

**Convergence and Divergence Issues in Strategic Management – An Asian
Perspective on the Balanced Scorecard in HR management**

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Convergence and Divergence Issues in Strategic Management – An Asian Perspective on the Balanced Scorecard in HR management

Abstract

Global competitive pressures shape an enterprise's focus on strategic management systems, and in particular the Balanced Scorecard; this shift suggests that global companies adopt a handful of management best practices, most of which originate in the West. Divergence factors such as national culture, leadership styles and human resource management practices underscore the trend towards convergence of global management practices; however, Asian empirical evidence on the effectiveness of such practices is limited as is the impact of Asian Balanced Scorecard contextual variables. This paper considers a conceptual framework, based on the Balanced Scorecard, in which to consider convergence and divergence impacts on developing high performance cultures in Asian contexts. A Balanced Scorecard implementation case study undertaken by the Central Bank of Indonesia is the basis for discussing Asian firms' challenges in adopting Western management practices.

Key words: convergence, divergence, HRM practices, strategic, Balanced scorecard

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Introduction

Globalization, deregulation, technological innovation, and high customer expectations shape the global international business landscape. To compete successfully companies require focus, innovation, and agility to enable quick change (Kinni 2000, Christensen & Raynor 2003). In pursuit of sustainable competitiveness, companies adopt improvement programs such as Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), Supplier Relationship Management (SRM), Supply Chain Management (SCM), Six Sigma, and the Balanced Scorecard (BSC). Principally these programs originate in the West and

their apparent success has encouraged others, including Asian companies and Western companies with Asian operations, to emulate this strategy.

Convergence, the tendency of companies to adopt similar successful management practices suggests that companies are becoming more alike, wherever they are located, in terms of structure, technologies, and ways of operating. Convergence protagonists (Hickson et al. 1974, Porter 1986) contend that convergence is due to improved global communication and travel (Levitt 1983), technology transfers and collaboration between organisations and nations (Doz and Prachalad 1991, Porter 1996, Ghoshal and Norhria 1993, Rosenzweig and Sigh 1991), and the operations of Multi National Corporations (MNCs) (Lubatkin et al.1997).

It is axiomatic that Western management practices require modification for use in non-Western contexts as embodied by the popular term *glocal*, to think globally but act locally; this phenomenon, known as *divergence*, acts counter to convergence. Divergence protagonists (Hofstede 1995 and Alder 1996) argue that employees are likely to exhibit a range of different attitudes and behaviours; this results in different implementations of the same management practice. Culturally bound employees from different cultures provide further divergence evidence through demonstrating different work-related preferences (such as promotion by seniority in Japan) (Chen 2004, McGaughey et al. 2002).

Convergence and divergence co-exist; examining these two perspectives separately is an over-simplification of the complexity of the business environment (Lowe et al 2002, Huo, Hang and Napier 2002, Jackson 2002). For example, an MNC may adopt the same ERP system globally, an example of convergence, but have different Human Resource (HR) policies in different countries, including industrial relations and reward systems, which impact the nature and effectiveness of country-specific implementations, an example of divergence.

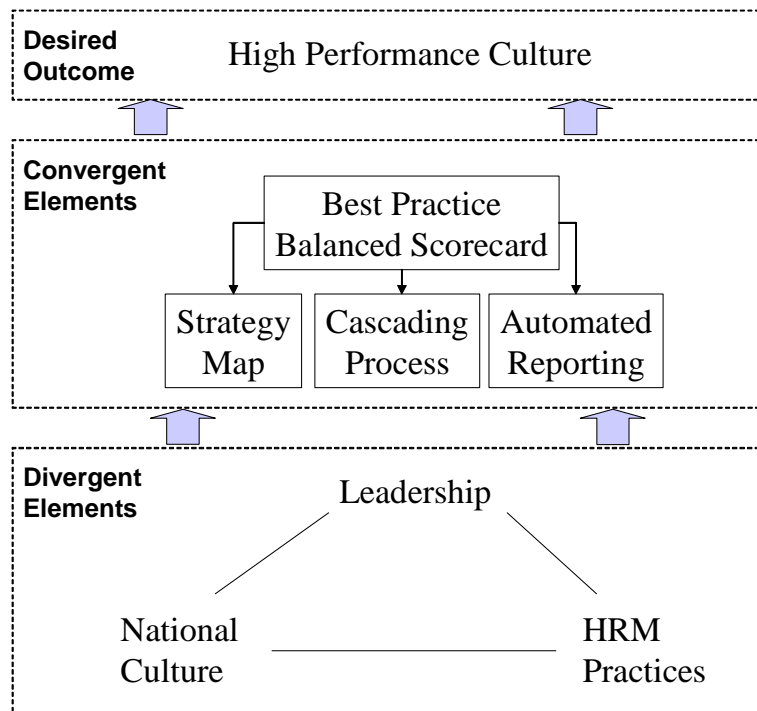
The discussion on the convergence of global best practices (Glinow, Drost and Teegarden 2002, Chan, Shaffer and Snape 2004) and the effects of divergence due to differences in national culture (Jackson 2002, Huo, Huang and Napier 2002, Rowley and Benson 2002) raises a plethora of questions on the effectiveness of best

