

# Improving Performance with Balanced Scorecard

John Kyriazoglou



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# **IMPROVING PERFORMANCE WITH BALANCED SCORECARD**

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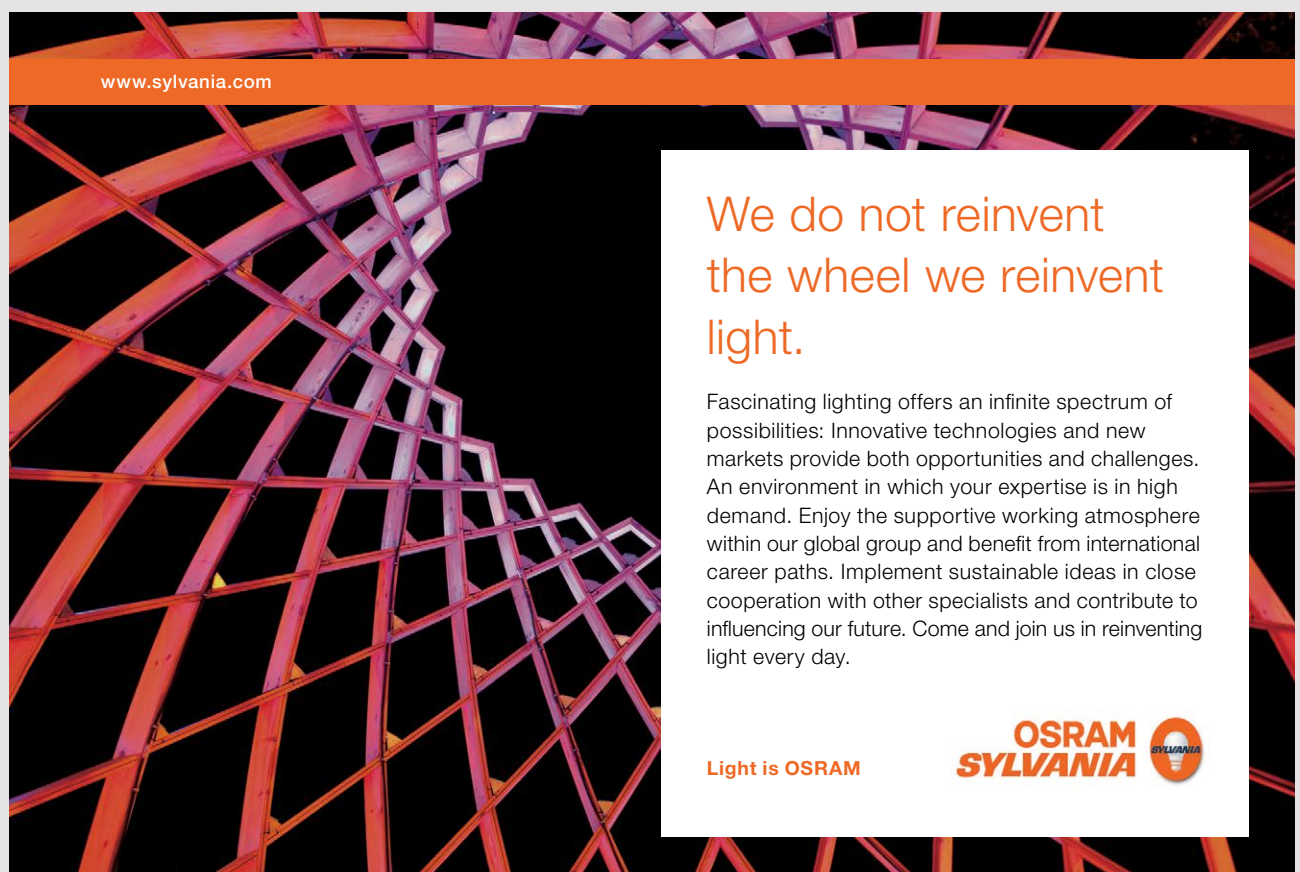
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# DEDICATIONS

This book is dedicated to the glory of Ancient Greece, and to my blue-eyed, lovely granddaughter, and princess of my life, Melina.

John Kyriazoglou

# SUMMARY

This book describes how to control better and improve your Company's Strategy and Performance with the Balanced Scorecard Framework. It does this by identifying the concept and importance of strategic controls, the types of strategic controls, the roles of managers and others in these, and a Balanced Scorecard Approach to Strategic Control for all enterprises and organizations.

# 1 INTRODUCTION

'The truly right man is not the one loving himself nor his own things,  
but the one who loves those things which are right and just'.

– Plato

Choosing a control system to match the firm's strategy and structure offers management a number of important challenges. Management must select controls that provide a framework to monitor, measure, and evaluate accurately whether or not it has achieved its goals and strategic objectives.

Financial and output controls must be backed up with behavior controls and organizational culture to ensure that the firm is achieving its goals in the most efficient way possible.

In general, these controls should reinforce one another, and care must be taken to ensure that they do not result in unforeseen consequences, such as competition among functions, divisions, and individuals.

Many top managers point to the difficulty of changing organizational culture when they talk about reengineering their organization so that it can pursue new strategic goals.

This difficulty arises because culture is the product of the complex interaction of many factors, such as top management, organizational structure, and the organization's reward and incentive systems<sup>1</sup>.

Strategic control is part of the process of defining strategic goals and monitoring the measurement and reward aspects of performance of private corporations and public organizations.



This process of strategic control ensures:

1. Effective implementation of strategy;
2. Measurement and comparison of actual vs. expected results in relation to predefined strategic targets; and
3. Analyzing issues and problems, developing solutions and carrying out corrective and improvement actions for the achievement of expected performance.

Performance measurement of private and public organizations is the basis for the development of a strategic control system. The standardized model of the Balanced Scorecard framework offers management a dynamic tool for the development of such a strategic control system. This system measures all the critical dimensions of organizational performance (financial, customers, internal corporate processes, and employee learning and innovation).

## 2 WHAT IS STRATEGIC CONTROL?

“Office shows the man’. The meaning of this saying is that possession of office or authority makes manifest whether a person is just, wise or unwise, gentle or ruthless’.

– Pittacos

**Strategic control** is the process by which managers monitor the ongoing activities of an organization and its members to evaluate whether activities are being performed efficiently and effectively and to take corrective action to improve performance if they are not.

First, strategic managers choose the organizational strategy and structure they hope will allow the organization to use its resources most effectively to create value for its customers.

Second, strategic managers create control systems to monitor and evaluate whether, in fact, their organization’s strategy and structure are working as the managers intended, how they could be improved, and how they should be changed if they are not working.

Strategic control does not just mean reacting to events *after* they have occurred; it also means keeping an organization on track, anticipating events that might occur, and responding swiftly to new opportunities that present themselves.

Thus strategic control is not just about monitoring how well an organization and its members are achieving current goals or about how well the firm is utilizing its existing resources. It is also about keeping employees motivated, focused on the important problems confronting an organization now and in the future, and working together to find solutions that can help an organization perform better over time<sup>2</sup>.

### 3 THE IMPORTANCE OF STRATEGIC CONTROL

*'A mother crab criticized her son for walking sideways, whereupon the son asked his mother to show him how to walk straight. Of course the mother crab was unable to walk any straighter than her son, and soon apologized for criticizing what she herself was unable to do'.*

(The meaning of this story is that you should lead by example and not by words)

– Aesop (6th century BC)

Strategic Control is of vital importance to managers considering how it helps them to obtain superior: efficiency, quality, innovation, and responsiveness to customers, the four basic building blocks of competitive advantage.

