

## **The individual BSC for executives: An application of Balanced Scorecard including Total Leadership method**

**Silvia García Millán<sup>1</sup>, Carlos Rodríguez Monroy<sup>1</sup> Miguel Ángel Pelaez<sup>1</sup>**

<sup>1</sup> Department of Industrial Engineering, Business Administration and Statistics. Escuela Técnica Superior de Ingenieros Industriales. Universidad Politécnica de Madrid. José Abascal 2, 28006 Madrid.

### **Abstract**

*The use of an **Individual BSC**, that includes metrics from both business and Total Leadership experiments, is proposed as a suitable tool to monitor the execution of executive's personal strategy for those who want to become total leaders by fully integrating the four-way-view in an individual internal BSC perspective to get better results in both all four domains and business. When integrating the four domains: work, family, community and self, executives will improve their role as a leader and, consequently, their business performance, and that is specially appreciated in highly competitive environments*

**Key words:** Balanced Scorecard, Leadership, Management, Strategy.

### **1. Introduction**

#### **1.1. Balanced Scorecard**

In 1992, David Norton and Robert Kaplan presented the Balanced Scorecard, a new measurement approach that articulates that effective strategy implementation requires not only a financial but a multi-dimensional approach. The BSC organizes performance objectives and measures in four perspectives (Kaplan and Norton, 1996):

- The Financial perspective
- The Customer perspective
- The Internal Process perspective
- The Learning and Growth perspective

Managers use the Scorecard in order to achieve multiple objectives: to describe and communicate their strategy, to align business units and shared services to create synergies, to set priorities for strategic initiatives, and to report on and guide the implementation of the strategy.

The financial approach provides companies with answers as well as a detailed view of what has happened in the past and of course it is possible to create a system based only on financial figures to plan the future without monitoring the tools required to finally reach objectives.

The Balanced Scorecard enables companies to track financial results while simultaneously monitoring progress in building the capabilities and acquiring the intangible assets they would

need for future growth. The Scorecard is not a replacement for financial measures; it simply complements the existing financial point of view

## **1.2. Strategy-Focused Organizations**

The Strategy-Focused Organization (SFO) framework describes five important principles for achieving breakthrough performance with the Balanced Scorecard (Kaplan, 2009):

Translate strategy into operational terms. Describing the strategy via strategy maps and BSC helps leaders develop choices and fresh approaches to problems. Executives introduce new approaches and ideas to cope with change. The process shapes moods and ideas, and sets new directions.

Align organization to strategy. Cascading the strategy down to decentralized divisions, business units, and support functions, seems to be primarily a management function.

Make strategy everyone's job. It is essential for a strategy-focused organization that all employees understand the strategy perfectly and do their best in their day-to-day business to contribute to the success of that strategy. Executives can use the Balanced Scorecard to help communicate strategic objectives and educate the organization about the new strategy. Strategy focused organizations promote innovation and want employees to align their activities to accomplish strategic objectives and to find new and innovative opportunities, often cross-functional and cross-unit, for contributing to organizational objectives.

Make strategy a continual process. The most effective management meetings use double-loop learning in which executives examine and question assumptions on which their beliefs and strategy are based.

Mobilize change through executive leadership. Executive leaders communicate the need for change and create the coalition at the top to develop and deploy the strategy via strategy maps and Balanced Scorecards. They also establish the new systems for planning, budgeting, resource allocation, reporting, and the management meeting to reinforce the strategic message and keep the organization focused with adequate resources to achieve strategic objectives. The executive reinforces the strategic message at every opportunity to emphasize learning and team problem-solving.

## **1.3. Leadership and Management**

“Organizations need executives who can lead and manage. Executives must lead by adapting to dynamic, highly competitive environments, communicating vision and strategy to employees, and inspiring employees to innovate to achieve organizational objectives”. (Kaplan, 2009) At the same time, executives must manage by effectively operating a complex system of interactions to deliver synergies, allocate resources effectively, align reward and incentive systems, and install valid reporting and control systems. (Kaplan, 2009)

The success of the Balanced Scorecard lies in its ability to provide a formal, systematic approach for simultaneous leadership and management.

