

## **CHAPTER TWO**

### **REVIEW OF LITERATURE**

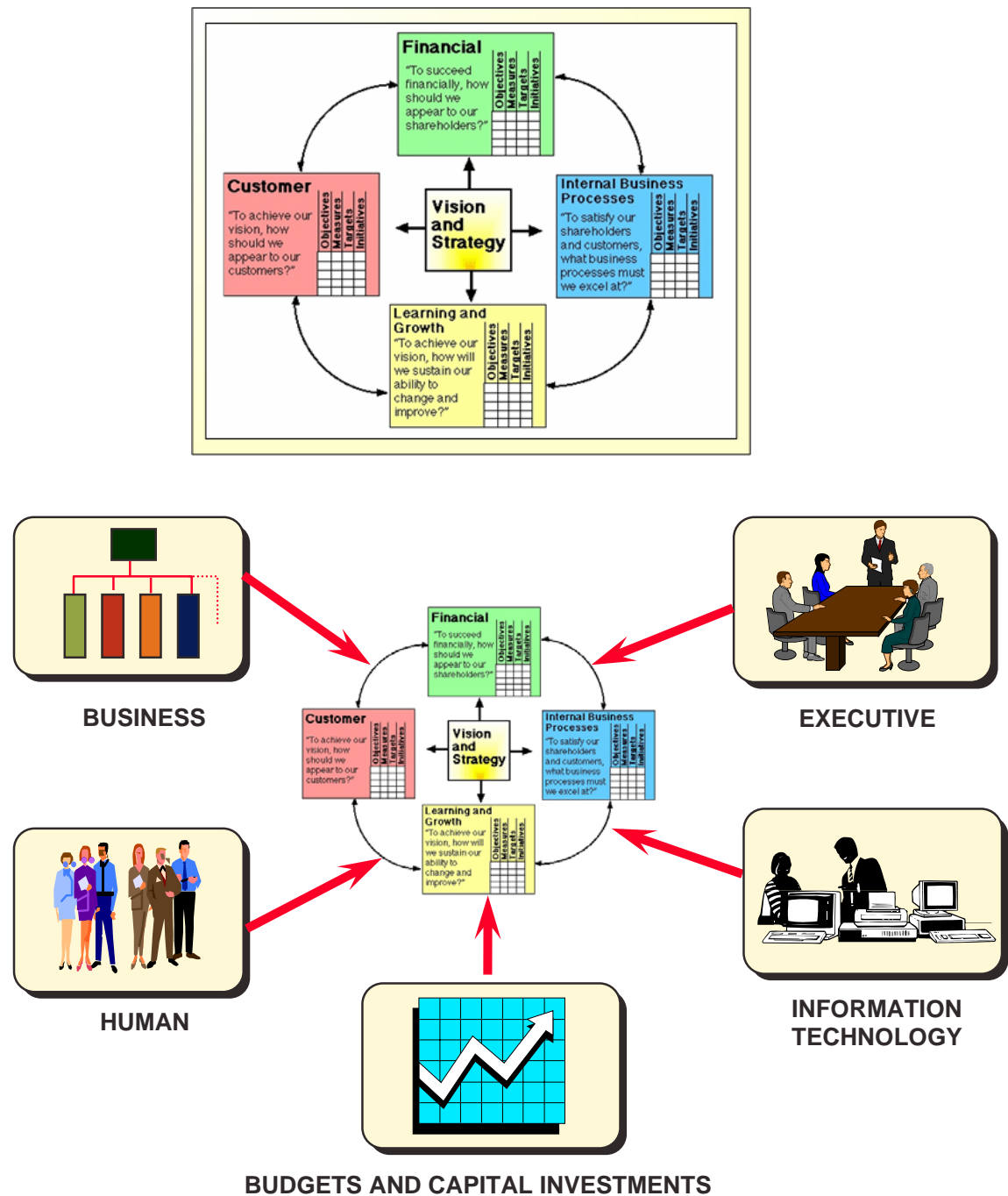
This chapter reviews the literature in five main areas along with a summary: (1) Balanced Scorecard (BSC) Implementation, (2) Influence of Communication, (3) Factors Influencing Perception, (4) Expectancy Theory Implications for Employee Motivation, and (5) Relevant Research.

#### **2.1 BALANCED SCORECARD (BSC) IMPLEMENTATION**

The organization can manage the significant perspectives and objectives effectively by implementing the BSC as BSC enables the company to track not only financial aspects, but also customer satisfaction, internal process improvement, and employees' learning and growth. According to Kaplan and Norton (1996), "the implementation of the Balanced Scorecard allows the organization to be managed successfully. It supports the deployment of business strategies, meeting customer needs, and the visibility of process problem"(p. 7).

Thompson and Strickland's study (as cited in Rousseau, 2004, p. 91) that the BSC can be implemented effectively when the executives can arrange organizational alignment. The meaning of the organizational alignment is covering the strategy of the organization, the human resources as deployed within an organization, corporate structure, and organizational culture. Before organizational alignment is implemented, the strategy evaluation process needs to be fully implemented.

