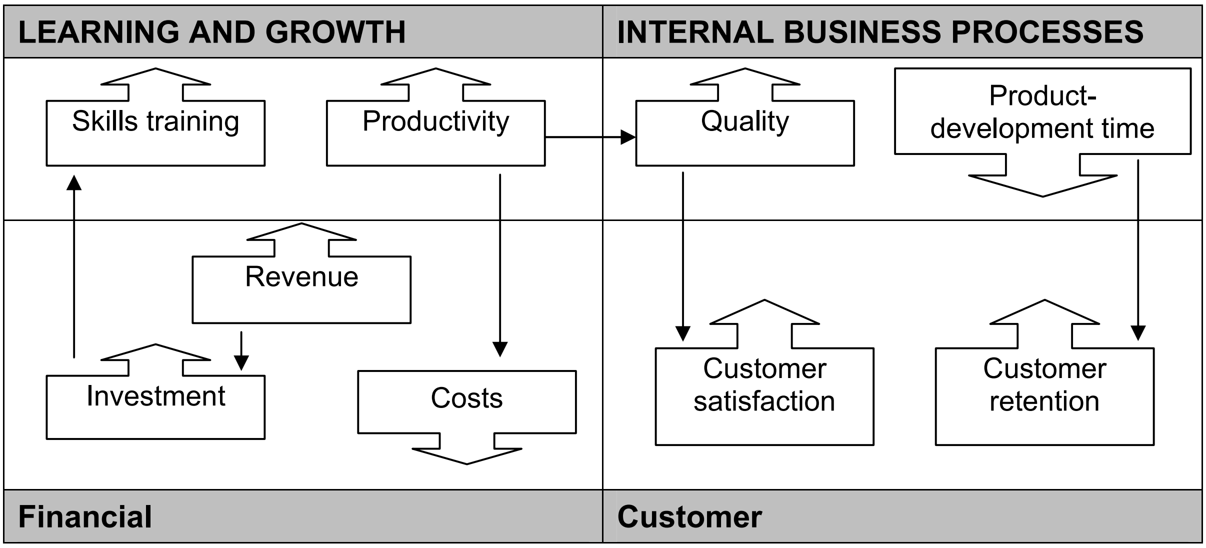
The learning and growth perspective may therefore be applied to monitor the acquisition, cultivation and exploitation of core competencies. With an enabling infrastructure in place, the organisation will need to apply this potential to developing the key internal processes at which it must excel to meet its customer objectives or service delivery agreements (Mackay, 2004:18).

### 2.3.5 Linking the strategic objectives

Mackay (2004:19) highlights the linkages of cause and effect between the measures in the various quadrants. Attention needs to be given to the understanding of these linkages when a company starts designing BSCs.

Figure 2.5 illustrates some hypothetical linkages that may exist between performance measures in the different quadrants. For instance, one could hypothesise that an increase in production quality may flow through into a rise in customer satisfaction.

**Figure 2.5 A hypothesis of linkages between scorecard measures**


LEARNING AND GROWTH
INTERNAL BUSINESS PROCESSES
Skills training
Productivity
Quality
Product-development time
Revenue
Investment
Costs
Customer satisfaction
Customer retention
Financial
Customer

Source: Mackay (2004:19)

Some relationships between measures may be verified through experience and analysis. The perception of the validity of the linkages will often be strongly influenced by the time allowed for the desired effect to materialise (Mackay, 2004:19).

## 2.4. BSC DEVELOPMENT

Once the organisation has set its vision, the core values of the organisation will define the manner in which the organisation will move towards its vision. A detailed plan on "how to get there" is then laid out in the strategy formulation of the organisation. After the organisation has been through the difficult process of developing the strategy, it needs to ensure that it has a systematic method for translating its newly developed strategy into operational objectives and measures.

Constructing the first BSC in an organisation can be accomplished by a systematic process that builds consensus and clarity about how to translate the mission and strategy of the organisation into operational measures and objectives. The aim of the scorecard building and implementation process is to cascade strategy down to the operational level where real value is added. This process is also called "strategic alignment".

Before an organisation can start developing a BSC, it needs to ensure that is has the senior executives and key opinion-formers commitment to the strategy. Many managers find the conceptual appeal of a BSC to be obvious. The managers see the shortcomings of measurements that are limited to financial measurement, and need little prompting to develop a more balanced approach. Yet the conceptual appeal of the BSC is not sufficient reason to embark on such a programme. There are a few tactics that are useful in gaining the support of top management.

A first key tactic is to educate the key decision-makers on the importance of the implementation of performance measures. Second, it is important to have a high-level person serve as a champion for the idea that needs to be drafted.

When the process is launched and properly supported, the senior executive team should identify and agree on the principal purposes for the project. These programme objectives will help the company to:

- guide the construction of objectives and measures for the scorecard;

- gain commitment from the project participants; and
- clarify the framework for implementation and management processes that must follow the construction of the initial scorecard (Kaplan & Norton, 1996:295).

Once these have been achieved, there are a number of stages that have to take place before a company can implement a BSC. These stages - set out below - have been derived from research done during the literature review by studying the work of authors such as Kaplan & Norton (1992 - 1998), Niven (2002), Bourne & Bourne (2007), and Mackay (2004).

The company has to:

- appoint a scorecard champion;
- select an implementation team;
- decide on an organisational unit;
- design the overall scorecard structure;
- have briefing session with key players and senior executive managers;
- link objectives to the strategy by means of strategy mapping;
- synthesise the results of interviews with key players;
- conduct sub-group meetings and identify performance measures;
- conduct a second workshop; and
- conduct a senior-executive management meeting to gain consensus on the proposed objectives and measures.

### 2.4.1 Appointing a scorecard champion

It is important to appoint a "champion" or a sponsor for the scorecard process to act as the "architect" who should lead the organisation through the implementation phase. Even though it is not critical for the architect to be part of the top executive team, research indicates that this is an essential role that requires a strong and influential leader who will have an influence at all levels in the organisation. According to Kaplan and Norton (1996:299), the architect will own and maintain the framework, philosophy, and methodology for designing and developing the scorecard. A good architect requires a client, which is usually the senior management team. As in a building project, the client should be totally involved in the development process, since the client will assume ownership of the scorecard and will lead the management processes associated with using it. The architect guides the building process of the BSC by overseeing the scheduling of meetings and interviews. He/she will further ensure that sufficient documentation, background readings, and market and competitive information are available to the project team and will, in general, keep the process on track and on schedule.

According to Niven (2002:56), the BSC champion has to take on the following responsibilities:

- The coordination of meetings; planning, tracking and reporting team results to all the audiences;
- providing thought leadership on the BSC methodology to the team;
- ensuring that all relevant background material is available to the team;
- providing feedback to the executive sponsor and senior management; and
- facilitating the development of an effective team through coaching and support.

### 2.4.2 The selection of an implementation team

Once the champion has been selected, a team should be put together that will assist with the design and implementation stages of the scorecard process. The definition of a team, according to Niven (2002:51), is a follows: 'A team is a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable'.

In many cases, the team will consist of people from different departments or functions within the organisation. It is important that the owners of diverse interests who are involved in the process feel some sense of ownership for the project. The team should also be contain staff members who have a careful blend of functional skills, such as information technology (IT) and human resources (HR). It is therefore important to consider the personalities of the team members. Personality profiling will assist the architect in constructing a well-balanced team. Ideally, the team should include the senior managers who have the responsibility for running the business. This will typically be the managing director or general manager of the company those who directly report to him/her, as well as other knowledgeable individuals (Bourne & Bourne, 2007:36).

According to Niven (2002:56), the responsibilities of the team is to provide expert knowledge of business unit or functional operations; to inform and influence their respective senior executives; to act as BSC ambassadors within their units or departments; and to act in the best interest of the business as a whole.

### 2.4.3 Deciding on an organisational unit

The business unit for which a top-level scorecard is appropriate, should be defined by the architect in consultation with senior executives. Most organisations are sufficiently diverse that constructing a corporate-level scorecard may be a difficult task. When implementing an initial scorecard, it is best to do so in one strategic business unit that conducts business across an entire value chain, namely innovation, operations, marketing, sales, and service. Such an SBU will have its own products and customers, marketing and distribution channels, and production facilities. An SBU where it is relatively easy to construct summary financial performance measures, without the complications of cost allocations and transfer prices of products and services from or to other organisational units should be used.

Several elements contribute to the selection of an appropriate organisational unit for a first BSC (Niven 2002:43 - 45):

- Strategy. The single most important criterion in making a selection is to decide whether the unit under consideration possesses a coherent strategy. The BSC is a methodology designed to assist the company in translating its strategy into objectives and measures.
- Sponsorship. An executive sponsor must provide leadership for the programme in both words and deeds, which must be aligned with the goals and objectives of the BSC.
- The need for a BSC. There should be a need to reconstruct the performance-measurement system of the unit.
- The support of key managers and supervisors. Executive support is critical for the implementation of a BSC to succeed. Cascading, alignment and focus derived across the organisation can lead to real breakthroughs in performance. Managers and supervisors ensure that this will occur by means of their understanding, acceptance, support, and usage of the BSC.
- Organisational scope. The unit should operate a set of activities across the typical value chain of an organisation. They should have a strategy; defined customers; and specific processes, operations and administrations.
- Data. Two criteria are important in this regard. The first is whether the unit supports a culture of measurement. The second is whether the unit will be able to supply data for the chosen performance measurements; and

- Resources. The BSC is produced by a team of individuals committed to the common goal of excellence. The unit chosen should have ample resources for the implementation of the BSC.

According to Kaplan and Norton (1996:302), once the SBU has been defined and selected, the architect should learn about the relationship of the SBU in question to other SBUs, divisions and corporate initiatives. The architect should thereafter conduct interviews with the senior divisional and corporate executives to learn about the following aspects:

i. the financial objectives for the SBU, namely growth, profitability, cash flow, and harvesting;
ii. the overriding corporate themes, such as the environment, safety, employee policies, community relations, quality, price competitiveness and innovation; and
iii. the linkages to other SBUs, namely aspects such as common customers, core competencies, opportunities for integrated approaches for customers, and internal supplier/customer relationships.

This information is very important to the architect to ensure that the specific SBU does not develop objectives and measures that optimise the SBU at the expense of other SBUs or the entire corporation. By identifying the SBU linkages, both constraints and opportunities become evident.

### 2.4.4 Designing the overall scorecard structure

According to Mackay (2004:23-24), research indicates that development teams should not be constrained by the template of the scorecard as originally suggested. The most common deviation from the generic model is the number of scorecard perspectives and their focus. The choice of perspective could be directed and clarified by the organisational strategy, but the architect will need to ensure that the quadrants or equivalents thereof are agreed upon before moving on in the process. Kaplan & Norton (1996:167) state the following: 'The Balanced Scorecard must reflect the structure of the organisation for which the strategy has been formulated'.

In attempting to reflect the structure of the organisation, the architect and the design team must evaluate whether it is desirable and feasible to cascade the scorecard structure down through the organisation, or across business functions. They also need to decide to what extent it would be possible to tailor the scorecard to the different levels of an organisation and for different divisions or departments, without losing sight of the overall strategic priorities and objectives (Mackay, 2004:24).

### 2.4.4.1 *Cascading the scorecard*

Cascading the scorecard down to all levels of an organisation encourages commitment and alignment with the strategic objectives of the organisation. It is important that the scorecard used on each level is relevant to the specific activities of the people addressed on that level, else the scorecard will fall into disuse. It is also necessary to keep in mind that scorecards throughout the organisation should be designed with the overarching aim of being truly aligned with the strategic objectives of the organisation (Mackay, 2004:24).

Many organisations consider it advantageous for their employees to have an understanding of the strategy and their role within it (Mackay, 2004:25).

### 2.4.4.2 *Scorecard templates for different organisational levels and divisions*

There are different approaches in devising scorecard templates for different organisational levels and divisions. Yet it appears that there may be a trade-off between obtaining the greatest possible strategic alignment for the whole organisation, and ensuring that each level or division is addressed by a scorecard template that is closely tailored to the operational needs of that level or division (Mackay, 2004:25).

### 2.4.4.3 *The integration of scorecards*

When there are a number of scorecards in the organisation, whether on divisional level or organisational level, it is important that the scorecards are integrated with one another. It is difficult to create a top-level scorecard, as the different scorecards are not identical and have different measures. One way of integrating the scorecards is to drive the scorecard system from the top level downwards, rather than to build it up in parallel in different divisions.

### 2.4.5 Briefing session with key players and senior executive managers

The scorecard design phase provides a valuable opportunity to bring the organisation together and to build strong consensus regarding the vision and strategic direction of the organisation. The aim of the architect is to ensure that the strategy and scorecard of the organisation are successes. This is effected by putting together an architectural team to interview the senior management of each division or organisational level, as well as the various executives of the company to enable the scorecard to reflect the strategy and direction in which the company is moving, and to avoid conflicting paths.

Kaplan and Norton suggest starting the process of discussion by preparing briefing documents for each member of the senior management team and other key opinion-formers. This briefing should include full details of the environment of the organisation, such as market conditions, legislation, policies, and financial data. It may also be useful to include a brief overview of the vision and strategy; an explanation of the key features of the BSC; and a draft implementation timetable (Mackay, 2004:26).

The interviews should preferably be conducted by a group of two or three individuals. The architect as the champion and leader of the team will typically conduct the actual interview by asking questions and probing after responses. One person may concentrate on the actual objectives and measures specified by the executive, whilst another may attempt to capture quotes that serve to flesh out and give more meaning and context to the objectives and measures. The interviews can be free-flow and unstructured, but the interview process, as well as the aggregation of information supplied by the executives, will be better facilitated if the architect were to use a common set of questions and offer a common set of potential responses (Kaplan and Norton, 1996:302).

Having such an interview accomplishes several important objectives, according to Kaplan and Norton (1996:302). The explicit objectives are to introduce the concept of the BSC to senior managers and to respond to questions they have about the concept of the BSC. It is further of importance to obtain their input about the strategy of the organisation and how this translates into objectives and measures for the scorecard.

The implicit objectives include the following:

i. starting the process of having top management think about translating strategy and objectives into tangible operational measures;

ii. learning about the concerns that key individuals may have about developing and implementing the scorecard; and
iii. identifying potential conflicts among the key participants, either in their view of the strategy and objectives, or at a personal or inter-functional level (Kaplan and Norton, 1996: 302 - 303).

During the first interview with senior management, the team will gather feedback on the competitive position of the organisation, key success factors for the future, and possible scorecard measures (Niven, 2002:61).

### 2.4.6 Synthesising the results of interviews with key players

When each of the key players and stakeholders has been interviewed, the design team may consolidate the findings and prepare a first draft of the scorecard by highlighting the key issues and objectives relevant to each quadrant and perspective. This is preparatory work for a senior-management workshop. The design team should review the objectives suggested to ensure that they do no conflict with one another, and that they generally drive the organisation towards its strategic goals. If there are any obvious conflicts, they should be put on the agenda for the senior-management workshop (Mackay, 2004:26).

From the interview, as well as in the synthesis session, the architectural team members could also discuss the personal and organisational resistance of senior management to the change that the BSC will bring about. The primary form of resistance according to Lipe and Salterio (2000:283 - 298), resides in the inclusion of non-financial measures, as many managers exhibit bias towards these in favour of traditional financial measures. The architectural team should therefore devise a strategy to even the change. This could revolve around education programs, clear communication, and championing by top management support.

Kaplan and Norton (1996:304) further state that the output of the synthesis session should be a listing and ranking of objectives in the four perspectives. The team should attempt to determine whether the tentative list of prioritised objectives represents the strategy of the business unit, and whether the objectives across the four perspectives appear to be linked in cause-and-effect relationships that are consistent and mutually reinforcing (Kaplan & Norton 1997:5). These observations should be discussed at the senior-management workshop.

### 2.4.7 Linking objectives to the strategy through the process of strategy mapping

One of the key attributes of a BSC that differentiates it from a static list of objectives and performance measures is the process of linking objectives to the strategy. It is essential that the architect and the team keep a clear overview of the relationships between the objectives in each quadrant and the relationship of the objectives to one another (Mackay, 2004:28 - 29).

Eccles & Pyburn (1992:41-44) describe how senior managers could explain and share their views by the use of mental models. These models are very simple devices that link together the objectives of and assumptions about the business. The models make explicit the links between the various actions and outcomes. By drawing the models together as a team, they create a shared set of assumptions about the drivers of performance.

These models were incorporated into the four perspectives of the BSC, and named "strategy maps". A better term for this may be "success maps", as the maps highlight what the company needs to do to be successful (Bourne & Bourne, 2007:7).