#### **1.4. The ultimate responsibility for results lies in the Individual**

The first step for executives to successfully manage their career is to begin recognizing their own responsibility in the process, and then follow these three steps to reach their maximum potential (Kaplan, 2008):

Know yourself by identifying your strengths and weaknesses and the activities you truly enjoy doing,

Excel at the activities critical to success in your desired role

Demonstrate character and leadership. To achieve the organization's vision, it is essential to sustain the ability to change and improve through executive leadership.

#### **1.5. Total Leadership**

Without strong leaders, no management system can deliver breakthrough performance. (Kaplan, 2009)

Leadership in business is not just about business. It has to be about life as a whole. Leaders everywhere need to create sustainable change to improve performance in all parts of life. The purpose of Total Leadership method is to improve performance in all four domains of life: work, home, community, and self by creating mutual value among them. It is about focusing on results in all domains to increase business results by enriching lives (Friedman, 2008). The four-way view can help people be a total leader rather than an unfocused and incomplete leader, in such way that it benefits both person and business.

The Total Leadership program can benefit individuals. Similarly, in an organization a Total leadership program can improve performance, satisfaction, and alignment in employee's four life domains. As a result, the organization can increase its innovativeness and competitiveness, improve talent retention, and reduce health-care costs.

The organization is what its employees are. The Total Leadership program provides a framework, a language, and a motivation for making positive change on every organization level. It can result in people applying more of their energy focused on the pursuit of business goals, thereby improving morale, increasing resilience, fostering collaboration and making work more engaging.

#### **1.6. The personal Scorecard**

The Balanced Scorecard signals to everyone what the organization is trying to achieve for shareholders and customers alike. But to align employees' individual performances with the overall strategy, Scorecard users generally engage in the following three activities: communicating and educating, setting goals and linking rewards to performance measures. (Kaplan and Norton, 2007)

Mere awareness of corporate goals is not enough to change many people's behaviour. Somehow, the organization's high-level strategic objectives and measures must be translated into objectives and measures for operating units and individuals.

Companies have to cascade the high-level corporate and business unit scorecards to lower levels of the organization; personal scorecards are used to set personal objectives. (Kaplan and Norton, 2007)

The personal Scorecard helps to communicate corporate and business unit objectives to the people and teams performing the work, enabling them to translate the objectives into meaningful tasks and targets for themselves. It also lets them keep that information close at hand.

Individuals and departments at lower levels could develop their own objectives taking into account the main company priorities. As a result of this process, individuals can identify areas outside their responsibility in which they could make contributions.

Many factors can influence individual Balance Scorecard usage. (Wiersma, 2009). First, usage can be influenced by the way the company intends to use the BSC, and therefore by the design of the BSC. Second, individual usage is influenced by the opinions of top managers and other users, and by other elements such as the information system used to support the implementation of the BSC in the organization. All these factors lead to different degrees of pressure on individual users to use de BSC.

A survey conducted in 19 firms identified as BSC users concluded that there were three different purposes of BSC usage: a decision-making and decision-rationalizing dimension: a coordination dimension; and a self-monitoring dimension. BSC usage for self-monitoring is positively related with the emphasis placed on managerial evaluations. (Wiersma, 2009).

It is especially interesting to deep inside the third dimension: self-monitoring. Items in this dimension refer to monitoring and planning the work of the managers and getting feedback on their performance.

The three dimensions have a moderately high correlation with each other and it could suggest that the three usages are complementary. It can not be considered surprising because managers who value the Balanced Scorecard will use it for more than one purpose. The empirical results showed that use of the BSC is higher for individual reasons rather than to communicate with others.

## **2. Objective**

The use of an **Individual BSC**, that includes metrics from both business and Total Leadership experiments, is proposed as a suitable tool for those executives who want to become total leaders by fully integrating the four-way-view in an individual internal BSC perspective to get better results in both all four domains and business.

## **3. Methodology and Design**

The application of the BSC with a personal component integrated is defined after studying and analysing the Balanced Scorecard and Total Leadership models described in the literature.

The model is based on an adapted technique mentioned by Kaplan and Norton (2007). The purpose is to enable and encourage individuals to set goals for themselves that are consistent with the organizations'.

The four perspectives included in the Balanced Scorecards are not all-inclusive (Sherman, 2010). Different strategies dictate what should be included in the BSC, and this is its beauty. It can be adapted and expanded to include metrics on everything in the interest of any stakeholder, including those coming from individual strategies.

