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LEARNING & GROWTH ANALYSIS: SIGNIFICANT FOR PERFORMANCE MEASUREMENT

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ABSTRACT
Balanced scorecard helps organizations to streamline vision and strategy with business activities and measures actual organizational performance against preset goals. In addition, this instrument is used to assess financial processes, customer relations, internal business processes and learning and growth characters of an organization. Financial indicators never tell the entire story of an organization, since talent, organizational culture, and customer relationships go a long way toward dictating future financial performance. The great transformation has been witnessed in the performance measurement system wherein the traditional performance appraisal system was taken over by multifaceted performance management system with feedback and continuous monitoring as inseparable part of it. Performance management system slowly gained importance as tool to increase employee productivity, and as an exercise for building employee retention. This paper examines the level of significance of Learning and Growth perspective of Balanced Scorecard Approach in order to analyze the performance of the organization. Also, the key performance indicators included under this perspective in different organizations has been discussed.

KEYWORDS
KPIs (key performance indicators), balanced scorecard, performance management.

INTRODUCTION
Achieving profitability in businesses has always been a necessary requirement for continuity, growth and expansion. Managers of organizations are tasked with the responsibilities of ensuring success of operations within their areas of control all the time, to attain this, it demands making strategic plans by the managers and using appropriate performance measurement techniques to enable them achieve their goals all the time. Performance management systems are often designed to enable organizations to plan, measure and control their performance, so that decisions, resources and activities can be better aligned with business strategies to achieve desired results and create shareholder value. Organizations have their mission and vision and use different strategies in ensuring the achievement of this mission in such a way that will be appropriate to both the management as well as the customers of such organization. Managers make use of only financial perspective to measure performance in the past but that seems not to be adequate enough and hence the development of a tool called the balanced scorecard which incorporated both the financial and non financial measures of performance, because the non-financial criteria are as important as financial criteria in measurement systems and when both measures are integrated in the system, they lead to superior results (Kairu, Wafula, Okaka,Odera & Akerele, 2013).

Financial indicators never tell the entire story of an organization, since talent, organizational culture, and customer relationships go a long way toward dictating future financial performance. The great transformation has been witnessed in the performance measurement system wherein the traditional performance appraisal system was taken over by multifaceted performance management system with feedback and continuous monitoring as inseparable part of it. Performance management system slowly gained importance as tool to increase employee productivity, and as an exercise for building employee retention. Balanced scorecard helps organizations to streamline vision and strategy with business activities and measures actual organizational performance against preset goals. In addition, this instrument is used to assess financial processes, customer relations, internal business processes and learning and growth characters of an organization.

The BSC (Kaplan & Norton, 1992) is a performance measurement framework to allow managers to look at their business performance from four performance perspectives – financial, customer, internal business and innovation and learning. The weight of each feature in balanced scorecard is an impact factor to evaluate performance. By integrating lagging indicators of performance (outcome measures, such as financial results) with leading indicators (performance drivers, such as human resource skills) the BSC approaches performance from above mentioned four different perspectives, and is intended to provide managers with a tool not simply for reporting but also for managing performance.

BALANCED SCORECARD
The balanced scorecard, first proposed in the January- February 1992 issue of HBR (―The Balanced Scorecard- Measures that Drive Performance‖), provides executives with a comprehensive framework that translates a company's strategic objectives into a coherent set of performance measures (Kaplan and Norton, 1993). During a year-long research venture with 12 companies at the leading edge of performance measurement, Kaplan and Norton (1992) devised a "balanced scorecard"- a set of measures that provide top managers a fast but comprehensive view of the business. Kaplan and Norton (1992) understood that as the business landscape changed from agricultural to industrial to informational; performance measures must adapt as well. The information age is characterized by the conversion of intangible (employee skills, customer satisfaction, and information technology) rather than intangible assets (property, plant, and inventory) into competitive advantage (Kaplan and Norton, 2000). BSC includes financial measures that tell the effects of actions already taken. And it complements the financial measures with operational measures on customer satisfaction, internal processes, and the organization's innovation and enhancement activities- operational measures that are the drivers of future financial performance (Kaplan and Norton, 1992).

