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Balance Scorecard and level-5 leadership approach: a readiness towards responsiveness and adaptability.

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Responsiveness, Adaptability, Pandemic, Reformation, Restructuring, Turbulent Times.

Abstract

This study proposes a conceptual framework for contingency readiness in the context of Bhutanese organizations during turbulent times such as epidemic, pandemic, natural disaster, policy reformations and technology revolution, with the Level 5 Leadership approach, ingrained with the tool of Framework to leapfrog from just being Good to Great and ensure sustainability, grounded in the experiences and insights of good to great organizations such as Gillette, Fannie-Mae and Circuit city. The study has recommended certain ways in which great organizations maneuver and standout from just good organizations.

Introduction

This paper anchors on the book *Good to Great* by Jim Collins (2002) and proposes a conceptual framework in the context of Level-5 Leadership Approach to optimize management tools like (BSC) and strategy map. The strategy map helps to explicitly evaluate and measure an organization's perspectives, objectives, and, the causal linkages between them visually. However, having very smart and apt management tools like the, might help to run the company, but what would be the difference between a machine performing its routine job, and a Robot with some complex algorithms, running a company. Sooner or later, people might prefer to choose working with humans, than with complex systems, and Roberts.

The concept of the Level 5 Leadership, talks about how a visionary Leader, who is empathetic both emotionally as well as practically, would help build

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teams, which are not only hardworking, and loyal to the company, but very high performers as well. With a good team, any company which is just good, would definitely rise up to become great companies. The world is still recovering from the COVID-19 pandemic, and a lot of good companies collapsed over a period of just two years, and still others are struggling to survive just to meet their daily requirements. Even more, Bhutan has been seeing the biggest migration of the history, where every citizen is looking for better lives, and better living standards.

Thus, this concept of the fusion of Level 5 Leadership along with the strategic tool of Balanced Scorecard seems to be the perfect tool for the turbulent times, the country is currently going through.

The concept of Balanced Scorecard

The concept of Balanced Scorecard was first introduced by Robert Kaplan and David Norton in 1992 Harvard Business Review as a performance measurement framework. This was in response to critics from using only *financial* measures to evaluate the performance of a company. Balanced Scorecard has since then gained popularity among academicians and practitioners.

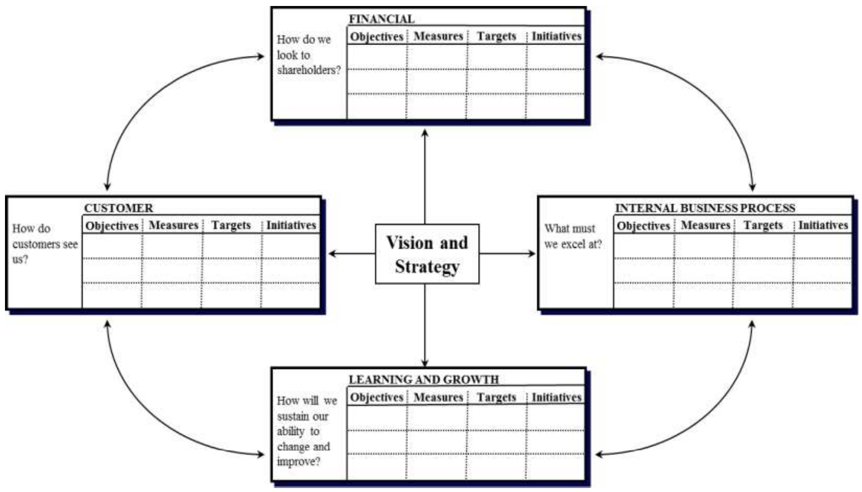
Balanced Scorecard is a framework for defining, refining and communicating strategy for translating strategy into operational terms, and for measuring the effectiveness of strategy implementation. The Balanced Scorecard enables a company to translate its vision and strategy into a tangible set of performance measures. It supplements the financial metrics with metrics from three additional perspectives – *customer*, *internal process*, and *learning and growth*.