**Figure 6.** The balanced scorecard process allows an organization to align and focus all its resources on its strategy.



*Note.* From Building Strategy Focused Organizations with the Balanced Scorecard (p.

5), by R. Kaplan and M. Bower, 2002. Retrieved July 29, 2008, from [http://www-ddc.moph.go.th/module/webadmin/download\\_module/pdf/Kaplan\\_BSC](http://www-ddc.moph.go.th/module/webadmin/download_module/pdf/Kaplan_BSC)

However, the alignment in an organization is not a simple process since the individuals in the organization would concentrate on how their actions benefit the process of their achieving objectives. According to Norton and Kaplan's study (as cited in Rousseau, 2004, p. 96), the management team should set up

1. Communication and education programs - all employees and stakeholders educated in the changing strategy.
2. Goal setting programs - when the employees have a clear understanding, they would be able to translate the higher strategy into smaller targets and personal objectives.
3. Reward system linkage - the employees are motivated by an incentive and reward system. Nevertheless, this process should be approached carefully and only after the education program has been completed.

According to Dr. Pasu Decharin, the executives can realize from the progress of BSC implementation how successful the organization is as follows:

**Table 2. Progress Level of BSC Implementation**

Percentage of Progress	Description
10%	Define Vision and Strategy
20%	Complete Strategy Map and Objectives
30%	Specify Key Performance Indicator
40%	Have Work Team Accountability
50%	Organize Baseline Data
60%	Set Up Target
70%	Prepare Initiative Plan
80%	Approve Target and Initiative Plan
90%	Make Measurement Report
100%	Review Strategies at least three times

*Note.* From Balanced Scorecard (p. 15), โดย พสุ เดชะรินทร์, 2550. เอกสารนำเสนอในการอบรม เรื่อง Balanced Scorecard Concept, ที่โรงแรมดิเอ็มเมอร่า, กรุงเทพฯ.

Referring to the above Table 2. Progress Level of BSC Implementation, Agility Thailand has implemented it at 60%. The vision and strategy have been defined and the strategy map and objectives have been completed. A Core Team has taken into account each objective from four perspectives (financial, customer, internal process, and learning & growth) and organized the baseline data to set up the target. The Core Team has been preparing the initiative plan to fill the gap between the actual performance and target of each objective enabling the organization to meet its vision (what the company wants to be).

## **2.2 INFLUENCE OF COMMUNICATION**

Organizational communication is the process to exchange information throughout an organization. The process consists of a source which encodes an intended meaning into a message, and a receiver which decodes the message into a perceived meaning. The receiver may or may not give feedback to the source. The

information flow from source to receiver in an organization is classified into two channels: Formal channels and Informal channels and it flows downward, upward, and laterally. The downward communication follows the chain of command top to bottom to influence strategies, objectives, instructions, policies, and feedback i.e. the instructions from Managing Director to Sales Manager to submit to him a sales progress report by Friday. On the other hand, the upward communication keeps higher levels informed about what lower level workers are doing, what their problems are, what suggestions they have for improvements, and how they feel about the organization and their jobs. In terms of lateral communication, this is an important communication method because the people are willing to communicate at the same level across departmental or functional boundaries and listen to one another's needs as "internal customers." (Schermerhorn, Hunt, & Osborn, 2005, pp. 295-298).

However, the interpretation will have a different meaning caused by the frame of reference. Each person's frame of reference comprises educational background, race, sex, where the person grew up, what his or her parents were like, attitudes, personality, and all past experiences. Not only the frame of reference, but also noise can distort the meaning of intended message. The noise is anything that interferes with the transference of the messages within the communication process divided by external noise and internal noise. The external noise includes distractions in the environment e.g. the speaker's poor grammar and people talking. The internal noise refers to conditions of the receiver such as lack of knowledge on the topic and preoccupation with other problems (Hamilton & Parker, 1997, p. 7).

Besides the spoken and written communication, nonverbal communication can reflect what the people really feel about something. The nonverbal communication can take place through facial expressions, body position, eye contact, and other physical gestures (Schermerhorn, Hunt, & Osborn, 2005, p. 300).

At Agility Thailand, apart from the meeting of the top executives to discuss BSC Implementation, the conclusion of the meeting is conveyed to the lower management e.g. Senior Manager, Manager and Supervisor to be aware and prepare

themselves for the implementation. The work teams (Leadership, Core, and Measurement) have been formed and the members are selected from all departments as the employees get involved with this project throughout the organization. The work teams communicate with each other via face-to-face meeting and e-mail. The employees who are not listed as one of work teams receive the information about the BSC project from their Supervisors.

As BSC is a new strategy tool for this organization, a Deputy Managing Director who is a leader of this project decided to arrange an outside activity called “Team-building Outing” among the employees in order to relax their inhibitions to communicating. All members of work teams need to correspond constructively, so they have to understand one another clearly first. The more they communicate, the more they understand each other. Then first and second Team-building Outing groups were arranged in November, 2007 and February, 2008 respectively.

