

Analysis of HR Health at CVS using Balanced Scorecard

An investigation into the Human Resource challenges faced by the pharma retail industry and analyzing them through the Balanced Scorecard approach



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Report is also available at the following link:-



Foreword



A consulting report should bridge the gap between the cutting-edge scholarly research within a field and the practitioner's demand for action.

Insatiably curious about the rapidly changing business environment and particularly about the American healthcare industry, the students have gone gunning for the problems that baffle us all. I've had the fortune to work with curious future managers who have set the bar high for analysis and performance for countless hours. This working lot of future leaders for the course Consulting to Management are fueled by the external demand for 'more' and internal drive for 'better.'

This fascinating and informed analysis aptly utilizing the strategic management tools focuses that an organization's human resources are an integral part of its wealth. The report begins with the overview and presents the fundamental idea that will further extend the reader's thinking on the improvements in long term financial performance through focusing on organizational learning and human capital.

The sequenced progression of the report's key ideas forms an argument for organizations to look beyond financials and incorporate practices that ensure sustainable growth and long-run profitability.

I hope that this report's analytical framework gives the practitioner and students a breadth of perspective and insight. The report presents an analysis that is accessible to the business community and helps to respond to even the most complicated issues in the market environment. It is inspiring to see a text that attempts to broaden our worldview and offers support to existing and developing practitioners and researchers to critically ensure that their action is useful, valuable, and sustainable.

Kudos to the striving, progressing, and cheery team.

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Table of Contents

- i. [Foreword](#)
- ii. [Table of Contents](#)
- iii. [Executive Summary](#)
- iv. [Background](#)
1. [Introduction](#)
 - [The First Anti-Tobacco Company-“CVS”](#)
 - [CVS-Balanced HR scorecard approach](#)
 - [Purpose of the report](#)
2. [Methodology](#)
3. [Analysis](#)
 - [Diagnosis of the CVS problem](#)
 - [Strategic importance of choosing the Balanced Scorecard framework](#)
 - [Diversity and Inclusion matters](#)
 - [Are you ethical enough?](#)
 - [The double-edged sword: Recruitment & Retention](#)
 - [The importance of Training and Development](#)
 - [Creating the right mix of culture and engagement](#)
 - [Increased weightage for personal benefits and social security](#)
 - [Power of well performing employees](#)
4. [Conclusion and Recommendations](#)
 - [Prescription for reviving the health of CVS Health](#)
5. [References](#)

Executive Summary

In this report, we have used non-financial measures in strategic decision making to solve problems in people's domain within organizations using the CVS case. CVS Health is a major pharmacy corporation that has achieved impressive financial performance over several years as well as national distinction as the first national pharmacy chain to discontinue sales of tobacco products. CVS stock price witnessed a slump recently after an initial increase in stock market price from \$66.11 to \$101.59 after the major strategic decision to add value to the healthcare system by discontinuing sales of tobacco products and foregoing a profit of \$2 billion per year in their revenue. We used the "Balanced Scorecard" framework and insightful class discussions by utilizing research papers to analyze various key indicators and key performance areas in the CVS case. Balanced scorecard developed by Kaplan and Norton, was used to include important non-financial measures of performance in strategy implementation. Individual analysis of each of the KPA and KPI has helped to better understand the factors influencing the performance of CVS. A few of the KPA's identified were diversity and inclusiveness, benefits and social security, engagement culture, recruitment, and selection. After performing the analysis of these key areas we identified the ones where more strategic work is to be done to increase the performance of CVS. These areas are, including diversity especially at the mid-management level, making the recruitment procedure efficient, and creating a more transparent working style to make the organization ethically sound. With recommendations on key areas, we tried to provide the best consultancy to CVS to enhance its performance and transform its services as a leader in the industry.

Background

HEALTH OF AN ORGANIZATION – THE BALANCED SCORECARD APPROACH

Health of an organization, as per Keller & Price, is the ability of any organization to adapt to new challenges and constraints, with agility. The health is determined by various parameters like sustained profits, financial growth, good public relations and recognition. From a human resources perspective, we seek an effective human resources strategy, diverse talent pool, higher job satisfaction and employee engagement. However, alignment and integration of these parameters has to be assured along with the organization's vision and mission, as well as the short term objectives and goals, for maximum effectiveness. As complicated is the concept, even complex is measuring the success rate or 'overall health' of the organization. However, the 'Balanced Scorecard approach' by Kaplan and Norton is one way to keep track of all performance areas, in order to determine competencies and weakness, and ensure constructive intervention.