The *customer/stakeholder* perspective determines how the company wishes to be viewed by its customers and stakeholders. The *internal business process* perspective refers to internal business processes to be adopted in order to satisfy its shareholders and customers. The *organizational learning and growth* perspective includes changes and improvement which the individual and corporate need to realize to make its vision come true.

Initially the Balanced Scorecard was arranged according to a four-box model (*Figure 1*).

Figure 1

Traditional Template (Source: Kaplan and Norton 1996)



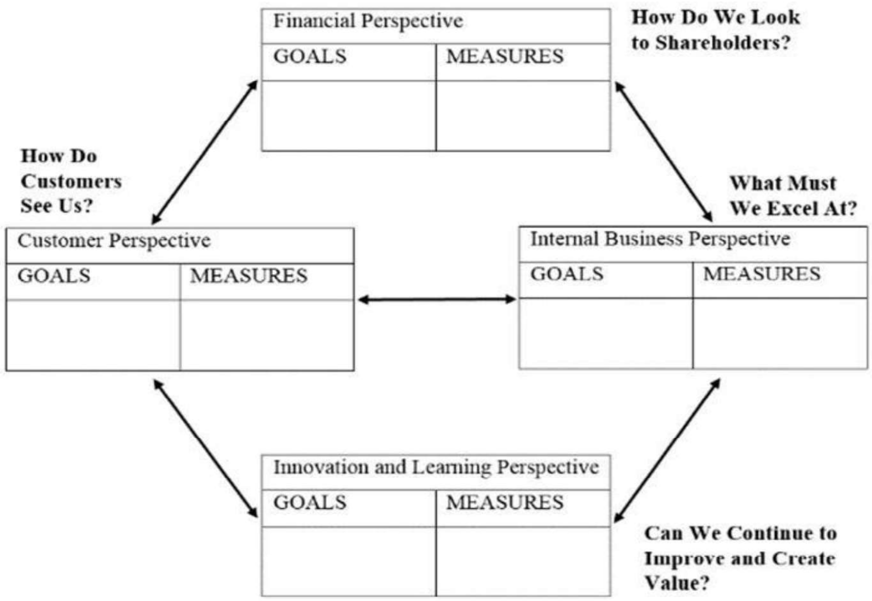
But this classic four-box model was replaced by a framework that has a Strategy Map view supported by a scorecard of measures, targets and initiatives.

Initially, the Balanced Scorecard was created to measure performance of commercial businesses and therefore, the performance was evaluated by financial results, but later the framework has found wide-spread use in the public and not-for-profit organizations too. However, in case of not-for-profit organizations, the focus is towards fulfilling *customer/stakeholder* perspective rather than *financial* perspective.

Generations of the Model

The concept of Balanced Scorecard has changed and evolved quite substantially over the years. The First Generation Balanced Scorecard model *(Figure 2)* is simply a collection of measures in four 'perspectives' which are *financial*, *customers, internal process,* and *learning and growth*. The model is useful for operational measures but poor at describing the strategy and change. Ann, H.(2001).

Figure 2
First Generation (Source: Kaplan and Norton, 1992)



The Second Generation BSC focused on the strategic objectives, not just the measures. Strategic objectives were plotted on a strategy map, a type of strategic linkage model. The interdependence of objectives was illustrated. Measures were identified to assess the extent to which these objectives were reached. Not only were these measures better contextualized but they also measured what was considered to be strategically important and were therefore easier to work with. The strategy map translated the strategy in actionable terms and the BSC became a key element of the strategy focused organization (Kaplan & Norton, 2000).
The Third Generation Balanced Scorecard refined the previous generation design and mechanisms to give better functionality and more strategic relevance. A new design element, the Destination Statement (vision of the strategic end state), was incorporated as the starting point for developing strategic objectives, selecting measures, and setting targets. The Destination Statement, which is the desired state of the organization at a particular future point in time, made setting measurement targets easier.
The Fourth Generation Balanced Scorecard takes into account learning about the strategy as it is implemented. It recognizes how the organization's approach towards learning, governance, values and performance culture affects strategy maps and the BSC design. The Fourth Generation BSC helps to speed up the process of an organization learning from its strategy and opens up opportunities for leadership and management, to deliver