The success map is very powerful due to the following reasons:

- It structures the debate in the company.
- It explains what the company wants to achieve.
- It explains how the company will be achieving its objectives.
- It explains why the company is undertaking specific projects and improvements.
- It clarifies the thinking process in the company and makes the assumptions explicit.
- It captures the objectives in a single, graphical presentation; and
- It communicates the goals of the organisation in a simple manner to all those involved in the discussions, and then to the rest of the organisation.

Bourne and Bourne's research indicates that only five per cent of organisations have success maps. However, the companies that develop success maps greatly benefit from the process and find it very useful as a communication tool for explaining the strategy to the rest of the business (Bourne & Bourne, 2007:42).

### 2.4.8 Conducting sub-group meetings and identifying performance measures

After the first senior-management workshop, the architect and the design team need to coordinate a series of meetings with the sub-groups to refine the strategic objectives and ensure that they reflect the decisions made during the workshop. They need to ensure that all the proposed objectives are closely linked to the strategy as illustrated on the strategy map (Mackay 2004:27). According to Kaplan and Norton (1996:305-306), the sub-groups attempt to accomplish four principal objectives in their assigned perspectives:

i. They need to refine the wording of the strategic objectives in line with the intentions expressed during the first executive workshop.
ii. For each objective in the strategy map, they have to identify the measure or measures that best capture and communicate the intention of the objective.
iii. For each proposed measure, they will identify the sources of the necessary information, and the actions that may be required to make this information accessible.
iv. For each perspective, the sub-groups will identify the key linkages among the objectives within the perspective, as well as between this perspective and the other scorecard perspectives identifying how each measure influences the other.

There are specific criteria that all good performance objectives should meet. Some of them are listed below:

- Performance objectives should be relevant to what the organisation is trying to achieve.
- Perverse incentives are avoided to ensure that unwanted or wasteful behaviour is not encouraged.
- The objectives need to be attributable as the activity measured must be capable of being influenced by the organisation, and it should be clear where accountability lies.
- The company should strive for well-defined objectives, with a clear, unambiguous definition so that data will be collected consistently, and the measure be easy to understand and use.
- The timely production of data is essential to track progress.
- The objectives need to be reliable, accurate enough for its intended use, and responsive to change.
- The data need to be comparable, with either past periods, or to similar programmes elsewhere.
- The objectives must be verifiable, with clear documentation, so that the processes that produce the measure can be validated (Mackay 2004:27).

Kaplan and Norton (1996:306) indicate that the essential objective in selecting specific measures for a scorecard, is to identify the measures that best communicate the meaning of a strategy to achieve an objective. As every strategy is unique, every scorecard should be unique and will contain several unique measures. However, Mackay (2004:28), identified the "top ten" most utilised objectives, and located them by their typical position in the classic scorecard structure (see Table 2.6 below). The continued importance of financial objectives is evident from the findings.

The ability to identify objectives for a scorecard rests with the performance drivers, even though most scorecards rely heavily on core objectives as set out in Table 2.6. The intended plan for the architect and the subgroups is therefore to devise performance-driver objectives in the four perspectives that will communicate, implement, and monitor the unique strategy of the business unit.

**Table 2.6 The ten most popular performance objectives**

| **FINANCIAL** | **CUSTOMER** |
|---|---|
| • Profitability | • Market share |
| • Revenue growth | • Customer satisfaction |
| • Return on investment/capital | • Customer-service level |
| • Cost reduction | |
| • Share price | |
| **INTERNAL** | **LEARNING & GROWTH** |
| • Productivity measure | • Employee satisfaction |

Source: Mackay (2004:28)

According to Bourne & Bourne (2007:63), the final output from the sub-groups for each perspective should be a performance-measure record sheet. This record sheet provides a means by which the design team and architect can think through and record each measure.

The record sheet helps in the following ways:

1. In establishing position, it
    - fully documents the objectives so that everyone knows precisely how it is calculated;
    - sets out the frequency of measurement;

  - names the person responsible for measuring; and
  - identifies the source of data to ensure that the measure will be consistent over time, an important aspect if results are to be compared between two periods.

2. It helps in communicating direction by
   - explaining why something is being measured;
   - connecting performance measures to top-level objectives, thereby making a clear link; and
   - defines precisely what is to be achieved and by when.

3. It helps in aligning action to strategy by
   - linking the measure to the objective by way of the success map; and
   - clearly articulating through the formula what is to be achieved.

4. It helps in stimulating action by
   - naming the person responsible for ensuring performance improves; and
   - outlining the first steps to be taken in making an improvement.

Table 2.7 is an example of a performance-measure record sheet with an explanation next to each point.

**Table 2.7 The performance-measure record sheet**

| | |
|---|---|
| **Measure** | A good self-explanatory title |
| **Purpose** | Why are we measuring this? |
| **Relate to** | To which top-level business object does this relate? |
| **Target** | What is to be achieved and by when? |
| **Formula** | How is this measured? Be precise. |
| **Frequency** | How often is this measured and reviewed? |
| **Who measures?** | Who collects and reports the data? |
| **Source of data** | Where does the data come from? |
| **Who acts on the data?** | Who is responsible for taking action? |
| **What do they do?** | What are the general steps that should be taken? |
| **Notes and comments** | |

Source: Bourne & Bourne 2007:64

The employees in organisations can potentially become frustrated with the scorecard process if they devise measures that are significantly beyond their current data-collection capabilities. Unless the organisation is prepared to completely change its reporting and move significant resources into the project, the design team needs to ensure that the information required for a measure is relatively simple to access, or does not require fundamental and time-consuming changes to existing management-information systems. It is particularly important that information be obtained in a timely manner so that the data is still relevant to events in the organisation (Mackay 2004:28).

### 2.4.9 Conducting a second workshop

Once the design team is confident that they have a robust overview of the strategy, the hierarchy of scorecards and the draft objectives and measures, they can arrange a second workshop. This workshop involves the senior management team, their direct subordinates, and a larger number of middle managers. The vision, mission, and strategy of the organisation, as well as the newly created tentative objectives and measures for the scorecard should be debated.

At the workshop, the champion and his team need to adopt a low profile and build consensus and commitment by letting the representatives of the sub-groups lead the second workshop sessions. The champion's role moves to that of conductor and facilitator for this phase. He/she needs to manage the workshop and ensure that the measures on the scorecard reflect the strategic priorities, the critical success factors, the measures that will really make a difference, and that they link logically with the value chain of the organisation (Mackay, 2004:29).

Kaplan and Norton (1996:305) indicate that a good focal point for the second workshop is to be able, at the end, to sketch - as a primary objective - a brochure to communicate the scorecard intentions and contents to all the employees of the business unit. A secondary objective would be to encourage participants to formulate stretch objectives for each of the proposed measures, including targeted rates of improvement. Depending on the type of measure under consideration and the organisation's philosophy regarding target setting, a variety of approaches could be employed, for example benchmarking, rates of change, and the half-life method to specify targets to be achieved in the next three to five years.

### 2.4.10 Conducting a senior-executive management meeting to gain consensus on the proposed objectives and measures

A key milestone in the scorecard process is the successful use of a senior management meeting. The stage at which the meeting is utilised, has been found to vary between organisations, but it is seen as a significant advantage to the communication process and obtaining cohesion within the scorecard process. At the start of the meeting, it is anticipated that the organisation will know that typically 20 to 25 measures are required for the average scorecard, and senior management will have been fully briefed on the findings from the preliminary interviews. By the end of the meeting, one measure of success would be that management has agreed upon the four to five critical measures for each of the selected quadrants of the high-level scorecard (Mackay, 2004:27).

The next step is to devise an action plan for developing complementary scorecards for other parts of the organisation, where appropriate. It is argued that the first draft scorecard should pass the "acid test" of an impartial observer who is able to deduce the strategy of the organisation from the measures on the scorecard (Mackay, 2004:27).

This first meeting with senior management is usually run in the following manner:

The architect schedules and conducts a meeting with the top management team to begin the process of gaining consensus on the scorecard. During the workshop, the architect facilitates a group debate on the mission and strategy statements until consensus is reached. The group then proceeds from the mission and strategy statement to answer the question, 'If I succeed with my vision and strategy, how will my performance differ for shareholders, for customers, for internal business processes, and for my ability to grow and improve?' Each perspective is sequentially addressed in this way (Kaplan & Norton, 1996:305).

The architect shows the proposed objectives, their rankings and associated quotes derived from the interviews. The group will then deliberate on the objectives for each perspective. Each objective should be discussed in its own right, and not be compared to other objectives, so that its specific relevance, strengths and weaknesses can be fully explored (Kaplan & Norton, 1996:305).

After introducing and discussing all the candidate objectives for a perspective, the group votes on the top three to four candidate objectives. This, according to Kaplan and Norton

(1996:305), can be done in a variety of ways: by written ballots, a show of hands, or giving each person three dots and asking him/her to place a dot next to each objective considered the most important. For the highest ranked objectives, the architect and the team will draft a one-sentence or a one-paragraph description.

By the end of the meeting, the executive team will have identified three to four strategic objectives for each perspective; a detailed descriptive statement for each objective; and a list of potential measures for each objective. After the meeting, the architect prepares and distributes a post-workshop document that summarises the accomplishments and lists the composition and leader of the four sub-groups (Kaplan & Norton, 1996:304-305).

The goal of this executive session is to gain final consensus on the BSC work product that the team has developed. At this point, the document should be ready for inclusion in the operations of the organisation (Niven, 2002:62).

### 2.4.11 **Designing the implementation plan**

Kaplan and Norton (1996:308) suggest that a newly formed team, often made up of the leaders of each sub-group, formalises the stretch targets and develop an implementation plan for the scorecard. This plan should include how the measures are to be linked to the data base and information systems, as well as how to communicate the BSC throughout the organisation. The plan should encourage and facilitate the development of second-level metrics for the operational levels. As a result of this process, an entirely new executive information system that links top-level business unit metrics down through shop floor and site-specific operational measures can be developed.

A third workshop is arranged to reach final consensus on the vision, objectives and measurements developed during the first two workshops, and to confirm the extended targets proposed by the implementation team. Preliminary action programmes needed to achieve these targets are also identified at the workshop. The process usually ends by aligning the various change initiatives of the organisation to the scorecard objectives, measures and targets (Kaplan & Norton, 1996:308). At the end of the workshop, an implementation programme to communicate the scorecard to employees, incorporate the scorecard into management beliefs, and develop an information system to support the scorecard should be in place. A BSC can only create value if it integrates with the management system of the organisation. A phase-in plan should be developed to focus management's agenda on the main concerns of the BSC.

According to Kaplan and Norton (1996:308), a typical scorecard rollout project should last for 16 weeks. The schedule is largely determined by the availability of senior management for interviews, workshops, and sub-group meetings. There are also other factors that contribute to the time that an organisation expends on the project, namely the commitment of the executive team; the allocation of resources to the project; the size and complexity of the organisation for which a scorecard is being built; and the organisational readiness for a change of this magnitude (Niven, 2002:63).

At the completion of the project schedule, the senior and top middle managers of the business unit should have obtained clarity and consensus on the translation of the strategy into specific objectives and measures of the four perspectives. They should have agreed on a roll-out plan to implement the scorecard and the developing of a new, sufficiently adapted information system. There should be a broad understanding of the management processes that will be changed as a result of having scorecard measures at the heart of the organisation's management system (Kaplan and Norton, 1996:310).

## 2.5. SUMMARY

This chapter reviewed the literature overview and the development of the BSC as a performance-measurement system in an SBU.

The first part of the chapter discussed the concept and origin of the BSC and pointed to the possible benefits that can be achieved by using the BSC. The different components of the BSC were discussed, namely the vision, mission, and specific strategies of the organisation. The strategies were translated into specific objectives that reflect four perspectives, namely the financial perspective; the customer perspective; the internal-business processes; and that of learning and growth. For each perspective, performance measures and targets were identified that relate to the specific objectives.

The second part of the chapter discussed the steps to the development of a BSC taken from the literature by Mackay (2004:22-29) and Kaplan and Norton (1996:299-310), starting with choosing the most suitable BSC architect right through to the final pilot implementation of the BSC in the SBU.

The following chapter discusses the steps in the development of the BSC for the Ackermans DC SBU. The research done in this chapter had been applied when developing the BSC for the SBU.

# CHAPTER 3

# DEVELOPING THE BALANCED SCORECARD

What gets measured gets done, what gets measured and fed back, gets done well, what gets rewarded, gets repeated.

(Jones and Bearly,1996:155)

## 3.1. INTRODUCTION

The first part of the chapter is devoted to the SBU selection process and the reason for choosing to construct the BSC as a performance-measurement tool for the specific, chosen SBU. The objectives and principles of the BSC for the chosen SBU will further be discussed.

The second part of the chapter contains the step-by-step process, which, according to Mackay (2004:22), is necessary to build the first BSC of an organisation or SBU. The process of how the steps were used to develop the first BSC for the BSU of Ackermans DC is further described.

## 3.2. RESEARCH METHODOLOGY

### 3.2.1 Reasons for choosing to construct a BSC

A company and its BSU need to achieve its stated vision. The SBU should therefore continue to refine and improve on its achievements and performance. The BSC will assist in measuring how the SBU is progressing, and will give direction as to in which area the business unit should improve. The latest intervention between Ackermans DC and GP Retail Operations (Pty) Ltd is the implementation of a BSC that is intimately linked to the company strategy, the supply-chain strategy and objectives, and the joint and collaborative objectives within the DC of both parties.

The BSC will serve, through measurement, as a driving tool to a larger, global and more encompassing intervention called the Operational Excellence Charter (OEC) whereby a multitude of operational monitoring and improvement tools will be used to continually attain consistently excellent operations.

### 3.2.2 Objectives of the BSC in the specific business unit

The following objectives below were considered whilst developing the BSC for the warehouse SBU.

- To provide the client and the company with the assurance that the BU will operate to the required standards of operational excellence;
- to expose the BU team to the BSC to develop their skills;
- to create a constructive, competitive environment within which Ackermans DC could operate and in which the results can be used as a competitive tool;
- to encourage the warehouse to improve on performance and previous scores;
- to provide the BU with tools and guidelines to enhance performance; and
- to indicate that once the BSC has been used for more than one year, lessons can be learnt from the performance of the previous year, so opportunities for growth could be identified and focused upon in the audit of the current year.

### 3.2.3 Principles of the BSC and scoring methodology

The following principles were considered in the development of the BSC:

- Enabling the measurements to be scientific (define, measure, analyse, improve, control);
- ensuring that detailed investigations were done prior to the actual scoring, thereby allowing the opportunity for quality, strategically focused time to be spent on the actual scoring date;
- ensuring that detailed investigations by management would mostly have an *unannounced* component, namely that they would be conducted, in part, without an appointment; and
- that scoring should be sustainable beyond the lifespan of the initial scoring period.

## 3.3. DEVELOPING THE FIRST BSC OF THE SBUs

### 3.3.1 Introduction: Developing the BSC

Constructing the first BSC for an SBU is accomplished by a systematic process that builds consensus and clarity about how to translate the mission and strategy of the SBU into operational objectives and measures. The project requires an architect who can frame and facilitate the process and collect relevant background information for constructing the scorecard. The scorecard should however still represent the collective knowledge and energies of the senior executive team of the SBU. Unless this team is fully engaged in the process, a successful outcome is unlikely. Thus, without the active sponsorship and participation of the senior executives, a scorecard project should not be initiated (Kaplan & Norton, 1996:294).

The aim of building the BSC and the implementation process is to cascade strategy down to the operational level where real value is added. This process is also known as strategic alignment. Fonvielle and Carr (2001:6) stated that, to be effective, this process must start with top management and cascade downward, thereby unifying direction for units, functions, teams and ultimately individuals.

Schneiderman (1999:6) views the deployment of a scorecard as a major activity in the management of BSCs. Wherever possible and sensible, scorecard goals should be disaggregated and deployed downward in the organisation to ensure that each employee understands his/her contribution to the big picture, and is able to share the knowledge of his/her contribution to the overall success of the organisation.

According to Stivers *et al.* (1998:46-49), a crude measurement that cannot be used for exact data may still indicate trends over time. There is thus great value in even a subjective agreement that, should all of the goals of subordinates be achieved, a higher-level goal will, almost with certainty, be achieved (Schneiderman, 1999:6).

Kaplan and Norton (1996:211-222) suggest that there are three distinct mechanisms to ensure alignment and acceptance of the BSC:

i. Communication and education programmes: These are prerequisites for implementing strategy in that all employees, including the senior corporate executives and the board of directors, should understand the strategy and the required behaviour to achieve the strategic objectives. A consistent and continuing programme to educate the organisation on the components of the strategy, as well as reinforcing this education with feedback on actual performance, is the foundation of organisational alignment.