practice programs in a non-Western context. Although there is sufficient evidence to support the convergence proposition in firms adopting best practice programs in the West (Cooper 1998, Glinow 2002), empirical evidence assessing the transferability and effectiveness of Western best practices in Asian countries is scarce. This is particularly true of strategic management practices.

Firms such as Sears, Kodak and AT&T provide examples of a globally implemented management practice- the Balanced Scorecard (BSC) (Yeung and Berman 1997, Kaplan and Norton 2001). They used the BSC to implement a strategic management system that can measure strategic effectiveness and enable individuals to contribute to building a high performance culture (Brewer 2002, Mooraj et al 1999, Butler et al 1997, Niven 2002, Schneiderman 1999). Although adopted globally, BSC success rate evidence originates mostly from the West. Whilst the Balanced Scorecard Collaborative (www.bscoll.com) registers that a number of Asian firms have successfully adopted the Balanced Scorecard, the empirical evidence is sketchy. Divergence factors such as leadership styles, national cultures, organisational culture, and industrial development are likely sources of potential differences in Asian contexts (McGaughey and De Cieri 2002).

This paper examines the influence of divergent factors on the convergence of best practices in strategic management, particularly the Balanced Scorecard, in an Asian context. The paper contributes to enhanced clarity and further insights on the issues and challenges faced by Asian firms in adopting Western strategic management practices. The Central Bank of Indonesia BSC implementation provides the case study; it is explored within a conceptual framework shown below in Figure 1.

Figure 1: Conceptual Framework



At the apex of the framework is the desired outcome of a high performance culture. The key elements that create and sustain a high performance culture (Holbeche, L. 2005) include:

1. flexibility, speed and learning
2. innovation and continuous improvement
3. boundaryless organisational structure to maximize potential network and synergies.
4. people motivation to sustain a high level of performance
5. the right “deal” and working environment
6. connecting employees to stakeholders with a deep level of meaning

The conceptual framework identifies three interdependent elements of divergence: (1) leadership (2) national culture and (3) HRM practices. These three elements influence the adoption of a “best practice” BSC in the pursuit of a high performance culture. The distinction around “best practice” is necessary, as there are various

versions of the BSC used including dashboards of disconnected performance measures and strategic management systems that have vision and strategy as the focal points of their development. A “best practice” BSC is defined as one which (1) employs a Strategy Map to describe business strategy on a single page, (2) cascades to lower levels, aligning operational decisions with strategic directions and (3) is supported by an automated reporting tool that allows data drill-downs and initiative management.

National cultural values, leadership styles, and HRM practices that differ across countries, despite the influence of MNCs operating globally, introduce further complexity into the BSC management practice. Different performance appraisal approaches adopted by nations must reflect the divergent cultural values affecting their managerial practices. Distinct Asian cultural values or Confucian values such as conflict avoidance, harmony, face, obligations, guanxi (relationships), status, and respect for elders (Chen 2004) are all important factors that affect business transactions and management practices. For example, the comprehensive mapping of a US head office’s performance appraisal system onto a local Asian environment may not be appropriate; Asian employees may view the American performance appraisals cultural style of direct communication and assertive negotiation as culturally unacceptable. Asians may prefer a non-assertive, indirect and conflict avoidance approach to performance evaluation; in which case Asian performance appraisal priorities focus on dimensions such as harmony, face and work centrality (Westwood and Lok 2003). This cultural divergence indicates that a modified version of the performance appraisal system, which takes into account sensitive cultural factors, may be more effective. Similarly, the approaches taken in Confucian Asia can be very different to Eastern Europe in the institutional collectivism dimension (Gupta and House 2004).