The four perspectives of BSC are Financial Perspective, Customer Perspective, Internal Business Process Perspective and Learning and Growth Perspective.

a. Financial Perspective: It represents the long- term goal of the organizations- to provide superior re-turns based on the capital invested in the unit (Kaplan and Norton, 1996). Financial Measures, has been the traditional method of analyzing organizational success and involves such elements as profit-ability, sales growth, and revenue per sales visit. Although the BSC stresses the need to incorporate additional measures to determine success, the need for Financial Measures is still an extremely strong element to determine success (Niven, 2002)

b. Customer Perspective: Choosing measures for the Customer Perspective of the BSC depends on the type of customers desired and the value that the organization provides to them (Niven, 2002). The purpose of the Customer Perspective is to focus on the target customers. This will allow organizations to create strategies consistent with the type of customers they want to attract.

c. The Internal Process Perspective: It entails the procedures that an organization must develop and master to be successful. Many organizations will concentrate on such elements as order processing, delivery, manufacturing, and product development as examples (Niven, 2002). The focal point of this perspective is related to the Customer Perspective because to keep customers satisfied, an organization will need to focus on the components of the organization important to them. If target customers are dissatisfied when delivery is late, an organization must concentrate on the internal process of developing a more efficient delivery system or refining the system currently used. To accomplish this, managers are undertaking a rigorous internal analysis not only assessing the internal processes of the organization, but reviewing innovation since global competition has decreased the amount of time organizations can bring their products to market to be successful (Bose & Thomas, 2007; Levy, 1998).

d. Learning and Growth Perspective: According to Kaplan and Norton (1996b), this perspective is the backbone to a successful scorecard because it involves employee skills and information systems. Learning and Growth can include such issues as employee satisfaction, alignment of employee skills with jobs, number of employee suggestions implemented, and hours of employee training. Depending on the actual employee skills and desired employee skills, some organizations change job descriptions, relocate employees to other departments, and/or implement incentive programs designed to motivate employees to provide suggestions, receive education or training, and/or gain tenure through continued employment (Niven, 2002).

REVIEW OF LITERATURE

Kaplan (1994) takes Rockwater Co. for example to explain the development process of the BSC, to ensure the realization of company promise and serve as a management tool. Kaplan and Norton (1996a, 1996b) use more cases, including many different industries such as banking and insurance industries, to explain the management structure of linking the strategy of business units to the entire strategy of a company.

Martinsons et al. (1999) also applied the case study method to explore the result of a corporate information system operation department in implementing the BSC, by adopting four perspectives: corporate value, user orientation, internal process, and future preparation to measure and evaluate the performance of the information system. The result shows that BSC can serve as a measurement system for a strategic information system.

Chia and Hoon (2000) studied the procedures for promoting the BSC, and the BSC item and the criteria establishment process of two large merchandise circulation firms in Singapore. The study result shows that the promotion of the BSC system contributes to clarification of company vision and preparation for the intended strategy in practice.

Hoque and James (2000) studied 66 Australian manufacturing companies that implemented the BSC, and the resulting corporate performance. Organizational performance was a self-reported measure relative to peers within the same industry. The authors measured performance as a composite score on self reported assessments of ROI, sales margin, capacity utilization, customer satisfaction and quality relative to industry peers. The result reveals that both show a highly positive relationship. The authors noted, however, that while their study relates the use of non-financial measures to performance, their survey fails to capture actual reliance on the BSC or the strength of the causal relationships that are so important to BSC implementation.

Ahn (2001) focused on a case study of a strategic business unit (SBU) of a large automation product supplier in Switzerland, in a world-leading position in implementing the BSC. The study result points out that implementing the BSC does not only contribute substantial aid to the realization of performance goals, but can also further achieve advantages in management, for example: planning and budgeting of strategy-oriented action plans, integrating the BSC into the process of company control, contributing to strategy communication, etc. The study also points to the BSC as a comprehensive management tool.

Olson and Slater (2002), via a questionnaire investigation of more than 200 senior managers in service and manufacturing firms, surveyed their recognition of corporate implementing of the BSC. The result shows that the performances in such perspectives as financial, customer, internal business process, and learning and growth, all improved, particular in the perspective of customer satisfaction.

Braam and Nijssen (2004) engaged in the BSC implementation performance investigation of 41 B to B (business-to business) companies in the Netherlands, by using objective performance standard – ROI and subjective performance standard – questionnaire investigation; the research result shows that both objective and subjective performance measurement indicators show positive rises.