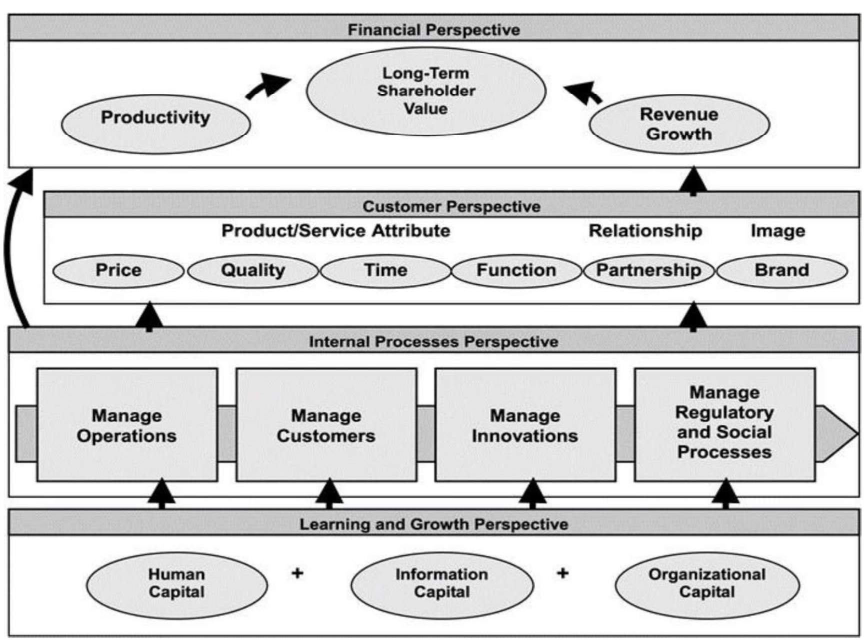
results. The fourth perspective is called "*Learning and growth*" due to reinforcement of the organization's learning approach. If this particular perspective is renamed, it undermines how the organization learns. The emphasis on learning fundamentally changes how these are designed, introduced and used. Ahn, H. (2001)

Strategy Maps

Mapping a strategy (*Figure 3*) helps to evaluate and make an organization's perspectives, objectives, and measures, and the causal linkages between them visually explicit. When objectives in each perspective are well organized and mapped properly, it serves as a way to evaluate objectives to make sure they are consistent and comprehensive in delivering the strategy. Strategy maps help to ensure that the strategy will be more successful because they help to capture, communicate and manage the strategy better. It visually communicates to different parts of the organization how they fit into the overall strategy. It facilitates cascading since it can be created at different levels of an organization, and each level's map can be viewed for alignment with the overall strategy map. Ahn, H. (2001)

Figure 3

Strategy Map Template (Source: Kaplan and Norton, 2004)



Companies such as Cigna Inc.'s Property and Casualty Division and Mobil Oil's North American operations found that they derived maximum benefits from the BSC when they mapped the objectives within the four perspectives into a causal hierarchy to show how the objectives support each other. Delivering the right performance in the lower perspectives (*learning and growth* and *internal processes*) will causally lead to the delivery of the objectives in the upper perspectives (customer and *financial*). Delivering objectives in the *learning and growth* should lead to the achievement of the *internal process* objectives, which in turn will fulfill the objectives in the customer perspective. The fulfilment of customer objectives should then lead to the achievement of the financial objectives in the *Financial* Perspective. The essence of modern BSC is the causal logic which enables companies to create a truly integrated set of strategic objectives. (Dipan and Thukten, 2013)

Strategic Themes

Themes are vital strategic elements that form the foundation for a BSC and are sometimes referred as "pillars of excellence". Strategic Themes are an area in which an organization must excel in order to achieve the vision.