Convergent Elements – The Balanced Scorecard

This section expands on the concept of a “best practice” Balanced Scorecard. First introduced in 1992, the Balanced Scorecard has evolved significantly. The first generation of Balanced Scorecard (Kaplan and Norton, 2001) provided a dashboard of measures that acted as an organisational health check. While the strategic

objectives leading to these measures linked to a high level across the four perspectives of Financial, Customer, Process, and Learning & Growth, first generation scorecards did not require companies to perform a strategic analysis and examine their competitive positions. The first generation scorecard was best suited to situations where the firm wished to communicate to staff the measures that were important for moving forward. Experience highlighted that measures by themselves, without a clearly articulated strategy and leadership support, were not the catalyst for a high performance culture. Kaplan and Norton (2001: p3) when commenting on their early work noted that:

“Several years ago, we introduced the Balanced Scorecard. At the time, we thought the Balanced Scorecard was about measurement not about strategy. We began with the premise that an exclusive reliance on financial measures in a management system was causing organisations to do the wrong thingIf financial measures were causing organisations to do the wrong things, what measures would prompt them to do the right things. The answer turned out to be obvious. Measure the strategy!”

Strategy directly informs measurement in second-generation scorecards (Kaplan and Norton, 2004). Firstly, a Strategy Map translates strategy and links strategic capabilities to a customer value proposition and the creation of shareholder value. Measurements and targets derived from the Strategy Map build a scorecard to communicate the strategy and exercise strategic control through management reporting. We refer to second generation Balanced Scorecards as “best practice” in the context of the conceptual framework in Figure 1.

The Strategy Map

The Strategy Map is a tool to describe and communicate strategy, inspire staff to look to the future and build a strategic learning capability. Strategy Maps link strategic objectives across four key perspectives:

Financial Perspective - Create Shareholder Value.

Shareholders expect firms to create financial returns on the capital they invest. Financial objectives focus on building revenues, either from the existing customer base or by acquiring new customers. Financial objectives also focus on improving productivity, reducing operating costs to improve margins, enhancing asset utilisation and reducing financial risk.

Customer Perspective - The Customer Value Proposition.

Informed customers purchase products and services from a particular firm because they like what that firm has to offer relative to its competitors. Two categories of firm offerings are (1) basic requirements that all firms offer, and (2) points of difference. Firms generally attempt to exploit their points of difference while striving to be the best at meeting the customer's basic requirements. The mix of points of difference and basic requirements will depend on the type of strategy a firm pursues.

Process Perspective - Improve Core Processes.

In a competitive environment, firms improve their financial and customer results by identifying sources of value within customer-facing (core) processes, and by establishing strategies to boost performance. These core processes (or internal value chains) provide a cross-functional context for the creation and implementation of strategy. They include a firm's "licence to operate" and corporate social responsibilities.

Learning & Growth - Develop Enabling Capabilities

The Learning & Growth perspective identifies the intangible assets needed to support changes in core processes and sustain the firm into the future. Enabling capabilities will include strategic competencies (human capital), strategic technologies (information capital), and building a climate for action (organisational capital).

Cascading Process

A Balanced Scorecard is most effective when it aligns the efforts of everyone at every level in an organisation. Figure 1 refers to this phenomenon as the cascading process. Business unit scorecards when cascaded from the corporate scorecard influence the decisions and behaviours at the front-line. At the corporate level, the scorecard is cascaded, enabling each unit to examine its contribution to the four perspectives to create a line-of-sight from operational activities to the firm's strategic direction. Corporate level management reporting fails to build front-line staff alignment contribution when omitting the cascading process.

