An integrated framework of strategic knowledge management system—integration knowledge management, Balanced Scorecard and strategic reward system

Wei-chung Chang
Department of Management Information Systems, National Chengchi University, 4F,No.30-1,Ln.315, Sec 2, Shih-pai Rd, Taipei City 11267, Taiwan
wcchang@nccu.edu.tw

Abstract

Studies of Knowledge Management and Balanced Scorecard have been development for decades. Academic researches in the past explore knowledge management mechanisms, the deepen Strategy of Balanced Scorecard and the strength of the reward system implementation respectively. However, they rarely discuss in depth the integration of knowledge management, Balanced Scorecard and strategic reward system, so an integrated framework of strategic knowledge management system is still lack.

Therefore, the purpose of this study is to sort out through literature an architecture which can give full play to the effectiveness of the application of knowledge management in the organization. This paper starts from giving a conceptual overview about why an integrated framework of strategic knowledge management is needed. Right after that, we describe the Balanced Scorecard and strategic reward system, and examine the financial and non-financial rewards incentive model. Finally an integrated framework of strategic knowledge management system will be presented.

In this architecture Balanced Scorecard is a policy management tool which strengths in-depth strategy design to organization, helping organize institutional activities. The implementation of knowledge management system need staff to perform, and therefore through the reward system motivate staff strengthening the implementation of knowledge management, prompting the organization to increase stock of knowledge, and enhancing organizational performance.

Keywords: knowledge management, Balanced Scorecard and strategic reward system
Why an integrated framework of strategic knowledge management is needed – a conceptual overview

Businesses today changes quickly in the environment, market peers contending fierce competition, Companies committed to seeking new opportunities for the development of new competitive strategies, in order to find a niche market. Therefore, the key to business success lies on the strategy, and the strategy can be executed. Balanced Scorecard (Balanced Scorecard) was developed in 1992 by Harvard University professor Robert Kaplan and David Norton as the organization's core thinking strategy. It is a combination of strategic management, performance evaluation, and organizational communication management tool.

From the resources point of view, knowledge is the most important resource of the competition in the 21st century. In face of a wide range of competition, organizations must find the correct direction of the use and integration of knowledge; promote knowledge transfer and exchange in order to effectively maintain the competitiveness of enterprises. Therefore many enterprises import knowledge management system (KMS) hoping to help corporate strategy effective implementation, and to increase the competitive advantage of enterprises effectively.

Exertion of knowledge management resorts to motivate employees to perform commitment. Kaplan & Norton (2003) describe the communication and education of organization's mission, vision and strategy is the first step of intrinsic motivation among employees. Management level uses Balanced Scorecard as a strategic communication tool. The content includes organizations want to achieve what goals, and how the organization plans to achieve strategic results. Through this employees understand how to work with the strategy.

In summary, organizations establish dominance rely on effective co-ordination of strategy implementation and organizations internal knowledge resources. Therefore, through the Balanced Scorecard to guide the formation of knowledge management systems, the organizations internal knowledge resources focused on strategy. In addition, through the Balanced Scorecard to strengthen the performance evaluation and organizational communication qualities, combined with strategic reward system driven organization to complete implementation of a strategic knowledge management. Strategic knowledge strengthens the organization's internal competitive advantages and the implementation of the strategy.
Balanced Scorecard and strategic reward system

a) Inamdar, Kaplan and Reynolds (2004) through interviews with high-level managers explore motivation, experience, and results of the medical organizations which have imported Balanced Scorecard. For respondents who participate in a Balanced Scorecard project have following significantly positive value:

1. Through constant communication clarify the strategy to reach a consensus;
2. Executives have clearer objectives and targets, and therefore increase the sense of responsibility of the management of stakeholders;
3. Provide a rigorous decision-making structure, the senior managers think logically;
4. Help senior managers to focus on the core, and set the order, and then extended down to the first-line employees, allowing all members understand how to do to contribute strategic goals, eventually link pay as an incentive.
5. Scorecard link strategic objectives, budget, and resource allocation;
6. Scorecard links the manager's compensation plans will make them more responsible to the strategic objectives;
7. Balanced Scorecard educates employees on current industry conditions, as well as the future development of corporate strategies, whereby they are constantly learning and continuous improvement.