The vision and mission of the company are usually decomposed into 3-4 strategic themes. They are like a load bearing wall supporting the entire structure of a building. Themes are high level business strategies that form the basis for the organization's business model. It affects all the four perspectives of BSC. If a firm can achieve its vision by excelling in few areas, then those areas can be strategic themes. They are like placing walls of particular thickness to make the building stand solid and firm.

Figure 4

Strategic Themes are the Pillars that Support the Mission and Vision

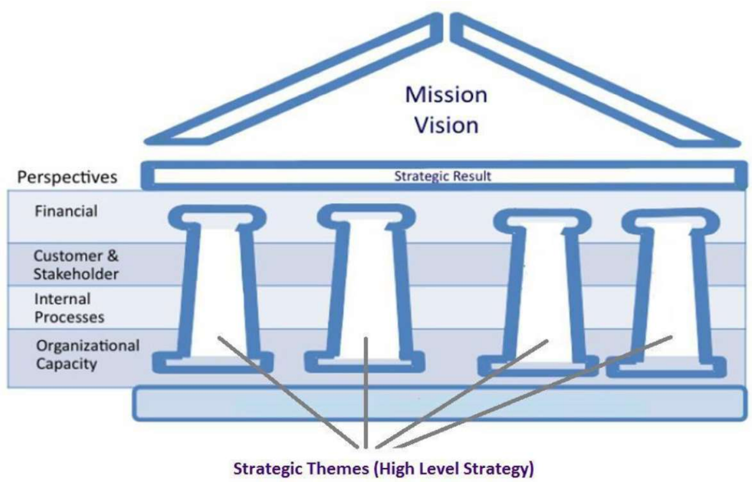


Figure 4 illustrates the idea of strategic elements which forms the structure of the BSC. The roof of the house represents the mission and vision of a company. Different perspectives of the BSC represent the floor. These are the windows through which we look at the performance of the organization. The foundation of the house represents the human initiatives. Without fully

engaged leadership and an interactive communication, it is like building the house on sand. The strategic themes are the load bearing pillars that support the house from the foundation through the perspectives to the roof. Each theme has a strategic result, a desired end-state. A well-executed strategy leads to desired strategic results. The strategic results can be measured. (Dipan andThukten, 2013)

Strategy Matrix

The strategy matrix is a useful visualization and summarization tool. All the objectives, measures, targets, and initiatives are shown in one table. The strategy matrix aids to point to areas where scorecard elements might or might not be out of balance. For example, one objective might have a large number of initiatives but other objectives will have no supporting initiatives. This helps to prioritize the projects. Usually, the strategy matrix will reflect a strategic theme, so one matrix is prepared for each theme.

Table 1

Example of Strategy Matrix (Source: Charles Bloomfield, 2002)

	Strategic Theme: Smart, Profitable Expansion			
	Objective	**Measure**	**Target**	**Initiative**
Financial	Increase % of revenue from new stores	% Revenue from stores opened in last 3 years	> 30% year 1 > 50% year 3	Marketing to new target markets
		Avg. # of days to breakeven	< 180 days year 1 < 130 days year 3	Operations review Site selection
	Increase sales efficiency	Revenue per FTE	> $ X year 1 > $ Y year 3	Self-service checkout pilot
Customer	Acquire new locations	Avg. # daily customers	> X in first 6 mos., > Y in first year, > Z by year 3	Local marketing/PR campaigns
		# of repeat customers	> X in first 6 mos., > Y in first year, > Z by year 3	Customer loyalty program
		Avg. $ customer purchase	> $ X year 1 > $ Y year 3	Coupon program In-store promotions & classes

Internal Processes	Fact-based site selection	Days lag between market selection and site acquisition	< 90 days year 1 < 70 days year 3	GIS mapping National brokerage contract
	Streamline development process	Project duration, site acquisition to opening	< 365 days year 1 < 300 days year 3	Standardize design/build processes
		% stores open on schedule	> 93% year 1 > 95% year 2	Web-based project management
Learning & Growth	Use business intelligence systems	% eligible employees trained	>90% year 1 >99% year 2	In-house system training
	Integrated knowledge management	# paper forms used	< 200 year 1 < 100 year 2 < 5 year 3	Corporate digital nervous system

Benefits of Using the Balanced Scorecard

Research has shown that organizations which use a BSC tend to perform better than organizations that don't use BSC approach.