Whilst the assumption that "measurement drives behaviour" predicates the cascading of measures and targets, the type of Balanced Scorecard measures used creates focus on the future not merely past results. When linked with a reward and recognition system, employees are encouraged to relate to the consequences of measurement far beyond reporting functions. Measurement will not only provide feedback on unit and individual performance but at the same time may inspire the individual to seek continuous challenges. For example, a Balanced Scorecard report may reveal that customer satisfaction increased from 80% to 85%. This achievement might then generate further enthusiasm amongst employees to improve on this figure for the following year. This is not just a change in reported performance but also a change in performance culture.

Automated Reporting Tools

Managers are flooded with reports and analysis; global enterprises rarely have consistent transactional operational applications in place because of significant local variations in applications logic and the business processes around the applications. The proliferation of the sheer volume of standard reports is daunting and it is difficult to find the nuggets of actionable information that is consistent, and aggregated across business function, business process and multiple employees.

Enterprise performance levels increasingly depend on the ability to respond with near zero latency; whilst automated systems support this, many systems were developed using ad hoc enterprise integration approaches resulting in information silos that support only individual units and make data sharing and information

integration difficult (Yoo, Sangwan, Qiu, 2005). Performance data is the lifeblood of the Balanced Scorecard; unless timely and accurate performance information is delivered to desktops, manual measurement efforts will become burdensome and resisted. Companies expend extensive resources procuring high-level performance reporting data and the use of the Balanced Scorecard has accelerated the development of automated reporting tools that deliver performance information on desktops and keep staff informed on the firm's expectations. Many IT vendors distribute reporting tools, including Corvu, Cognos, Hyperion, SAS, SAP, QPR and Business Objects.

Building a vertically and horizontally connected measurement system, and collecting and reporting the data can place a tremendous strain on people's time. Automated reporting tools provide firms with a capability for efficiently distributing performance information locally, nationally and globally. They allow organisations to standardise the gathering of data to create a company-wide set of performance metrics, which provide timely performance information in flexible formats. Automated reporting tools facilitate knowledge transfers and enable the management team to assess the health of the organisation and the progress of strategy implementation (Neely 1997).

Divergent Elements

Leadership

Leaders need to provide and implement vision and change to sustain competitive advantage and maintain a high performance culture. Continuous realignment of strategy, structure, skills, staff, shared values, style and systems (Peters & Waterman 1982) with the external environment, whilst concomitantly creating a high performance culture to sustain morphogenic change, is a fundamental leadership challenge. The development of a high performance culture requires the inspiration, drive, and commitment of the leader; leadership is critical to the Balanced Scorecard change process. The impetus for the Balanced Scorecard tends to come from the top particularly when the organisational is in crisis or faced with a need to improve its strategic management processes.

Whilst leaders, initiate and drive organisational change they manage the change only with the help of other change agents. These change agents operate with different change skills and competencies depending on particular requirements and circumstances. For example, if the change initiator has considerable power and change has to be executed quickly, explicit and implicit coercion may be necessary to start the change (at least, in the initial phase). On the other hand, strategies of participation and involvement are more likely to succeed where the change initiators do not have all the answers and where others have the power to challenge the approach. Under this situation, followers gain buy-in to the change process through exerting certain controls. “Hard” strategies to overcome resistance to change may be effective but only in the short run as only behavioural change effects sustainable high performance culture (Holbeche 2005; Chan, Shaffer and Snape 2004). Authentic buy-in, ownership and commitment are needed to make the change last.

It is through the integration of envisioning and empowerment that change leadership secures effective change. Envisioning requires change leaders to provide and communicate a clear vision to create the enthusiasm, energy, and commitment for others to follow. The vision provides both a strategic focus and shared values for all participants in the organisation (Kotter, 2002). However, effective implementation and evaluation must underpin sustained desired change. Leadership on its own is not sufficient; change leaders require both leadership and management attributes to implement change.

The key change agents in a Balanced Scorecard implementation are typically senior and line managers, and team leaders. These agents are responsible for constructing the Balanced Scorecard (including the Strategy Map), reporting performance against target, explaining variances, and encouraging new initiatives. Kaplan and Norton (2001, p353) address the relative importance of leadership style versus technical design of the Balanced Scorecard. They call for a consultative style of leadership.