b) Kaplan and Norton (1996) explores how the Balanced Scorecard effective conversion corporate vision and strategy for action, combines performance management and staff remuneration to pursuing strategies implementation. The authors have compiled many of the practical implementation of the process and results of the Balanced Scorecard. However, even the organizational participants understand the strategic objectives and direction, but their goals can not be completely fully consistent with organizational goals, therefore through combination with the reward, promotion and pay system can inspire organizational participants' intentions to strengthen personal strategy with the degree of a sense of belonging and responsibility, to improve the implementation of the strategy of the institutions. This summarized the impact of the implementation of the Balanced Scorecard to members of the organization, and organizational effectiveness; also reward system needs to link with the performance of organizational members.

c) Podolske (2004) describes the process of the accounting firm Corbett Duncan & Hubly using Balanced Scorecard management system management, as well as the case experience and produced benefits of the reward system "Pay for performance" of the Myners + Co. Literature emphasizes the importance of the reward system "Pay for
performance" linked with the Balanced Scorecard. System “Pay for performance” divides company bonus into four parts: COLA(cost of living adjustment)、Core competency bonus、Core value bonus and Production bonus. Result shows Balanced Scorecard integrated with strategic reward system enhancing the strategy execution.

d) Ittner, Larcker, Meyer, and Marshall (2003) discussed the impact of the non-financial indicators of the balanced scorecard which incorporated into the reward standards. The Balanced Scorecard brings important changes in the management. The upgrading of the company's financial goal relies on the achievement of the goals of non-financial aspects. The company's operations depend on the implementation of the personnel, staff should also pay attention to non-financial goals. However, whether it can motivate staff's goals consistent with the company's goals, you need to boot by the reward system. Neglected of non-financial objectives non-financial dimensions of the target cannot be reached. This will likely make the effect of management changes brought by the Balanced Scorecard to reduce. Therefore, the effective integration of the reward standards and non-financial indicators of the Balanced Scorecard should be an important research topic.

Theory of motivation

a) Schuler and Jackson (1987) think that a corporate under different competitive strategies needs different employee behavior and human resource management methods, in order to achieve the best fit and overall corporate strategy. When the enterprise competitive strategy act as an innovation strategy companies need employees with creative thinking and analytical ability. Therefore, the human resources strategy should focus on training employees with multiple professional competences. When the competitive strategy of an enterprise is to improve the company quality which emphasis on the performance of individual employees and groups corporate needs to provide extensive and ongoing human resource development programs to help employees achieve the goal of improving the quality of products or services. When the competitive strategy of an enterprise is a cost reduction strategy then set clear workflow description and use performance and results linking reward system is the focus of the human resource management.

Document illustrate enterprises have different competitive strategies and reward system motivates employees to achieve organizational goals improving strategy execution. Therefore, the reward system to be able to effectively improve strategy execution, reward systems and strategies must indeed links, and should be compatible
with different competitive strategies of different design of the reward system. The Balanced Scorecard bring important changes in the management is closely linked with the strategy. Reward system through the combination of scorecard can enhance links with strategies. The design of the different reward systems can strengthen the implementation of the strategies.

b) Howard and Dougherty (2004) take personal output, group output, human capital and status, as well as market-oriented standards as measures of reward strategy guidelines. The literature indicates that individual output or group output have a different impact on the organization's performance achievements. For example, when individual performance is not easy to measure group output, growth force, and profitability can be used as reward Criteria to enhance employees' willingness to cooperate and reach a higher level of organizational goals. Reward system and the Balanced Scorecard links must be compatible with a variety of strategies designed reward system.

c) The incentive theory model of Clayton P. Alderfer (1972) divides Maslow’s hierarchy of needs into three needs - existence, relatedness and growth. Needs for existence is the physical and material needs, such as hunger, salary, benefits, demand. It likes Maslow's physiological and part of the security requirements. Needs for relationship stresses the mutual relationship of the individual and society needs as Maslow's security, social and respect demand. Needs for growth are the efforts for self-growth and create as Maslow's dignity and self-actualization needs, also corresponding the Herzberg incentive elements. Different reward items have different value to the employees. Therefore, the design of the reward system must consider the incentive theory, in order to effectively motivate employees and to give employees reward it’s most needed.