The case CVS Health: Checking the vital signs of the largest pharmacy company in the US by Karen L. Pellegrin, (January 04, 2017) has been taken from Sage business cases, which relates to contemporary problems regarding strategic human resource management in the health care industry in the modern world.

CASE SUMMARY

The consultancy report has been prepared in accordance with the vital changes that happened in the American healthcare industry and in particular to the largest pharmacy company in the USA the CVS Health Corporation (formerly known as CVS Caremark Corporation). In 2014, CVS made changes in its objective to re-invent itself as a pharmacy-centric organization, and decided to remove tobacco products from its shelves, giving up \$2 billion of annual revenues and positioning its growth towards as a healthcare company. The advent of Patient Protection and Affordable Care Act (Obamacare) in USA, led to a shift in the healthcare industry, there was a market for affordable and effective healthcare. The value of community pharmacist as clinicians came forward with the conversion of retail pharmacy as a centre for health care rather than just a dispensary, which brought the concern for CVS regarding the training of these pharmacists.

Having 9000 retail pharmacy stores with pharmacists and 1000 stores with nurse practitioners (for treating common illness), ensuring clinical staff providing top-of-their-license care was again a big concern for the company. A restructured organization strategy had to be deployed, keeping the newer roles for employees in mind, which wasn't implemented, especially in the case of the HR department. This drastically affected the operating profits.

In 2015, trying to maintain the competitiveness in the industry CVS, failed to align the employees with objectives and roles, and there was a mismatch of competencies and expectations, making it, 'the worst company to work' in that year and even the incentive plan was not fruitful. In 2016, Morgan Stanley reported that CVS stocks were no longer showing bullish trends due to ineffectiveness in the Pharmacy Benefit Management segment which was affecting its retail segment. Acquisitions, to increase pharmacy network led to decline in

availability of products, customer satisfaction and the personal touch toward each customer. In the report aforementioned concerns will be addressed along with providing reasoned solutions.

Introduction

THE FIRST ANTI-TOBACCO COMPANY- “CVS”

CVS Pharmacy headquartered in Woonsocket, Rhode Island, USA is a retail pharmacy chain. The parent company of CVS pharmacy is CVS Health which is an American healthcare company earlier known as CVS Corporation and CVS Caremark.

Consumer Value Stores (CVS) was established in 1963 by three accomplices: siblings Stanley and Sidney Goldstein and Ralph Hoagland, who developed the endeavor from a parent organization, Mark Steven. At the underlying phase of the business it started off as a chain of beauty and wellbeing aid stores, after a while, pharmacies were opened. To facilitate development and expansion of the organization it joined hands with the Melville Corporation, which was then managing a retail business chain. This collaboration proved successful and growth was observed in the period of 1980-90. In 1996, CVS established itself as a separate company and began trading stocks as CVS on the New York Stock Exchange.

The vision of CVS Health is to “help people to live longer, healthier, happier lives.”

In a major transformation in 2014 the company renamed itself as CVS Health, deciding to eliminate the sale of tobacco products from its pharmacy stores. This decision made CVS Health a major pharmacy corporation that went on to achieve impressive financial performance in the following years and created a positive image of the company as it became the first national pharmacy chain in the USA to do away with the sales of tobacco products.

CVS - BALANCED HR SCORECARD APPROACH

The balanced scorecard is a strategy performance management tool. The scorecard lists financial goals, customer goals, internal business goals, and innovation & learning goals which helps companies by providing them with an organizational performance overview and aids in planning of future strategies.

An HR scorecard is an extension of the Balance Scorecard which is a strategic Human Resource measurement metric that assists with the measurement, management, and improvement of the organizational health indicators from a human resource perspective. The HR scorecard measures the leading HR indicators of business performance, also called the HR deliverables or HR Key Performance Indicators (KPIs).