“the ability to create a Strategy-Focused Firm depends less on such structural and design issues and much more on the leadership of the firm’s senior executive. The lead executive creates the climate for change, the vision for what the change can accommodate, and the

governance process that promotes communication, interactive discussions, and learning about the strategy.”

HRM Practices

Whilst HRM practices are a significant factor in explaining performance in different cultural environments (Chan, Shaffer and Snape 2004, Glinow, Drost and Teagarden 2002, Huo, Huang and Napier 2002), the capacity to manage human capital (Ulrich 1997) is a key determinant of performance. It is the system of HR practices, rather than individual practices themselves, which are important. The design and implementation of internally consistent policies and practices ensure that a firm's human capital contributes to the accomplishment of its goals through the development of a high performance culture (Delaney and Huselid, 1996). Recent evidence provides further support for the effects of HRM practices on the performance of firms in different countries such as China (Bjbrkman and Fan 2002), Russia (Fey et al 2000), and Korea (Bae et al. 2003) in creating strong support for the importance of managing human capital.

HRM practices explain 18 per cent of the variation in productivity and 19 per cent of the variation in profitability in companies (Wall et al. 2004). That is, HRM practices are the more powerful predictors of change in company performance. The results clearly suggest that, if managers wish to influence the performance of their companies, the most important area they should emphasise is the management of people. Since organisational culture and HRM practices are closely related, a positive organisational culture can have a significant impact on the firm's performance. In particular, an equitable reward system may be critical in sustaining a high performance culture (Delaney and Huselid, 1996).

National Culture

The different behaviours exhibited by different national cultures are well explored in past literatures (Hofstede 1991, Trompennair and Hamden-Turner 1995, Gupta and House 2004). Whilst the debate on the strengths and weaknesses (McSweeney 2002) of Hofstede's (1992) cultural dimensions (high vs low power distance;

collectivism vs individualism; masculinity vs femininity; long vs short term; certainty vs uncertainty avoidance) continues, the five cultural dimensions still have significant impact on cross cultural studies. Gupta and House's GLOBE study (Global leadership and Organizational behaviour Effectiveness) (2004) modified and added to Hofstede's framework by adopting nine value dimensions: These dimensions provided a broader cultural perspective in relation to management practices (Tung and Thomas, 2003). Furthermore, the need for appropriate organisational and interpersonal practices and skills to manage cultural diversity in cross-boundary alliances is adequately demonstrated (Delaney and Huselid 1996). Hence, it is reasonable to assume that national culture influences employee work effort/commitment, both directly through cultural values and attitudes, and indirectly through its impact on human resource practices. This raises the question as to whether culture can be an exogenous determinant of HRM practices, or whether cultural values are, at least in part, endogenous. A cultural model of HRM may be reflecting underlying objective social forces, such as power, gender, and collectivism, which are the products of the unique historical experiences of different national societies. Culture may just be a proxy for these forces, which makes it plausible to posit a causal relationship with culture playing an exogenous determining role.

Leaders are constantly seeking best practice management tools (e.g. TQM, JIT, Process reengineering etc) in pursuit of competitive advantage. As cultural values have important implications in management practices and the relationship between high performance culture and the adoption of best practices is relatively clear then cultural understanding is key. Although organisations from different countries may be using similar tools and technology, the people in these organisations, situated in different geographic spaces, have different national cultures and value systems. Cultural values may significantly contribute to shaping customs and practices that occur within organizations as well as influencing how members react to power, conflict, ambiguity, time and change related phenomena. Hence, the global debate around the efficacy of convergent (Harbison and Myers 1959, Kerr et al.1983) or divergent (Bamber and Lansbury 1998, Hofstede 1995, Tompenaars and Wooliams 2003) management practices continues unabated.

Challenges

Although it would appear that the technical implementation of the BSC has been transferred to Asian firms, it is the behavioural change that may be the real challenge. Consideration of the three interdependent divergent elements in Figure 1 (leadership, national cultural and HRM practices) raises a number of potential challenges that face Asian firms implementing a Balanced Scorecard.