BSC helps in better strategic planning. The Strategy map, particularly, helps in visualizing a business model enabling managers to think about cause-and-effect relationships. Since, top level managers are involved in creating a Strategy map, the process helps in reaching a consensus over strategic objectives.

Kaplan and Norton (2001) argue that the BSC facilitates the process of making sure that employees understand what the strategy is, in order to increase the probability that they conduct their activities towards the achievement of the strategy. This is an essential component of the communication process in an organization. In creating a Strategy map, interrelated strategic objectives is mapped on one piece of a paper which allows companies to easily communicate strategy internally and externally.

BSC also helps to align organization with the strategic objectives. To implement a plan effectively, organizations need to ensure that all departments are working towards the same goal. It can be achieved by cascading the BSC into those departments.

Organizations using a BSC tend to produce better performance reports than organizations without a structured approach to performance management. Needs and requirements for transparency can be easily met if organizations create meaningful management reports and dashboards to communicate performance both internally and externally. Dipan, Thukten (2013)

Limitations of the Balanced Scorecard

Many international research projects have shown that BSC is a very successful and popular tool. But there are several disadvantages of the BSC framework. BSC possess a strong causal interrelation between the different elements that are mapped using the core strategy. It is difficult to tell whether the causal interrelations between the perspectives of learning and growth, processes, customers' finances exist in all the circumstances. According to Kaplan and Norton (2001), more loyal and satisfied customers generate more revenue but such connection may not be established. For instance, if an organization is trying to satisfy very loyal customers who have high quality expectations and make very small purchases, then, that generates no profit for the organization. Usually, they are individual customers of higher age and moderate budget who demand high quality services.

External environment and several interest groups are out of the picture in Balanced Scorecard framework. It does not take into consideration the daily activities of the competitors. Hence, it is essential to frequently scan the external environment in this rapidly changing environment.

Numerous practical examples have demonstrated that the hierarchical top-down approach used by BSC framework is not ideal for several reasons. Kanji (2002) has noted that it is not advisable to construct the strategic objectives in a hierarchic set-up as the main accent. Therefore, it is essential not to concentrate on establishing internal needs of people working in the organization but rather on building up just a result-driven centralized programme where employees are more expected to provide just buy-in decision and not as much giving their own contribution. (Dipan andThukten,2013). Hence, the organization improvement will be at stake because of motivational problems. Further, Kanji (2002) underscores that in an organization where the work is built up as a process between several departments, the hierarchic set-up of both objectives and measures may generate local optimums in individual departments.

The Balanced Scorecard is a very powerful tool if implemented well. It will lead to better performance if the firm uses the key ideas of Balanced Scorecard to (a) create a unique strategy and visualize it in a cause-and-effect map, (b) align the organization and its processes to the objectives identified in the strategic map, (c) design meaningful Key Performance Indicators (KPI) and (d) use them to facilitate learning and improved decision. Thus, this is where the role of Level-5 Leadership comes. Level-5 Leadership helps organizations to use good management tool like balanced scorecard, to maneuver organizations from just being good to a great organization.

Level-5 Leadership

Jim Collin (2001) said that most of the leaders can reach up to the fourth level of leadership pyramid. However, he asserts that only a handful of people excel at becoming level-5 leader. This category of leaders are those who build greatness through humility and professional will.

Figure 5

Level 5 Leadership Pyramid

The concept of level-5 leadership was developed by Jim Collins (Year) in his book, *Good to Great*. He had analysed over 1435 companies over a period of 40 years to find companies that became great from good. The author mentions 11 companies that became great from good. Jim Collins (2002) also discusses level-5 leaders in the context of companies moving from good to great. The author mentions that “Level 5 leaders” are at the top of a 5-level hierarchy and exhibit the duality of personal humility and professional will.