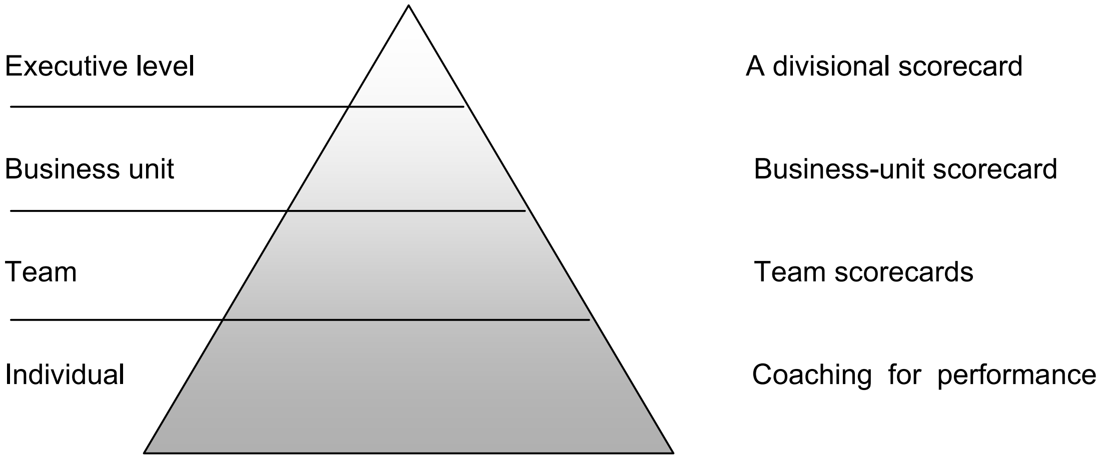
ii. Goal-setting programmes: Once the base level of understanding exists, individuals and teams throughout the business unit must translate the higher-level strategic objectives into personal and team objectives. The traditional management-by-objectives (MBOs) programmes used by most organisations should be linked to the objectives and measures articulated in the BSC.

iii. Reward-system linkage: The alignment of the organisation toward the strategy must ultimately be motivated by means of incentive and reward systems.

The senior management of GP Retail Operations (Pty) Ltd agrees with the cascading principle, namely starting with the ambitions, vision, corporate objectives and business strategy of both the client for which GP Retail (Pty) Ltd provides a service, and linking it with the company's own strategies, vision and objectives. A combined scorecard should be generated for this level of the prism. The business unit scorecard will then be based on the executive scorecard, thereby ensuring, that strategic objectives are aligned within the business.

To ensure that employees understand both the organisational strategy and their role in delivering it, GP Retail Operations (Pty) Ltd decided to cascade the balanced scorecard down to team and individual level. For the purpose of this dissertation only the SBU Scorecard was developed. The method will then be used for generating the other scorecards in the prism as illustrated in Figure 3.1.

**Figure 3.1 GP Retail Operations (Pty) Ltd cascading for the SBU of Ackermans DC**



Source: Adapted from Bourne & Bourne (2007: 168).

### 3.3.2 Gaining the support of top management for the BSC programme

The first priority in building a successful, balanced scorecard is to gain consensus and support among senior management on why the scorecard is being developed (Kaplan and Norton, 1996:295). Many managers find the conceptual appeal of a BSC rather obvious: they see the shortcomings of measurements limited to financial measurement, and need little prompting to develop a more balanced approach. The conceptual appeal of the scorecard, however, is not sufficient reason to embark on such a programme. In dealing with the task of gaining the support top management, a few tactics are rather useful. First is educating the key decision-makers about the need for and implementation of performance measures. Second, a high-level person needs to be recruited to serve as a champion for the idea (Fonvielle & Carr, 2001: 4).

When the process is launched and properly supported, the senior executive team should identify with and agree on the principal purposes of the project. These programme objectives will be of help in taking the following steps:

- guide the construction of objectives and measures for the scorecard;
- gain commitment among the project participants; and
- clarify the framework for implementation and management processes that should follow the construction of the initial scorecard (Kaplan and Norton, 1996:295).

According to Bourne and Bourne (2007:107), other ways to engage and maintain the support of senior management support are:

- To create a coalition of people who are committed to the scorecard at the outset, and to launch the project in a positive way with the support of this group;
- to engage the entire management team in the process of building the scorecard, as this will require them to attend the workshop-style meetings during the development phase and work through the development of the success map and the measures to be taken;
- to plan and support the process with some project co-ordination and management so the workshops are productive;
- to facilitate the workshops to ensure that the tools are explained and used effectively, and to further ensure that genuine concerns and legitimate differing points of view are raised and discussed in the workshops;
- to ensure that the workshops are the forums in which the real discussions take place and the real decisions are made;

- to reach a consensus at each stage before moving forward to the next;
- to record the outcomes as agreed upon; and
- ensure that actions as agreed, are taken.

This process of gaining the support of top management in the Ackermans DC SBU was made easier since the supply-chain manager initiated the BSC project after having been part of a similar project with one of the clients GP Retail Operations (Pty) Ltd who were using a BSC as a performance-measurement tool. The next step was to gain the consensus and support of the directors and site managers of the company. This was once again accomplished - owing to the culture of learning and associated change within the company - fairly easy.

### 3.3.3 Developing the BSC: The process

According to Mackay (2007:22), there are ten steps to follow in the development process of a BSC. The steps as followed by GP Retail Operations (Pty) Ltd in developing a BSC for the SBU of their specific warehouse - Ackermans DC in Durban - is discussed in detail below.

#### 3.3.3.1 *Appointing a scorecard champion*

It is important to appoint the correct champion for the development of the first BSC of the USB. The operational supply-chain manager was the obvious choice for the Ackermans DC as he is a strong, influential leader who is part of the top executive team, although being in such a high positions is not required, but is an added benefit. He will not only be the champion of the project, but also the architect who will guide the entire process and keep the project team on track.

As an additional benefit, unbiased, independent auditors were appointed to conduct bi-annual audits. They are external, independent auditors with no stake in any of the companies, which gives undisputed creditability to the audit results. Although these auditors are not the developers of the BSC, they have insight into the development process of the BSC to draft an audit protocol.

#### 3.3.3.2 *Selecting an implementation team*

After the appointment of the supply-chain manager as the champion and architect of the first BSC of the SBU, he went ahead to select the team that would be implementing the SBC.

He selected the following members of staff:

- Employees from different departments in GP Retail Operations (Pty) Ltd were identified. Individuals from the department of human resources, the finance department, the administration department and the payroll department were chosen. Different skills and personalities were taken into consideration when the team was selected.
- These individuals were approached and the opportunity of becoming part of the implementation team was discussed with them. The champion also highlighted the importance of implementing the BSC in the specific SBU, as well as the responsibilities that being part of this team entailed.
- Once the individuals had agreed to be part of the implementation team, the development process of the BSC could start.
- The final implementation team consisted of one individual each from the finance department, the payroll and administration department, and three individuals from the department of human resources.

#### 3.3.3.3 ***Deciding on an organisational unit***

The BSC originally had its origins in creating a performance-measurement dashboard for a business unit. A business unit is a relatively homogeneous organisation that has customers and usually operates as a profit centre. The BSC is ideally designed to be applied in a self-contained business unit that has customers and suppliers, and of which the objective is making a profit. It will be easy for the correct business unit to construct summary financial performance measures on the BSC, without the complications related to cost allocations and transfer prices of products or services from or to other organisational units (Kaplan and Norton, 1996:301).

The warehousing division in GP Retail Operations (Pty) Ltd was selected as the strategic business unit most in need for a performance-measurement tool. Currently there is not a sufficient performance measurement in place, and the need for one has increased rapidly. The BSC was chosen as the measurement tool to be developed for this division. The SBU of this warehouse meets the requirements for a BSC as it has its own value chain including designing, marketing, training and development, and it is further responsible for its own financial results.

The chosen warehouse is the Ackermans DC in Durban. Ackermans is a fashion retailer with distribution centres in Cape Town, Durban and Johannesburg, and store outlets countrywide. They cater for infants, toddlers, teenagers, and adults for both genders. They also retail in linen, towels and curtains. Most of the garment and products are imported and received at the Durban DCs from the Durban harbour. GP Retail Operations (Pty) Ltd is a service provider within their DCs. GP Retail Operations (Pty) Ltd provides staff, on average 470 daily heads on site, and management structures to render services operationally, in an HR and an Industrial Relations (IR) function. As an operational-excellence partner, GP Retail Operations (Pty) Ltd consults and benchmarks with them to improve continually on its service rendering, as well as on their service to their internal customers and end users.

**Table 3.1 Worksheet for choosing Ackermans DC as a business unit**

| **BSC PROJECT: ORGANISATIONAL UNIT ASSESSMENT** | | | | |
|---|---|---|---|---|
| **Criteria** | **Score (out of 10)** | **Weight** | **Total points** | **Rationale** |
| **Strategy** | 10 | 30% | 3 | This unit has recently completed a new strategic plan for the next five years. |
| **Sponsorship** | 8 | 30% | 2.4 | The supply-chain manager has successfully utilised the BSC with previous organisations where he had worked. |
| **Need** | 7 | 15% | 1.05 | Results have been good for this group, but there is not a sufficient tool to measure the performance and to improve on results. |
| **Support of participants** | 8 | 10% | 0.8 | Mix of experienced and young energetic management group, willing to experiment with new approaches |
| **Scope** | 8 | 5% | 0.4 | This unit provides staff and management structures to render services operationally, in an HR and an IR function and as an operational-excellence partner where management consults and benchmarks with the client continuously. |
| **Data** | 4 | 5% | 0.2 | Despite their success, they have not utilised sophisticated performance-measurement systems in the past. |
| **Resources** | 8 | 5% | 0.4 | This unit is sufficiently staffed, ready for a project. |
| **Total** | | **100%** | **8.25** | |

Source: Own

Table 3.1 shows the worksheet with the seven criteria used by the Scorecard champion and team to determine the right organisational unit for the initial BSC effort, as discussed in Chapter 2. As Niven (2002:47) states, it is important to document the decision-making process to validate it with others responsible for choosing the BSC organisational unit.

Overall assessment: This unit scores a very high 8.25 out of 10 and is an excellent candidate for the BSC. The data issue, while not insignificant, are mitigated by the strong leadership of the supply-chain manager, and creating a new strategic plan. Early education plans within this unit focused on the value of the scorecard as a means of sustaining results in the long term. The value that the SBU can gain from the BSC reduced the disbelief surrounding the implementation based on the past success of the unit without a BSC.

The total score calculated and the overall assessment done provided an opportunity for participants to discuss the potential strengths and weaknesses of the unit, to mitigate significant risks, and to offer opinions on the viability of this group for the BSC project.

#### 3.3.3.4 *Designing the overall scorecard structure*

Not one BSC is similar in different companies and business units. The BSC is tailor made for every company or business unit to reflect the true structure of the organisation for which the strategy is developed. GP Retail Operations (Pty) Ltd decided to implement a BSC in one of their strategic business units. The BSC structure will therefore be tailor made for the structure and objectives of the Ackermans DC.

The objective of the specific BSC being developed for the Ackermans DC business unit is to express key deliverables in an easy-to-understand format so that the business unit comprehends what is expected of them. It focuses attention on areas that are below expectations and drives action to close the gap between existing and desired outcomes.

#### 3.3.3.5 *Briefing session with key players and senior executive managers*

As mentioned before, the supply-chain manager - the architect of the Ackermans DC SBU - prepared background material on the BSC by using the literature review done in Chapter 2 of this dissertation, as well as the internal documents on the vision, mission and strategy of the company and the SBU as set out below:

i. The vision of GP Retail Operations (Pty) Ltd*:* To be the service provider of choice in functional outsourcing.

ii. The mission of GP Retail Operations (Pty) Ltd: Through functional outsourcing, our clients focus wholly on their core business, which creates a platform for sustainable growth. As a strategic business partner, we remain committed to continuous productivity improvement, aligned and in support of clients' strategic intent.

iii. The mission of the warehouse SBU: We undertake to be the most preferred functional outsource partner, not only in flexible skills provision, but especially in service levels. We realise this through a continual focus on consistent and accurate performance and overall operational excellence rooted in exceptional and innovative management of the function.

This material was supplied to each key player in the SBU. They also received the following:

i. Information on the industry and the competitive environment of the SBU, including significant trends in the outsource service industry size and growth;
ii. information regarding competitors and their offerings; and
iii. on client preferences; and technological improvements.

During the session, the architect obtained the input of the key players on the strategic objectives and tentative proposals of the company for balanced scorecard measures across the four perspectives. During this session, key individuals also raised their concerns regarding the development and implementation of the scorecard, which helped to identify the potential conflicts among the key participants, whether it pertained to either their view of the strategy and objectives, or a personal or inter-functional level.

Four perspectives were decided on to suit the SBU business conditions, namely the financial perspective; the customer/stakeholder perspective; the process perspective; and the learning and growth/people perspective.

At the same time the architect had a meeting with the senior executive team - one of the stakeholders in this process - of the Ackermans DC in Durban and ascertained their requirements and strategic objectives for their warehouse. At the office, these requirements were discussed with the senior executive team of GP Retail Operations (Pty) Ltd, and consensus was reached on the aligned objectives of Ackermans DC and GP Retail Operations (Pty) Ltd for the SBU.

### 3.3.3.6 ***Synthesising the results of the interviews with the key players***

After the key players and the stakeholders' sessions, the design team consolidated the findings and prepared a list of the objectives relevant to each quadrant and perspective. The design team reviewed the objectives suggested and ensured that there were no conflicts. The list of objectives is reflected in the strategy map in Step 7.

### 3.3.3.7 ***Undertaking a strategy-mapping process***

The strategic map shows the four perspectives of the BSC and indicates the links between the various actions and outcomes. By drawing the model together, the implementation team created a shared set of assumptions about the drivers of performance.

As mentioned in Chapter 2, an even better term for it might be a "success map", as the map highlights what one needs to do to be successful. Robert Kaplan and David Norton put much emphasis on making '… strategy part of everyone's every day job' (in Bourne & Bourne, 2007:7).

Figure 3.2 illustrates a strategy map drawn up for the Ackermans DC in Durban. The strategy map shows that an increase in financial results owing to profit-margin increases, cost reduction and improvement in return on capital, and resources employed are key drivers for increased shareholder value. Through accurate financial reporting, on-time invoicing and staff payments, financial budgets and targets will be met and shareholder value will be improved. These are driven by achieving service excellence by discussing the scorecard results on a weekly and monthly basis with the client, discussing integrated performance management with the client; external and internal client relationship and perception management; and identifying joint risk with the client/stakeholder.

These are customer-perspective related objectives, and progress towards their achievement may be measured through devices such as client surveys/feedback; Service Level Agreement (SLA) barometers; a fall in number of queries; problems on the BSC results; dissatisfied clients; and a reduction in risks owing to action plans set in place to act on risk problems.