d) The program incentives theoretical model (expectancy model) of VH Vroom (1964) thinks that people chose a course of conduct because they believe that such a move can be caused to some extent of the result, such as salary increases, boss appreciation. These results can also satisfy their goals. The V. H. Vroom expectancy model indicates that the reason why all the diligent efforts of the staff to work, is entirely based on the performance they desire will be able to get some degree of awareness, and the so-called expectations (expectancy). However this eager to performance standards also established in the probability of whether the performance can lead to results. This is called a medium (instrumentality). Balanced Scorecard and reward system links motivate employees to achieve the organization's strategic goals,
So the reward system design needs to consider the program incentive theory in order to ensure the high performance of employees so that they can get to meet its goal of remuneration and really motivate employees to improve strategy execution to achieve the organization's performance.

e) The theoretical model of leadership and motivation of House & Shamir (1993) thinks that the basic task of the leader is to let subordinates play a role and support subordinates to achieve their goals. Leadership must have the incentive. The basic idea of motivation is based on performance, help and support of subordinates at the same time to contribute to the performance. In other words, the leader has to be able to specify the direction of the subordinates work, but also to exclude the obstacles to enable them to achieve the goals smoothly. Leadership and motivation theory is an important part of employee incentive and is also an important duty of a leader. Leader incentives can support subordinates to achieve their goals, and strengthen the performance of the team, to enhance the organization's strategy execution.

**An integrated framework of strategic knowledge management**

Knowledge is the most important resource of the competition in the 21st century organization. Faced with a wide range of talent and knowledge the organization must identify the correct direction of development. There are many models and knowledge management mechanism which must be compatible with the organizational strategy to strengthen the organization's competitive advantage in organizational knowledge management (Alavi & Leidner, 2001). Choose what kind of knowledge management mechanisms mode, should be in-depth understanding of competitive strategy. Balanced Scorecard is the organization's policy enforcement tools which emphasis on deepening organizational strategy. Therefore, Balanced Scorecard links knowledge management mechanism is quite effective in practice.

Balanced Scorecard and reward system linked can incent the intent of organizational participants, whether it is the manager, or the General Staff. It also strengthens personal co-ordination of strategies and responsibilities of a sense of belonging, and improves the strategy implementation of the institutions (Inamda, Kaplan and Reynolds, 2002; Kaplan, and Norton, 1996). Implementation of the Balanced Scorecard, may, by combination with the reward system, strengthen the degree of the strategic focus (Podolske, 2004). Therefore, the balanced scorecard and reward system can motivate staff to strengthen the strategic cooperation and implementation.
The design of reward system must be compatible with the organization's overall strategy. Different competitive strategies should in compare with different employee behavior and reward system in order to achieve the best fit with overall corporate strategy (Schuler & Jackson, 1987). When linking reward system and the Balanced Scorecard the important considerations are choosing the Balanced Scorecard metrics. The Balanced Scorecard simultaneously focuses on financial and non-financial indicators. Reward is in the employment relationship which Staff felt by employers to give something of value including monetary and non-monetary benefits. Therefore, the organization should set the reward conditions to allow employees through efforts to achieve the reward. In addition, even if the reward itself meets the employees' personal needs, reward unfair will also result in employee dissatisfaction. In other words, whether people are hard work not only subject to receive the reward, also impact by the payoff amount received by others (Adams, 1964). Therefore, in the design of the compensation plan, we should also consider the above factors, so that employees are willing to efforts for the organization.

In summary, knowledge is an important resource of competition. Therefore, improving the organization's stock of knowledge is very important. Knowledge management system design should be guided by strategy for effective focusing on the accumulation of knowledge capital. The implementation of knowledge management system depends on effective co-ordination of the reward system to motivate the implementation of the employee’s knowledge management execution. Therefore, knowledge management system should be guided by the overall strategy and the Balanced Scorecard, combined with the reward system to strengthen the policy focus. The design of the reward system shall be instructed to consider the contents of incentive theory, giving employees the value needed, really motivate employees to reach organizational goals in order to improve organizational performance. The integration architecture of Balanced Scorecard, incentive theory and strategic reward system as shown in following Figure:
References


The Accounting Review 78. 3(July): 725-758.