A personal Scorecard is created. Within a company it is possible to find several Scorecards. The main BSC is created from the company's global strategy and executives are named to be responsible for certain initiatives, targets, measures and objectives. A variable pay system could be linked to the achievement of these objectives directly related to an executive. For example, the initiative of implementing a plan for development of high potentials or the objective of reduction of the company absenteeism in a certain degree could be responsibility of the Human Resources VP.

Apart from the global strategy, it is possible to split it into other strategies with initiatives, measures, targets and objectives that would be perfectly aligned with the global one and managed by an executive different from the CEO. Following with the previous example, the HR Balanced Scorecard would be a part of the Human Resources VP Personal Scorecard. Bearing in mind this concept, everyone could have its own individual Scorecard at all levels within an organization.

The Personal Scorecard contains three levels of information. The first level of information (1LI) describes corporate objectives, measures and targets. The choice of indicators is, in general, highly subjective and is often driven by industry practises or company management (Creamer, 2010).

In the second (2LI) individuals are asked to articulate which of their own objectives would be consistent with the business unit and corporate objectives, as well as what initiatives they would take to achieve their objectives. Individuals are also asked to define up to five performance measures for their objectives and to set targets for each measure. Both levels of information should be defined for the four perspectives.

- Financial: tangible outcomes of the strategy in traditional financial terms, such as return on investment (ROI), shareholder value, profitability, revenue growth, and lower unit costs.
- Customer: drivers of revenue growth. It includes generic customer outcomes, such as satisfaction, acquisition, retention, and growth, as well as the differentiating value proposition the organization intends to offer to generate sales and loyalty from targeted customers.
- Internal process: operating, customer management, innovation, and regulatory and social process objectives for creating and delivering the customer value proposition and improving the quality and productivity of operating processes.
- Learning and growth perspective: intangible assets that are most important to the strategy. The objectives in this perspective identify which jobs (the human capital), which systems (the information capital), and what kind of climate (the organization capital) are required to support the value creating internal processes.

By setting goals with this model, the objective of aligning personal objectives to scorecard performance is accomplished. With a clear vision and strategy, everybody learns what the

organization is trying to accomplish and how they can contribute. This generates intrinsic motivation. Employees go to work with more energy, creativity, and initiative.

The third level of information (3LI) comes from the belief that people improve their performance as leaders only when they enhance their performance in other domains of their life at the same time. People are most successful in their leadership roles in organizations when they are also leaders of their own lives; that is, when they increase their capacity to influence everything they care about most in life, including work, family, the broader community, and their own sense of self.

Individuals are asked, following the Total Leadership method, to define the four domains. (See exhibit 1). The first step is to consider the relative importance of each domain, by assigning percentages. The second step is to consider how much time and energy is focused on each of them. The third step is to assess satisfaction with each domain. Finally it is important to identify the key stakeholders in each domain. Executives are aimed to continually experiment with how goals are achieved and then use the Personal Scorecard for goals and metrics.

<b>FOUR DOMAINS</b>	<b>Importance (%)</b>	<b>Time/Energy Spent (%)</b>	<b>Satisfaction (1=not at all; 10= fully satisfied)</b>	<b>Goals Estimates of specific benefits</b>	<b>Objectives Specific metrics to assess results</b>
<b>Work/Career</b>	%	%	1 2 3 4 5 6 7 8 9 10		3LI
<b>Home/Family</b>	%	%	1 2 3 4 5 6 7 8 9 10		3LI
<b>Community/Society</b>	%	%	1 2 3 4 5 6 7 8 9 10		3LI
<b>Self:</b> spiritually, emotion and physical health.	%	%	1 2 3 4 5 6 7 8 9 10		3LI
	100%	100%			

**Exhibit 1.** Definition of four domains

Total Leadership method consists of continuously experimenting. People improve their leadership ability and impact by practicing these three principles that it is important to consider when experimenting: Be real, be whole and be innovative.

Be real: Act with authenticity gives people strength that comes from doing what they love, knowing that they are creating value for the four dimensions in their life. It is important to explore what it means to be real, to clarify what it is important in one's life

Be whole: Act with integrity. Effective leaders take responsibility for recognizing and respecting the value of all aspects of life. They align the interests of different people in gaining support for common goals. Executives should identify their "key stakeholders", needed to verify assumptions and to see what things look like through the eyes of others.