### **2.3 FACTORS INFLUENCING PERCEPTION**

Schiffmann’s study (as cited in Schermerhorn, Hunt, and Osborn, 2005, p. 100) defined Perception as the process by which people select, organize, interpret, retrieve, and respond to information from the world around them.

According to Schermerhorn, Hunt, and Osborn (2005), the key factors influencing the perceptual process are divided into:

- Information attention and selection (selective screening to decide what information should pay attention to and what to ignore)

- Organization of information (the information needs to find out the ways how to organize it efficiently)

- Information interpretation (the information which is paid attention to and well-organized can be interpreted differently depending upon the reasons behind what each person has perceived)

- Information retrieval (sometimes the information can be retrieved some portion not at all due to memory decay)

Besides the effective communication in organization, the leader of BSC project realizes that perception plays a significant role in implementation as well. He believes that BSC will be able to implement completely if the employees perceive the knowledge and process what they should do about BSC relayed from the top management to their supervisors. For this reason, in the meetings with the members of work teams, he tried to ask for feedback and shared some ideas pertaining to the objectives on a strategy map and key performance indicators. He would like to see how the members interpret the information they got.

#### **2.4 EXPECTANCY THEORY IMPLICATION FOR EMPLOYEE MOTIVATION**

Dawson (as cited in Mathibe, 2008, p. 1) stated that employees are motivated by their needs and they develop through and in relationship with others. One of the assumptions of the Expectancy Theory is that people make decisions among alternative plans of behavior based on their perceptions of the degree to which a given behavior will lead to desired outcomes. Typically, in employment relations transactions such as payment for services rendered occur between employers and employees.

Vroom's expectancy theory (as cited in Schermerhorn, Hunt, and Osborn, 2005, p. 127) argues that work motivation is determined by individual beliefs regarding effort/performance relationships and work outcomes. A person is motivated to the degree that he or she believes that effort will yield acceptable performance, performance will be rewarded and the value of the rewards is highly positive.

Similarly, the employees at Agility Thailand have their own expectation for their lives. When they expect to get something they want in the future, they are motivated by their needs. This can result in higher productivity and better performance in order to get some rewards as expected.

## 2.5 RELEVANT RESEARCH

Molleman (2007) studied the challenge of implementing the Balanced Scorecard for a Dutch engineering company with 9 branches in the Netherlands and several branches abroad. They started with the implementation of the BSC in early 2005. He found that the company had some obstacles to implementing the BSC successfully. For instance, the company kept the scorecard at the top and took too long for the development process. The lower level employees such as manager and supervisors did not understand what the organization did. As a result, they were against any change of internal process. According to Schneiderman's study (as cited in Molleman, 2007, p. 5), if there is no deployment system that breaks high level goals down to the sub-process level where actual improvement activities reside, the significant process improvements throughout the organization fail to generate bottom line results. The implementation involved the whole organization and the top management should make sure that all lower level employees had a clear understanding.

Russell and Koch (2008) researched Luxfer Gas Cylinders, a United Kingdom – based leading global producer and distributor of gas cylinders, and found that the company used the Balanced Scorecard to transform itself from a high-volume, low-margin commodity provider to an innovator of high-tech, high-profit offerings that are more closely targeted to customer needs. The top management of Luxfer decided to study a new transformational strategy or BSC in 2001. In 2002, 20 key managers were assigned to develop the company's strategic road map, establish targets, prioritize initiatives and determine the funding. These 20 key managers were followed up closely by the CEO who realized how important of linkage between strategy and operations management was. He acknowledged that implementing the new strategy needed getting people to accept all the new ways of doing business which could not happen overnight.

The company cultivated the competencies of key managers by sending them to training courses. They were authorized by the CEO to make their decisions for the



company based on their knowledge and experience. Luxfer did not tie compensation to strategic performance. Some awards were tied to customer service performance or solving an important problem. Furthermore, the employees who accomplished their performance would be highlighted in internal communications. In 2005, over 60% of the business was driven by the company's new customer-focus strategy. The profits were increased year over year and product portfolio was turned to high-tech and high-margin.

Garling (2008) examined how Nemours Health System, a leading U.S. pediatric healthcare system, could achieve a double-digit rise in patient satisfaction, increases in one-time immunizations and a 30% reduction in documentation time. His study found that Nemours' strategy was not aligned internally. The management knew their growth scenario would likely fail. Therefore, they decided to adopt the Balanced Scorecard system to carry out its strategic transformation in 2005. The top executives of Nemours treated BSC program as top priority because they realized the potential of the BSC framework as an organizational leadership tool and a key to sustainable growth. They rolled out an enterprise strategy map and had monthly strategy review sessions to follow up performance closely. Consequently, in 2007, operating income was increased 120% over the previous year and Patient satisfaction scores skyrocketed.