These customer-perspective objectives are all driven by initiatives identified in the internal-processes perspective:

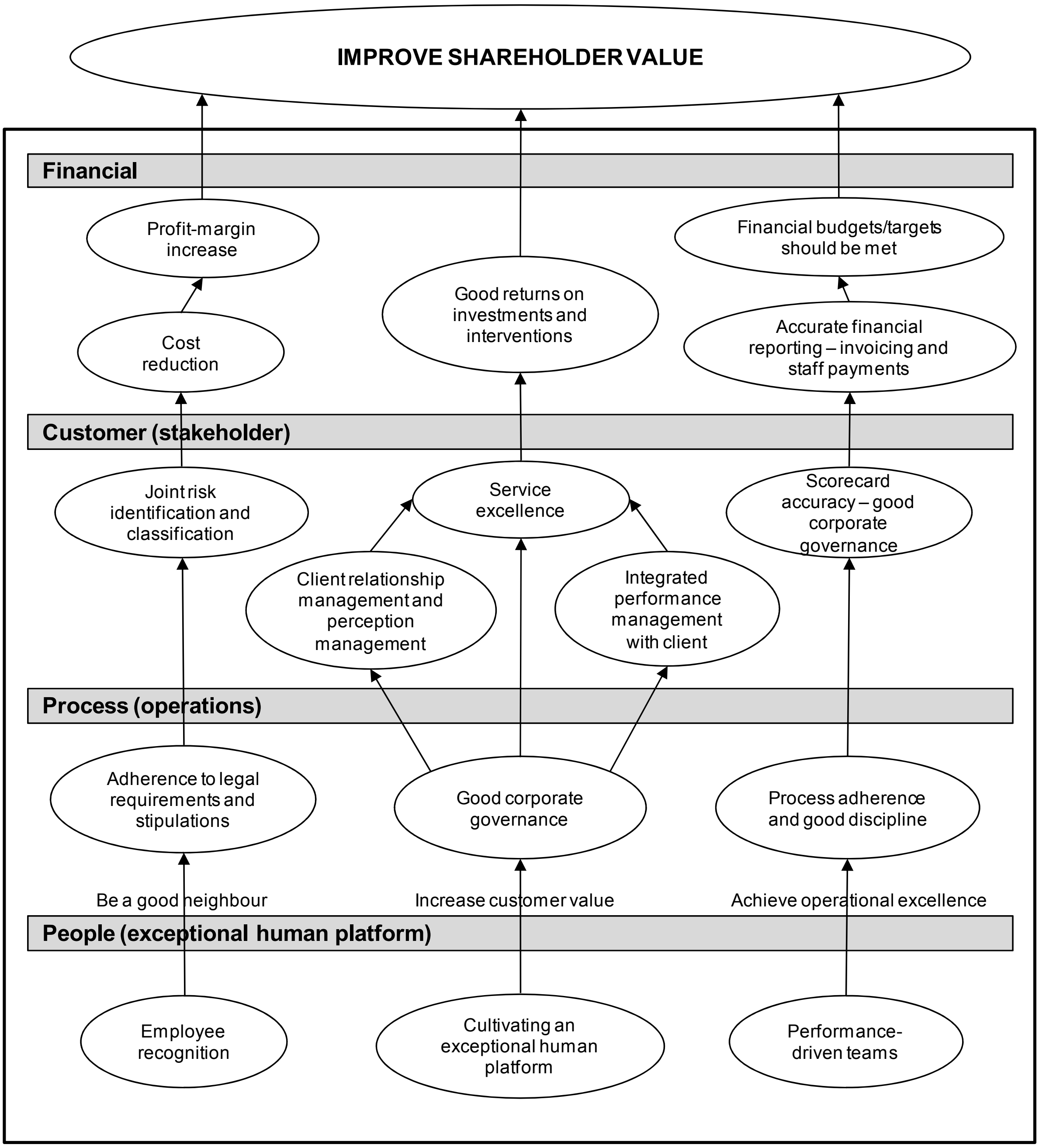
i. increasing customer value via sound business contracts;
ii. relationship management with the client;
iii. achieving operational excellence by means of good corporate governance;
iv. adhering to process and conformance management; and
v. "being a good neighbour" via overall adherence to legal requirements and stipulations.

Hence it may be expected that the organisation would:

- enhance the performance dimensions of existing service offerings (to increase customer value);
- reassess internal production and service delivery; and upgrade the BSC regularly to achieve operational excellence; and
- monitor the environmental impacts of activities by supporting the "good neighbour initiative".

The activities and changes illustrated in Figure 3.2 are all achieved through appropriate deployment and the effective utilisation of the people/learning and growth-platform perspective by putting in place a proper screening process for staff selection; recruitment and multi-skilling; cultivating an exceptional human platform with performance-driven teams; and well-received employee recognition programmes.

Figure 3.2 Strategy map for the SBU of Ackermans DC


IMPROVE SHAREHOLDER VALUE
Financial
Profit-margin increase
Financial budgets/targets should be met
Good returns on investments and interventions
Cost reduction
Accurate financial reporting – invoicing and staff payments
Customer (stakeholder)
Joint risk identification and classification
Service excellence
Scorecard accuracy – good corporate governance
Client relationship management and perception management
Integrated performance management with client
Process (operations)
Adherence to legal requirements and stipulations
Good corporate governance
Process adherence and good discipline
Be a good neighbour
Increase customer value
Achieve operational excellence
People (exceptional human platform)
Employee recognition
Cultivating an exceptional human platform
Performance-driven teams

Source: Own

#### 3.3.3.8 ***Sub-group meetings and performance-measurement sheet***

To develop measures for the specific objectives shown in Step 7 in the strategy map, an understanding of the relationship between the desired outcomes and processes employed to produce outcomes was required. A first draft BCS was developed, indicating the four perspectives and the performance measures in each perspective, as illustrated in Figure 3.3.

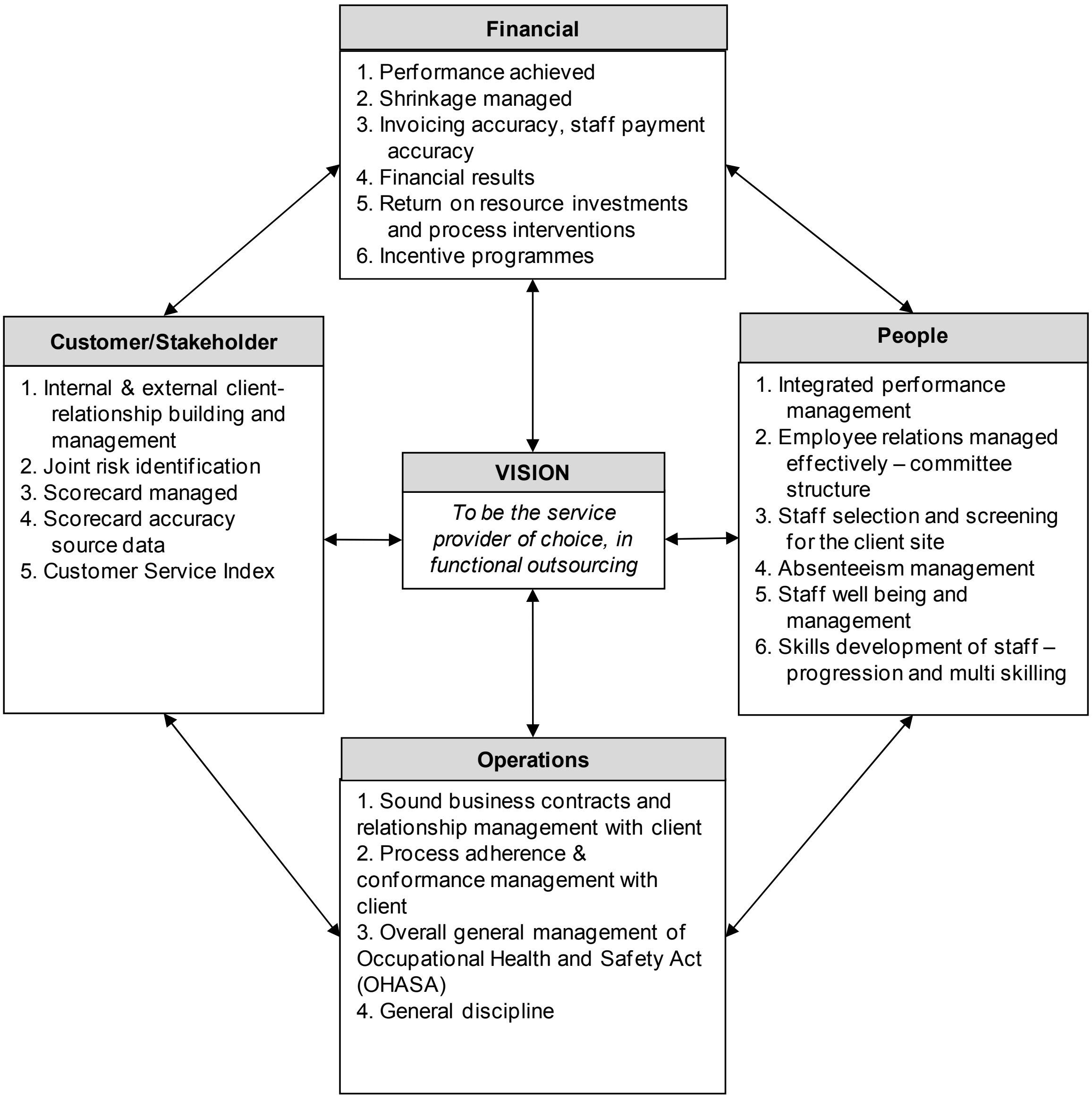
Figure 3.3 represents the four perspectives of the SBU of Ackermans DC, driven by its vision and strategy. The financial perspective has been placed higher than the other perspectives as the financial perspective serves as the parameter for the objectives and measures in all other scorecard perspectives. In each perspective, the key measures for that perspective are listed as derived from the objectives displayed in the strategy map in Step 7.

The outer arrows indicate the links, that is, the cause-and-effect relationships that each perspective has with one another. The inner arrows indicate the alignment between the vision (strategy) and the four perspectives of the SBU of Ackermans DC.

The final output from the subgroup meeting for each perspective should be a performance-measure record sheet. At the subgroup meetings held, the performance record sheet was drawn up for each perspective of the BSC, namely the financial, customer/stakeholder, process and people perspectives.

The performance record sheet is discussed in Chapter 4.

**Figure 3.3 The BSC structures with measures for the SBU of the Ackermans DC**


Financial
1. Performance achieved
2. Shrinkage managed
3. Invoicing accuracy, staff payment accuracy
4. Financial results
5. Return on resource investments and process interventions
6. Incentive programmes
Customer/Stakeholder
1. Internal & external client-relationship building and management
2. Joint risk identification
3. Scorecard managed
4. Scorecard accuracy source data
5. Customer Service Index
VISION
To be the service provider of choice, in functional outsourcing
People
1. Integrated performance management
2. Employee relations managed effectively – committee structure
3. Staff selection and screening for the client site
4. Absenteeism management
5. Staff well being and management
6. Skills development of staff – progression and multi skilling
Operations
1. Sound business contracts and relationship management with client
2. Process adherence & conformance management with client
3. Overall general management of Occupational Health and Safety Act (OHASA)
4. General discipline

Source: Own

#### 3.3.3.9 ***Second workshop***

The second workshop involved the senior management team of the SBU, their subordinates, and a large number of supervisors of each division within the SBU. The supply-chain manager (as the architect) was only the facilitator in this meeting. during which he kept a low profile. The scorecard with the different perspectives, objectives and measures put together by the architect and the implementation team were discussed. They weighed the identified objectives and measures in terms of priorities and timetables. The floor was open for the team to discuss their views regarding the BSC created for their SBU.

Very positive feedback came from the session. The focal point of the meeting was to sketch a brochure to communicate the BSC to the other employees in the SBU. The literature derived from especially Chapter 2 and the first part of Chapter 3 of this dissertation was of great help in drawing up the brochure. The brochure indicated the intentions and contents of the tailor-made scorecard. The development of the brochure does not form part of this dissertation but is simply mentioned as one of the steps in the development process of the BSC.

This workshop made the employees feel part of the process and ensured their commitment to the project of developing and implementing the BSC on all levels of the SBU.

#### 3.3.3.10 ***Senior-executive management meeting***

The SBU now has 21 measures divided between the four perspectives of the BSC. A meeting was scheduled where the senior executive management of GP Retail Operations (Pty) Ltd, the senior management of the SBU, and the architect were present. At this meeting, the mission, vision and strategy were once again discussed to enable everybody to understand the full intent of each objective. At this meeting, the performance record sheet was discussed in detail, and management made changes and suggestions where they thought appropriate. By the end of the meeting, management agreed upon the five to six critical measures for each of the quadrants of the high-level scorecard.

#### 3.3.3.11 ***Time phasing***

According to Kaplan and Norton suggest (1996:308), a 16-week period is recommended for a development and implementation plan for a BSC. The full 16-week period had been used to roll out the project in the SBU of Ackermans DC. The architect was intensively involved in the first six weeks of the project plan, but during the second half of the timetable, the senior executive team would take more responsibility for the development of the scorecard. The architect moved to a more staff and facilitating role. He helped to schedule the subgroup meetings and assisted in conducting these meetings and subsequent executive workshops. The more involved the senior managers became in the project, the more employees accepted the BSC development and implementation plans. This resulted in a successfully accepted BSC.

Figure 3.4 illustrates the timeline for the development and implementation of the BSC for the SBU of Ackermans DC for the full 16-week period. The implementation plan tself will be discussed in more detail in Chapter 4.

**Figure 3.4 The BSC development and implementation timeline**

| **WEEK** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** | **13** | **14** | **15** | **16** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ACTIVITIES** | | | | | | | | | | | | | | | | |
| 1. Appoint champion | ■ | ■ | ■ | ■ | | | | | | | | | | | | |
| 2. Select implementation team | ■ | ■ | ■ | ■ | | | | | | | | | | | | |
| 3. Decide on SBU | ■ | ■ | ■ | ■ | | | | | | | | | | | | |
| 4. Overall scorecard structure | | | | | ■ | ■ | ■ | ■ | | | | | | | | |
| 5. Briefing key players and senior executives | | | | | ■ | ■ | ■ | ■ | | | | | | | | |
| 6. Synthesise results of session | | | | | ■ | ■ | ■ | ■ | | | | | | | | |
| 7. Strategy mapping | | | | | | | | | ■ | ■ | ■ | ■ | | | | |
| 8. Subgroup meetings & performance measures | | | | | | | | | ■ | ■ | ■ | ■ | | | | |
| 9. Second workshop | | | | | | | | | | | | | ■ | ■ | ■ | ■ |
| 10. Senior-executive management meeting. | | | | | | | | | | | | | ■ | ■ | ■ | ■ |
| 11. Design implementation plan | | | | | | | | | | | | | ■ | ■ | ■ | ■ |

Source:Own

## 3.4. SUMMARY

The approach underpinning the development of a scorecard far more complicated than simply measuring performance. It ensures the alignment between the overall vision of a company, key strategic actions, performance measures, and performance management. It is a system for managing the performance of an organisation in delivering services to its customers (*Accounts Commission for Scotland*, 1998:19).

The first part of this chapter was devoted to the selection process of an SBU, and the rationale for the choosing to construct a BSC as a performance-measurement tool. It further addressed the objectives and principles governing the BSC for the specific, chosen SBU. The second half of the chapter discussed the building of a first BSC for a SBU. This plan comprises ten steps, from the assignment of the scorecard champion or architect to the senior executive management meeting. Each step, as discussed in the literature review covered in Chapter 2 of this dissertation, was applied to the SBU of Ackermans DC. The BSC was tailor made for the specific requirements of the specific SBU in GP Retail Operations (Pty) Ltd.

In the light of the above, the following chapter will deal with results in the form of a performance-record sheet and an audit sheet, derived from the literature overview and the applied practical in-house research discussed in Chapter 2 and Chapter 3. The author will offer practical suggestions in this regard, as well as recommendations for the implementation and sustainability of a BSC.

# CHAPTER 4

# RESULTS, RECOMMENDATIONS AND CONCLUSION

## 4.1. INTRODUCTION

In this chapter, the results obtained from the literature overview and applied research in Chapters 2 and Chapter 3 will be presented in the form of a performance-record sheet, an audit document and, finally, a combined summary report. The insight gained during the entire study will be used to make recommendations, and to offer practical suggestions for the implementation of the BSC and the sustainability thereof - firstly in the Ackermans DC SBU, and later in the entire company, GP Retail Operations (Pty) Ltd.

## 4.2. RESULTS

Performance measures influences behaviour and directs the allocation of resources. When taken at face value, some measures seem highly suitable, but when followed to their logical conclusion, they make no sense at all. Clear thinking is therefore vital when deciding *what* to measure and *how* to measure it. The performance-record sheet provides a means by which one can think through and record measure in a logical, consistent way.

The results of the study on the SBU, Ackermans DC, are summarised in the performance-record sheet below. The record sheet was created for each perspective of the BSC, namely the financial, customer/stakeholder, process and people perspectives, during the sub-group meetings as discussed in Chapter 3, Step 8 of the development process.

In Tables 4.1 to 4.4 the different record sheets for each perspective of the BSC are displayed. Each measurement is explained below the following headers:

- the purpose of the objective and performance measure'
- the objective that is measured by the specific performance measure;
- the target against which the result of the measure is rated;
- the formula used to calculate whether target is reached;
- the frequency of measuring this objective;
- the person responsible for measuring the objective;

- evidence or supporting documentation available to check the measured results;
- the person responsible for acting on the results no matter whether they are good or poor;
- an action plan for the person who needs to act on the results; and
- a pre-assessment measure as a tool to assist in rating the objective out of a possible five points.

The result of each of the objectives is then weighed on the audit document as indicated in Table 4.5.

After the performance-measure record sheets for the four perspectives of the BSC have been drawn up, the pre-assessment measures are added together on an audit document. A score out of five is allocated to the specific measure, and a weight out of 100% is assigned to the measure. The score is then multiplied by the percentage weight and divided by five to get to a total weighted score for the measure out of 100. Table 4.5 illustrates the audit document drawn up for the Ackermans DC SBU. The scoring fields in Table 4.5 below are empty as this is merely a template designed for the SBU.

A final template is derived from Table 4.5, the audit document, which shows the summary of the scores. Table 4.6 shows an example drawn up for Ackermans DC SBU. This template is used as a final combined scorecard to score the SBU in total.