Davis and Albright (2004) applied a quasi-experiment design for two different American banking organizations, to study the relationship of each branch bank implementing (experimental group), and without implementing (control group) the BSC, as well as financial performance, and found the performance of the banking organizations implementing the BSC far exceeded that of the banking organizations without implementing the BSC. However, the author were not able to obtain the detailed data for any of the non-financial measures appearing on BSC, thereby making causal inferences between financial and specific non-financial measures at the study is impossible.

Papalexandris et al. (2004) studied one Greek software firm implementing the BSC and found that the said firm, after implementing the BSC for one year, showed considerable progress in performance in four perspectives: 1. Financial; 2. Customer; 3. Internal business process, and; 4. learning and growth.

The application of BSC fields included e-business environment (Bremser and Chung, 2005), airport management (Fernandes and Pacheco, 2007), small and medium size manufacturing organization (Fernandes et al., 2006), integration management system (Bobrek and Sokovic, 2006) and information technology (IT) performance management (Stewart, 2007).

Also, Assiri et al. (2006) presented a roadmap for BSC implementation and identified a series of critical factors that must be carefully considered to ensure successful implementation of BSC.

Moreover, Wong-On-Wing et al. (2007) applied BSC to reduce the conflict between top management and divisional managers because of the failure of the former to evaluate and consider strategy effectiveness in performance evaluation. The theoretical comments of the above authors and empirical studies provide considerable support for this study in theoretical foundation, research method and the entire research framework.

SIGNIFICANCE OF LEARNING AND GROWTH PERSPECTIVE

The measures in the Learning and Growth perspective are enabler of all other measures in the Scorecard, forming the foundation on which this entire house of a Balanced Scorecard is built. The measures designed in this perspective will help to close the gap between current organizational infrastructure of employee skills and information systems, and the level necessary to achieve the results aimed in the other three perspectives and ensure sustainable performance for the future. Niven offers the metaphor of a tree: Think of them as the roots of a tree that will ultimately lead through the truck of internal process to the branches of customer results and finally to the leaves and fruits of financial returns.

From the Balanced Scorecard paradigm, “Learning and Growths” perspective answers the question: How must the company learn and improve in order to achieve its vision?

So, this perspective explains what the company has to learn in order to: Satisfy customer’s needs, improve business processes, and achieve financial goals. This perspective serves to map some big learning goals; something that is relevant to the current business challenges. Having a separate learning perspective doesn’t mean that the company should stop other learning processes; on the contrary, this perspective just works as a compass to focus on the most important learning efforts. Regular insights, improvements and learning should still be implemented in each business iteration.

The learning and growth perspective has three dimensions – people, systems and organizational perspectives – and Kaplan and Norton (1993) outline an eight-step process to build and implement the balanced scorecard. The steps in the process are:

(1) Preparation – identify the business unit where a scorecard is appropriate. The business unit should have its own customers, distribution channels, production facilities, and financial performance measures.

(2) Interviews – first round, key organizational executives and senior managers are interviewed to obtain their input into the organizations strategic objectives and tentative BSC measures.

(3) Executive workshop – first round, the top management team is brought together to develop the BSC through discussions on the mission and strategy.

(4) Interviews – second round, individual interviews are completed to further refine the work completed during the initial workshop phase and seek opinions about issues involved with implementation.

(5) Executive workshop – second round, top executives and their senior managers and direct reports debate the organizations vision, mission and the tentative scorecard. The BSC is linked to existing plans and initiatives and a start is made on the implementation plan.

(6) Executive workshop – third round, the senior executive team meet to finalize the BSC and the implementation plan. The team must agree on the implementation plan including communicating the BSC to employees, integrating the BSC in to the management philosophy, and developing an information system to support the BSC.
(7) Implementation – a new team is established to drive the introduction and ensure successful implementation including the implantation of appropriate technology to ensure success.
(8) Periodic reviews need to be monitored and report on success of the BSC.
Novak (2000) has suggested that the most important element in the BSC is alignment. There are some generic strategies applicable to most businesses, but the particular objectives inside the perspectives are company-specific. Objectives need to be aligned with other perspectives. In applying the learning and growth perspective, there is a need to identify the organizational infrastructure that would best fit the strategic goals. Learning and Growth perspective is a mix of lag and lead measures.
For example, if any organization wants to expand Information System Capabilities by implementing a new CRM system, then it should support some goals from above standing perspectives, like “faster prospect management” or “achieving a higher first contact resolution rate.”
There are 3 typical objectives for the “Learning and Growth” perspective: Employee capabilities (core competencies and skills). It might include: Employees obtaining the skills necessary to support the strategy. Facilitating people to gain a better understanding of some of the company’s aspects (marketing, sales, etc.); Each of these objectives should be supported by the appropriate leading and lagging indicators.
1. Employee Capabilities: Let’s take “Skills development” as an example. What metrics can we use to measure it? Specific metric suggestion depends on the set of the skills that we believe are necessary to execute the strategy. To obtain these skills employees need to pass some training, thus obtaining expected competencies in the end.
Leading Indicator: The number of training hours passed; Lagging Indicator: Final exam score
2. Strategy awareness: It’s a tough task to measure strategy awareness or motivation in absolute figures. The easiest way is to implement a survey to estimate an employee’s awareness about the company’s strategy. The results of the survey might be a base for further training.
Leading indicator: resources spent on improving strategy awareness (for example, training time); Lagging indicator: average score of the strategy awareness survey.
3. IT innovations: Before implementing/improving certain informational system executives need to understand how this new system supports the delivery of the customer value and specific internal business process.
Leading Indicator: Resources (time, money) saved; Lagging Indicator: Improving customer retention, average shopping cart, etc.

