



Scorecards and Employee Performance Management:

Executing Strategy From the Top Desk to Every Desktop™

"Corporate America's performance management systems need fixing."

- Watson Wyatt¹

Performance management can raise financial performance and productivity by up to 35%.

- Hewitt Associates²

SumTotal[®]

STRONG TEAM, STRONG BUSINESS.

Today's Economy: A Faster Game on a More Level Playing Field

Over the past generation, the business world has been completely reinvented.

The proliferation of increasingly sophisticated computers, e-mail, and cell phones is just the outward manifestation of a core shift in how companies operate and succeed (or, more commonly, fail). Not that long ago, new technology, or dominance in a local or specialized market, could afford a competitive advantage capable of generating profits for years, covering a myriad of operational inefficiencies. The primary source of a company's value was tied up in tangible assets.

Nowadays, technological advantages are short-lived, and a networked world means sheltered markets are open to and from all corners of the world. As the playing field has leveled and the pace of change has accelerated, the primary source of a company's value has shifted from tangible to intangible assets: improved processes, access to information, and, most importantly, people.

Robert Crandall, the former CEO of American Airlines who guided the company through its difficult change to a deregulated market, summarizes this new reality nicely: "Faced with competitors with ample access to capital, the same technology, and similar strategies, your best chance to win is to simply execute better than the other guy...outstanding execution depends entirely on the performance of your people...the right people are a company's greatest resource."³

Business Success is all about Executing Strategy

Airline deregulation, begun in the 1970s, has left a trail of business casualties (TWA, Eastern, Braniff) in its wake and has yet to run its full course almost 30 years later. American Airlines has fared better than most of its legacy competitors by relying on the ability of its employees to successfully execute major changes in operating strategy.

The challenge of executing strategy is, of course, not limited to the air travel industry. Best-selling authors Larry Bossidy and Ram Charan call poor execution "the single biggest obstacle to success" for any business (*Execution: The Discipline of Getting Things Done*).⁴ David Norton, co-creator of the Balanced Scorecard, observes that "nine out of ten organizations fail to execute strategy,"⁵ and other business gurus argue that "the **execution** of a strategy is more important, and more valuable, than the **formulation** of a strategy."⁶

Executing Strategy is all about Managing People

Given that by far the largest single budget item for most businesses is directly related to employees, and that employees are the key to business success, you'd expect businesses to spare no expense in the design and implementation of Employee Performance Management systems. Such systems are a highly effective means of strategically engaging employees, motivating productivity, and delivering a profound, positive financial impact.^{7,8} Yet few organizations invest accordingly. As a result, many (if not most) organizations lack the ability to distinguish, let alone reward, develop, or groom for succession, their most valuable employees.⁹ And because a disturbingly high percentage of employees are unaware of or disconnected from organizational strategy, much work is misdirected. Research suggests employees squander as much as half their precious time working towards non-strategic objectives.¹⁰

Legacy EPM systems themselves present a huge hidden labor cost as well. The majority are inefficient, decentralized, paper-based,¹¹ with a true cost approaching \$2000 per year per employee,¹² all to deliver once-a-year performance evaluations of dubious relevance. In short, the state of employee performance management in today's business world is one of missed opportunity of profound scope, sorely in need of fixing.¹

Two Independent Performance Management Approaches

Fortunately, the same information age that has driven this new human capital-based business model has also provided businesses with the tools to succeed in this fast-evolving, quickly shrinking world. Two tools stand out in particular, reflecting different approaches to the broader category of "performance management." The first tool—the Balanced Scorecard—is generally classified as part of an overall "Corporate Business Management" (CPM) or "Business Performance Management" (BPM) tool kit. Scorecards are designed to articulate and manage organizational strategy using a highly structured, highly empirical methodology that incorporates multiple "perspectives" (typically financial, customer, process and learning/growth) in measuring progress towards strategic execution. The second tool—a suite of increasingly powerful and integrated applications (performance appraisals, development plans, career planning, talent management, salary planning, succession planning) united under the umbrella term Employee Performance Management (EPM) software—focuses on the management of people.

