

**Non-Requisite Organization:
The Fallout from Using the ‘Balanced’ Scorecard**

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Abstract

A brief outline of why the ‘balanced’ scorecard is not truly balanced in terms of human capital, and the pernicious consequences of the absence of capability assessments that include developmental potential in companies.

Introduction

As Elliott Jaques has shown in nearly 50 years of research, only companies with ‘requisite organization’ can ultimately survive and thrive (Jaques 1994, 1996, 2002). This is so because requisite organization brings into balance the complexity of levels of work in a company, on one hand, and the levels of capability of individuals delivering work on those levels (‘work strata’), on the other. Capability management encompasses not just performance, but current and future potential capability of people in a company. In “Requisite Organization,” Jaques carefully and concisely outlines what a requisitely organized enterprise looks like and how to achieve it. In terms of Jaques’ findings, most companies have either non- or even anti-requisite organization, and the effort has to be to move them from their assumed or extant organization toward a more requisite state. After more than a decade of using the ‘balanced’ scorecard, it is time to ask “how balanced was the scorecard designed to be, and has the promise of its balance been fulfilled”? This short article shows why the answer to the latter question is NO.

The non-requisite nature of the four dimensions of the balanced scorecard

It has been the managerial promise of the scorecard, to move companies from exclusively financial accounting to a more systemic view of output and performance, by equally focusing on three non-financial dimensions: customer relationship, internal business process, and “learning and growth,” or human capital. In terms of the ‘top-down’ design of the card, “shareholder” and “strategy” were made the prime focus. Shareholders must be satisfied, and strategy is to be executed. To begin with, neither shareholders nor strategy have anything even remotely to do with requisite organization, in the sense of Jaques’ capability management. In fact, strategy pursued without a thorough knowledge of whether strategic objectives are balanced with human capability on different work strata is just a pipe dream. In this sense, the four dimensions of the scorecard are non-requisite, meaning they are not balanced in terms of human capability. Depending on how learning and growth of human capital is treated by a company, these dimensions may even be anti-requisite.

The ‘brushing under the rug’ of human capital

The major reasons for the non-requisite nature of the scorecard is the shallow nature of its strategy maps and the reliance, in the learning and growth dimension, on “espoused theory” in the form of opinion surveys. BSC strategy maps are causal hypotheses never tested against actual company capability. One can call them “strip maps” which, like geographical maps, do not tell the user how exactly to get from one place to another. These maps appeal to intuition as much as do opinion surveys, where answers to questions predefined by management are treated as if they were more than intuition, namely ‘data.’ The scorecard’s foundation in what Argyris calls “espoused theory” shows through everywhere: without human capability assessments no strategy map is truly requisite. Human capital in terms of human capability is essentially brushed under the rug. What’s left of human capital in balanced scorecard environments are Potemkin villages

built of opinion surveys and HR System statistics. These villages stand on undisclosed swamps of unassessed capability.

Why competence models and 'performance management' cannot 'depotemkinize' the balanced scorecard village

Jaques' notion of 'requisite organization,' or 'work complexity – work capability balance,' requires a thorough assessment of not only "current applied capability" (present performance), but of current and future potential capability as well. This is so since the latter can be shown to strongly determine the former: A person with capability to work on stratum III will fail on stratum IV (Jaques, RO, p. 65 f). However, such measured data are not available to scorecard based companies.

The scorecard reliance on 'perceived data' (ultimately intuition), as against measured data, regarding capability is further strengthened by the use of competence models, on one hand, and 'performance management' techniques focused on output alone, on the other. Competence models regard the knowledge, 'skills' (overlearned knowledge) and 'attitudes' of human capital. Since such models do not look beyond present performance, thus do not take current and future potential capability (the bedrock of performance and requisite organization) into account, they only reinforce the use of perceived data (most visibly when it comes to attitudes). Current performance management techniques squarely focus on output alone. They disregard both the input to performance (capability), and the environment in which output is delivered (namely, the work strata set apart by different levels of complexity of information processing). Output-based performance measurements and incentive- (rather than capability-) based reward systems distort requisite organization in companies. They are not built on solid managerial accountability hierarchies. Together, competence and output performance models reinforce the non- or anti-requisite nature of scorecard 'balance.'

The anti-requisite nature of scorecard measurements

It is the glory of the scorecard to have set in motion a movement toward measurement, but what its practitioners have chosen to measure does not make for requisite organization. "Requisite" measurement is measurement of individual capability at all levels of the company, from CEO down to janitor. A stratum V CEO will bring an otherwise stratum VI company down to his/her own level. A stratum III worker required to deliver output on stratum II will be inadequately rewarded and will not stay. Not even the most elaborate statistical measurement technique and questionnaire formulation will change a iota in this state affairs. In short, the crux of the non-requisite nature of the scorecard is the failure of the "HR scorecard" to measure capability by other than perceived data. So, while the HR scorecard is an interesting extension of the 'balanced' scorecard, it predicts (and perhaps speeds up) its ultimate downfall in terms of requisite organization.

What does a requisite HR scorecard entail?