KEY PERFORMANCE INDICATORS UNDER LEARNING & GROWTH PERSPECTIVE

Firstly, it’s critical to understand the difference between a measure, a metric, and a KPI. The easiest way to understand a KPI is that they build on each other. KPIs derive from metrics, which are created out of measurements.
A measurement can be number of customers, number of sales, or total revenue. But until you start making comparisons, they are simply numbers. A metric is typically a combination of two or more measures, so number of customers over time, or total revenue over time. Metrics illustrate whether the values are good or bad and can help with financial forecasting and bench-marking. A metric becomes a KPI when it is put in the context of a particular organization or industry. A KPI adds meat to the detail, so ratios and percentages often make better KPIs than just the number of things in a group.
KPIs provide small business owners with an immediate snapshot of the overall performance of their business. In today’s competitive business environment, it becomes highly important for the owner to have real-time data concerning the health of his business. KPI’s are an actionable scorecard that keeps your strategy on track. They enable you to manage, control and achieve desired business results. KPIs give executives the chance to communicate the mission and focus of the organization to investors, team members, and other stakeholders. As KPIs filter through the organization, they must grab employees’ attention to make sure that everyone is moving together in the right direction and delivering value to the business. Departments, and even individuals within an organization, may have their own KPIs. But it is important that they understand the context of what they are being measured against and how it fits within the broader business strategy and goals.
The measurement indicators of the BSC learning and growth perspective are
Employee satisfaction index, Employee resignation rate, Ratio of employee short-term advanced studies (within one year), Ratio of employee long-term advanced studies (at least one year), and the Ratio of training cost account for total expense. Number of suggestions per employee, Qualitative surveys ratio, number of shared innovations, Number of shared generated ideas, Employee exchange ratio, Number of patents filed, Number of patents granted, Number of training programs conducted, Number of seminars and conferences conducted. Expenses for research and innovation, Specific weight of expenses on research and innovation in the total amount of expenses, Specific weight of expenses on improvements in total amount of expenses related to IT technologies, Length of research and innovation projects, Costs for training relates to multi-profession, Compensation cost, Leadership index, Average number of training hours per employee, Number of customer´s complaint, Qualification index, Resources allocated on research and innovation, Investment in training of personnel dedicated to customer relations, Investments in innovation and research, Expenses related to preparations and study of new products, Investments in exploration of new markets, Frequency of direct contacts with customers, Number of rational and creative ideas per employee, Average training cost per employee, Employee trust rate to the company, Revenue per Employee, Added value per Employee, Employee Turnover Rate, Training Cost Per Employee, Absenteeism Rates and many more .

CONCLUSION AND RECOMMENDATION

It can be concluded that under learning and growth perspective, full encouragement as well as planning for the employees to get engage in continued learning should be done. For continuous learning, formulation of active and creative corporate culture is required. To become “learning organization”, create new thinking for all corporate members, and increase the corporate competency. Besides, organization should jointly grow with suppliers and customers, to jointly create values. On the other hand, with the human resource management viewpoint, the BSC system shall be associated with incentive system. In this way, employees can be inspired to work hard and attain the targets.
But it can be observed that further research is required as the Key Performance Indicators discussed in this paper are not company specific or organization specific. All the organizations need to focus on both the learning as well as growth perspective since these are the basic pillars for attaining the desired objectives.

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