Organizations are waking up to the value of these tools in transforming businesses and delivering sustainable competitive advantage. Balanced Scorecards, which the Harvard Business Review has boldly called "one of the most significant ideas of the last 75 years,"¹³ are now in use at a majority of organizations.¹⁴ Similarly, EPM software implementation is repeatedly identified as a top organizational strategic initiative.^{15,16,17}

Yet even though both of these approaches are referred to as "performance management," in most organizations, EPM and scorecard initiatives operate independently of one another. The fact that few organizations have leveraged the complementary strengths of combining the two approaches translates into a huge missed opportunity. A tantalizing hint of just how significant such benefits can be comes from a recent international survey of scorecard users. Survey results indicated that organizations which use scorecards to measure individual employee performance report two or three times greater success with scorecards. This result held for every benefit measured in the survey, from better alignment of human capital to improved revenue generation.

Unfortunately, such benefits remain generally unrealized, since fewer than 13% of the organizations surveyed use personal scorecards.¹⁸ This strong empirical evidence offers an explanation for a recent Gartner MarketScope conclusion that "scorecards are not enough—there needs to be a linkage to individual actions and behaviors."¹⁸ The vast majority of organizations using scorecards employ them only as an aggregate performance measure, offering little intelligence regarding the performance of individual employees.

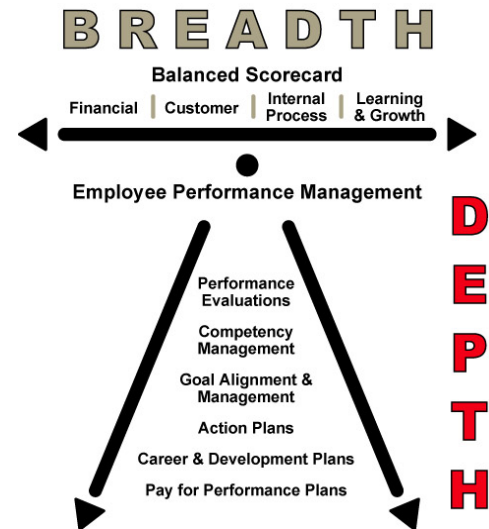
With a focus on individual performance and potential, EPM systems provide that link. But EPM is too often an HR-driven initiative struggling for strategic relevance, out of sight of the CEO, who can't tell from a corporate scorecard whether the company's strategy is *really* driving the daily activities of every employee.

The Breadth and Depth Dimensions of Performance Management

An integrated performance management system needs both **breadth** in scope and **depth** of power.

The Balanced Scorecard takes its name from its addition of balance (i.e., **breadth**) to organizational performance management, augmenting traditional financial metrics—lagging indicators—with leading indicators based more on measurement of intangible assets, notably human capital.

The complementary **depth** dimension is supplied by EPM software, which collects essential details measuring employee competencies and performance against goals. Competencies are to human capital what currency is to financial capital—a measurement of existing and potential resources. Detailed competency data can identify high potential succession candidates, and match individual strengths to company needs, present and future. A quality EPM system provides accurate individual performance intelligence, makes expectations and accountability clear to every employee, and aligns incentives with performance.