#### **Building Block 1: Control and Efficiency**

To determine how efficiently they are using organizational resources, managers must be able to measure accurately how many units of inputs (raw materials, human resources, and so on) are being used to produce a unit of output. They must also be able to measure the number of units of outputs (goods and services) they produce. A strategic control system contains the measures of yardsticks that allow managers to assess how efficiently they are producing goods and services. Moreover, if managers experiment with changing the way they produce goods and services to find a more efficient way of producing them, these measures tell managers how successful they have been.

#### **Building Block 2: Control and Quality**

Today, much of the competition between organizations revolves around increasing the quality of goods and services. In the car industry, for example, within each price range, cars compete against one another in terms of their features, design and reliability over time. So which car a customer will buy depends significantly on the quality of each company's product. Organizational control is important in determining the quality of goods and services because it gives managers feedback on product quality. If managers of an organization measure the number of customers' complaints and the number of new cars returned for repairs, they have a good indication of how much quality they have built into their product.

### **Building Block 3: Control and Innovation**

Strategic control can also help to raise the level of innovation in an organization. Successful innovation takes place when managers create an organizational setting in which employees feel empowered to be creative and in which authority is decentralized to employees so that they feel free to experiment and take risks. Deciding on the appropriate strategic control systems to encourage risk taking is a major management challenge, and, an organization's culture becomes important in this regard.

### **Building Block 4: Control and Responsiveness to Customers**

Finally, strategic managers can help make their organizations more responsive to customers if they develop a strategic control system that allows them to evaluate how well employees with customer contact are performing their jobs. Monitoring employee's behavior can help managers find ways to help increase employees' performance level, perhaps by revealing areas in which skill training can help employees or by finding new procedures that allow employees to perform their jobs better. When employees know their behaviors are being monitored, they may have more incentive to be helpful and consistent in the way they act toward customers.

## 4 A BALANCED SCORECARD APPROACH TO STRATEGIC CONTROL

'Human laws are the creation of Divine Law, because it (Divine Law) is superior than all human laws as it applies in a uniform way to all people'.

– Heraclitus, Ancient Greek Philosopher (540–80 B.C.)

As discussed so far, strategic control entails developing performance measures that allow managers both to evaluate how well they have utilized organizational resources to create value and to sense new opportunities for creating value in the future.

One increasingly influential model that guides managers through the process of creating the right kind of strategic control systems to enhance organizational performance is the balanced scorecard model<sup>3</sup>.

According to the **balanced scorecard model**, strategic managers have traditionally relied on financial measures of performance such as profit and return on investment to evaluate organizational performance.

But financial information, though important, is not enough by itself. If strategic managers are to obtain a true picture of organization performance, financial information must be supplemented with performance measures that indicate how well an organization has been achieving the four building blocks of competitive advantage – efficiency, quality, innovation and responsiveness to customers.

This is so because financial results simply inform strategic managers about the results of decisions they have already taken; the other measures balance this picture of performance by informing managers about how accurately the organization has in place the building blocks that drive the future performance<sup>4</sup>.

One way the balanced scorecard operates is presented next:

### **Action 1: Strategy**

Based on an organization's mission and goals, strategic managers develop a set of strategies to build competitive advantage to achieve these goals.

An example of a Corporate Strategic Plan is included in Appendix 2. Also two specific strategies for an Air-line company (XYZ Corporation) are described next.

#### **Strategy 1: XYZ AIR-LINE CORPORATION – Overall corporate strategy**

'Our overall corporate strategy is to maintain and improve our position in the airline industry, to provide the most consistent service and of the highest quality to our customers, to improve the crucial elements of our services by re-structuring, re-organizing, and co-operating with other external entities while maintaining our quality, and to reduce our costs in providing our services and improve our profitability by a variety of means, such as: marketing, IT systems, Web services, franchising, etc.'



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## **Strategy 2: XYZ AIR-LINE CORPORATION – Operational Service Strategy**

‘The service strategy of XYZ Corporation begins by selecting the performance priorities by which the company will provide services to its customers. These priorities include treat the customer in a friendly, polite and helpful way, deliver our services in a quick and convenient way, price the offered services in a competitive manner, provide a variety of service-delivery mechanisms to suit customer needs and expectations, provide our services at the highest quality and at the minimum cost, both for the customer and the company, have skilled and knowledgeable management and staff to serve the customers, and provide feedback mechanisms for collecting and reviewing customer complaints and suggestions.’

**Examples of general goals are:** Increase market share, improve customer satisfaction, improve profitability, increase sales, create better products and services, etc.

**Examples of specific objectives are:** Increase customer base by 5% in each year for the next 5 years, decrease of production costs by 10% in the next two years, increase revenues by 20% in the next two years, etc.

**The BSC model** links strategy, objectives, measures, targets and initiatives in a very efficient way. According to Kaplan and Norton (BSC Thinkers) the BSC implementation process should start with strategy, which objectives will be derived. Objectives will lead to measures. Measures will lead to targets, and these will lead to the required initiatives. An example of how this is accomplished follows.

### **Action 2: Performance Management Policy**

After completing the tasks of Action 1, managers craft a Performance Management Policy (see Appendix 1) and establish an organizational structure to use resources to obtain a competitive advantage<sup>5</sup>.

### **Action 3: Performance Measures**

To evaluate how well the strategy and structure are working, managers develop specific performance measures (see Appendix 3: Business Performance Measures) that assess how well the four building blocks of competitive advantage are being achieved.

*Efficiency* can be measured by the level of production costs, the number of hours needed to produce a product, and the cost of raw materials.

*Quality* can be measured by the number of rejects, the number of defective products returned from customers, and the level of product reliability over time.

*Innovation* can be measured by the number of new products introduced, the time taken to develop the next generation of new products in comparison with the competition, and the expense or cost of product development.

*Responsiveness to customers* can be measured by the number of repeat of customers, the level of on-time delivery to customers, and the level of customer service.

**Other Strategic Performance Measures are:**

- Number of improvements after budget and performance reviews
- Number of hours of meetings with management on strategy
- % investments that have surpassed targets
- Clear business objectives for all departments
- Number of hours on strategic reviews
- Stock price
- Corporate strategy not followed
- Budgets not followed
- Cash flow
- Profit/revenue by function
- Profit/revenue by function
- Total profits/revenues/ROI
- Market share increase
- Satisfaction of stakeholders

The way in which strategic managers' ability to build a competitive advantage translates into organizational performance is then measured using financial measures such as cash flow, quarterly sales growth, increase in market share, and return on investment or equity. Based on an evaluation of the complete set of measures in the balanced scorecard (as shown above), strategic managers are in a good position to re-evaluate the company's mission and goals. They can also take action to rectify problems or to exploit new opportunities by changing the organization's strategy and structure, which is the purpose of strategic control.



## 5 STRATEGIC CONTROL SYSTEMS

Strategic control is part of the internal controls system. The internal controls system is a system of integrated elements (people, structure, processes, policies, procedures and practices) acting together to provide reasonable assurance that an organization achieves its strategic and operational goals.

Strategic control systems are the formal target-setting, measurement, and feedback systems that allow strategic managers to evaluate whether a company is achieving superior efficiency, quality, innovation, and customer responsiveness and implementing its strategy successfully.

An effective control system should have three characteristics.

It should be flexible enough to allow managers to respond as necessary to unexpected events;

it should provide accurate information, giving a true picture of organizational performance; and

it should supply managers with the information in a timely manner because making decisions on the basis of outdated information is a recipe for failure.

Designing an effective strategic control system requires four phases.