Be innovative: Act with creativity in order to adapt to new circumstances with confidence.

A Total Leadership experiment is a planned change that aims to make things better in each domain, and, as a result, it can benefit not only the domain in which it was designed, but other

domains at the same time. Once the most useful experiments are selected, it is needed to record goals and metrics, to devise a scorecard for each experiment that specifies the goals and gives the information needed to assess both the goals are reached and the progress in moving towards them.

Designing personal metrics requires some creativity. Whether they refer to results or actions, metrics can vary along a number of dimensions and it is important to choose metrics easy to manage and motivating. Personal metrics not only help to determine the hit of specific targets; they also provide a basis for continuous learning.

Metrics can be objective or subjective and both can be useful. Objective metrics are those that could be determined impartially. Subjective metrics, in contrast, are based on perceptions. Collecting feedback from others can be a subjective metric, and the inherent bias can be reduced by increasing the number of people providing feedback.

Metrics can be intermittently or frequently observed, depending on the desirable feedback, as they help raise awareness of changes that might need to be made during the course of the experiments.

It is also recommended to define quantitative metrics, better than qualitative and make them as specific as possible taking into account the level of specificity that is appropriate to the user needs.

The model proposed includes personal metrics in the “Learning and Growth” perspective that correspond to each Total Leadership domain: Work, Home, Community and Self, defined in the previous experiments. (See the exhibit below “The Personal Scorecard”.)

Personal Scorecard				Objectives	Measures	Targets	Initiatives
Perspectives	Financial	Corporate Objectives		1-2LI	1-2LI	1-2LI	1-2LI
	Customer			1-2LI	1-2LI...		
	Internal business Process			1-2LI			
				1-2LI			
	Learning and Growth	Personal Objectives	Work	3LI	3LI		
			Home	3LI	3LI...		
			Community	3LI			
			Self	3LI			

**Exhibit 2:** The Personal Scorecard

When defining work related objectives, notice that there are two different parts within the Scorecard where it is possible to establish them. On one hand, corporate objectives in the Learning and Growth perspective, and on the other hand, Personal Objectives related to work in the same perspective. Corporate objectives in the Learning and Growth perspective look at the motivation, training and capacity to innovate that is needed in order to implement new

corporate strategies. Personal work-related objectives have to do with one's personal strategy. Once goals are clarified and there is a clear vision of where to be in the future, then it is possible to do experiments and define objectives which lead to accomplishing professional goals. Each small win could lead to promotion, changing jobs or a step up the career ladder.

Since the belief that executives will improve their role as a leader and, consequently, their business performance when integrating the four domains, the model could be considered a useful tool to monitor the execution of executive's personal strategy that benefits both person and business.

#### **4. Limitations**

Further research will be required in order to conclude, by using quantitative data, that business results considerably improve on when considering all four domains in the Scorecard.

A sample of key executives within an organization could be used to analyse results from their Personal Scorecards in order to check if the degree of achievement of personal objectives shows a significant correlation with corporate results.

#### **References:**

Creamer, G.; Freund, Y. (2010). Learning a board Balanced Scorecard to improve corporate performance. *Decision Support Systems* 2010, doi:10.1016/j.dss.2010.04.004

Friedman, S.D. (2008) *Be a Better Leader, Have a Richer Life*. Harvard Business Press.

Kaplan, R.S.; Norton, D.P. (2007) Using the Balanced Scorecard as a Strategic Management System. *Harvard Business Review*. July-August 2007

Kaplan, R.S.; Norton, D.P. (1996) *The Balanced Scorecard: Translating strategy into action*. Harvard Business School Press.

Kaplan, R.S. (2009) Lead and Manage using the Balanced Scorecard. *Leadership Excellence Journal*; Oct 2009; 26,10; p 7.

Kaplan, R.S. (2008) *Reaching your Potential*. Harvard Business Online.

Kaplan, R.S. (2005) How the Balanced Scorecard complements the McKinsey 7-S Model. *Strategy and Leadership Journal*. Vol 33. n°3, pp 41-47.

Sherman, W. (2010). Measuring And Communicating The Value Created By An Organization. *American Journal of Business Education*, 3(5), 87-98.

Wiersma, E. (2009). For which purposes do managers use Balanced Scorecards?: An empirical study. *Journal of Management Accounting Research* 20 (4) pp.239-251.