## Table 4.1 The financial perspective

| GP RETAIL(Pty) Ltd PERFORMANCE MEASURE RECORD SHEET: FINANCIAL | | | | | | |
|---|---|---|---|---|---|---|
| **Measure** | **Performance achieved**<br>**Productivity targets**<br>**Accuracy parameters**<br>**On-time completion** | **Shrinkage managed, including consumables** | **Invoicing Accuracy**<br>**Staff-payment accuracy** | **Financial results** | **Return on resource investments and process interventions** | **Incentive programmes** |
| **Purpose** | Performance targets must be achieved in order to meet budget requirements | The reduction of shrinkage and the responsible use of consumables, leads to cost savings | To ensure that all hours paid out to staff is invoiced accurately to the client. | To analyse the financial results of the SBU. | To track and ascertain whether interventions and investments into improvements yielded desirable results i.e. that a benefit in excess of the invested resource was obtained. | Rewarding and incentivising sustained exceptional performance. |
| **Relate to (objective)** | Meet parameters on which the financial budget is based. | Cost savings. | Sound client and staff relationships. | Increase shareholder value, cost reduction and profit margin increase. | Return on investment-capital and other resource investments | Reducing costs and maximising resources and subsequently the increase of profit |
| **Target** | Productivity:850 units per hour; Accuracy: errors below 0.2%; Time: 98% on time departure | Compare current shrinkage figures with history. | Target for invoice is zero credit notes and for pay accuracy a maximum of 1 % is allowed per pay cycle. | 15% increase in revenue; cost should be reduced from previous month; profit margin of 25% is required. | Timeframes will be agreed with the client as the intervention is agreed. The desired result will always be to make a saving or achieve a performance improvement that yields a saving, in excess of what was invested. | Prerequisites to qualify: Service levels achieved (as per the SLA). Process compliance, attendance, improvements to achieve: Reduce consumables, increased productivity, improved accuracy, reduced shrinkage and damages. |
| **Formula** | Productivity: total units processed for the day/total productive hours per day; Accuracy: total errors/total units processed; Time: late departures/total departures | Reduction in aggregated and segregated numbers that relate to shrinkage and consumables. | Invoice accuracy is measured by the number of credit notes issued as a % on the number of invoices issued to the client.<br>Payment accuracy is measured on the basis of the number of pay queries from staff as a % of the total number of staff paid per pay cycle. | % increase in revenue = (current month - previous month)/previous month. Cost reduction - previous month costs less current month costs. Budgeted figures vs. actual figures and the calculated difference is displayed on management accounts. Profit margin = net profit/revenue compared month on month to see increase or decrease. | Resource and capital investment < Yielded capital saving and/or performance improvement. | Performance targets as set in the SLA must be met. Process compliance and attendance must be at least 98%. Over and above this, there must be a sustained improvement over the period in consumable usage, productivity, accuracy, and shrinkage & damages. A saving must be realised in which the staff will share 50% as an incentive pay-out. |
| **Frequency** | All three performance tiers must be measured and reviewed on a daily basis as well as being tracked progressively and with running total averages | This is measured and reviewed on a monthly basis. It should be compared month on month and according to business cycles. | Number of credits are measured at the end of each month. Payment accuracy is measured at the end of the bi-weekly pay runs. A stand-still is held on a quarterly basis to obtain the results of the three-month period and to derive action plans where necessary. | Measured monthly; reviewed annually. | Interventions will be sanctioned as required. Thus the measurement will only occur during and directly after the intervention. | Pay-outs will be done bi-annually after a saving was realised compared to the same, previous business cycle. For the purposes of this scorecard, there must be evidence that results are tracked and communicated, and that actions plans are documented to keep the operational team on track. |

| GP RETAIL(Pty) Ltd PERFORMANCE MEASURE RECORD SHEET: FINANCIAL | | | | | | |
|---|---|---|---|---|---|---|
| **Measure** | **Performance achieved Productivity targets Accuracy parameters On-time completion** | **Shrinkage managed, including consumables** | **Invoicing Accuracy Staff-payment accuracy** | **Financial results** | **Return on resource investments and process interventions** | **Incentive programmes** |
| **Who measures?** | Site manager | Site manager | Dedicated pay-roll administrator and finance manager. | Dedicated pay-roll administrator and finance manager. | A case-study team will be nominated and, as such, a champion will be placed in charge and will be responsible for recording and tracking results and reporting on these. | GP site manager as well as client management by means of this scorecard. |
| **Evidence/ supporting documents** | All source data will be obtained and from the WMS and APS. 3 separate reports will be completed: Individual productivity, Individual accuracy and the on-time departure reports. | The source of the data will be the financial records of all consumables purchased, and for shrinkage it will be all errors found and reported in operational departments and by store. A consolidated shrinkage report that averages the departmental shrinkages for each source across the source for each day. Consumables will be tracked as an aggregate number for each type. | Actual invoices and statement from debtors. Statement will show any credit notes issued during the month. A reconciliation between hours paid vs. hours invoiced is done on a monthly basis. Any discrepancies will show immediately on the recon and will have to be rectified. A monthly feedback report is drawn up by the payroll administrators displaying the number of pay queries. and the reasons for every pay query. This is shown as a percentage of total employees paid for the month. | Monthly management accounts. | Measurement during and directly after the intervention/investment is of critical importance and as such must be fully documented and verifiable on the case-study document and according to the case-study methodology. | This scorecard as well as cascaded scorecards of departments and process owners, and supporting documentation stipulated in these scorecards. |
| **Who acts on the data?** | Departmental Supervisor and team leaders | Departmental supervisors and team leaders | Supply-chain manager and site manager. | Supply-chain manager and site manager. | A case-study team will be nominated and, as such, the members will be responsible for acting on the recorded results. | Departmental managers, process owners and individual staff members. |
| **What do they do?** | Non-performances must be addressed by counselling, re-training, re-assessment and if it persists with disciplinary action that can progressively leads to dismissal. Records must be kept and be accessible for each instance | Sources of shrinkage must be known and the most prominent source must be focused on and addressed with documented action plans and results yielded. Consumable usage must be tracked down to an individual level, cascading down from which manager signs for it to which individual used it. Excessive users must be addressed. | Pay queries should be discussed with the site manager. He should act on it with action plans to decrease the number of pay queries. | | Depending on the intervention, specific action plans will be developed and implemented to reproduce desirable results or mitigate undesirable results. It is critical to document which actions yielded which results for this purpose. | Visually track their compliance and improvements, and where there is a lack implement, actions to get back in line. Motivation must be kept high during the period to achieve the end goal of an incentive reward. |

**GP RETAIL(Pty) Ltd PERFORMANCE MEASURE RECORD SHEET: FINANCIAL**

| Measure | Performance achieved<br>Productivity targets<br>Accuracy parameters<br>On-time completion | Shrinkage managed, including consumables | Invoicing Accuracy<br>Staff-payment accuracy | Financial results | Return on resource investments and process interventions | Incentive programmes |
|---|---|---|---|---|---|---|
| **Pre-assessment measure** | Performance is calculated by using a zero base, with evidence of continuous improvement. Performance figures are presented year-to-date on a month-to-month basis.<br>1. A schedule is available on how budgeted performance is calculatedhe schedule is understood at department level and signed off by each manager. It is also clearly communicated at staff level.<br>2. Performance measures and actual achievement is known by all managers on the site and is shared and managed daily<br>3. Actual performance is at least 95% of budgeted targets<br>4. Performance target exceeded by 2%<br>5. Performance target exceeded by 5% on budget | Shrinkage figures and consumables in the facility are considered a joint responsibility. They are measured accurately, managed and continuously reduced.<br>1. A list is prepared of all possible sources of shrinkage with acceptable loss targets, within-client specifications (e.g. system adjustments, stock accuracy, claims, theft, damages and all stock losses).<br>Areas where consumables can be reduced are identified and clearly understood. Action plans are in place and monitored for results yielded.<br>2. All managers demonstrate clear understanding of areas where savings can be achieved in consumable usage and for causes of shrinkage as per defined category.<br>Can account for losses and can show evidence of communication with employees.<br>3. Losses are analysed per category and there is evidence of review.<br>Corrective and preventative action is presented.<br>4. There is a reduction in the number of incidents per category.<br>5. A sustained improvement over the period in recorded losses exceeding a reduction of 5% of acceptable losses as an aggregate | Finance and payroll admin can prove that all their invoices submitted to clients are accurately based on staff-attendance registers and that all staff are timely receiving their payment with clear and accurate payslips.<br>1. A documented invoicing process and system is in place. Statutory requirements and legal obligations are accurately calculated, paid and submitted on time (including but not limited to PAYE, UIF, etc.).<br>2. All payment and invoice dates by GP Retail Operations to the staff and client were met.<br>3. All pay-run and invoice deadlines adhered to.<br>4. Pay queries less than 1%.<br>5. No credit notes issued to rectify a GP Retail Operations invoicing error.<br>No pay queries on pay-run. | Increase in revenue<br>Reduction in costs<br>Adherence to budgets<br>Profit-margin increase realised<br>1. Adherence to all budgets<br>2. Reduction in operating costs<br>3. Exceeding budget requirements<br>4. Revenue increased<br>5. Profit is increased due to the previous points being met or due to better performance. | A set methodology to follow is agreed upon. Previous data and trends on which to improve are available and verifiable. Action plans are agreed upon and tabled with timeframes. Verifiable results with an improvement in performance or increase in profit is realised.<br>1. A set methodology for process-improvement interventions is documented and agreed upon.<br>2. The process or function to be improved is relevant and agreed upon.<br>Historical data and trends are available and verifiable to gauge any yielded improvements.<br>3. Action plans with timeframes are set and agreed. The cost of the resources employed is calculated.<br>4. Results are tracked and verifiable for any and all improvements and/or failures.<br>5. A performance increase or cost reductions or profit increase was yielded in excess of the resources deployed to attain them, i.e. a return was realised on the investment. | To improve productivity and reduce selected variable expenses, thereby creating opportunities to reward employees for consistently exceeding expectations against performance and service standards<br>Pre-requisites for GP Retail Operations to qualify:<br>Service levels achieved: Process compliance, attendance.<br>Improvements to achieve:<br>Reduce consumables, increased productivity, accuracy, shrinkage damages<br>1. Qualifying pre-requisites and improvements to achieve are clearly documented, communicated displayed and understood by all levels of management and staff.<br>2. All qualifying pre-requisites and improvements to achieve data are recorded, tracked and trended on a daily basis and clearly displayed to all levels of management and staff. Stakeholders must understand their current and running achievement in this regard and whether they qualify or not and, if not, what the action plans are to rectify this.<br>3. Action plans per category with timeframes are set and agreed.<br>4. Results are tracked and verifiable. Results are clearly communicated and displayed<br>5. Identify those action plans that yielded improved results that must be sustained. Also identify actions that disqualify the team as per the incentive scheme and that must be avoided. These action plans must ensure that the team qualifies for the scheme payout. |

## Table 4.2 The customer/stakeholder perspective

| GP RETAIL(Pty) Ltd PERFORMANCE MEASURE RECORD SHEET: CUSTOMER/STAKEHOLDER | | | | | |
|---|---|---|---|---|---|
| **Measure** | **Internal & external client relationship-building & management** | **Joint risk identification** | **Scorecard managed** | **Scorecard accuracy Source data** | **Customer Service Index** |
| **Purpose** | External clients are our actual clients with whom we have contracts and to whom we provide service. Key here is building good rapport and managing perceptions. By internal clients we refer to the linkage between the internal GP management structures cascading down from Exco to floor supervisors, as well as the links between Operations, Finance, Admin, HR and Payroll. | Provides the framework for the management of business and operational risk to meet the requirements of good corporate governance and protect the interests of all stakeholders.<br>It is the responsibility of directors and managers at all levels of the organisation to ensure that risks are understood and appropriately managed. | Ackermans DC SBU operates on the principal of "You cannot manage that which you do not measure". Scorecards must be linked to strategically aligned KPIs and KPAs. | Scorecard data must be verified for accuracy and validity on a continual basis. This is done to ensure honesty and independence from all parties involved. | This is measured to serve as an early warning system to indicate where problems may arise with the client. It also serves to manage the client's perception as matters are addressed pro-actively. |
| **Relate to (objective)** | Service excellence. Deadline and result-driven teams within the company. | Risk identification, classification, prioritising and mitigation. | Integrated performance management. | Good corporate governance. | Client-relationship management and perception management. |
| **Target** | All deadlines met at an average of 99%. | Strive to prevent all risks. | KPIs and KPAs must have specific measurable. | 10% of all data as per supporting evidence and documentation must be checked to verify its accuracy. | An average score of above 4 for the CSIS. |
| **Formula** | Customer issues are recorded on a formalised structure. It is tracked for dates received and when it is resolved. Resolution is confirmed in writing by the originator. All deadlines for reports, meetings, feedback and issue-resolutions are agreed and documented. | Adherence to the risk policy. | Various formulae and measurement metrics as per the consolidated scorecard. | A precise method for recording scorecard data exists. Accurate data should be pulled from VIP Payroll, Easy Roster and Pastel Payroll. Data should be verified by auditors annually, and part of the audit report should be to indicate the improvement or not of the scorecard accuracy from previous audit to current. | All questions on the survey are scored from 1 - 5: Never, sometimes, often, mostly, and always. This consolidates into sections and into a total CSI score. |
| **Frequency** | Progressively: Recorded and addressed daily, and tracked progressively. | Bi-annually. | Weekly process owner and departmental scorecards. Monthly consolidated scorecards and bi-annual audits. | Done for every monthly scorecard and bi-annual audit. | A section must be done at least once a month. |
| **Who measures?** | Supply-chain manager (key accounts / commercial). | Management of all stakeholders. | As it is cascading scorecards that consolidate into a company scorecard, there will be many responsible owners of KPIs and KPAs. | Supply chain manager and independent bi-annual auditor. | Supply-chain manager with site manager. |
| **Evidence/ supporting documents** | Individual process-owner scorecards. Internal issues resolutions report. External-issues resolutions report. Documented deadlines agreement. Documented and communicated engagement model. | Risk policy. Risk-meeting Minutes. Documented interventions and action plans with results. | As it is cascading scorecards that consolidate into a company scorecard, there will be many documents of supporting evidence | All published scorecard items for a specific month are audited from the raw data upwards to verify that the business unit is publishing authentic scorecard values. For each measure as part of every perspective there are specific supporting documents required. | CSI plus documented action plans for the low-scoring sections and topics. |
| **Who acts on the data?** | Site manager or any other dedicated / responsible manager as assigned per the supporting reports. | Dedicated persons of stakeholders as per the bi-annual risk-meeting Minutes. | As it is cascading scorecards that consolidate into a company scorecard, there will be many accountable people. | The affected and/or responsible parties as identified and if applicable. | Site manager and departmental supervisors. |