1. Increased reporting does not necessarily create a high performance culture.

Unit managers may see the Balanced Scorecard as a compliance requirement instead of the central focus of strategic decision-making. This is in opposition to authentic ownership of the Balanced Scorecard, which requires a collaborative leadership style to stimulate empowerment and align unit goals with corporate objectives. Sustaining ownership is through linking individual performance to unit performance and establishing reward and recognition systems linked with performance on the Balanced Scorecard. In traditional Asian business the superior is expected to provide specialist expertise in technical matters and the strong power-distance dimension means that subordinates cannot easily challenge the superior's position. Increased reporting may exacerbate this.

2. High power distance organisations may lead to conformity.

In an environment of respect for power distance and hierarchy, employees tend to follow the process of seniority. Top down decisions tend to go unchallenged. This may suit a control and command leadership style but will retard new ideas from subordinates, leaving little room for empowerment. Intensive employee involvement that responds to new opportunities and aligns new strategies with strategic directions is fundamental to a successful Balanced Scorecard implementation. Without the supportive processes of involvement, ownership, and empowerment, a high performance culture is difficult to achieve (Holbeche 2005).

3. High focus on technical competencies and insufficient attention to behavioural change.

High technical competencies to design the Strategy Map and its concomitant measures at enterprise and unit levels contribute a good starting point for the change process. However if there is an insufficient emphasis on empowerment and ownership this may lead to a lack of innovation and negligible permanent behaviour change.

4. Conflict avoidance approach to performance appraisals and rewards.

The conflict avoidance behaviour which is common in Asian cultures can result in a narrow range of average to high ratings in the majority of employee appraisals; in other words a “halo effect”. In avoiding awarding poor ratings and not counselling underperforming employees, managers may undermine the performance appraisal system rendering the attainment of a high performance culture unrealistic.

5. Lack of open feedback mechanism could discourage new initiatives.

The Balanced Scorecard relies on the continuous introduction of new initiatives to meet stretch targets. With low levels of open feedback and communication, employees may be reluctant to suggest new initiatives, stymieing performance improvement.

6. Inflexible employment policies could retard the high performance culture.

With the current life term employment and promotion by seniority practices prevalent in Asian firms, there is little incentive for employees to take risks and be innovative. This behaviour runs counter to the spirit of the Balanced Scorecard.

A case study on the Central Bank of Indonesia who adopted the implementation of the BSC system for the whole organisation has highlighted these challenges.

Case Study – Bank Indonesia

Background

In 2004, Bank Indonesia (BI), the central bank of the Republic of Indonesia, had 6000 employees spread throughout 29 Directorates in its head office Jakarta, 37 Branch Offices, and 4 Representative Offices in Singapore, Tokyo, New York, and London. BI's mission, to achieve and maintain the stability of the Indonesian Rupiah, was a pre-condition for economic and social stability and key to Indonesia's long-term development.

Following the 1998 Asian financial crisis, which substantially affected Indonesia's economy, BI began large-scale reform. Plagued by the withdrawal of foreign investment, imprudence, and deceitful banking practices in funds management, a sharp weakening of the exchange rate and lack of confidence in the Indonesian economy, the reforms at BI rested on two major platforms:

1. Greater independence from Government and Parliament.
2. Greater accountability and transparency of BI's affairs through a stronger governance framework.

BI adopted a "best practice" Balanced Scorecard to address the second major reform; improved governance. The ultimate aim of governance reform was to restore confidence in Indonesia's financial system and, ensure the proper management of key domestic and international stakeholders' interests.

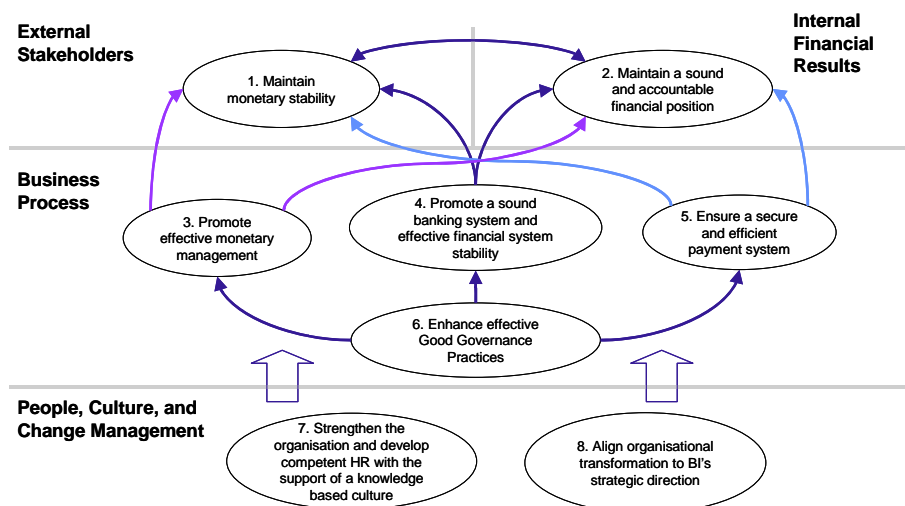
A key purpose of the Balanced Scorecard was to increase transparency and accountability for performance in line with BI's stated strategic direction. This required the strengthening of BI's governance whilst aligning internal capabilities with stakeholder outcomes, all within a budgeting framework. BI developed a Strategy Map to link its corporate objectives (see Figure 2).