### **Phase 1 – Establish Standards & Targets**

*Establish the standards and targets against which performance is to be evaluated.*

The standards and targets managers select are the ways in which a company chooses to evaluate its performance. General performance standards often derive from the goal of achieving superior efficiency, quality, innovation or customer responsiveness. Specific performance targets are derived from the strategy pursued by the company. For example, if a company is pursuing a low-cost strategy, then reducing costs by 7 percent a year might be a target. If a company is a service organization, its standards might include time targets for serving customers or guidelines for product quality.

## **Phase 2 – Create Measurement Systems**

*Create the measuring and monitoring systems that indicate whether the standards and targets are being reached.*

The company establishes procedures for assessing whether work goals at all levels in the organization are being achieved. In some cases, measuring performance is fairly straightforward. For example, managers can measure quite easily how many customers their employees serve by counting the number of receipts from the cash register. In many cases, however, measuring performance is a difficult task because the organization is engaged in many complex activities. How can managers judge how well their research and development department is doing when it may take five years for products to be developed? How can they measure the company's performance when the company is entering new markets and serving new customers? The answer is that managers need to use various types of control systems.

## **Phase 3 – Evaluate Performance**

*Compare actual performance against the established targets.*

Managers evaluate whether and to what extent performance deviates from the standards and targets developed in step 1. If performance is higher, management may decide that it has set the standards too low and may raise them for the next time of period. On the other hand, if performance is too low, managers must decide whether to take remedial action. This decision is easy when the reasons for poor performance can be identified – for instance, high labour costs. More often, however, the reasons for poor performance are hard to uncover. This may stem from involved external factors, such as a recession, or from internal ones. For instance, the research and development laboratory may have underestimated the problems it would encounter or the extra costs of doing unforeseen research. For any form of action, however, step 4 is necessary.

## **Phase 4 – Correct and Improve Process**

*Initiate corrective action when it is decided that the standards and targets are not being achieved.*

The final stage in the control process is to take the corrective and improvement action that will allow the organization to meet its goals. Such corrective and improvement action may mean changing any aspect of the organization's strategy, structure, policies, procedures, practices, management systems, etc. The point here is that a very disciplined problem resolution process must be conducted by management which will identify the performance problems, analyze their root causes and recommend alternative actions to correct and improve the situation.

Strategic controls operate in a control environment. This control environment is made up of the following elements:

- Organizational values and norms (legal, ethical, etc.),
- Management philosophy,
- Operating style,
- Reward and remuneration systems,
- Human resource development and organizational systems,
- Organizational structure, and
- Management systems and methods.

**You may also use the** Review and Audit Tools and Techniques (see paragraph 11) in both phases 3 and 4, as described above.

## 6 KEY ISSUES IN DESIGNING STRATEGIC CONTROL SYSTEMS

Organizational structure does not operate effectively unless the appropriate control and incentive systems are in place to shape and motivate employees' behaviour.

Strategic control is the process of setting targets and monitoring, evaluating, and rewarding organizational performance. The balanced scorecard approach to strategic control suggests that managers should develop strategic control systems that measure all important aspects of their organization's performance.

Control takes place at all levels in the organization – corporate, divisional, functional, and individual.

Effective control systems are flexible, accurate, and able to provide quick feedback to strategic planners.

Many kinds of performance standards are available to implement a company's strategy. The kinds of measures managers choose affect the way a company operates.

Control systems range from those directed at measuring outputs to those measuring behaviours or actions.

The two main forms of financial control are stock market price and return on investment (ROI).

Output controls establish goals for divisions, functions, and individuals. They can be used only when outputs can be objectively measured and are often linked to a management by objectives system.

Behaviour controls are achieved through budgets, standardization, and rules and procedures.

Organizational culture is the collection of norms and values that govern the way in which people act and behave inside the organization.

An organization's culture is the product of a founder's or top-management team's values and attitudes, of the way managers choose to design the organization's structure, and of the strategic reward systems managers use to shape and motivate employees' behaviour.

An organization's reward systems constitute the final form of control. A company designs its reward systems to provide employees with the incentives to make its structure work effectively and to align their interests with organizational goals and objectives.

Organizations use all these forms of control simultaneously. Management must select and combine those that are consistent with each other and with the strategy and structure of the organization.

# 7 CRITICAL SUCCESS FACTORS

The critical success factors (CSFs) enabling the design and good operation of strategic controls are: management tools, performance measurement culture, training, professional knowledge, top management commitment, and modern reporting model. These are described below.

## **CSF 1: Management Tools**

These include Policies, procedures and systems of corporate governance related to organization, financial management, human resource management, production, sales, IT management, etc.

## **CSF 2: Performance Measurement Culture**

This includes establishing and enhancing the role of the performance management manager, adding resources to the performance measurement teams with the appropriate skills, dexterities and talents: financial management, sales, human resource management, IT systems development and operation, production process management, customer support, etc.

## **CSF 3: Training**

Training and educating management staff is a must to enable them to acquire and enhance their skills on the analysis of all performance data (e.g., financial, customer, internal corporate processes, employee learning and development, etc.).

## **CSF 4: Professional Knowledge**

Very strong knowledge of the given organization's processes, the industry to which the organization belongs, the culture of the said organization and its business operating model, as well as effective inter-personal communication skills at all management levels are also required.

## **CSF 5: Top Management Commitment**

Very strong commitment to performance is a must by all members of the executive board, corporate leadership, top management, management committees, various organizational committees, etc., and pursuing it to all levels (up, down, across) of the given organization, corporate management, organizational units, business functions, projects, systems, processes, stakeholders, etc.

## CSF 6: Modern Reporting Model

The last CSF but also as important is an open and widely-distributed environment of information and know-how exchange regarding performance, and the production and support processes and a flexible, modern and continuously kept up-to-date reporting model for the organizational performance, and for the consequences of the organization's operations on the greater environment, society, economy, etc.

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# 8 TYPES OF CONTROLS

## 8.1 FINANCIAL CONTROLS

'Many wicked men are rich, while virtuous men are poor. But we will not exchange the wealth of virtue with their riches. For the wealth of virtue is everlasting, whereas human riches are ever changing their owners'.

– Solon

As noted earlier, the most common measures managers and other stakeholders use to monitor and evaluate a company's performance are financial controls. Typically, strategic managers select financial goals they wish their company to achieve, such as growth, profitability, and return to shareholders, and then they measure whether or not these goals have been achieved. One reason for the popularity of financial performance measures is that they are objective. The performance of one company can be compared with that of another in terms of its stock market price, return on investment, market share, or even cash flow so that strategic managers and other stakeholders, particularly shareholders, have some way of judging their company's performance relative to that of other companies.

**Stock price**, for example, is a useful measure of a company's performance primarily because the price of the stock is determined competitively by the number of buyers and sellers in the market. The stock's value is an indication of the market's expectations for the firm's future performance. Thus, movement in the price of a stock provide shareholders with feedback on a company's and its managers' performance. Stock market price acts as an important measure of performance because top managers watch it closely and are sensitive to its rise and fall, particularly its fall.

**Return of investment (ROI)**, determined by dividing net income by invested capital, is another popular kind of financial control. At the corporate level, the performance of the whole company can be evaluated against that of other companies to gauge its relative performance. Top managers, for example, can assess how well their strategies have worked by comparing their company's performance with that of similar companies.



ROI can also be used inside the company at the divisional level to judge the performance of an operating division by comparing it with that of similar freestanding business or other internal division. Indeed, one reason for selecting a multidivisional structure is that each division can be evaluated as a self-contained profit center. Consequently, management can directly measure the performance of one division against another.

Failure to meet stock price or ROI targets also indicates that corrective action is necessary. It signals the need for corporate reorganization in order to meet corporate objectives, and such reorganization can involve a change in structure or liquidation and divestiture of businesses. It can also indicate the need for new strategic leadership.