**GP RETAIL(Pty) Ltd PERFORMANCE MEASURE RECORD SHEET: CUSTOMER/STAKEHOLDER**

| Measure | Internal & external client relationship-building & management | Joint risk identification | Scorecard managed | Scorecard accuracy Source data | Customer Service Index |
|---|---|---|---|---|---|
| **What do they do?** | KPIs and KPAs that are found to be lacking as per the cascading scorecards must be addressed by formalised action plans. All raised issues must be addressed and resolved within 48 hrs. | Evidence is available on the process followed to identify risks. Attendance registers for meetings conducted are available. Risk-assessment documents are available. An action plan detailing actions to be taken to mitigate or minimise risks is available. Action-plan items are incorporated into Ops and SLA meetings.<br>A Strike Contingency Plan is available. Evidence that GP Strike Contingency plan has been aligned with and incorporated into the DC Strike Contingency plan is available in terms of registers and Minutes of meetings. Attendance registers for SLA review meetings are available. Evidence provided that the Assessment and Action Plan is reviewed and improved on in the form of Minutes of the meetings and updated assessment and action plans. | BSC should be kept up to date so that it reflects the current situation. Performance reviews should be scheduled on a quarterly basis to be able to manage the cascaded scorecards upwards from individual KPIs and KPAs to the overall company goal as displayed on the strategy map. | Scrutinise and ensure that all data and supporting evidence and documentation are accurate, verifiable and traceable to its source. | Interventions and Actions plans for low scoring sections and topics. These must be formalized and documented - specific outcomes with timeframes and assessments for improvement evidence |
| **Pre-assessment measure** | Efforts are made to improve relations with client. SLA Barometer meetings are held weekly & monthly, as per the schedule. These meetings focus on Service Level Agreements, management and other issues of mutual interest.<br>1. Meetings are held in accordance with the SLA Barometer Meetings plan.<br>2. Records are kept of all meetings and action items are documented.<br>3. There is evidence that action items are dealt with. The scorecards are communicated, known & supported by all staff affected.<br>4. The actual performance requirements are broken down and available for all staff to see, and there is a system to report monthly, weekly and daily service targets and actual performance against them.<br>5. There is evidence that information has been utilised to enhance service delivery and an action plan to deal with non-performance against the scorecard is in place. | The business has performed a formal risk-identification process to ensure sound risk management. They have identified the top significant risks that could prevent the achievement of business objectives.<br>1. A formal risk-identification process has been conducted with a register proving attendance by important stakeholders. The most significant risks have been identified.<br>2. These risks have been prioritised in terms of their impact (importance).<br>3. The risks have been assessed in terms of the likelihood of them occurring given the current processes, systems and people.<br>4. Impact & likelihood have been tabulated to create a ranked impact of exposure. A risk strategy has been established for the risk profile of the business..<br>5. The business has a detailed action plans for areas of unacceptable exposure and a knowledgeable team is prepared to deal with unexpected events. | There is a clear understanding within the entire business regarding scorecards.<br>1. GP Retail Operations has a scorecard and cascading-linked scorecards that are of value to client<br>2. There is evidence that the scorecards is discussed weekly at the client SLA Barometer Management Meetings.<br>3. The business uses the scorecards as a management tool to identify areas to improve on.<br>4. The business can prove that scorecards performance is communicated internally on a regular basis.<br>5. The facility can prove that all cascading scorecards are adhered to and consolidate into this scorecard. | A precise method for recording scorecard data exists. This system clearly displays and measures raw data and shows how it is collated, as well as its source. There is a clear understanding by the relevant staff as to the origins of this data and its integrity.<br>1. GP Retail Operations has systems (Excel spreadsheets, Word documents and filing system) in place to store, record and calculate scorecard information. This system clearly displays and measures scorecard raw data (i.e. recaptured from source document, if necessary).<br>2. The business produces a monthly scorecard, can explain how the information is derived, and can prove its accuracy.<br>3. Managers can explain the information shown on the scorecard AND management is able to identify when to effect change and course of action required to improve on a scorecard measure.<br>4. Scorecard source raw data has been interrogated and one finding of inaccuracy or misrepresentation has been identified.<br>5. Scorecard source raw data has been interrogated and no inaccuracies or misrepresentations can be identified. | GP Retail Operations has conducted their Customer Service Survey with all the client's first-line management and operational managers for whom they provide staff.<br>GP Retail Operations has been appraised on their Customer Service Survey and has scored an average of 1.<br>GP Retail Operations has been appraised on Customer Service Survey and has scored an average of 2.<br>GP Retail Operations has been appraised on Customer Service Survey and has scored an average of 3.<br>GP Retail Operations has been appraised on Customer Service Survey and has scored an average of 4.<br>GP Retail Operations has been appraised on Customer Service Survey and has scored an average of 5. |

## Table 4.3 The internal-process perspective

| GP RETAIL(Pty) Ltd PERFORMANCE MEASURE RECORD SHEET: INTERNAL-PROCESS | | | | |
|---|---|---|---|---|
| **Measure** | **Sound business contracts and relationship-management with client** | **Process adherence & conformance management & retention of documents** | **Overall general management of OHASA** | **General discipline** |
| Purpose | It is critical to have high level contracts in place with the client to dictate terms and conditions of service rendering and the high level expectation of the client- its strategic direction. In addition to this it is required that SLA agreements be drawn up on an operational level for each department where it is deemed to be required. These SLAs govern the daily operational relationship and is designed to serve as a structure to operate accordingly- especially in difficult times. It must be beyond reproach and change by individuals | It is critical to conform with and adhere to SLAs, SOPs, and operational processes to ensure a smoothly running operational environment that meets all performance requirements. Conformance refers to aligning staff training to the client processes; adherence refers to performing processes correctly on a continual basis after the correct methodologies had been trained. | This is dictated by legislation and as such is crucial as non-adherence could lead to serious repercussions. | Excellent general discipline. Adherence to the basics as stipulated in the pre-assessment is a prerequisite for cultivating the desired culture and building an exceptional human platform. |
| Relate to (objective) | Good corporate governance and inter relationship management | Cultivating an exceptional human platform and industrial action mitigation, as well as integrated performance management. | Adherence to legal requirements and stipulations. | Cultivating an exceptional human platform and industrial action mitigation, as well as integrated performance management. |
| Target | Contract signed with client at director level. SLAs in place where required and scorecards developed and agreed to measure the performance against the requirements within the contracts and SLAs | Agreed and signed-off training programme aligned to required processes. 100% conformance. Independent assessments of trained staff. 10% customer self-assessments of all processes performed by staff, and 99% adherence achieved. | 100% compliance. | 99% conformance. |
| Formula | High level scorecards consolidated from cascading scorecards down to operational level | 10% check of processes through CSA. | Documented and detailed plan and structures in place, and 100% adherence to the developed plan, | A consolidated score of all the factors as per the pre-assessment measures. |
| Frequency | Operational Scorecards are completed, communicated and discussed weekly and consolidated monthly for high level management. This process and tools must be independently audited bi-annually | Monthly | Continual review - every six months. | Addressed daily and tracked progressively. |
| Who measures? | Each process or scorecard owner and the high level consolidated scorecard done by the Site manager and National manager | Dedicated trainer or site manager. | Site manager. | Departmental supervisors. |
| Evidence/ supporting documents | Signed contracts, agreed SLAs, linked cascading scorecards and all their required supporting documents as stipulated for each measure | Trackable training registers and independent assessments. Training manuals. CSA documents. Subsequent documented improvement interventions with results yielded. | Clearly communicated organogram. OHASA plan. Training documents. Various compliance documents for facilities and equipment. | Absenteeism reports. Uniform and PPE reports. Access reports. Security/Incident reports. |
| Who acts on the data? | All management structures for the client and GP retail operations as required and dictated. | Departmental supervisors and individual staff members affected. | Site manager and client-site management. | Departmental supervisors and individual staff members affected. |
| What do they do? | In accordance to the contracts and SLA improve and/or rectify non-performances. If required contracts and SLAs may be reviewed. | Refresher training and reassessment. Disciplinary actions. Joint review of processes if required. | Ensure that a plan of conformance is in place and that all adhere to it at all times. | Refresher training and reassessment. Disciplinary actions. Joint review of processes if required. |

| GP RETAIL(Pty) Ltd PERFORMANCE MEASURE RECORD SHEET: INTERNAL-PROCESS | | | | |
|---|---|---|---|---|
| Pre-assessment measure | Company information is managed and updated regularly and meetings are held with client. These focus on Service-level Agreements, Scorecards and Quality Standards. All contracts are updated.<br>1. GP Retail Operations has a signed up-to-date Service-level Agreement with client.<br>2. There are systems in place to measure performance in line with the Service-level Agreement.<br>3. Proof that meeting schedules exist and are adhered to. Service issues and operational risk are raised and addressed.<br>4. All weekly meetings address the measures reported on in the scorecard.<br>5. GP Retail Operations can prove that they are regularly benchmarking their service offering and that they are continuously seeking opportunities to offer more value to the client. | GP Retail Operations ensures that only trained staff are available to perform their functions and that all staff have been sufficient trained in client processes.<br>1. GP Retail Operations has a file containing all the correct client processes (where their staff are on duty), documented in correct updated format (correct version.)<br>2. A list of trainers is available for every discipline and they are sufficiently skilled to perform their duties, AND<br>records are kept of all training interventions. No individual is performing a function for which he/ he has not received training. Individuals performing processes on the floor can be traced back through the training registers and assessments and are competent to perform the process.<br>3. Evidence of scheduled floor walks to check all process adherence according to documented processes with a log book, against the scheduled CSAs shows where weaknesses in or satisfaction with processes have been identified.<br>4. Evidence that GP Retail Operations has taken action against logged issues of non-conformance.<br>5. That conformance to documented client processes can be identified when performing an unannounced assessment. | GP Retail Operations has developed a plan to meet all legal compliance requirements. The plan is clearly articulated and includes a checklist to monitor ongoing compliance. The checklist is regularly utilised and signed off by the site manager at least once a month.<br>1. GP Retail Operations has developed a plan to meet all legal compliance requirements.<br>2. The plan includes the monitoring of all activities with regards to legal documentation, contracts, appointments, and staff wellness.<br>3. The plan shows clear levels of authorisation, monitoring, and timing requirements.<br>4. GP Retail Operations can prove that they are on track with the implementation of their plan to monitor OHASA requirements and that the site manager has a view of all OHASA requirements and has control over these.<br>5. The business demonstrates GP Retail Operations' excellent governance over their OHASA monitoring and implementation plan and no important requirements can be found to be neglected. | Absenteeism<br>Punctuality and timekeeping<br>Uniform and PPE adherence security incidents<br>Shrinkage (score duplicated)<br>Process conformance (score duplicated)<br>1. Absenteeism: The percentage calculated as staff supplied vs. staff required for the operational function, taking into account skill level required.<br>2. Punctuality and timekeeping: On-time arrival of staff for shift starts and after lunch and tea breaks. Tracking of excessive smoke and hygiene breaks. A 10% or departmental random check to be done to derive a percentage.<br>3. Uniform & PPE adherence:<br>A percentage of the total number of incidents of non-adherence recorded vs. total staff worked<br>4. Security incidents:<br>A percentage of the total number of incidents of recorded versus total shifts worked.<br>5. A consolidated score will be derived to show labour pool general discipline. Scores for each category will be calculated as a percentage number and transformed to a score out of 1, which will consolidate to a score out of 6 |

## Table 4.4 People/learning and growth perspective

| GP RETAIL(Pty) Ltd PERFORMANCE MEASURE RECORD SHEET: PEOPLE/LEARNING AND GROWTH | | | | | | |
|---|---|---|---|---|---|---|
| **Measure** | **Integrated performance managed** | **Employee relations managed effectively - committee structure** | **Staff selection & screening for the client site** | **Absenteeism management** | **Staff wellbeing and management** | **Skills development of staff - progression and multi-skilling** |
| **Purpose** | Performance can only be achieved through measurement of KPAs and KPIs aligned to business objectives. Thus the goal is to expose inadequate performance to develop the owner and improve the result. | Work stoppage or industrial actions are usually the symptom of bad communication between management and staff. The most common reasons for an illegal strike to occur is the lack of understanding by your staff pool due to the lack of clear communication from and to management.<br>Through these interventions and a dedicated approach to open and clear communication with our staff, all issues and rumours is addressed before any undue animosity or wrong perceptions can lead to unnecessary actions | To recognise the benefits of standardised recruitment practices, promote career planning and ensure objectivity and consistency is exercised throughout the process.<br>G.P. Retail Operations is committed to recruiting the best possible candidates;<br>therefore a minimum requirement of grade 10 is required for all positions. | Must be measured and managed to ensure compliance to the 98% target. | Staff is the life-blood of our business and as such is the key to the value we add - our competitive advantage. Their wellbeing and moral must be of top priority. | By multi-skilling our staff pool, we ensure that there is always the required skill to perform an operational function.<br>This also allow us to rapidly adjust in ad hoc situations. Progression also serves as a motivational tool to staff and increases the retention of skills. |
| **Relate to (Objective)** | Building performance-driven teams that adhere to and aim to exceed SLA requirements that are linked to high-level objectives. | Cultivating and exceptional human platform and industrial action mitigation | Cultivating and exceptional human platform | The reward-and-incentive scheme. | Cultivating an exceptional human platform. | Cultivating an exceptional human platform. |
| **Target** | Achievement of KPA and KPI targets that are set in the SLA and linked to business objectives in accordance with the strategy. | No industrial action or work stoppage due to employee and employer issues. Committee meetings held monthly. Staff/Management ratio is held at 1:40 on client site. | Employ only staff in line with the recruitment and selection policy. Specific site, departmental and job profiles must be adhered to | 98% present rating per individual. | An average score of above 4. | 100% of staff at the SBU should be multi-skilled. |
| **Formula** | Various formulae will exist for each KPA and KPI. It is critical that it be documented, communicated and understood, as well as be readily available. | Number (quantity) of industrial actions or work stoppages over one year, three years, five years in the SBU. As a % of the total number of work stoppages in the rest of the industry | Number of staff failing the training session because of inadequate capabilities. Calculated as a % of the total number of new staff recruited during the specific period. | Total days absent/total days scheduled to work. | All questions on the survey are scored from 1 - 5: Never, sometimes, often, mostly, and always. This consolidates into sections and into a total employee-barometer score. | Number of multi-skilled staff calculated as a % of total staff complement at the SBU. This is also an indication of the % skills training and development still to be done on the current staff complement. |

**GP RETAIL(Pty) Ltd PERFORMANCE MEASURE RECORD SHEET: PEOPLE/LEARNING AND GROWTH**

| Measure | Integrated performance managed | Employee relations managed effectively - committee structure | Staff selection & screening for the client site | Absenteeism management | Staff wellbeing and management | Skills development of staff - progression and multi-skilling |
|---|---|---|---|---|---|---|
| **Frequency** | Various frequencies will exist for each KPA and KPI. It is critical that it is documented, communicated and understood as well as readily available. | Monthly meetings must be held and documented with the elected staff representative committee, site management, the supply chain manager and the HR director | Calculated every time new staff is recruited. Depends on the client requirements especially during peak season. | Progressively: Recorded and addressed daily and tracked progressively. | A department per month must be surveyed. | Continuous process. All current staff should be trained and multi-skilled, and any new employee appointed should immediately be immediately multi-skilled. |
| **Who measures?** | Top management: Usually site management and national management will be the owners. | Site management and committee | Site management and GP retail HR and recruitment and development department | Site manager. | Employee committee with the site manager. | Site management and GP Retail HR & recruitment & development department. |
| **Evidence/ supporting documents** | Various supporting documents and linking scorecards and dashboards will exist for KPAs and KPIs, departments and process owners. A strategy map that displays these links must be available. | Selection criteria of the representative staff committee. Mandate to the committee. Schedule for regular meetings. Documented and filed meeting minutes. Documented action plans for addressing issues. Employee barometers and graphs. | Staff selection and recruitment policy. Specific site, departmental and job profiles Records of staff retention of skills. Records of staff turnover. Records of new recruits pass rates after training and assessment | Daily individual absenteeism report. | Employee barometer plus documented action plans for the low-scoring sections and topics. | Progression model specific to the site. Multi-skilling policy specific to the site. Staff turn-over reduction and retention policy. |
| **Who acts on the data?** | All linked and cascading managers as per the strategy map. | Staff representative committee and dedicated persons as per the minutes | Site management and GP retail HR and recruitment and development department | Department supervisor. | Employee committee with the site manager. | Site manager and departmental supervisors. |
| **What do they do?** | Mentoring and coaching to develop managers. Training to develop employees. These must be formalised and documented. Specific outcomes with timeframes and assessments for improvement must be in evidence. | Mandate to committee:<br>They must serve as a Platform for clear and factual communication of all staff and operational wellbeing issues, based on understanding and collaboration | * Documented employee-selection policy is available. Minimum requirements are stipulated.<br>Evidence to support the following for all new employees:<br>* Basic-skills screening test<br>* Completion of criminal and credit reference checks<br>* Interview process<br>* Investigation to determine past exposure to Woolworths Supply Chain and Logistics and/or other WW environments<br>Verify 10% of newly appointed employees within the audit period:<br>- a signed contract & complete employee file.<br>* Evidence of reviewed documents are available. | Absenteeism must be addressed by counselling and, if it persists, by means of disciplinary action that can progressively lead to dismissal. Records must be kept and be accessible for each instance. | A documented orientation procedure is available.<br>* Employee Barometer completed and action plan to address areas of concern is available. Potential risks highlighted in the results are incorporated into risk management<br>* Development and advancement of employees<br>* Evidence of effective employee relations management<br>* Evidence of resolution of concerns raised<br>* Evidence is provided to support best practice in terms of processes followed to support employee well being. The process will need to exceed standard requirements of | Schedules are available, detailing the training and assessment requests made for all newly appointed employees within the period.<br>Documentary evidence is available, indicating that all newly appointed employees within the audit period had been trained and assessed prior to being included as part of the staffing pool.<br>Evidence of review of staffing pool is available.<br>Schedules confirming training and assessment of employees to meet SLA requirements are available.<br>Evidence of review of competence gaps is available including CAP |