The areas of organizational functioning of CVS comprising the balanced scorecard are as follows:

- Learning and growth: Evaluating the organizational culture, leadership and other aspects of human capital.
- Process: Measuring the operational efficiency, share in market, adoption of innovation, and regulatory compliance.
- Customer: Creation of value to customers, price perception in relation to cost of the product and services by the customer.
- Financial: The profits that the firm generates.

According to the CVS Health 2015 annual report, its Pharmacy Benefit Management segment (PBM) was fast growing and represented nearly two thirds of total company revenue; however the profits earned contributed less than half of the total profits of CVS. In contrast, profit from the retail stores, including prescription medications, was nearly double of that of the PBM segment. The balanced scorecard approach to strategy implementation and management encourages an investigation of underlying factors.

PURPOSE OF THE REPORT

- CVS does not measure the satisfaction of the employers who pay for the health insurance plans and who actually are their customers.

According to the case, CVS was using a survey to capture the client satisfaction of its PBM segment but it was not measuring a very important indirect customer group- the employers who pay for the health insurance plans and are CVS PBM customers.

- CVS does not appear to have an effective methodology to measure the level of employee/pharmacist engagement and a healthy work environment for its employees.

In the retail pharmacy sector consumer-facing employees are extremely important to success and their customer dealings can be a big differentiator to the firm, however CVS has not been able to effectively measure employee/pharmacist engagement or satisfaction. The inadequate attention given to human capital measures may well be one of the reasons why CVS was voted among the “worst places to work.”

- CVS does not have a comparative measure of how customers rate the performance of its retail pharmacies relative to other retail pharmacies.

According to the case, while CVS measures the satisfaction of its retail customers, it is missing a more important strategic measure of how its customers rate CVS retail pharmacies relative to other retail pharmacies. This measure would give a more intelligible indication of its performance in the industry.

- CVS needs to improve long-term financial performance

CVS seems to be more focused on short term immediate profit making and is putting extreme pressure on its employees and losing out on creating relationships with the customers that increases the lifetime value of customers. The sub-optimal focus on organizational learning and human capital resources is leading to little improvement in the long term financial performance.

Methodology

In an effort to prepare this report a systematic review of literature on Key Performance Areas that relate to Human Resources and pharmacy corporations, which seeks to synthesize the current thinking and evidence where carried out. Emphasis is drawn on key trends in the changing role of the pharmacist and global human resource trends. The work of academic researchers and practitioner action approach is predominantly used for a comprehensive analysis. Analysis is carried out by keeping in mind the potential strategies and measures available to retail pharmacies that can add value to the healthcare system.

Extensive and elaborated discussion where carried out to determine the Key Performance Areas and their associated performance indices. Exhaustive analysis was done to concretely define the areas and the indices. Global and American retail pharma industry trends were studied to identify and enhance the KPIs. These studies are kept in mind when designing the measurement systems and trackers for the KPIs.

All quantitative data were collected from secondary sources.

Analysis

DIAGNOSIS OF THE CVS PROBLEM

In this part, we will try to analyse the signs in CVS Health Corporation that led to its appearance on the 24/7 Wall St list of “worst companies to work for” in 2015, failing to give support to the employees and was not on the bull run in the market.

CVS has two segments that are- Retail Sector and Pharmacy Benefit Management (Health insurance), this report tries to address problems for both.

IN RETAIL

Even though the start of the case shows the company on a positive note with a strong objective and with a vision for the future. President of the US in 2014, Mr. Barack Obama also congratulated the CEO and market also saw the organization agile for coming future challenges. But with the passage of time CVS was not able to cope up with employee’s changed training requirements and to tap the quality of employees. Organization was somewhat successful in providing ‘Top of the license’ service at its different location for reducing its cost but ensuring the same in the future seen bleak.

CVS acquired pharmacies to increase its network, but ensuring proper availability of medicine was not there. With the new Act, the role of pharmacist has grown and become a profession of consulting but judging a pharmacist on how much business it brought to the company was a wrong parameter on promoting him. People were only favouring the chain outlets because of their 24*7 availability otherwise, people were more satisfied with individual pharmacists in terms of their check-up or availability of product.

IN PBM

This segment holds two third of the business of CVS but profits from it were less than the retail segment. Due to new entrants in this business the competition becomes stiff and many companies to get more profit start prescribing medicine with more margins rather than the medicine with the same effect and of low cost. It misled the objective of establishing the cost effective medication health plan. This brought the whole industry in the radar of the government affecting the sector.