Other examples of financial controls are: accounting and budgeting systems, receipt of payments, calculation of payments, generation of payable instruments, return on capital employed, creditor days, debtor days, P/E ratios, etc.

*Also for more detail, see the books by John Kyriazoglou in the Bibliography section.*

## 8.2 OUTPUT CONTROLS

'Even the worst government is better than anarchy'.

– Aesop

While financial goals and controls are an important part of the balanced scorecard approach, it is also necessary to develop goals and controls that tell managers how well their strategies are creating a competitive advantage and building distinctive competences and capabilities that will lead to future success. When strategic managers implement the balanced scorecard approach and establish goals and measures to evaluate efficiency, quality, innovation, and responsiveness to customers, they are using output control.

**Output control** is a system of control in which strategic managers estimate or forecast appropriate performance goals for each division, department, and employee and then measure actual performance relative to these goals. Often a company's reward system is linked to performance on these goals, so that output control also provides an incentive structure for motivating employees at all levels in the organization.

**Divisional Goals** state corporate managers' expectations for each division concerning performance on such dimensions as efficiency, quality, innovation, and responsiveness to customers. Generally corporate managers set challenging divisional goals to encourage divisional managers to create more effective strategies and structures in the future.

**Functional and Individual Goals** is a continuation of control at the divisional level. Divisional managers set goals for functional managers that will allow the division to achieve its goals. As at the divisional level, functional goals are established to encourage development of competencies that provide the company with a competitive advantage. The same four building blocks of competitive advantage (efficiency, quality, innovation, and responsiveness to customers) act as the goals against which functional performance is evaluated. In the sales function, for example, goals related to efficiency (such as cost of sales), quality (such as number of returns), and customer responsiveness (such as the time needed to respond to customer needs) can be established for the whole function.

Finally, functional managers establish goals that individual employees are expected to achieve to allow the function to achieve its goals. Sales personnel, for example, can be given specific goals (related to functional goals), which they in turn are required to achieve. Functions and individuals are then evaluated on the basis of achieving or not achieving their goals, and in sales compensation is commonly pegged to achievement. The achievement of these goals is a sign that the company's strategy is working and meeting organizational objectives.

*Also for more detail, see the books by John Kyriazoglou in the Bibliography section.*

### 8.3 BEHAVIORAL CONTROLS

'A thirsty crow found a pitcher containing some water, albeit too little and low to reach. As it seemed she would die within sight of the remedy, the crow struck upon an idea to drop pebbles into the pitcher. She did this and the water level rose. The crow was able to drink and survive'.

(This fable 'The crow and the pitcher' shows, in a clear and concise way, that necessity is the mother of invention)

– Aesop, Ancient Greece, 6<sup>th</sup> century B.C.

The first step in strategy implementation is for managers to design the right kind of organizational structure. To make the structure work, however, employees must learn the kinds of behaviors they are expected to perform.

Using managers to tell employees what to do lengthens the organizational hierarchy, is expensive, and raises bureaucratic costs: consequently, strategic managers rely on behavior controls.

**Behavioral** control is control through the establishment of a comprehensive system of rules and procedures to direct the actions or behavior of divisions, functions and individuals<sup>6</sup>.

Behavioral controls may be divided into (a) preventive, (b) detective, and (c) directive.

Preventive controls are designed to prevent the occurrence of inefficiencies, errors or irregularities (e.g., division of duties, authorisation controls).

Detective controls are designed to detect and correct errors, inefficiencies or irregularities (e.g., bank reconciliations, stock verifications).

Directive controls are designed to cause or encourage events necessary to the achievement of strategic objectives (policies, procedures, strategic target setting, training, staffing).

In using behavior controls, the intention is not to specify the goals, but to standardize the way of reaching them. Rules standardize behavior and make outcomes predictable. If employees follow the rules, then actions are performed and decisions handled the same way time and time again. The result is predictability and accuracy, the aim of all control systems.

The main types of behavior controls are (a) operating budgets, (b) standardization and (c) rules, policies and procedures.

**1. Operating Budgets:** Once managers at each level have been given a goal to achieve, operating budgets that regulate how managers and workers are to attain those goals are established. An **operating budget** is a blueprint that states how managers intend to use organizational resources to achieve organizational goals most efficiently. Most commonly, managers at one level allocate to managers at a lower level a specific amount of resources to use to produce goods and services.

Once they have been given a budget, managers must decide how they will allocate a certain amount of money for different organizational activities. These lower-level managers are then evaluated on the basis of their ability to stay within the budget and make the best use of it. Thus, for example, managers at company's washing machine division might have a budget of \$50 million to develop and sell a new line of washing machines, and they have to decide how much money to allocate to R&D, engineering, sales, and other areas so that the division generates the most revenue and hence makes the biggest profit.

Most commonly, large organizations treat each division as a stand-alone profit center, and corporate managers evaluate each division's performance by its relative contribution to corporate profitability.

**2. Standardization:** Standardization refers to the degree to which a company specifies how decisions are to be made so that employees' behavior becomes predictable<sup>7</sup>. In practice there are three things an organization can standardize: *inputs*, *conversion activities* and *outputs*.

1. *Standardization of inputs.* One way in which an organization can control the behavior of both people and resources is to standardize the inputs into the organization. This means that managers screen inputs according to pre-established criteria or standards and then decide which inputs to allow into the organization. If employees are the input in question, for example, then one way of standardizing them is to specify which qualities and skills they must possess and then to select only those applicants who possess them.

If the inputs in question are raw materials of component parts, then the same considerations apply. The Japanese are renowned for the high quality and precise tolerances they demand from component parts to minimize problems with the product at the manufacturing stage. Just-in-time inventory systems also help standardize the flow of inputs.

2. *Standardization of conversion activities.* The aim of standardizing conversion activities is to program work activities so that they are done the same way time and time again. The goal is predictability. Behavior controls, such as rules and procedures, are among the chief means by which companies can standardize throughputs. Fast-food restaurants such as McDonald's and Burger King, for example, standardize all aspects of their restaurant operations; the result is standardized fast food.

3. *Standardization of outputs.* The goal of standardizing outputs is to specify what the performance characteristics of the final product or service should be – what dimensions or tolerances the product should conform to, for example. To ensure that their products are standardized, companies apply quality control and use various criteria to measure this standardization. One criterion might be the number of goods returned from customers or the number of customers' complaints. On production lines, periodic sampling of products can indicate whether they are meeting performance characteristics.

Given the intensity of foreign competition, companies are devoting extra resources to standardizing outputs, not just to reduce costs but to retain customers. If the product's performance satisfies customers, they will continue buying from that company. For example, if a consumer purchases a Japanese car and has no problems with its performance, which car is he or she most likely to buy next time? That is why companies such as international (U.S., Korean, Japanese, etc.) carmakers have been emphasizing the quality dimension of their products. They know how important standardizing output is in a competitive market.

**3. Rules, Policies and Procedures:** As with other kinds of controls, the use of behavior control is accompanied by potential pitfalls that must be managed if the organization is to avoid strategic problems. Top management must be careful to monitor and evaluate the usefulness of behavior controls over time. Rules, policies and procedures constrain people and lead to standardized, predictable behavior.

However, rules, policies and procedures are always easier to establish than to get rid of, and over time the number of rules an organization uses tends to increase. As new developments lead to additional rules, often the old rules are not discarded, and the company becomes overly bureaucratized.

Consequently, the organization and the people in it become inflexible and are slow to react to changing or unusual circumstances. Such inflexibility can reduce a company's competitive advantage by lowering the pace of innovation and by reducing customer responsiveness.

Inside the organization, too, integration and coordination may fall apart as rules, policies and procedures may impede communication between functions.