The level-5 leadership is based on the Hedehog principle which is an idea built on the concept of the Greek Parable, *The Hedgehog and the Fox*. The fox pursues many ends, sees the world as complex which is scattered and diffused. Conversely, the hedgehog simplifies the world into a single idea or principle that guides everything it does.

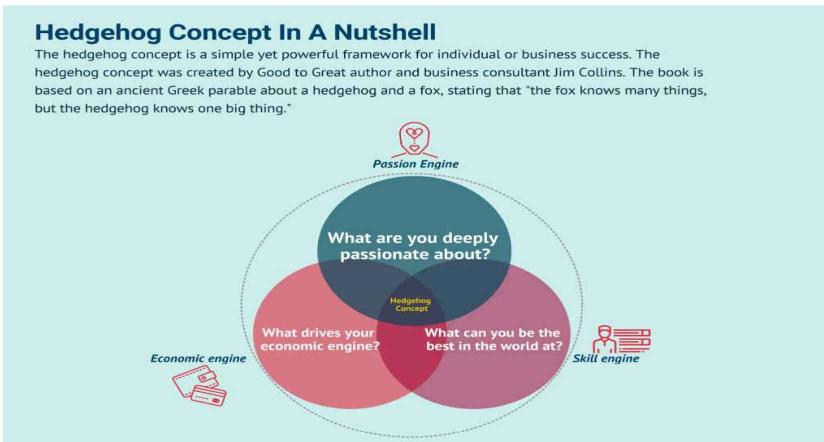
The Hedgehog Concept lies at the *intersection of the 3 circles*:

• What you can be the best in the world at;
• What drives your economic engine; and
• What are you deeply passionate about. (Collins,(2001)

Getting clarity on the Hedgehog Concept is an iterative process and takes time. The good-to-great companies took about 4 years on average to crystalize their concepts. Yet, when they find it, it has a quiet, obvious truth to it that is undeniable. In simple terms, it means identifying the core value proposition (or the primary thing that they do well) and focus on that. The concept says that scattering one's interests and objective causes a lack of focus, competency, and efficiency.

Figure 6

Hedgehog concept



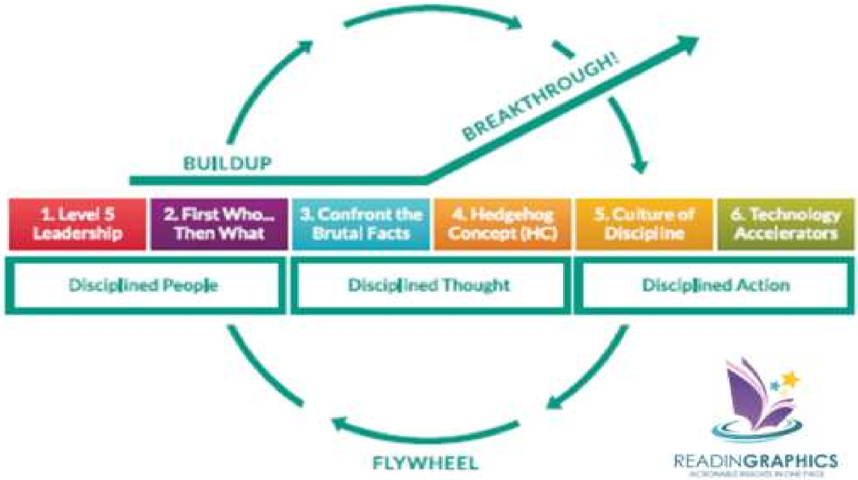
Using the Hedgehog principle, the Good-to-great companies demonstrate a strategic difference in *2 areas*. They are:

• Building their strategies on a deep understanding of the "three circles";

• Identifying a simple, crystalline concept that guide all their efforts.

Flywheel and the dooms loop.

The next concept that Jim Collins (2002 talks about is the flywheel and the dooms loop. The good to great transition is not a process of overnight metamorphosis, nor is there a single big success factor. It is an accumulation of many interlocking steps and factors that build on one another, just like the framework, that is built on the four factors which helps companies succeed. The flywheel concept points out that, until a point of breakthrough is reached, much like how a flywheel picks up momentum turn by turn, the companies usually do not realize their own transformation until after the fact. This can only be possible with good leaders who hold the wheel in their hands to steer the companies.



