THE IMPORTANCE OF MEASURING INDIVIDUAL PERFORMANCE TO INCREASE ORGANIZATIONAL PERFORMANCE

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Management theory and practice suggest a wide range of instruments used in organizations in order to measure performance, whether individual or organizational. The purpose of this paper is to mention some of these tools, with an emphasis on the balanced scorecard. Although numerous organizations have adopted the balanced scorecard as a means to increase organizational performance, few of them have succeeded in making it really work. Moreover, individual performance appraisal is often regarded as a coercive instrument rather than a procedure meant to foster the employee's performance which, in turn, should contribute to enhancing the organization's overall performance. The hereby article aims at highlighting some of the advantages, as well as shortcomings of the balanced scorecard, followed by drawing conclusions regarding the way in which the balanced scorecard can and must contribute to organization's well being.

Key words: organizational performance,individual performance, measurement, appraisal, balanced scorecard.

1. INTRODUCTION

In the '90s, Robert Kaplan and David Norton published a study entitled *"The balanced scorecard: measures that drive performance"*, which advanced the concept of balanced scorecard as an effective means to evaluate organizational performance. The novelty of their approach consisted of the idea of measuring organizational performance from more than one perspective, that is, the financial one. Thus, the new tool viewed organizational performance as a four-faceted instrument, which focused on assessing areas such as: customer relationships, customized products, product innovation, employee skills, motivation and information technology. Thus, instead of judging organizational success exclusively in terms of profit and share growth, the authors view organizational performance as a comprehensive process meant to offer an overall understanding of the organization as a balanced structure, in which four different aspects contribute synergistically to the general performance.

Although adopting the balanced scorecard is an organization-wide cultural change, it may also be implemented as a cascading process, in which every business unit/ department/division/section etc. adopts, in its turn, its own balanced scorecard.

Mention should be made that one of the main roles of the balanced scorecard is to translate organizational strategy, often formulated in abstract terms, into more simple and doable tasks that are to be put in practice at lower hierarchical levels. It is thus clear that adopting and implementing a balanced scorecard based culture requires an accurate understanding of the organization's mission, vision, strategy, goals and objectives, which need to be transformed into measurable tasks.

2. THE LINK BETWEEN INDIVIDUAL AND ORGANIZATIONAL PERFORMANCE

Notwithstanding that the balanced scorecard pertains to using in various organizational contexts, many scholars consider that it can be a great tool to manage IT functions as a result of its reliance on data collection and processing. Also, Tillmann (2008) mentions some of the critical business questions which aim at translating organizational strategy into smaller, measurable tasks, as follows:

1. What is the purpose of the business?
2. Who are the customers?
3. What do the customers need and want from the business?
4. What products or services should the business provide?
5. How will success be measured?

In the light of the above, one may notice that one of the critical questions which a business should address refers explicitly to measuring organizational performance. In this context, the author mentions the use of the balanced scorecard and its limited success in implementations, despite it being regarded as a powerful tool to assessing organizational performance. Among the factors impeding the effective utilization of this tool, one may list the difficulty of gathering relevant and/or accurate information, some people's not wanting attention placed on their performance, or misunderstandings caused by various perceptions related to the same reality, e.g., IT shops sell technology, but users buy service.

The question naturally arising is: why do many people resent being assessed? One possible answer could be that many managers, regardless of their hierarchical positions, lack the necessary skills to do this job more meaningful and less stressful for both parties involved. On the one hand, the manager or the supervisor is responsible for getting results, but has no say in selecting the people that he/she will work with inside the team. As Myland points out, "*the absence of power to make decisions in the human resource arena almost inevitably undermines the supervisor's responsibility and renders meaningless any attempt to praise, reward or get tough when things go wrong*" (p. 3).

On the other hand, it is in people's nature to dislike being placed under a magnifying lens in order to be evaluated. If they have been assigned tasks without having a say in doing that, the frustration is even bigger. In order to overcome such obstacles to effective performance appraisal, Kaplan (2007) suggest that while progressing in his/her career every employee should test himself/herself by asking himself/herself certain key questions regarding to areas such as: vision and priorities; managing time; feedback; succession planning; evaluation and alignment; leading under pressure; staying true to oneself. By asking such questions, the author considers that an individual may find it easier to assess oneself and, therefore, will be more prepared to undergo the assessment process performed by his/her superior.