| GP RETAIL(Pty) Ltd PERFORMANCE MEASURE RECORD SHEET: PEOPLE/LEARNING AND GROWTH | | | | | | |
|---|---|---|---|---|---|---|
| **Measure** | **Integrated performance managed** | **Employee relations managed effectively - committee structure** | **Staff selection & screening for the client site** | **Absenteeism management** | **Staff wellbeing and management** | **Skills development of staff - progression and multi-skilling** |
| | | | * An action plan is available.<br>* Evidence is provided to support best practice in terms of process. The process will need to exceed standard requirements of the SLA to be deemed best practice | | the SLA in order to be deemed best practise. * A documented programme is available<br>* An action plan to manage the programme is available<br>* Status updates for each of the months during the audit period are available.<br>* Forecasted Staffing requirements versus staffing pool has been presented<br>* Minutes of meetings<br>* Attendance Registers<br>* An action plan is available for all identified peak periods or key events.<br>* Forecasted Staffing requirements versus the staffing pool has been reviewed<br>* Action has been taken to address areas of concern"<br>* There has been a reduction in labour turnover. Monthly tracking of labour turnover is available and risks identified are incorporated into an action plan.<br>* Evidence is available on TES promotions, flexi skilling and appointment to permanent positions in Woolworths Supply Chain | assessments.<br>Schedules are available confirming training and assessment of employees, and confirmation is available of effective utilisation of skills across agreed functions and progression.<br>A 10% sample will be reviewed to ensure that the correct rate of pay has been applied where employees are utilised across agreed functions.<br>Evidence is provided to support best practice in terms of processes followed. The process will need to exceed standard requirements of the SLA in order to be deemed best practice<br>GP Retail Management is tracking our staff with regards to performance and reliability and strict disciplinary measures will be applied to staff who do<br>not perform and adhere to GP and client's expectations. By these measures we will be able to identify our core staff-pool for every discipline.<br>Within our core pools we will then identify those staff members with the potential and ability to be further skilled and developed. This will be achieved and maintained by a process of work rotation. |

| GP RETAIL(Pty) Ltd PERFORMANCE MEASURE RECORD SHEET: PEOPLE/LEARNING AND GROWTH | | | | | | |
|---|---|---|---|---|---|---|
| **Measure** | **Integrated performance managed** | **Employee relations managed effectively - committee structure** | **Staff selection & screening for the client site** | **Absenteeism management** | **Staff wellbeing and management** | **Skills development of staff - progression and multi-skilling** |
| **Pre-assessment measure** | A performance review system is in place to measure and monitor performance and identify suitable candidates for training.<br>1. There is a procedure for managing performance in place.<br>2. This procedure includes job descriptions & KPIs.<br>3. Performance reviews are done bi–annually.<br>4. The training needs assessments have been drawn up based on the performance reviews.<br>5.Improvement in performance is evident, based on the application of the training received. | Excellent relations exist between all employees and agreed processes are in place to engage constructively with one another and resolve all issues timely.<br>1. The labour broker has a documented Policies & Benefits Manual & it is available to all the staff.<br>2. First-line managers can articulate contents of policies and benefits manual (i.e. understand policies and benefits well enough to explain to staff).<br>3. Formal processes are in place to engage staff constructively (e.g. meetings, staff suggestions, disciplinary procedures) and managers show an understanding of these.<br>4. There is evidence that these processes are adhered to within the company (including evidence of joint decision-making).<br>5. The company has maintained their staff/management ratio on the client site at 1:40 or better. | GP Retail Operations has a clearly documented policy regarding staff selection and screening for the client, Ackermans DC.<br>1. GP Retail has a documented policy regarding staff selection.<br>2. This policy includes minimum levels of education in line with the client's requirements.<br>3. All job applicants are screened by means of a basic skills screening by GP Retail Operations.<br>4. Screening includes criminal reference checks and investigation of the applicant's past exposure to the clients environments.<br>5. All employee records of staff at the SBU can be traced through a logical, organised administrative filling system. | GP Retail Operations understands the absenteeism measurement tool and can prove they are working with it to improve. Absenteeism is managed to control business risk.<br>1. The management team can explain the uses and benefits of GAR & FAR.<br>GAR: 3.1-3.5<br>GAR: 2.6-3<br>GAR: 2.1-2.5<br>The facility can produce evidence that they are working to improve their absenteeism ratio. GAR: <2. | The company has clearly defined policies regarding the wellbeing of their staff, they are communicated, known and adhered to on an ongoing basis.<br>1. GP Retail Operations can provide company policies regarding the following:<br>o Rules around lockers and how they are dealt with<br>o Rules around staff administration and timesheet adherence<br>o Staff-payment rules<br>2. The company can prove that these rules are adhered to and communicated to all their staff.<br>3. GP Retail Operations can provide company policies regarding the following:<br>o Advancement and development o Incentives<br>o Multi-skilling<br>o Retention of staff<br>4. The company can prove that these policies are adhered to and communicated to all their staff.<br>5. The business sets a benchmark for staff wellbeing initiatives AND this is evident in their reduced labour turnover. | Training & development plans for individuals and groups are in place to develop and improve specific knowledge, skills and behaviours. These are aligned to the client-training processes.<br>1 The company has clearly articulated standards regarding the following:<br>o Refresher training<br>o Training periods<br>o Staff induction (registers)<br>o Process training (registers) o Assessment standards<br>2. Competence gaps have been identified against specific, required competencies and have been communicated to individuals and groups.<br>3. A detailed competence-development plan, supported by an appropriate budget, is in place to address specific knowledge, skills and behaviour gaps.<br>4. Training & development activity is aligned to the competence development plan AND the competence development plan, as well as training & development budgets, are actively managed, monitored, reviewed and adjusted as appropriate.<br>5. The business sets a benchmark for the management of training & development. |

**Table 4.5 BSC audit document**

| Measure | Performance requirements | Partially achieved | | | | Achieved | Scoring | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | | | |
| **FINANCE** | | | | | | | Score | Weighting | Weighted score |
| **Performance achieved**<br>**Productivity targets**<br>**Accuracy parameters**<br>**On-time completion** | Performance is calculated using a zero base, with evidence of continuous improvement. Performance figures are presented on a year-to-date on a month=to=month basis | 1. A schedule is available on how budgeted performance is calculated. The schedule is understood at department level and signed of by each manager. It is also clearly communicated to staff level. | 1 +<br>2. Performance measures and actual achievement is known by all management on the site and are shared and managed daily. | 1 +<br>2 +<br>3. Actual performance is at least 95% of budgeted targets. | 1 +<br>2 +<br>3 +<br>4. Performance target is exceeded by 2%. | 1 +<br>2 +<br>3 +<br>4 +<br>5. Performance target is exceeded by 5% on budget. | | | **0** |
| **Shrinkage managed, including consumables** | Shrinkage figures and consumable in the facility are considered a joint responsibility. These are measured accurately, managed, and continuously reduced. | 1. A list is prepared of all possible sources of shrinkage with acceptable loss targets, within client specifications (e.g. system adjustments, stock accuracy, claims, theft, damages and all stock losses).<br>Areas where consumables can be reduced are identified and clearly understood. Action plans are in place and monitored for results yielded. | 1 +<br>2. All managers demonstrate clear understanding of areas where savings can be achieved in consumable usage and for causes of shrinkage as per defined category. Can account for losses, and can show evidence of communication with employees. | 1 +<br>2 +<br>3. Losses are analysed per category and there is evidence of review. . Corrective and preventative action is presented. | 1 +<br>2 +<br>3 +<br>4. There is a reduction in the number of incidents per category. | 1 +<br>2 +<br>3 +<br>4 +<br>5. A sustained improvement over the period in recorded losses exceeding a reduction of 5% of acceptable losses as an aggregate | | | **0** |

| Measure | Performance requirements | Partially achieved | | | | Achieved | Scoring | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | | | |
| **Invoicing accuracy**<br>**Staff-payment accuracy** | Finance and payroll admin can prove that all their invoices submitted to client are accurately based on staff-attendance registers and that all staff are timely receiving their payment with clear and accurate payslips. | **1.** A documented invoicing process and system is in place. Statutory requirements and legal obligations are accurately calculated, paid and submitted on time ( including but not limited to PAYE, UIF, etc.). | 1 +<br>2. All payment and invoice dates to the staff and client were met. | 1 +<br>2 +<br>3. All pay-run and invoice deadlines adhered to | 1 +<br>2 +<br>3 +<br>4. Pay queries less than 1% | 1 +<br>2 +<br>3 +<br>4 +<br>5. No credit notes issued to rectify a GP invoicing error.<br>No pay queries on pay-run. | | | **0** |
| **Financial results** | Increase in revenue<br>Reduction in costs<br>Adherence to budgets<br>Profit-margin increase realised | 1. Adherence to all budgets | 1 +<br>2. Reduction in operating costs | 1 +<br>2 +<br>3. Exceeding budget requirements | 1 +<br>2 +<br>3 +<br>4. Revenue increased | 1 +<br>2 +<br>3 +<br>4 +<br>5. Profit is increased due to the previous points being met or due to better performance. | | | **0** |
| **Return-on-resource investments, and process interventions** | A set methodology to follow is agreed.<br>Previous data and trends on which o improve are available and verifiable.<br>Action plans are agreed and tabled with timeframes.<br>Verifiable results with an improvement in performance or increase in profit are realised | 1. A set methodology for process-improvement interventions is documented and agreed. | 1 +<br>2. The process or function to be improved is relevant and agreed.<br>Historical data and trends are available and verifiable to gauge any yielded improvements. | 1 +<br>2 +<br>3. Action plans with timeframes are set and agreed. The cost of the resources employed is calculated. | 1 +<br>2 +<br>3 +<br>4. Results are tracked and verifiable for any and all improvements and/or failures. | 1 +<br>2 +<br>3 +<br>4 +<br>5. A performance increase, or cost reductions, or profit increase was yielded in excess of the resources deployed to attain them (i.e. a return on the investment was realised | | | **0** |

| Measure | Performance requirements | Partially achieved | | | | Achieved | Scoring | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | | | |
| **Incentive programmes** | To improve productivity and reduce selected variable expenses, thereby creating an opportunity to reward employees for consistently exceeding expectations against performance and service standards<br>Prerequisite to qualify:<br>Service levels achieved<br>Process compliance<br>Attendance<br><br>Improvements to achieve:<br>Reduce consumables<br>Increased productivity<br>Accuracy<br>Shrinkage<br>Damages | 1. Qualifying prerequisites and improvements to achieve are clearly documented, communicated, displayed and understood by all levels of management and staff. | 1 +<br>2. All qualifying prerequisites and improvements to achieve data are recorded, tracked and trended on a daily basis and clearly displayed to all levels of management and staff. Stakeholders must understand their current and running achievement in this regard and whether they qualify or not - and if not, what the action plans are to rectify this. | 1 +<br>2 +<br>3. Action plans per category with timeframes are set and agreed. | 1 +<br>2 +<br>3 +<br>4. Results are tracked and verifiable. Results are clearly communicated and displayed. | 1 +<br>2 +<br>3 +<br>4 +<br>5. Identify those action plans that yielded improved results, that must be sustained. Also identify actions that disqualify the team as per the incentive scheme and that must be avoided. These action plans must ensure that the team qualify for the scheme payout. | | | **0** |
| **CUSTOMER/STAKEHOLDER** | | | | | | | **Score** | **Weighting** | **Weighted score** |
| **Internal & external client-relationship building & management** | Efforts are made to improve relations with client. SLA Barometer meetings are held weekly & monthly, as per the schedule. These meetings focus on Service Level Agreements, management, and other issues of mutual interest. | 1. Meetings are held in accordance with the SLA Barometer Meetings Plan. | 1 +<br>2 Records are kept of all meetings, and action items are documented. | 1 +<br>2 +<br>3. There is evidence that action items are dealt with. The scorecards are communicated, known & supported by all staff affected. | 1 +<br>2 +<br>3 +<br>4. The actual performance requirements are broken down and available for all staff to see and there is a system to report monthly, weekly and daily service targets and actual performance against them. | 1 +<br>2 +<br>3 +<br>4 +<br>5. There is evidence that information has been utilised to enhance service delivery and a action plan to deal with non-performance against the scorecard is in place. | | | **0** |

| Measure | Performance requirements | Partially achieved | | | | Achieved | Scoring | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | | | |
| **Joint-risk identification** | The business has performed a formal risk-identification process to ensure sound risk management. They have identified the top significant risks that could prevent the achievement of business objectives. | 1. A formal risk-identification process has been conducted with a register proving attendance by important stakeholders. The most significant risks have been identified. | 1 +<br>2. These risks have been prioritised in terms of their impact (importance). | 1 +<br>2 +<br>3. The risks have been assessed in terms of the likelihood of their occurring given the current processes, systems and people. | 1 +<br>2 +<br>3 +<br>4. Impact & Likelihood has been tabulated to create a ranked impact of exposure. A risk strategy has been established for the business' risk profile. | 1 +<br>2 +<br>3 +<br>4 +<br>5. The business has a detailed action plans for areas of unacceptable exposure and a knowledgeable team is prepared to deal with unexpected events. | | | 0 |
| **Scorecard managed** | There is a clear understanding within the entire business regarding scorecards. | 1. GP Retail Operations has a scorecard and cascading-linked scorecards that are of value to the client. | 1 +<br>2 There is evidence that the scorecards are discussed weekly at the client Management SLA Barometer Meetings. | 1 +<br>2 +<br>3. The business uses the scorecards as a management tool to identify areas to improve upon. | 1 +<br>2 +<br>3 +<br>4. The business can prove that scorecards performance is communicated internally on a regular basis. | 1 +<br>2 +<br>3 +<br>4 +<br>5. The facility can prove that all cascading scorecards are adhered to and consolidated into this scorecard. | | | 0 |
| **Scorecard accuracy**<br>**Source data** | A precise method for recording scorecard data exists. This system clearly displays and measures raw data and shows how it is collated, and its source. There is a clear understanding by the relevant staff as to the origins of this data and its integrity. | 1. GP Retail Operations has systems (Excel spreadsheets, Word documents and filing systems) in place to store, record, and calculate scorecard information. This system clearly displays and measures scorecard raw data. (i.e. recaptured from source document, if necessary). | 1 +<br>2. The business produces a monthly scorecard and can explain how the information is derived and can prove its accuracy. | 1+<br>2 +<br>3. Managers can explain the information shown on the scorecard.<br>AND<br>management is able to identify when to effect change and course of action required to improve on a scorecard measure. | 1 +<br>2 +<br>3 +<br>4. Scorecard source raw data has been interrogated and 1 finding of inaccuracy or misrepresentation has been identified. | 1 +<br>2 +<br>3 +<br>4 +<br>5. Scorecard source raw data have been interrogated and no inaccuracies or misrepresentations can be identified. | | | 0 |
| **Customer Service Index** | GP Retail Operations has conducted their Customer Service Survey with All the client first line management and Operational Managers for whom they provide staff. | GP Retail Operations has been appraised on Customer Service Survey and has scored an average of 1. | GP Retail Operations has been appraised on the Customer Service Survey and has scored an average of 2. | GP Retail Operations has been appraised on Customer Service Survey and has scored an average of 3. | GP Retail Operations has been appraised on Customer Service Survey and has scored an average of 4. | GP Retail Operations has been appraised of Customer Service Survey and has scored an average of 5. | | | 0 |

| **Measure** | **Performance requirements** | **Partially achieved** | | | | **Achieved** | **Scoring** | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **1** | **2** | **3** | **4** | **5** | | | |
| **INTERNAL PROCESSES** | | | | | | | **Score** | **Weighting** | **Weighted score** |
| **Sound business contracts and relationship-management with client** | Company information is managed and updated regularly and meetings are held with client. These focus on Service Level Agreements, scorecards and quality standards. All contracts are updated. | 1. GP retail Operations has a signed, up-to-date Service Level Agreement with client. | 1 +<br>2. There are systems in place to measure performance in line with the Service Level Agreement. | 1.+<br>2 +<br>3. Proof that meeting schedules exist and are adhered to. Service issues and operational risk are raised and addressed. | 1 +<br>2 +<br>3 +<br>4. All weekly meetings address the measures reported on in the scorecard. | 1 +<br>2 +<br>3 +<br>4 +<br>5. GP Retail Operations can prove that they are regularly benchmarking their service offering and that they are continuously seeking opportunities to offer more value to the client. | | | **0** |
| **Process adherence & conformance**<br>**Management and retention of documents** | GP Retail Operations ensures that only trained staff are available to perform their functions and that all staff have been sufficient trained in-client processes. | 1. GP Retail Operations has a file containing all the correct client processes (where their staff are on duty), documented in correct updated format (correct version). | 1+.<br>2. A list of trainers is available for every discipline and they are sufficiently skilled to perform their duties.<br>AND:<br>Records are kept of all training interventions. No individual is performing a function for which he/she has not received training. Individuals performing processes on the floor can be traced back through the training registers and assessments and are competent to perform the process. | 1 +<br>2 +<br>3. Evidence of scheduled floor walks with a log book to check all process adherence according to documented processes against the scheduled CSAs. Shows where weaknesses in or satisfaction with processes have been identified. | 1 +<br>2 +<br>3 +<br>4. Evidence that GP Retail Operations has taken action against logged issues of non-conformance. | 1 +<br>2 +<br>3 +<br>4 +<br>5. Ensure that conformance to documented client processes can be identified when performing an unannounced assessment. | | | **0** |