Managers must therefore be continually on the alert for opportunities to reduce the number of rules, policies and procedures necessary to manage the business and should always prefer to discard a rule rather than add a new one.

Hence, reducing the number of rules, policies and procedures to the essential minimum, to safeguard assets, avoid fraud and other criminal acts, etc., is important. Strategic managers frequently neglect this task, however, and of the only a change in strategic leadership brings the company back on course.

*Also for more detail, see the books by John Kyriazoglou in the Bibliography section.*

## 8.4 IT CONTROLS

'There is no reason to get tired and try for those things  
which are not useful and beneficial'.

– Aeschylus

In today's world, and as all private and public organizations operate in a fully computerized and inter-connected way, an additional specialized set of controls is required, the IT Controls.

These are in addition to the above controls (financial, output, behavioral, etc.), and are designed to protect and safeguard the organization's IT Systems (hardware and software), raw data and processed information entities, corporate knowledge and contents stored in massive corporate data bases, and IT infrastructure, from potential harm, damage, abuse and other criminal activities, both from internal and external actual or potential intruders and abusers.

An IT Controls system is made up of two main categories: General IT Controls, and Application Systems Controls.

The General IT Controls relate to:

- Administration policies and procedures (IT procurement, personnel management, systems development and maintenance, applications operation, standards, security, disaster recovery planning, computer insurance, etc.),
- Physical protection policies and procedures (buildings, facilities, computer and network rooms, data centers, storage areas, forms, storage media, equipment, cabling, reports, documentation, etc.),
- Access policies and procedures (data, software, files, forms, reports, facilities, firewalls, encryption, electronic mail, etc.),
- Health and safety policies and procedures (environment, electrical power, hardware equipment, personnel, terminal working conditions, lighting, solar energy, humidity, etc.), and
- Audit tools and methods.

The Application Systems Controls relate to:

- ✓ Protection of specific systems (both data and software),
- ✓ Processing accuracy and timely maintenance of the data of these systems,
- ✓ Completeness and validation of input,
- ✓ Backup and recovery of data and application software,
- ✓ Security of printed reports, and
- ✓ Communication and distribution of processed information and results.

*For more detail IT controls, see the books by John Kyriazoglou in the Bibliography section.*

## 9 ROLES AND RESPONSIBILITIES

'We define as good whichever is picked to acquire prudence. It is therefore obvious that the larger good is that which is depicted as larger by prudence'.

– Aristotle

Everyone in an organization, whether working in it, interacting, requesting information, services or products, supporting, communicating, selling, regulating its environment, auditing its operations, connecting with it, etc., has some role and responsibility for internal control.

These persons may be: managers (top, middle, lower, etc.), the board of directors, or executive committee, operating staff, internal auditors, external auditors, regulators and legislators, and various identified external stakeholders (customers, unions, beneficiaries, suppliers, citizens, donors, etc.).

**Managers:** are directly responsible for all activities of an organization, including directing, designing, developing, implementing, supervising, and controlling the proper functioning of, maintaining, documenting and improving the internal control system. Their specific role and responsibilities vary depending on their function in the organization and the given organization's characteristics, country, culture, industry-type, and other socio-economic factors and conditions.

**Board of Directors:** establishing the internal control framework, environment and process and ensuring that this control system operates effectively and efficiently.

**Operating Staff:** all staff members play a role in effecting control and should be responsible for reporting problems of operations, non-compliance with the corporate policies and various professional codes, or violations of policies, standards, practices and procedures.

**Internal Auditors:** examine, through their auditing activities, and contribute to the ongoing efficiency and effectiveness of the internal control system, and thus play a very important role in the process of internal control.

**External Auditors:** they should provide advice and recommendations on the internal controls.

**Regulators and Legislators:** establish rules, directives and guidelines regarding internal control.

**Stakeholders:** interact with the organization and provide information regarding achievement of its strategic goals and measurable objectives.



# 10 STRATEGIC CONTROLS – EXAMPLES OF BSC IMPLEMENTATION

'Every human act must not be judged by the speed it  
is accomplished but by its perfection'.

– Aesop

Strategic controls have been implemented in many corporations and public organizations across the world. The example offered here relates to how the BSC framework is being used in this regard, by one private sector company<sup>8</sup>.

## **Case Study 1: Implementation of Strategic Controls with the BSC model for a Bank**

This case study is based on the Balanced Scorecard Model and it describes the strategic controls for a Banking Corporation, for the four classical BSC perspectives, as defined by Kaplan & Norton:

- Financial
- Customer
- Internal Process
- Innovation & Learning

### **1. FINANCIAL Perspective**

*Strategic Objectives:* Financial performance

*Strategic Controls (Measures):* Stock Price, Cash Flow, Profit/Business Function, Total Profit/Total Revenue, ROI: Return on Investment and ROCE: return on capital employed.

### **2. CUSTOMER Perspective**

*Strategic Objectives:* Increase Customer Satisfaction

*Strategic Controls (Measures):* Customer Retain Ratio and Customer Satisfaction Survey.

### 3. INTERNAL PROCESS Perspective

**Strategic Objectives:** Innovative Products/Services Creation

**Strategic Controls (Measures):** Acceptance of new products/services and New products/  
service cycle time

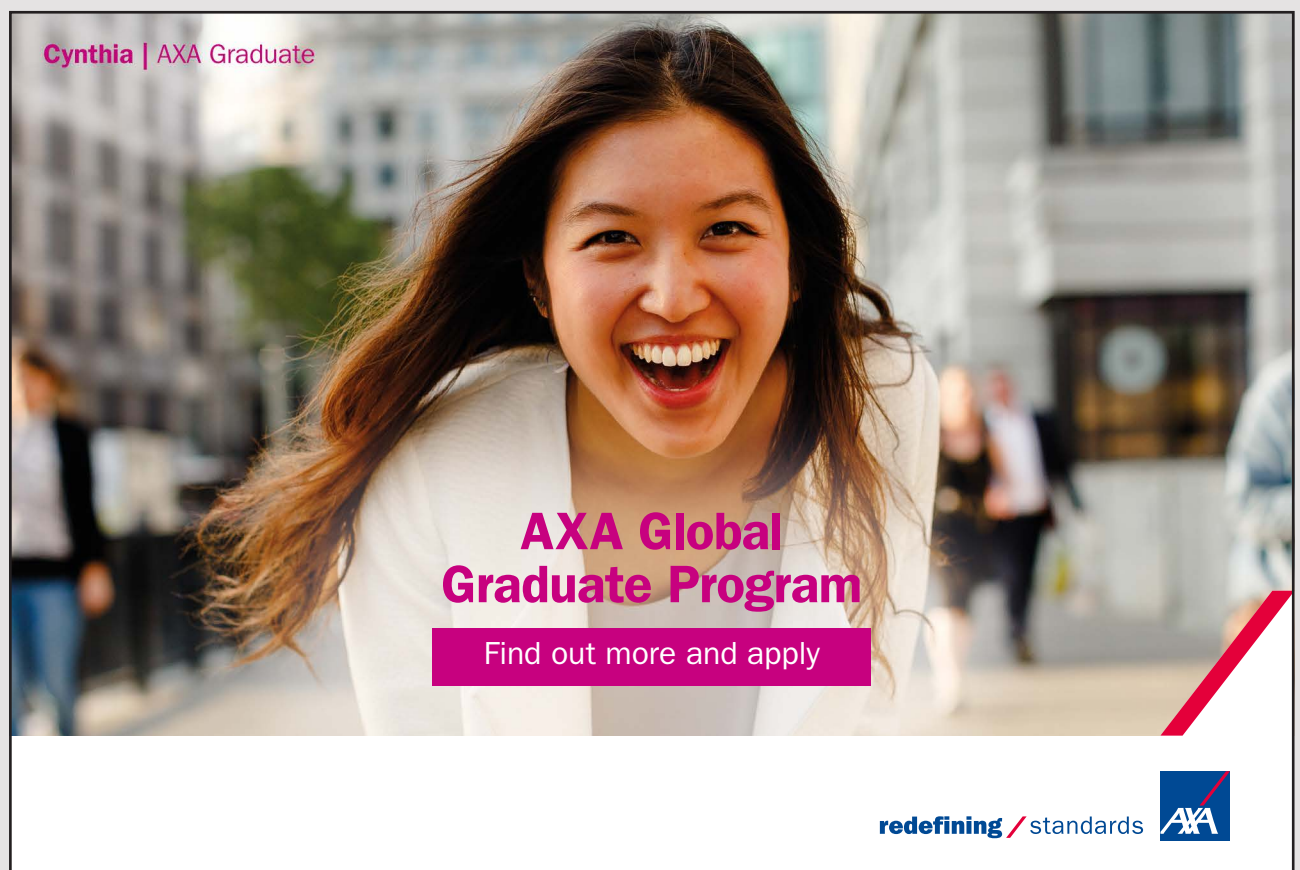
### 4. INNOVATION & LEARNING Perspective