Another aspect to highlight in this respect is the importance of setting high standards for teams and individuals as well, and – more importantly – making sure that everyone in the organization is aware of these standards. This is mainly ensured by the balanced scorecard, which fills the gap between strategy – the abstract purpose of the organization – and individual tasks – the measurable part of the overall purpose of the organization. In this respect, Green (1995) expresses the importance of integrating individual performance into organizational performance:

"*Not only do sales managers and supervisors need sufficient information to enable them to monitor performance, so also do the individual members of the team. Time and time again, it has been proved that when teams are able to assess for themselves, how they are performing against agreed targets and standards, they respond positively. Key ratios appropriate to the industry concerned can be used to establish company norms and drive up performance. "High flyers" should be encouraged to log their "personal bests" as targets against which others can compete*" (p. 6).

The importance of individual performance and its appraisal within the organization-wide performance cannot be overstated, in spite of the fact that the way in which organizations are evaluated depends on how clear their goals are. If in case of clearly defined goals their assessment is easy to do by comparing them with the achieved results, in case of ambiguous goals organizational performance is measured by means of other dimensions such as profitability, attracting and sustaining resources, or satisfying/exceeding key stakeholders (Sowa et al, 2004).

When examining organizational performance, one should identify a set of objective indicators that help measure this performance as accurately as possible. Among these indicators, theorists (Herman and Rentz, 1998, Stone et al., 1999) mention the following: a formal mission statement, a strategic plan, the human resource system, an independent financial audit, and an information technology system. As one may easily notice, all the aspects previously listed are related or derived from the balanced scorecard. Whereas the mission statement is translated into simple, measurable items by means of the balanced scorecard, the rest of the elements are identified in the balanced scorecard quadrants connected to people, finances, processes, and customers. Among these dimensions, the human resource systems are of paramount importance as they foster individual performance across the organization.

Mention should be made that management literature points out the direct correspondence between employee satisfaction, employee productivity or performance, and organizational effectiveness or performance. As Sowa et al. (2004) emphasize, "the most common objective measure of employee satisfaction is employee turnover" (p. 719). Furthermore, the authors consider that employee motivation impacts their professional performance, i.e., organizational performance as a whole.

3. CONCLUSIONS

The final section of this paper aims at highlighting the main advantages of using the balanced scorecard in measuring organizational and individual performance and the tight connection between the two elements of performance.

As the "parents" (Kaplan and Norton, 1996, p. 19) of the balanced scorecard point out, organizations use this tool in order to:

1. clarify and gain consensus about strategy;
2. communicate strategy throughout the organization;
3. align departmental and personal goals to the strategy;
4. link strategic objectives to long-term targets and annual budgets;
5. identify and align strategic initiatives;
6. perform periodic and systematic strategy reviews;
7. obtain feedback to learn about and improve strategy.

As one may infer, this instrument bridges the gap between individual and organizational performance by transforming the organization's overall goals and objectives into clear and measurable individual tasks.

In spite of the obvious advantages of implementing a balanced scorecard based culture in an organization, however, there are cases when this system does not work in practice. Unless there are periodical reviews and unbiased feedback, both provided and collected, the balanced scorecard as a performance measurement system can be time-consuming and subjective. Also, some cultures or organizational procedures simply do not match the balanced scorecard due to some constraints such as delayed feedback or setting limits on the incentive for an employee who works extra hard.

Another important motivating factor is to involve employees themselves in setting the goals and parameters that directly affect them and their area of responsibility. This involvement impact positively their productivity, and thus measuring their individual performance is no longer regarded as a potential coercive pretext.

A challenging aspect of a manager's activity is to embed the balanced scorecard in the process of organizational change, which itself is a difficult time. However, this evaluation method is meant to maintain and monitor critical feedback loops. As Ho and McKay (2001) point out, "*the difficulty in business is that managers tend to take a snapshot of an isolated part of the system and make decisions based on that snapshot and wonder why the deepest problems do not get solved [...]. During organizational change, quick fix solutions are developed without attention to longer term consequences that may undermine the organization in the long run*" (p. 13).

To conclude upon the prerequisites for the successful implementation of the balanced scorecard as a tool to measure individual performance, one should notice that the number and nature of parameters play a vital role in the process, in the sense that they must be clear and easy to monitor. Provided that these requirements are met, individual performance appraisal can be performed in an objective and constructive manner, which enhances the employee's feeling of contributing effectively and efficiently to the overall organizational well being. Consequently, he/she knows exactly how to be an important part of organizational performance instead of embodying the frustrating and counterproductive metaphor of "*being a small cog in a big wheel*".

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