| Measure | Performance requirements | Partially achieved | | | | Achieved | Scoring | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | | | |
| **Overall general management of OHASA** | GP Retail Operations has developed a plan to meet all legal compliance requirements. The plan is clearly articulated and includes a checklist to monitor ongoing compliance. The checklist is regularly utilised and signed off by the site manager at least once a month. | 1. GP Retail Operations has developed a plan to meet all legal compliance requirements. | 1 +<br>2. The plan includes the monitoring of all activities with regards to legal documentation, contracts, appointments, and staff wellbeing. | 1 +<br>2. +<br>3. The plan shows clear levels of authorisation, monitoring and timing requirements. | 1 +<br>2 +<br>3 +<br>4. GP Retail Operations can prove that they are on track with the implementation of their plan to monitor OHASA requirements and that the site manager has a view of all OHASA requirements and has control over these. | 1 +<br>2 +<br>3 +<br>4 +<br>5. GP Retail Operations displays excellent governance over OHASA monitoring & implemen-tation plan & no important requirements are found to be neglected. | | | 0 |
| **General discipline** | Absenteeism<br>Punctuality and timekeeping<br>Uniform and PPE adherence<br>Security incidents<br>Shrinkage (score duplicated)<br>Process conformance (score duplicated) | Absenteeism:<br>The percentage calculated as staff supplied vs. staff required for the operational function, taking into account skill level required. | Punctuality and timekeeping: On-time arrival of staff for shift starts and after lunch and tea breaks. Tracking of excessive smoke and hygiene breaks. A 10% or departmental random check to be done to derive a percentage. | Uniform & PPE adherence: A percentage of the total number of incidents of non-adherence recorded vs. total staff worked. | Security incidents<br>A percentage of the total number of incidents of recorded vs. total shifts worked. | A consolidated score will be derived to show labour pool general discipline. Scores for each category will be calculated as a percentage number and transformed to a score out of 1, which will consolidate to a score out of 6. | | | 0 |

| **Measure** | **Performance requirements** | **Partially achieved** | | | | **Achieved** | **Scoring** | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **1** | **2** | **3** | **4** | **5** | | | |
| **PEOPLE/LEARNING AND GROWTH** | | | | | | | **Score** | **Weighting** | **Weighted score** |
| **Integrated performance managed** | A performance review system is in place to measure and monitor performance and identify suitable candidates for training. | There is a procedure for managing performance in place. | This procedure includes job descriptions & KPIs. | Performance reviews are done bi–annually. | The training-needs assessments have been drawn up, based on the performance reviews. | Improvement in performance is evident, based on the application of the training received. | | | **0** |
| **Employee relations managed effectively - committee structure** | Excellent relations exist between all employees and agreed processes are in place to engage constructively with one another and resolve all issues timely. | 1. GP Retail Operations has a documented Policies & Benefits manual & it is available to all the staff. | 1 +<br>2. First-line managers can articulate contents of policies and benefits manual (i.e. understand policies and benefits well enough to explain to staff). | 1 +<br>2 +<br>3. Formal processes are in place to engage staff constructively (e.g. meetings, staff suggestions, disciplinary procedures) and managers show an understanding of these. | 1 +<br>2 +<br>3 +<br>4. There is evidence that these processes are adhered to within the company (including evidence of joint decision-making). | 1 +<br>2 +<br>3 +<br>4 +<br>5. The company has maintained its staff / management ratio on the client site at 1:40 or better. | | | **0** |
| **Staff selection & screening for the client site** | GP Retail Operations has a clearly documented policy regarding staff selection and screening for the client - Ackermans DC. | 1. GP Retail has a documented Policy regarding staff selection. | 1 +<br>2. This policy includes minimum levels of education in line with the client requirements | 1+<br>2 +<br>3. All job applicants are screened by means of a basic skills screening at GP Retail Operations. | 1 +<br>2 +<br>3 +<br>4. Screening includes criminal-records checks and investigation of the applicants past exposure to the client/client environments. | 1 +<br>2 +<br>3 +<br>4 +<br>5. All employee records of staff at the SBU can be traced through a logical, organised administrative filling system. No deviances can be identified. | | | **0** |

| Measure | Performance requirements | Partially achieved | | | | Achieved | Scoring | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | | | |
| **Absenteeism management** | GP Retail Operations understands the absenteeism-measurement tool and can prove that they are working with it to improve. Absenteeism is managed to control business risk. | 1. The management team can explain the uses and benefits of GAR & FAR. | GAR: 3.1-3.5 | GAR: 2.6-3 | GAR: 2.1-2.5 | The facility can produce evidence that they are working to improve their absenteeism ratio.<br>GAR: <2 | | | **0** |
| **Staff wellbeing and management** | GP Retail Operations has clearly defined policies regarding the wellbeing of their staff. These are communicated, known and adhered to on an ongoing basis. | 1. GP Retail Operations can provide company policies regarding the following:<br>o Rules around lockers and how they are dealt with<br>o Rules around staff administration and timesheet adherence<br>o Staff-payment rules | 1.+.<br>2. The company can prove that these rules are adhered to and communicated to all their staff | 1 +<br>2 +<br>3. GP Retail Operations can provide company policies regarding the following:<br>o Advancement and development<br>o Incentives<br>o Multi-skilling<br>o Retention of staff | 1 +<br>2 +<br>3 +<br>4. The company can prove that these policies are adhered to and communicated to all their staff. | 1 +<br>2 +<br>3 +<br>4 +<br>5. The business sets a benchmark for staff wellbeing initiatives<br>AND<br>this is evident in their reduced labour turnover. | | | **0** |
| **Skills development of staff -- progression and multi-skilling** | Training & development plans for individuals and groups are in place to develop and improve specific knowledge, skills and behaviours. These are aligned to the client-training processes. | 1. The company has clearly articulated standards regarding the following:<br>o Refresher training<br>o Training periods<br>o Staff induction (registers)<br>o Process training (registers)<br>o Assessment standards. | 1 +.<br>2. Competence gaps (using the CSA methodology) have been identified against specific, required competencies and have been communicated to individuals and groups. | 1 +<br>2 +<br>3. A detailed competence-development plan, supported by an appropriate budget, is in place to address specific knowledge, skills and behaviour gaps. | 1 +<br>2 +<br>3 +<br>4. Training & development activity are aligned to the competence-development plan<br>AND<br>The competence-development plan, as well as training & development budgets, are actively managed, monitored, reviewed and adjusted as appropriate. | 1 +<br>2 +<br>3 +<br>4 +<br>5. The business sets a benchmark for the management of training & development. | | | **0** |

**Table 4.6 Template for the summary of scores for Ackermans DC SBU**

| | | | | | |
|---|---|---|---|---|---|
| **ACKERMANS DC:** Summary of scores | | | | | |
| **Company name** | **GP Retail Operations (Pty) Ltd** | Scores | | | |
| **SBU** | **operating at the Ackermans Distribution Centre** | Date | | | |
| | | Potential score | Actual Score | Weight | Weighted Actual score |
| **People/learning and growth** | | | | | |
| 1 | Integrated performance managed | 5 | | 15 | **0** |
| 2 | Employee relations managed effectively - committee structure | 5 | | 15 | **0** |
| 3 | Staff selection & screening for the client site | 5 | | 20 | **0** |
| 4 | Absenteeism management | 5 | | 15 | **0** |
| 5 | Staff wellbeing and management | 5 | | 15 | **0** |
| 6 | Skills development of staff - progression and multi-skilling | 5 | | 20 | **0** |
| **Total score out of 100 for People** | | | | | **0.0** |
| **Finance** | | | | | |
| 1 | Performance achieved | 5 | | 20 | **0** |
| 2 | Shrinkage managed, including consumables | 5 | | 15 | **0** |
| 3 | Invoicing accuracy, staff-payment accuracy | 5 | | 15 | **0** |
| 4 | Financial results | 5 | | 20 | **0** |
| 5 | Return on resource investments and process interventions | 5 | | 15 | **0** |
| 6 | Incentive programmes | 5 | | 15 | **0** |
| **Total score out of 100 for Finance** | | | | | **0.0** |
| **Customer/stakeholder** | | | | | |
| 1 | Internal & external client-relationship building & management | 5 | | 25 | **0** |
| 2 | Joint risk Identification | 5 | | 10 | **0** |
| 3 | Scorecard managed | 5 | | 20 | **0** |
| 4 | Scorecard accuracy source data | 5 | | 20 | **0** |
| 5 | Customer Service Index (SCI) | 5 | | 25 | **0** |
| **Total score out of 100 for Customer** | | | | | **0.0** |
| **Internal processes** | | | | | |
| 1 | Sound business contracts and relationship-management with client | 5 | | 25 | **0** |
| 2 | Process adherence & conformance; management; and retention of documents | 5 | | 25 | **0** |
| 3 | Overall general management of OHASA | 5 | | 25 | **0** |
| 4 | General discipline | 5 | | 25 | **0** |
| **Total score out of 100 for Operations** | | | | | **0.0** |
| **Final overall score** | | | | | **0.0** |

## 4.3. PRACTICAL SUGGESTIONS FOR THE IMPLEMENTATION OF THE BSC

As mentioned in Chapter 2, a newly formed team, comprising the leaders of each sub-group, formalises the stretch targets and develops an implementation plan for the scorecard. This plan should include how the measures are to be linked to the data base and information systems, as well as how to communicate the BSC throughout the organisation. The plan should encourage and facilitate the development of second-level metrics for the operational levels.

In developing the implementation plan, it is important to have the commitment and understanding of the management group and to clearly define what is expected from them during the implementation phase. During this phase, it is important to hold regular workshop-style meetings to identify problems, develop improvements, and catalyse involvement. It is important to keep to the timeframe and to have adequate resources available to be able to reach the different timeframes set out for the completion of the different steps in the implementation process.

Aspects to take into consideration when implementing a BSC could be the following:

- implementing a BSC takes time and effort. The company must be prepared for a long march.
- the support from top management throughout the implementation phase must be serious. They should be committed to the development of the BSC.
- the company cannot overload the project with initiatives.
- a process that is well planned must be in place; and
- the company should build commitment during the implementation process by means of quality debates (Bourne & Bourne, 2007:112-113).

The Ackermans DC SBU implementation plan will be undertaken by the architect and implementation team. The implementation plan can be seen more as an educational programme on the BSC where employees - in the SBU and to the staff as individuals - are notified about the changes that the scorecard will bring about. Once everyone understands the changes, it becomes the senior managers' responsibility to link their own and their subordinates' goals and measures to the scorecard by using the existing information system. The supply-chain manager oversees and facilitates this process.

## 4.4. PROBLEMS ENCOUNTERED DURING THE DEVELOPMENT PHASE

During the development phase of the BSC, several problems arose. These are mentioned below:

- a lack of time and effort available by the implementation team and senior management caused delays in the process.
- sometimes a time delay occurred in obtaining the correct information from managers at the Ackermans DC SBU, which was necessary to assist in drawing up the performance-record sheet.
- during workshops, it was sometimes difficult to obtain consensus from all the parties regarding the objectives and measures for the SBU.
- employees and managers were fearful of publicising the results of measurement because they were to be measured by these results; and
- people struggle to get out of their comfort zones. They get comfortable with the measures they know and it takes time and effort to update them.

## 4.5. RECOMMENDATIONS

### 4.5.1 Cascading the strategy to other levels

Strategy formulation is considered a major undertaking in any organisation as the strategy of the company tends to determine its future possibility and success. It is well-known that developing a strategy is often far easier than implementing it in the company down to the operational levels, where real value can be added.

Organisational alignment means that the entire company, top to bottom, are aligned in one direction to achieve a common vision.

It was recommended that GP Retail Operations (Pty) Ltd cascade the strategy to all levels in the Ackermans SBU. If this business unit were to be successful in using the BSC, it would be implemented in all the other SBUs.

An action plan had to be developed for the complementary scorecards for the other levels of the SBU. The company operates on the basis that the scorecard is a view or "dashboard" of the overall and most pertinent global key performance indicators (KPIs) and key performance areas (KPAs) required to achieve the targets set out on the BSC. The focus will not be limited to only the scorecard. It will roll down much deeper by being linked to site, department and functional KPAs; and even deeper to individual process owner KPAs. The assumption is that the KPAs have to be achieved at root level to roll up through the hierarchy to render a BSC result, thus a living, evolving work and/or management methodology will be pursued and will deliver the desired outcomes.

The plan of action plan developed, is as follows:

i. implement the BSC in the Ackermans DC SBU.
ii. develop and implement the BSC for team level in the Ackermans DC SBU.
iii. develop and implement the BSC for the individuals who are part of the Ackermans DC SBU team. This BSC would be incorporated in the personal performance-review sessions held on a weekly, monthly and quarterly basis; and
iv. test the scorecard implementation at the Ackermans DC SBU by means of the independent auditor appointed to see whether an impartial observer will be able to deduce the strategy of the organisation from the measures on the scorecard, and to determine whether the results of the scorecard are realistic.

### 4.5.2 Resistance to change

As a norm, people tend to be resistant to any change in their working environment.
The implementation of the BSC will bring about many changes in the employees' working environment and, to help to overcome resistance in change, a plan needs to be put in place to reassure staff and smooth the way for the BSC rollout.

To ensure alignment and acceptance of the BSC throughout the SBU, the company decided to implement the following strategies:

i. Communication and education programmes: These would ensure that all the employees, senior managers, and the board of directors understand the strategy and required behaviour to achieve the strategic objectives. A consistent and continuing programme to educate the organisation on the components of the strategy, as well as reinforcing this education with feedback on actual performance, is the foundation of organisational alignment.

ii. Goal-setting programmes: Once the base level of understanding exists, individuals and teams throughout the business unit must translate the higher-level strategic objectives into personal and team objectives. The traditional MBO programmes used by most organisations should be linked to the objectives and measures articulated in the BSC.

iii. Reward-system linkage: Alignment of the organisation toward the strategy must ultimately be motivated through the incentive and reward system.

### 4.5.3 Motivation

The BSC ensures increased employee motivation, especially in the middle and lower corporate levels of a company. This motivation originates from cascading the goals and objectives, since every employee should know precisely what s/he needs to achieve to contribute to the bigger picture of the company achieving its vision. This allows employees to see that they are making a difference in the company and that they are therefore important to the company. This knowledge tends to foster a sense of pride in the company.

It is recommended that reward incentives for goal achievement be added. Employees gain a sense of control over their personal success and are therefore motivated to take the best interests of the company to heart when rewarded and recognised for their success.

### 4.5.4 Plan of communication

The BSC is a project that effects change. Mostly efforts at changing struggle to succeed, a lack of communication being a major cause of the potential failure. A carefully constructed communication strategy and plan will prove to be a great ally in the building awareness, providing education on key concepts; generating engagement and commitment; encouraging participation; generating enthusiasm; and providing results to interested parties. It is recommended by Niven (2002:69) that the "W5" approach, namely "who, what, when, where and why", be used when drafting the elements of the plan.

### 4.5.5 Sustainability and long-term commitment

The BSC should not be considered to be a quick solution to all management's problems. It should rather be viewed as a long-term project, spanning at least five years, that aims at building and sustaining long-term growth for the SBU and the company. Implementing and managing a BSC requires a great deal of time and effort, and the decision to undertake one should not be taken lightly, based simply on aesthetic appeal or because it is the most current management trend.

Recommendations for keeping the scorecard of Ackermans DC up to date is to review targets on a regular basis to reflect the most updated information.  The measures should be revised from time to time as they drive behaviour. Revising them will overcome dysfunctional behaviour. It is important to change the success map and measures if the strategy of the company or the SBU changes. Once the measures have been implemented and used, the measures should be used to challenge the success map.

## 4.6. CONCLUSION

The implementation of the BSCs involves several challenges in embedding the information systems and the culture that help receive, process, and analyse performance information, and to implement action plans in time to respond to unexpected turns of events. A BSC requires time and effort to "get it right", commitment to implement it, and perseverance to ensure that it is used and updated.

The architect of the Ackermans DC BSC as well as people in management and staff experienced and understood the time and effort required to develop a BSC for their SBU, and therefore understood the commitment and perseverance required for the implementation and sustainability of the scorecard. At the same time, they understood the results that they would reap from the successful use of it and therefore have the motivation to keep the BSC a live performance-measurement tool in their SBU.

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