**Strategic Objectives:** Improve Employee Skills

**Strategic Controls (Measures):** Number of specialised seminars, Cost of Seminars and  
Strategic Skills Availability

**For more examples, see:**


<http://www.slideshare.net/jkyriazoglou/bsc-case-studies>



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# 11 REVIEW AND AUDIT TOOLS AND TECHNIQUES

In order to ensure that the strategic management process is properly and effectively organized to serve the needs of the specific corporate entity, guidelines and other tools are necessary to aid the manager and other professionals (auditor, compliance officers, etc.) in discharging their duties.

These guidelines and tools that may aid and support the manager and the auditor in their activities are the following:

- Strategic Readiness Checklist
- Business Idea Development Checklist
- Corporate Strategic Plan Checklist
- Generic Performance Audit Program

These are explained in the next paragraphs.

## 11.1 STRATEGIC READINESS CHECKLIST

### Overall Corporate Strategy

1. What should our direction be for the future, in terms of developing new products, entering (or increasing share) of new market, and developing corporate competence and capability?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

2. Does everyone in the organization (management and staff) know what our direction is?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

3. What assistance and support do all employees in the organization need in order to assist in the process of formulating strategy?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

4. How much emphasis should be put on innovating and existing products and services provided?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

5. Does everyone have a clear view of the future of the organization in terms of vision, mission, values, and industry direction?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

6. Does everyone have a clear understanding of our potential partners?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

7. Does everyone know our potential competitors?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

### **Business Unit Strategy**

1. What resources should the organization invest in innovation?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

2. What types of innovation should we focus on (product innovation? process innovation? service innovation? features of existing products? features of existing processes and services?)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

3. How will planned innovation fit in and align with our product and services strategy?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

4. Where is strategy developed (e.g. by headquarters staff? department level? product/service level?)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

5. Does the business unit (or function) have its own vision, mission and values statements?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

6. Are the business unit (or function) statements of vision, mission and values well aligned with the corporate vision, mission and values statements?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

7. Is the strategic process well understood and communicated at the business unit (or functional) level?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

### **Risk Management**

1. How is market risk managed, assuming products and services are developed (Will they produce revenue? Will they sell at a profitable price?)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

2. How is the risk of competition managed, assuming the products and services sell (Will we be able to keep the gains?)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

3. How is the internal capacity risk managed (Do we have the capacity to develop the products and services?)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

4. How is the technology cost risk handled (Will we be able to produce the planned products and services at a reasonable cost?)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

5. How is the partner and supplier risk managed (Can the suppliers provide the required raw materials and components? Will materials and components supplied be cost/effective? Can our partners take away our profits?)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

6. Will regulators allow the products and services to be sold as the organization envisions?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

7. How is the distribution risk managed (Are appropriate channels available? Will we have adequate negotiation powers? Will they carry the products and services?)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

### **Human Resources Management**

1. Do we have the right mix of competences, skills and dexterities in the organization?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

2. Do we know what competences, skills and dexterities exist in the organization?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

3. Do we manager our competences, skills and dexterities efficiently and effectively?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

4. Do we know what competences, skills and dexterities we are developing?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

5. Can we transfer competencies, skills and dexterities, when needed, to more strategic products or developments?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

6. How do we manage skills, competencies and dexterities (Obtaining them from the market? Acquiring them from internal development, Performing a cost-benefit analysis in order to decide what should be done?)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

7. Can we innovate more and improve our strategy by improving and enriching our mix of skills, competencies and dexterities?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

8. Does the organization motivate all staff to develop new ideas about products and services?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

9. Are all development opportunities communicated effectively?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_



10. Do we use the hierarchical structure and supervision methods to focus people's attention on the most critical strategic issues?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

11. Do we offer and manage incentives effectively (Monetary benefits, Career incentives, Social rewards (e.g. recognition, etc.), Motivation (e.g. letting them work on projects they like, etc.)?)

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

12. Do we know when to reward individuals and when to reward groups or functions?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

13. Do incentives motivate and enable people to be innovators?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

14. Does top management sponsor innovators?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

15. Do we manage the hiring process effectively (Hiring creative people, Hiring a variety of people, Enriching the experience of new employees with new innovating assignments)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

16. Do we review performance of all employees (Evaluation policy and procedures, Are evaluations more than salary reviews? Do evaluations support people's development?)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

17. Do we hold on to our people?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

18. Do we lose critical skills, dexterities and competencies?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

### **Management Procedures**

1. Do evaluations of individual and team performance consider the full range of the individuals and team's contribution to the organizations (Financial results? Customer support? Idea development? Other members support?)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

2. Are performance targets agreed and set with all participants in a fair and balanced way?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

3. Are policy and procedural errors and conflicts identified and corrected quickly?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

4. Do individuals and teams get appropriate recognition on both successful and unsuccessful projects?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

5. Are individuals and teams protected from undue and not creative interference from the highest level of management?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

6. Does management efficiently and effectively create and maintain contacts and communications with key external stakeholders?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

7. Are the appropriate levels of management, both on a continuous and on an ad hoc basis, aware of key issues, problems and conflicts?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

8. Are there effective communications in the organization (Internal communication to all staff and levels of management, External stakeholders communication, Customers and partners, Suppliers and chain value participants)?.

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

9. Does the organization encourage communication in an open, objective and fair way?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

10. Are all tools and media used for communication purposes?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

11. Does the communication include both financial and non-financial information?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

12. Are the right people involved in the decision making process?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_



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13. Do people hide their opinions for a variety of reasons (e.g. “rocking” the boat, offending the higher-level manager, etc.)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

14. Does the organization communicate the critical decisions to all levels?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

15. Is there an appeal process on decisions made?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

16. Are there review and feedback procedures for management decisions?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

## **11.2 BUSINESS IDEA DEVELOPMENT CHECKLIST**

1. What is innovative about the business/product/service idea?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

2. How unique is the business/product/.service idea?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

3. Can it be protected by patent?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

4. Who are the customers?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

5. Why should the customers buy the products/services?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

6. What needs do they satisfy?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

7. Why is the product/service better than comparable alternatives?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

8. What are the competitive advantages of the new product, and why can a competitor not simply copy them?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

9. How does the product reach the customer?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

10. Can the product/service make money?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

11. What are the costs involved and what price can be asked?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

### 11.3 CORPORATE STRATEGIC PLAN CHECKLIST

1. Does the executive and middle management of the organization have a process, in operating mode, for managing, reviewing and improving strategy?