An implementation project team championed by the deputy governor of BI, Mr. Aulia Pohan, and endorsed by the Board of Governors communicated the reform agenda

and the role of the Balanced Scorecard; with all directorates and offices involved in the deployment.

An automated reporting system, purchased to reduce the reporting burden, supported a standardised enterprise-wide performance information system, enabled knowledge transfers, promoted transparency, and evaluated the performance of each unit.

Figure 2: Bank Indonesia Strategy Map



Each department appointed KPI (Key Performance Indicator) managers to assist in the reporting and analysis of data. Over a trial period, monthly and quarterly reporting data identified performance gaps used to determine administrative and technical difficulties, and to assess the level of commitment to change.

As yet, no conclusive evidence has accrued to prove that BI's performance has improved at the enterprise level; anecdotal evidence suggests that in those business units where senior managers actively lead the effort, and have full ownership, the early signs are positive. BI claims six major benefits:

1. Improved Orientation Towards External Stakeholders

Balanced Scorecards attempt to shape internal discussion and energies through a focus on what matters to external stakeholders. Historically BI's culture and practices were too inwardly looking and the Balanced Scorecard is realigning BI more towards the needs of external stakeholders especially through increased attention to surveys.

2. Process Improvement

BI is building a culture that embeds the notion of internal customers. Business units agreed to several internal service level indicators and the use of internal customer satisfaction surveys. Required service levels improvements drive business process redesign. For example, the logistics directorate has decentralised several purchasing functions to allow business units more flexible and faster purchasing.

3. Increased Transparency and Accountability

Exponential growth in performance information (on research, regulatory, supervisory and policy-making processes, and internal customer service) results from the aggregation of all business unit scorecards; this significantly increases transparency. Senior decision makers' increased frequency of requests for performance data along with subordinates' evaluation of their director's leadership effectiveness is evidence of accountability improvement; the subordinate score is used as a KPI in the People and Change Management perspective.

4. Greater Alignment of Initiatives With Bank-Wide Strategic Direction

Proposed initiatives are tested for their alignment with strategy and prioritised accordingly. This has created a stronger corporate discipline for approving

and funding business unit initiatives.

5. *Beginning the Transition to a Performance Based Culture*

Top management commitment to the Balanced Scorecard is necessary for its success and sustainability. The monthly, quarterly, and yearly planning and performance review cycles provide regular opportunities for the Governor, Deputy Governor, Directors, and Deputy Directors to demonstrate leadership towards the reform agenda. That the Board of Governors use Balanced Scorecards to induct and familiarise recently appointed Directors and Deputy Directors with BI's priorities for change is clear evidence of top down change. Furthermore, business unit scorecards are scrutinised for their contribution to strategy alignment.

6. *Improved Cost Management*

Historically heads of units were not measured by how well they managed their budgets resulting in the “sky is the limit behaviours”; special appropriations countered budget deficits, which encouraged cost management inefficiencies. Managers now receive monthly feedback on budget variances via the Balanced Scorecard, which reduces overspending instances and normalises good budget planning. Further substantial cost savings materialise from BSC data capped budgets informing negotiations between BI and its vendors.