STRATEGIC IMPORTANCE OF CHOOSING THE BALANCED SCORECARD FRAMEWORK

The Balanced Scorecard was a framework designed by Norton and Kaplan, who believed that judging a company only through financials was like judging a book by its cover. That is when the concept of Balanced Scorecard came to picture where it was emphasized that non-financial measurements are as important as financial performance indicators. This framework was compared to the dials and indicators in a cockpit which allow an pilot to navigate while flying. To navigate safely it is important to have information on fuel, windspeed, altitude etc. So clearly all of these work in a synchronized manner and not in silos. It would be hence, a cardinal sin if companies would just focus on financials and not look out for performance in other areas like

HR, Marketing & Sales, Operations etc. The Balanced Scorecard allows companies to reflect on the following:

- How do customers see us?
- What we must excel at?
- Can we continue to improve and create value?
- How do we look to shareholders?

So while devising long term strategies for shareholder wealth maximisation, companies must answer these four above mentioned questions as they will provide them with an increased sense of clarity with what their visions are and how that translates into profits while increasing brand equity.

DIVERSITY AND INCLUSION MATTERS

Diversity and inclusiveness is of paramount importance if companies want to become sustainable and competitive advantage over their peers in the long run. As leading industry analyst and researcher Josh Berin put it, “Companies that embrace diversity and inclusion in all aspects of their business statistically outperform their peers.” Diversity is the ability to understand the differences between people coming from different ethnicities, genders, race, disabilities and sexual orientation. Diversity is exhibited also in the form of the various experiences people hold, skills sets that they’re equipped with and the educational backgrounds they’ve.

In order to hold long term financial stability it becomes pertinent to work on non-financial metrics which allows us to measure qualitatively the health of the company. One such metric is diversity and inclusion. CVS being a consumer facing company needs to ensure diversity in order to make it retail practices a success. It holds great significance specially in plural societies like that of the USA, which is deeply entrenched with rising racist tendencies.

To put it in a more simplistic manner, a white man should be comfortable interacting with a black pharmacist working in a CVS retail shop. A straight woman should be comfortable buying from CVS store with a Trans woman at the billing counter. It becomes not only fiduciary responsibility of companies of stakeholder value maximization but also social responsibility of companies to stitch the wounds of racial, gender-based, sexuality-based inequalities that lay deep rooted in the American society. CVS thus can improvise in this area by tracking diversity in terms of indicators such as - Percentage of women in Top & Middle Management, Percentage of LGBTQ+ employees, No. of people with Non-STEM degree etc.

ARE YOU ETHICAL ENOUGH?

A person who enters in business is indeed seeking profits but at the same time it becomes very important how that profit is earned. Is it earned through gradual trust-building among customers or is it through some practices brushed under the carpet? Only to surface in face of a lawsuit. Ethics become of paramount importance when it comes to the retail pharmaceutical industry. Pharmacies have responsibility towards the consumer, the community, the profession, the business and the healthcare community.

If we talk about CVS, we find that CVS allegedly overcharged customers on their drug purchases. Now that's a fraudulent practice one doesn't expect from a company like CVS. Proponents of selling drugs at higher prices may talk about it's a free market and all but that is a flawed statement.

What if I have a consumer suffering from cancer who is forced to pay \$400 for a generic drug which would cost me \$10 at some community pharmacy located say 15 miles away?

Insurance does co-pay and the co-pays vary but what if insurance agrees to co-pay only when the consumer is charged \$400 and not when charged \$10.

So in such scenarios, it becomes a responsibility for CVS to price drugs at standard rates and shun any such discrepancy because it will lead to loss of brand equity and the company would have to bear humongous legal cost.

To avoid such a scenario, the company should be extremely adept at using a balanced scorecard framework which constantly would remind the top decision makers to look beyond financials and incorporate practices which ensure sustainable growth and long run profitability. Metrics like average customer complaint resolution time should be tracked. Employees should be trained to identify and report any fraudulent practices.