Consider: All appropriate levels should participate, such as: Board members, Executive management, Middle management, etc.

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

2. Does the strategic management process include all aspects?

Consider:

- Monitoring performance against the corporate strategy?
- Interpreting performance data in a collaborative way?
- Developing new and innovative strategic ideas and insights?
- Formulating new short-term and long-term strategic directions?
- Reviewing the performance measures kept by the system?
- Updating the performance measures kept by the system?
- Reviewing and changing the budgets, as required?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

3. Are all the results of the strategic management process properly documented?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

4. Does the strategic plan of the organization contain all required elements?

Consider: SWOT (strengths, weaknesses, opportunities, threats) analysis, PESTLE (political, economic, social, technological, legal, environmental) analysis, Vision statement, Mission statement, Values statement, A corporate strategy for the business affairs and activities of the organization at the general and appropriate functional level, and a contingency planning, disaster recovery and business continuity plan.

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

5. Are there corporate plans and specific targets at the specific operational level (provide an answer for all 5 questions) of:

Consider: Manufacturing/Production Process, Business unit, Department (Sales, Finance, Marketing, Information Technology, Research and Development, Warehouse control, Customer support, etc.), Project, and Work team.

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

6. Are budgets, priorities and other resources assigned to corporate strategic objectives and down to which hierarchy/ management level?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_



7. Is there a communication system in place, assisting dissemination of strategies, policies and goals to all levels of the organization?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

8. Are all the essential strategic components aligned?

Consider:

- ❖ Corporate pre-defined objectives to objectives of business units/divisions/ departments/functions/projects?
- ❖ Executive team activities to corporate strategy?
- ❖ Monitoring and reviewing activities of the Board to corporate strategy?
- ❖ Middle management activities to corporate strategy?
- ❖ Human resources strategy to corporate strategy?
- ❖ Incentives and benefits plan to corporate strategy?
- ❖ Information technology strategy to corporate strategy?
- ❖ Communications technology resources strategy to corporate strategy?
- ❖ Public relations strategy to corporate strategy?
- ❖ Financial & budgeting strategy to corporate strategy?
- ❖ Sales strategy to corporate strategy?
- ❖ Production (manufacturing) strategy to corporate strategy?
- ❖ Research and innovation strategy to corporate strategy?
- ❖ Customer support strategy to corporate strategy?
- ❖ Marketing strategy to corporate strategy?
- ❖ Change management strategy to corporate strategy?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

9. Do all personnel have a full understanding of the strategy, and its relevant coordination and cooperation activities required at all levels of the organization?

Consider: Board, Executives, Middle management, Employees, and Stakeholders.

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

10. Are the pertinent personnel educated and trained on strategy and related performance issues?

Consider: Personnel educated (taught how to increase their insight and understanding of the 'why'), and personnel trained (taught how to perform a particular task/job/process).

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

11. Are the strategy execution activities formally documented, discussed, reviewed and improved on a time-specific basis (e.g., month, quarter, year)?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

12. Is there trust and confidence throughout the organization that the chosen strategy will work and that it will improve the results for the organization?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

13. Is there a strong and sponsoring-type support at the executive level for the selected strategy of the organization?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

14. Does the quality management system support the strategy of the organization?

*Reply ... (Yes) ... (No)*

*Review Comments:* \_\_\_\_\_

15. Does the customer support system provide performance feedback information to the strategic management process of the organization?

## 11.4 GENERIC PERFORMANCE AUDIT PROGRAM

### *The Preliminary Survey*

1. Obtain in a relatively short period of time background and general information on program and management system being considered for examination, including purpose of program.
2. Analyze background and general information on program and management system to obtain relevant evidence.
3. Assert the other element or elements in order to have a tentative audit objective on effectiveness of program.
4. Summarize evidence and assertions.
5. Conclude from relevant evidence and assertions.

### *The Review and Testing of Management Control*

1. Obtain any needed additional background information.
2. Obtain relevant, material, and competent evidence on tentative objective to determine: that there could be reasonable and firm criteria based on entity's objective, that action or lack of action, within or out of the organization responsible for accomplishing the objective could cause, a significantly good or bad effect.
3. Obtain evidence on the competency of the evidence that must be obtained if additional work is contemplated.
4. Determine that evidence could not be obtained on the three elements of the tentative objective.
5. Summarize evidence and conclusions.

### *The Detailed Examination*

1. Obtain any additional background data needed.
2. Obtain sufficient competent, relevant, and material evidence on the audit objective to determine: the acceptability of the criteria and that any argument against it can be rebutted, the specific action or lack of action within or outside of the responsible organization which caused it, and the significance of the effect.
3. Withdraw from engagement.

### *The Report Development*

1. Set the scene through background data or scope of examination.
2. Communicate the conclusion developed during the detailed examination phase. Include sufficient relevant, material, and competent evidence on criteria, causes, and effects to convince reader.
3. Provide recommendation for future appropriate action by one or more levels of the management system.

## 12 CONCLUSION

'You should always be the best and you should exceed everybody'.

– Homer

As many famous authors have stated (e.g. Neely, Kaplan & Norton, and others), performance measurement is not to be considered as an alternative solution but rather as a necessary tool of management practices for the design and implementation of organizational strategy.

Other authors (e.g., Hill & Jones) recommend a strategic control model containing:

- The definition of mission, objectives and strategy,
- The establishment of organizational structure,
- The full utilization of the Balanced Scorecard (BSC) model for measuring performance, quality, innovation and response to customers, and
- The measurement of financial performance.

According to a recent study of CIMA ([www.cima.org](http://www.cima.org)) the management and the board of directors of several large corporations use the following model to facilitate, enable and resolve the most critical aspects of the management decision-making process:

- ❖ Financial reports (weekly, monthly, annual, etc.),
- ❖ Performance reports based on the BSC model and its four perspectives (financial, customers, internal corporate processes, employee learning and development),
- ❖ Market prices for primary resources and selling trends for the company's products and services,
- ❖ Monthly risk analysis, and
- ❖ Performance progress reports for all on-going projects of the given organization.

The performance of private and public organizations is influenced by: (a) the internal operating environment and the total capacity and availability of corporate resources (e.g., management, organization, skills, knowledge, dexterities, etc.), and (b) the external environment impacting the organization (e.g., legal, regulatory and institutional frameworks, international guidelines on corporate governance, industry and market operating standards, greater economic and societal frames of reference, competitive forces and socio-economic stability factors, etc.).

## 13 ENDNOTES

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- 3 Kaplan, R.S. and Norton, D.P.: “The Balanced Scorecard – Measures That Drive Performance”, *Harvard Business Review*, January–February 1992, pp. 71–79.
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- 5 Kaplan, Robert S. and David P. Norton, Putting the Balanced Scorecard to work, *Harvard Business Review* 71, no. 5 (September-October 1993): 134–147).
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- 7 H. Mintzberg, *The Structuring of Organizations* (Englewood Cliffs, N.J.: Prentice Hall, 1979), pp. 5–9.
- 8 For more examples see: (a) Robert S. Kaplan & David P. Norton: *The Strategy-Focused Organization*, Harvard Business School Press, 2001, (b) Paul Niven, ‘Balanced Scorecard Step by Step: Maximizing Performance and Maintaining Results’, [www.qpr.com/PaulNiven](http://www.qpr.com/PaulNiven), and (c) the book on performance measurement by John Kyriazoglou and Despina Politou.

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# APPENDIX 1: PERFORMANCE MANAGEMENT POLICY

The performance management policy describes what elements the performance process of the organization should handle.