The reverse holds true through comparison companies who suffer the "Dooms Loop". It is a new direction, programme, leader, event that kicks in and there is no build-up of momentum. This creates disappointing results and people react without understanding. Thus, the main objective of combining the two ideas of balanced scorecard and level-5 leadership, is to put forward the idea, that a good tool, such as balanced scorecard too would fail miserably, if the person who is steering the organization is not an empathetic leader. During the current turbulent times, we are in need of more empathetic leaders than ever, to steer through the difficult times. However, the opposite holds true, if the organization lacks a good tool and a system, to address the issues of a turbulent time.

Bhutan, unlike any other nation, too is suffering the same, in terms of economic reforms, getting hold of normal lives, just the way it was before the pandemic. However, it can be seen that the way this small Himalayan nation has managed the crisis of the COVID-19, or the current economic crisis, is exemplary. Many big nations have gained this interest in Bhutan, solely due to the way Bhutan has been handling its affairs so far. Thus, this can be very well stated as an example, of a combination of a sophisticated tool like balanced scorecard, and a visionary and empathetic leader like His Majesty Druk Gyalpo, Jigme Khesar Namgyel Wangchuck.

The next question is: How can we strive to become level-5 leaders?
The traits of the level-5 leaders are:

Professional Will: Level-5 leaders have huge ambitions for their institutions and not themselves. They are fanatically-driven to deliver results, set exacting standards, demonstrate an unwavering resolve and a quiet doggedness to do whatever it takes to bring the company to greatness.

Personal Humility: Level-5 leaders put their egos aside, and focus on the companies' long-term interests. They demonstrate a "compelling modesty", talk about the company (not themselves), shun public praise, and are not boastful. They rely on inspired standards, not charisma, to motivate. They set up successors so that the company could be great without them.

Who, Then What: Instead of setting a grand vision and strategy, then rallying people behind them, good-to-great companies got the right people onboard, *then* figured out which direction to take. *Right people, then direction/strategy:* The level-5 leaders first focus on finding the right people (Team players who make a conscious decision to take on the challenges), then developed strategy. In contrast, generally most companies focus first on setting the vision, then putting people on the roadmap. Their leaders may be individually talented, but tend to enlist helpers rather than develop strong executives – the model falls apart when the leader leaves.
Be rigorous (but not ruthless) about people: Good-to-great companies exercise rigorousness in people-related decisions and in building a superior executive team. However, they do not carry out endless restructuring nor ruthlessly swing the axe. Layoffs were used 5x more frequently in comparison companies than good-to-great companies. Collins also identified 3 practical principles (Good is the enemy of evil, the hedgehog concept, and the dooms loop), you can adopt to inject rigorousness.
Level-5 leaders are very normal people like anyone else, but a good human being, who first hires the right people with right attitude, and then works towards what the organization does best, simultaneously helping the employees realize their core capabilities.

Conclusion
This paper proposes, that organizations need good management tools during turbulent times. The proposed Balanced Scorecard framework is time tested and has long history of success in helping organizations to respond and adapt to turbulent times and progress. Good leadership always links to the deep-rooted values, priorities and culture of the organization. In this context, the founding block of Balanced Scorecard framework is its values that supports the learning and growth perspective to reduce the learning curve and quickly achieve desired outcomes. All of these learning outcomes of level-5-leadership traits are thus linked with the Balanced Scorecard framework, where the pillars that are placed in the higher perspective, the internal processes perspective, leading towards customers/ stakeholders' perspective through to the ultimate goal of financial perspective. Balanced Scorecard framework gives a cutting-edge combination of tool to the proposed level-5 leaders, who are humble, empathetic and humane, to keep pace with the changing technologies, and basically knows, the process of equipping his/her co-workers and colleagues to achieve the next impossible, from being just good to great.

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