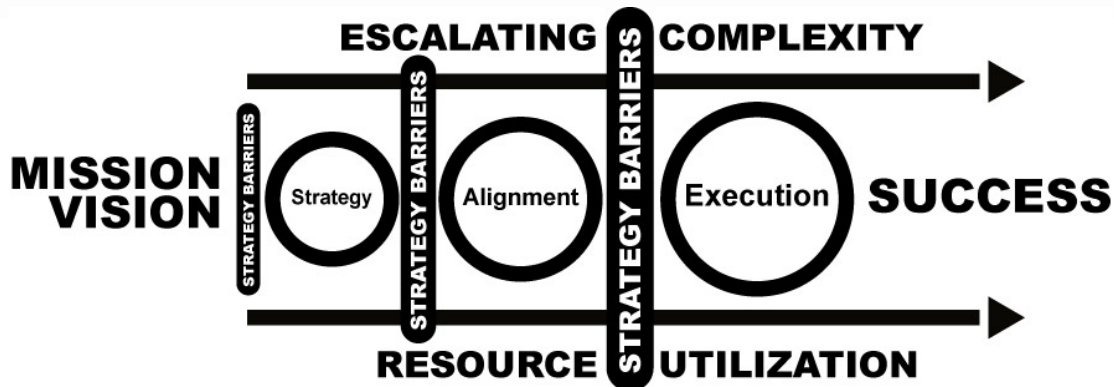


How might the two dimensions of scorecards and EPM work together to improve the ability of organizations to set, align and execute strategy?

Balanced Scorecard and Employee Performance Management: An Integrated Solution

An initiative or project, or even an entire organization, must negotiate three stages as it moves from unrealized potential to success:

- 1) **Strategy:** The leaders of the organization decide where to go and how to get there.
- 2) **Alignment:** The organization communicates a set of strategic goals to its employees in a way that all can understand and use to steer their daily activities. Resources (both payroll and infrastructure) are aligned to meet the most strategically valuable needs, and the right employees and the right processes are put in place to serve the organization.
- 3) **Execution:** Every employee is held accountable and given support (often including financial and other incentives) for meeting or exceeding clearly specified goals. The organizational culture welcomes performance feedback as a means for improving performance and addressing issues in mid-course.



Each stage presents barriers and challenges which organizations struggle to overcome. Results from a Franklin-Covey/Harris poll indicate that only about half (52%) of all organizations survive Stage 1 by successfully defining their strategy. For Stage 2, the same poll found that only 25% of employees feel their personal goals are aligned with corporate objectives.¹⁰ And, for the most difficult stage of all—Execution—as mentioned above, only 1 in 10 organizations make the cut.⁵

To understand how an integrated EPM-Scorecard solution might dramatically improve those odds, let's look at an example of a common corporate objective: increasing repeat business with existing customers. Formulating the **Strategy** will benefit from shared data from both scorecard and EPM software packages. Scorecard software typically includes the ability to create a strategy map to clarify the cause and effect relationships of different activities and departmental objectives, ultimately all pointing to a successful increase in same-customer business. And the ability of EPM software to collect and analyze survey data will also come in handy—for example, if used to poll existing customer satisfaction levels, or measure employee attitudes towards the importance of customer service. The results of such data analysis will help benchmark current performance and attitudes and highlight any gaps that need to be addressed.

Both scorecards and EPM software will help at the **Alignment** stage as well. Scorecards provide an accountability map that guides an initiative from creation to execution, specifying the teams and individuals responsible for getting different aspects of the job done. EPM drives alignment of individual employee goals and activities with that strategy, and the most efficient deployment and development of critical competencies necessary to fill the Strategic Job Families that drive forward progress. By tracking key performance activities—down to the level of individual employees—that underlie the KPI (Key Performance Indicators) reported in scorecards, EPM provides the depth of performance intelligence needed to keep each strategic initiative on track and on time.

At the **Execution** stage, scorecards provide the big picture of organizational progress, while EPM does the heavy lifting. Since execution involves every employee in the company, execution is critical, and can produce any result from disastrous costs due to squandered resources, to a well-orchestrated success. EPM starts by providing the timely details about the performance of any individual employee in the company. This level of detail can be goal-specific or activity-specific, competency or objectives-based, and up-to-date, historical, or predictive in its scope. These individual reports can then roll up into departmental reports showing aggregate progress towards different objectives. Because both aggregate and detailed drill-down reports are available in real-time, and because strategy updates can be made system-wide at the push of a button, interventions and redirections can be made as needed, in time to restore or maintain the necessary forward progress.

Conclusion

Your most valuable resource demands your best management tools, and an integrated combination of scorecards and employee performance management represents the best approach available.

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