THE DOUBLE EDGED SWORD: RECRUITMENT & RETENTION

It's not the processes but the people behind those processes that lead to organizational efficacy and efficiency. In context of that it becomes important to recruit the right talent and even more important to retain that talent. Good recruitment is vital for organizational functioning. It becomes pertinent to have a workforce with sound knowledge of current and future requirements of the business. This can only be ensured when recruiters are able to recruit the right people for right roles at every point of time. In the case of CVS, it holds great relevance because of its consumer facing nature.

It is abundantly reported that employee turnover is a very costly phenomena and is a metric that measures the HR health of a company. Hence, a company that values employee retention should have an effective policy on recruitment and retention which enables onboarding the right talent and retaining them. Having a positive and motivated workforce is instrumental to any business. Bad hires are equivalent to money lost since it is an opportunity cost that the company could have redeemed by hiring a person who might have been a better fit for the job.

Companies in consumer facing roles should ensure they spend quality time in devising a process in which they screen applicants who are right fits for the job.

Metrics like Average Recruitment time should be measured to quantify how much time the organization on an average spends on hiring. The other metric to be measured includes attrition rate which would allow the HR department to understand what ails the system in case if the number is on the higher side. Also, it is very important to control attrition because companies invest through their noses to train and develop the employees and losing employees means losing out on resources. Also, the company should check what is the average duration a person has

worked in a company. An employee who has worked for most of his time in one company and then he leaves it, symbolises that there might be something wrong with how the company engages with its employees.

THE IMPORTANCE OF TRAINING AND DEVELOPMENT

The primary concern of the employees was mismatch between the existing skills of the employees, and the skills required. Since the transformation of the business in 2014, the job description required the employees to act as healthcare consultants for the buyers, effectively positioning them as clients. This called for having in depth knowledge of the medicinal salts and compounds, as well as adept understanding of efficiency and bioavailability, and as well as ability to identify the ailments, and effectively diagnose, with accuracy.

There is a need for effective training, and that it has to ensure competency in core skills and soft skills. Core skills indicate the knowledge and being proficient in practical application. It would include periodic sessions with medical practitioners and academicians from reputed medical institutes. The emphasis has to be on identification of issues, with the degree of its effect, and provide best remedy. In terms of soft skills, the employees have to be proficient with communication, and must use cognitive skills to ensure customers experience agile, yet premium healthcare consulting.

An effective training and development program is suggested to be implemented, with clearly defined outcomes. On the report card, we can measure the outcomes by assessment of revenue inflow compared to last year/quarter, and effective return on investment. We can also effectively indicate the future, based on predictions.

CREATING THE RIGHT MIX OF CULTURE AND ENGAGEMENT

Due to radical changes, and ever-mounting pressure of maintaining a profitable cash flow, it was required from the employees to deliver the best services. However, due to lack of skills required in new roles, many employees felt over-burdened. Since the required outcomes were drastically shifted, employees underperformed. The need for training and organizational restructuring, somehow, was overlooked by management. Employees became less engaged due to these factors.

Holistic culture can only be built if the employees are effectively engaged and productive. Moreover, there was a requirement to build a customer-centric and community-centric culture, as this shift was a result of social benefit measures by the US Government. With the right skills, culture can be fostered.

With the shift in training & development, and integrating the whole process with organizational restructuring, we can measure engagement as one of KRAs, and evaluate how effective engagement has led to boost in productivity. Moreover, a holistic culture can also be assured if lower incidents of conflicts are reported by customers and co-workers alike.

INCREASED WEIGHTAGE FOR PERSONAL BENEFITS AND SOCIAL SECURITY

Personal Benefits and Social Security is an important driver of employee engagement which in turn leads to high productivity and retention. Given it is assumed that the nature and needs of employees are expected to be changed in the present time after COVID with increased contemplation and self absorption. With the abrupt change in the lifestyle it is predicated that higher weightage would be given to personal benefits and social securities. And employees might tend to prefer more satisfying jobs than high paying ones. So, it is very important for the organization to give employees benefits and social security, as it would be a key performing area with the indicators:

Indicators	Metrics
Disability coverage	Disability Coverage provides the security in case of any disability or accident at workspace.
Insurance Coverage	Life Insurance and medical insurances of the employee and spouse with minor or dependent Children.
Rewards program	Workforce availing Total Rewards Programs.
Employees Benefits Programs	Revenues should be utilized for Employee benefit programs for their growth and personal enrichment/ development.