Challenges at Bank Indonesia

Social and cultural norms interact with and on measures and target informed management. The Balanced Scorecard assumes middle management and front-line staff will take responsibility for interpreting and measuring strategy, streamlining processes and owning innovations. Effective Balanced Scorecard deployment requires a high degree of empowerment. Change management theory suggests that to sustain permanent changes in behaviour, it is necessary for employees to understand, commit to, and take ownership of Balanced Scorecards within their units

(Tushman and O'Reilley, 2002 and Kotter, 2002). In a high power-distant culture such as the Indonesian public sector, where decision-making is almost exclusively the domain of senior staff, subordinates may be reluctant to take the lead or challenge the leader (Hofstede 1991, Leung and Tjosvold 1998). This type of organisational culture diminishes the participative style as embodied in Kaplan and Norton's concept of a strategy-focused organisation.

In a strategy-focused organisation, new initiatives are frequently implemented requiring risk taking by subordinates. However, measurement and employee behaviour are inextricably linked (Austin, 1996); in Asian cultures and particularly in the public sector, whenever such initiatives fail there may be a "loss of face" which discourages further risk-taking. Harmony is highly valued in social and work relationships in Indonesia, and open conflict is avoided (Leung and Tjosvold 1998). An example of conflict avoidance can occur when a KPI in the reporting system indicates a red traffic light. The red traffic light is fearfully interpreted as an alarm signalling poor individual performance rather than an opportunity for learning and development towards a longer-term stretch goal. The fear is exacerbated when the target is set autocratically, and not through mutual agreement. In extreme cases, wishing to avoid conflict with their superiors, staff may set low target expectations or select KPIs that they can easily improve so all green traffic lights are reporting as green.

The BI Board of Governors aware of the need to adjust Western scorecard approaches to suit the Indonesian public sector operates a separate corporate culture initiative to support the Balanced Scorecard and other reforms. Based on reinforcing a system of values focused on competency, integrity, transparency, accountability, and cohesiveness it acknowledges the need to create a new and high performance organisational culture that will permanently restore domestic and international confidence.

A future critical step is the linking of unit Balanced Scorecards with individual performance appraisal. This requires a significant overhaul of the incumbent performance appraisal method, which has a high level of investment and ownership

within HR. With the incumbent method, individual performance scores within a business unit are adjusted to follow the bell curve, meaning that a uniform percentage is allowed in the 'above average' category which does not lend itself to Balanced Scorecard principles. HR and the Balanced Scorecard project team are working together to resolve these issues; those units who score higher on their scorecards will be allowed a greater percentage in the 'above average' category.

An associated issue is that of rewards; traditionally, BI was not able to offer bonuses and financial incentives; and now a reward program around improvements in performance measures is required. Promotion has been the most common way to reward good performers. Other non-financial incentives are common, for example, the chance to study abroad and attend more external, including overseas, training courses; but these can suffer from lack of transparency. Appropriate performance improvement incentives are yet to emerge.

Limitations and future studies

The underlying premise of the change model described in Figure 1 is that positive results have been obtained by Western firms in the adoption of best practices, and in particular the Balanced Scorecard. The introduction of an intervening variable such as national culture suggests that the adoption of the same best practices may not produce the same results in the East. The authors acknowledge that the results from the Bank Indonesia case study are preliminary. Although this exploratory study demonstrates that using Western best practices programs to optimise Asian context performance requires divergent management practices, evaluating the significance of national culture on the use of Balanced Scorecard in Asian firms in general requires further research. Future studies in this area will help us to better understand and develop a change model for the Balanced Scorecard to better fit with the Asian environment.

Conclusion

This paper discussed the convergence-divergence issues occurring when firms adopt best practices to achieve and maintain a high performance culture. The paper explored the influence of national culture, leadership, and HRM practices when Asian firms adopt Western strategic management practices and in particular the Balanced Scorecard. Divergence issues may have a significant impact on results. The paper argues three areas need close attention when Asian firms implement strategic management systems:

1. Conflict avoidance in relation to performance appraisal and rewards
2. The depth of feedback given to staff around performance issues
3. High power distance and conformity

These HR issues relate to cultural norms that influence managerial practices in Asia. A greater awareness of the different approaches to manage these challenges effectively in Asian firms and in particular, the implementation of best practice such as the Balanced scorecard system, can contribute to a high performance culture to underpin sustainable competitive advantage.

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