Developing the performance management policy should be done by the board via the given corporate committee. This should be reviewed, improved and ratified by the board. A typical example of such a policy is:

## **Performance Management Policy – Example**

**Policy Description:** It is the policy of the “The Company” that individual and organizational goals will be communicated to all employees. Individual responsibility for accomplishing team and organizational goals will be identified, employees will be provided feed back regarding performance, performance will be evaluated and improved, and performance results will be used as a basis for appropriate personnel actions.

All participants in this process should expect to be held accountable for accomplishment of their performance management responsibilities as identified in this directive. Communication between the manager and the employee is essential throughout this process.

Management and employees should work together to jointly clarify how competencies apply within the work environment so that there is a common understanding about the expectations for performance.

In addition, there should be a discussion of the goals of the individual work unit and the employee’s involvement/contribution to unit goals for the upcoming year. The manager of each business unit is ultimately responsible for setting performance targets. The Board of “The Company” is responsible for setting performance standards.

**Planning Performance Planning Process:** Planning performance is the process of developing performance work plans that align individual performance with organizational goals. The focus must be placed on accomplishments (that is, end results) rather than on activities. Standardized performance elements have been established by “The Company” and are available for use in developing performance work plans. If the employee refuses to agree with the performance work plan at the beginning of the appraisal period, the manager should note this in the employee’s file. Lack of the employee’s signature and date on the performance work plan does not negate implementation of the plan.

**Monitoring and Evaluating Performance:** The employee and his/her manager will meet periodically throughout the appraisal period to provide feedback relating to performance. This feedback will be accomplished through progress reviews and performance ratings.

Management is responsible for initiating communication with the employee about actual performance and ensuring that progress reviews are held.

Open dialog between the employee and the manager is crucial during these discussions. Progress reviews are conducted one or more times during a full appraisal period. Normally, these required reviews will be accomplished during the midpoint of the appraisal period.

The manager should make written comments concerning the employee’s performance on the appropriate performance form at the time of the progress review. The purpose of the written comments is to provide for a more formal identification of the employee’s performance in relation to the performance work plan. Also, employees are encouraged to provide written comments on the form at this time. The employee and the manager initial and date the appropriate blocks to indicate that the discussions were held. If a progress review is not conducted, the employee has the option of contacting the manager involved to inquire of the status. If the progress review is still not held, the employee may seek assistance from the second level manager (usually the reviewing official). All employees must be issued a rating of their performance annually.

Employees who have not served under established standards for the minimum appraisal period must have the timeframe extended to meet this requirement.

An overall summary rating of “Results Achieved” indicates that the employee has met the performance expectations for each element. An overall summary rating of “Results Not Achieved” means that the employee has not met performance expectations for one or more element(s) and constitutes unacceptable performance.



Managers shall discuss and consider reasonable means by which to assist employees in improving performance. Such assistance may include training, closer supervision, revision of assignments, and coaching, etc. If the employee's performance is still not improved, the manager will contact the servicing human resources office to determine further action necessary, such as reassignment, demotion, or removal.

**Promotions:** No employee shall receive a promotion unless the most current rating of record is "Results Achieved." Managers and employees should be aware, however, that a "Results Achieved" rating is not the only criteria for promotion.

**Training and Development:** The performance appraisal process may be used as a basis for identifying the training needs of employees. Additional performance elements are particularly useful for this purpose.

**Program Evaluation:** Ongoing evaluation of the performance management program will be conducted by the Board in order to identify continuous improvement opportunities and to make adjustments to the overall policy. The evaluation of overall organizational results, employee satisfaction, and consistency with mission objectives will promote the continued enhancement of a performance management program supportive of critical organizational results.

# APPENDIX 2: CORPORATE STRATEGIC PLAN-EXAMPLE

## Contents of the Corporate Strategic Plan

- ❖ Executive summary (sales, profits and business expansion projections, mission, vision, and values statements, critical success factors for the accomplishment of the plan)
- ❖ Product/service idea
- ❖ Goals, strategies and specific objectives: Make sure your objectives are concrete and measurable. Be specific, such as achieving a given level of sales or profits, a percentage of gross margin, a growth rate, or a market share. Don't use generalities like "being the best" or "growing rapidly."
- ❖ Break-even Analysis: Estimate when the business will actually begin to make money. The data presented are: break-even point based on fixed costs, variable costs per unit of sales, and revenue per unit of sales.
- ❖ Market Analysis: Data and analysis regarding the size of the potential market and whether it can sufficiently support the business.
- ❖ **Action Plans (objectives, responsibilities and time elements):** Action plans specify how the strategic goals and strategies will be carried out. Action plans often include various objectives to be reached while achieving each goal, who is responsible for achieving each objective and by when.
- ❖ Management team
- ❖ Risks
- ❖ Financing (projected balance sheet, projected cash flows, projected profit and loss)
- ❖ Appendix A: Description of Strategic Planning Process Used
- ❖ Appendix B: Strategic Analysis Data (External Analysis: PEST, TRENDS, etc.)
- ❖ Appendix C: Strategic Analysis Data (Internal Analysis: SWOT)
- ❖ Appendix D: Goals for Board Committees and Chief Executive Officer
- ❖ Appendix E: Staffing Plans
- ❖ Appendix F: Operating Budgets
- ❖ Appendix G: Financial Reports (Budgets, Statements, etc.)
- ❖ Appendix H: Communicating the Plan
- ❖ Appendix I: Procedure for Monitoring and Evaluation of Plan

# APPENDIX 3: BUSINESS PERFORMANCE MEASURES

## Financial Performance Measures

1. Stock price
2. Return of investment (ROI)
3. Return on assets
4. Return on Capital Employed
5. Dividends per share
6. P/E (Price/Earnings ratio)
7. Net results/revenue
8. Gross results
9. Product profit
10. Net profit
11. Product cost
12. Service cost
13. Sales cost

## Sales Performance Measures

1. Total sales amount per period
2. Sales per person per period
3. Percentage of sales force achieving quota
4. Number of and amount of new orders
5. Amount of new business from existing customers

## Output Performance Measures

1. Inventory on hand
2. Production cycle time controls (setup time, processing time, queue time, wait time, idle time, throughput time)
3. Basic production costs
4. % of new services/products developed
5. Quality costs (% of errors in data entry operations, appraisal costs, internal failure costs, external failure costs, etc.)

### **Management Performance Measures**

1. Amount of training budget for Board members per year,
2. Number of procedures reviews per year,
3. Number of management report reviews per year,
4. Department morale index,
5. Number of reviews of strategic plan,
6. Hours of employee unjustified absence,
7. Hours and staff trained on the business functions.
8. Number of risk assessments per time period,
9. Number of physical security violations corrected, and
10. Number of audits not executed.

### **IT Performance Measures**

1. % Computer Availability
2. % Network Availability
3. Number of Applications supporting critical business functions
4. Average response time
5. Number of lines printed
6. Volume of data maintained
7. Number of online transactions processed
8. Number of data privacy incidents
9. Number of security incidents
10. Number of Corporate Espionage attacks

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Any mention or reference of organizational entities, commercial products, standard methodologies, standards, handbooks, guides, guidelines, policies, forms, procedures, documents, processes, models, software, tools, plans, measures, techniques, ideas, declarative statements, etc., (collectively termed 'objects'), within this book, is solely done for information and educational purposes. This mention or reference does not imply any recommendation or endorsement by the authors and publishers of this book that these 'objects' are best suited or even at all relevant for the purposes of any organization (public, private, etc.). All such organizations should independently evaluate and assess these 'objects' before determining whether to customize and use these 'objects' in their unique corporate operating environment and socio-economic context.