POWER OF WELL PERFORMING EMPLOYEES

A well performing employee is the biggest asset in any organization. Employee Performance is one of the criteria for predicting the company's performance in terms of sustainable finance. As Elaine Orlor, President and Founder of the Talent Function Group, has rightly said "Talent is one of the last frontiers for differentiation. Any company can have a patent or produce a product. The difference is the quality of that product comes with the value of the talent you have." Having a good performance indicator not only increases the return on investment but also facilitates the growth of the organization by knowing the strength and weakness of the employees/ organization and aligning it with objectives of the business.

As an employee of CVS Healthcare their output should be measured by the following indicators:

Indicators	Metrics
Customer Relationship Management	How well the customers questions and needs are getting answered and utility of customer. Will be measured on scale of 1-10 the more the better

Returning Customer	Average rate of returning customer in per 1000 customers
New Customer	Number of New customers on boarded in a business cycle
Cross Selling and Customer Engagement	Number of new products sold to existing customer and the Level of customer Engagement
Stock Available And Supply Chain Network	The rate of inflow and outflow of stocks in a particular business cycle. The higher the movement the better the efficiency and less piled stocks. And, the slower the movement poorer the efficiency and higher piled stocks.

Conclusion and Recommendations

PRESCRIPTION FOR REVIVING THE HEALTH OF CVS HEALTH

The healthcare industry is highly competitive and in trying to maximize the profits organizations may lose sight of the broader vision. An aggressive selling strategy that is not complemented with customer value creation and retention may lead to short term benefits but these are unsustainable and can cause major issues in the organization health.

In the case of CVS Health the problems that turned an employee and customer favoured organization into one which lost its popularity among both the sections ranged from a faulty performance appraisal system to focusing on maximizing profits while compromising on ethics. The overall health of the organization can be revived with the help of the HR scorecard framework wherein the key areas of intervention and improvement are identified. Based on the analysis of the case following recommendations are suggested:

1. Restructuring workforce and realigning goals with organization's vision
 - Having a workforce that represents an inclusive and diversified work culture
 - Ensuring ethics and integrity are promoted as key values in employees
 - A more open culture where in senior management is approachable and ideas from employees of any hierarchical levels are valued
 - Focus on customer value creation by adopting a customer-centric approach rather than a blatant profit maximisation approach
 - Working to retain present customers and enhance customer experience and satisfaction
 - Be ready to forego small short term profits to be able to work towards the larger organization goals that bring in long term and more sustainable profits
2. Providing requisite training and access to job aids
 - It must begin with internal scanning, and creation of new positions and job descriptions
 - Periodic evaluation of the workforce and trends in the industry should to be identified to determine training needs – type, duration, and implementation
 - Ensuring infrastructural support for conducting training
 - Evaluation of a training program based on feasibility and impact and restructuring it to meet new requirements
 - Emphasising on communication skills and knowledge of physiology, with ethical practises
 - Providing requisite tools and aids to employees for better service delivery
3. Optimizing compensation plans that reward the knowledge, skills and efforts
 - A fair compensation structure with fixed and variable pay components
 - Non financial measures of performance should be evaluated and rewarded appropriately
 - Transparency in the compensation structure and ensuring it is free of any bias
 - Social security plans for families of employees should be provided to all employees
 - Non performers should be given opportunities to improve

4. Diversity and Inclusion in hiring practices
 - Including a balance of STEM and non-STEM employees
 - Being able to represent people from all communities
 - Ensure diverse representation in mid management as well as top management
 - Gender friendly policies to ensure support in all circumstances such as maternity leaves

5. Ensuring vertical growth in the new organizational structure
 - Chalking out the growth chart
 - Preparing in line successors through the right exposure and learning opportunities
 - Providing adequate opportunities to all
 - Maintaining clarity in communications
 - Aligning organizational targets with diversity goals and objectives

6. Revamping the performance appraisal system
 - Involving the employees through representatives deciding the structure
 - Mutually deciding upon the parameters of the appraisal
 - Ensuring alignment of the desired outcomes of appraisal process with the vision and mission of organization
 - Starting with few locations for ensuring feasibility and timely intervention
 - Integrating the performance appraisal with CRM
 - Ensuring ethical measures are represented as well, from both organization as well as customer's point of view

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