Given this state of affairs, by force we are beginning to talk about building the balanced scorecard "bottom up." Without a thorough assessment of strata of work complexity and individual capability levels matched to them, all of the 'higher level' strategy maps of the scorecard constitute a house of cards. What, then, does it mean to transform the HR scorecard into a tool for building requisite organization into a company? What is needed is to base the HR scorecard on measured data other than opinion surveys and statistical data of the 'HR System'. To do so, we need to introduce a new data type, that of capability. The data type is three-pronged, as discussed below, and requires interview-scoring, not survey, techniques.

Toward a Human Capability Scorecard

According to E. Jaques, capability measurement regards the information complexity of work in relation to the information processing complexity of individuals doing work. Capability is not a one-dimensional affair since it is based on maturation over the life span. Depending on individual potential, a person's capability ceiling is reached either sooner or later in life, and highly gifted individuals pass away without having reached their high potential (e.g., Picasso). Conceptually, three aspects of capability, although they are strongly interrelated, can be independently measured (Jaques, Human Capability, p. 7 f):

- Current applied capability: the level of capability a person is presently applying in some specific work; -- a function of the person's potential capability
- Current potential capability, the maximum level of work that a person could carry at any given point in time in work that he/she values and can gain the necessary experience and skilled knowledge to perform (thus not per se dependent on "experience" or "competence")
- Future potential capability: the predicted level of potential capability that a person will possess at some specific time in the future ("capability ceiling").

Importantly, what matters in a Human Capability Scorecard is not the measurement of individual capability alone, but the alignment of individual capability levels, once measured, with 7-8 strata of work complexity, starting at the top.

Measuring the alignment of individual capability with work strata

Measuring individual capability amounts to more than carrying out the measurement. It strongly hinges on a theory of work capability an assessment tool is based on. For Jaques, that theory is built around a measurement of time horizon, or the 'longest targeted completion time' of tasks at a particular work stratum. For measuring future potential capability, Jaques relies on pay scale statistics over the life span. He assesses current potential capability by way of an interview meant to determine the type of a person's capability to process complex information, checked against the intuition of a "manager once removed from" the person concerned (see references, in particular www.requisite.org, www.casonhall.com).

In CDREM™ (the Corporate Development Readiness and Effectiveness Measure introduced by the author since 1999), capability measurements are expanded. Each aspect of capability, stated above, is measured in its own terms, following research in adult development over the life span by the Kohlberg School at Harvard (see www.cdremsite.com). What results is a *capability metric* that partitions workers on a particular stratum of work complexity according to whether or not they reach clearly defined capability standards. The advantage of this procedure is complete reliance on measured, versus merely perceived (intuited), data. A second advantage is that not only time horizon, but also the mental space in which problem solving and decision making take place in a "language suffused world" (Jaques 2002) are precisely measured. In short, CDREM™ incorporates Jaques' measurements but expands them. Both Jaques and Laske leave competence models and opinion surveys behind as merely "espoused theory" (Argyris).

What, then, does a Human Capability Scorecard require?

Jaques' research is a call to action for enriching opinion survey based and intuited competence and strategy alignment data, by way of a new data type, that of capability. The research needed for taking this step has been done. What is needed is to embrace the research findings. This step from an "HR Scorecard" to "Humand Capability Scorecard" entails using methods Argyris would say probe "theory in use" rather than just "espoused theory." The step entails giving up the dubious notion that it is the "HR System" that determines executive and employee behavior. It requires instead to face up to the fact that behavior is more essentially determined by what executives and employees "bring to the table" in terms of their potential capability, and accept the notion that this capability can be precisely measured. In addition, it entails focusing on how well this potential capability is supported by the HR System in place. Where a company's organization is not requisite, what the HR System does is, by definition, not calibrated in terms of work strata

(levels of work complexity) and their match with individual capability. Consequently, neither the company's training programs nor the reward system are requisite in the sense that they are based on predictive capability metrics (as for instance put in place by CDREM™). What is lacking is the implementation of the new data type of capability, researched since 1956 that could turn the "HR Scorecard" into a "Human Capability Scorecard."

Beyond the imbalance of the balanced scorecard

As Jaques has convincingly shown, accountability in a company hinges on the requisite balance of work strata with individual capability at all levels of work, from CEO to janitor. There is a natural "managerial accountability hierarchy" in place that mirrors the levels of abstract conceptual thought of company individuals. These cognitive levels determine not only the time horizon, but also the mental space individuals can operate in and need to be rewarded for. Whether this hierarchy is based on *innate maturation over the life span* (as Jaques believes) or is open to *development over the life span* (as assumed in Laske's CDREM™) is a philosophical difference of minor concern as long as capability assessments are carried out at all. The principal imbalance of the balanced scorecard is rooted in its behavioristic assumptions as to what is 'work,' and consequently what is 'performance.' The economic and social consequences of these assumptions are beyond anybody's counting. They are only exacerbated by the "incentive" system now in place that rewards individuals disproportionately in terms of their capability level. The resulting uncertainty of employment, and the excesses of overpaying moderate capability at higher corporate levels makes retention of true capability a gamble at best. It would be worth company's time to introduce an executive reading club (with consultants included), to catch up on the social science research on capability that has accumulated over the last fifty years (see below).

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