

Rescaling the Balanced Scorecard for Local Government

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Kaplan and Norton's 'Balanced Scorecard' model has gained worldwide interest from managers in private and public organisations. The four perspectives of the model aim to communicate the strategic priorities of the organisation by measuring and setting stretch targets for them. However, the model, which was developed in 'for-profit' organisations, may not be suitable in 'not-for-profit' organisations. A possible solution is the use of the Australian Business Excellence Framework categories to determine the perspectives to be used.

The Kaplan and Norton (K&N) Balanced Scorecard approach is based on the fact that private for-profit companies have tended to focus on financial measures such as profit or sales growth. These measures, they say, only measure how successful a company has been in the past; they do not indicate the degree to which the company has built or maintained a capacity for future success (Kaplan and Norton 1992, 1993, 1996a, 1996b).

Financial measures are therefore lag indicators. What is needed are lead indicators, that is, indicators which measure the organisation's capability to achieve future financial success.

The K&N model contains four perspectives which their research found to contribute to organisational success in private for-profit organisations. They are:

1. Financial Perspective — linked to profitability and may include factors such as sales growth, return on investment, operating income and cash flow.
2. Customer Perspective — includes factors such as customer satisfaction, customer retention, customer profitability and market share.

3. Internal Business Process Perspective — identifies the critical internal processes in which the organisation must excel. Focus on both measurement of existing processes and development of new processes to meet customer demand.
4. Learning and Growth Perspective — the financial, customer and internal business process perspectives will highlight the areas the organisation will need to develop to be successful. This perspective measures the factors relating to people, technology, procedures and systems and other factors that need to be improved or initiated.

Some organisations have found it useful to use more than four perspectives. The choice will depend on the organisation and what it decides is critical to its future success.

Purpose of the Balanced Scorecard

Although the Balanced Scorecard is a set of measures, the Balanced Scorecard approach is far more. The measurement system is a means to an end rather than an end in itself. However, the Balanced Scorecard is now being used in a variety of ways. There appear to be three

principal approaches, each of which is described below.

Strategic Management

The Balanced Scorecard as devised by K&N is a measurement system that translates an organisation’s mission and strategy into tangible objectives and measures. The objectives and measures are more than an ad hoc collection of financial and non-financial performance measures; they are derived from a top-down process, driven by mission and strategy. They should ‘tell the story’ of how the organisation intends to achieve its strategic objectives (Kaplan and Norton 1996b:62).

The process starts with the senior executive management team translating the business strategy into specific strategic objectives. The financial objectives are at the pinnacle of the

system, and are the lag indicators, that is, what will be achieved if the strategies are successful.

The Balanced Scorecard also contains the lead indicators, that is, what must be achieved to be financially successful. The most important understanding from this approach is the causal link between each of the perspectives as shown in Figure 1. Each perspective has a link to the next. In some organisations it may be necessary to have more than four perspectives, and in others less. In government and not-for-profit organisations the financial measures are not at the top of the hierarchy and it is generally accepted that the financial measures should be replaced with non-financial community outcome measures. This is discussed in greater detail later.

Performance Management

Many organisations appear to be using the Balanced Scorecard approach as a performance management system. The system is used for monitoring of performance and is often developed bottom up with scores being aggregated into the next higher level. This approach does not provide the strategic aspects of the K&N approach. Aggregation also has its own problems and in many cases results in performance indicators that have little relevance to actual performance (Flynn 1986; Waldersee 1999).

Staff Rewards

Some Balanced Scorecards are being developed as part of a staff reward system with salary increases and bonuses linked to performance targets. This may be based on either of the two other approaches. However, care must be taken against corruption of data or developing a culture of concentrating on doing what gets measured to the exclusion of what is not measured. The measurement systems being used to drive the Best Value program in the United Kingdom are facing these problems (Boyne 1999).

K&N state that:

tying incentive compensation to scorecard measures is attractive, but it has some risks. Are the right measures on the scorecard? Are the data for the selected measures reliable; could there be unintended or unsuspected

Figure 1: Kaplan and Norton model of the Balanced Scorecard



consequences in how the targets for the measures are achieved? (Kaplan and Norton 1996b:218).

In the long-term an organisation should link employee awards to performance however, it needs considerable development and a base of historical information to guard against data corruption.

Evaluation of Service

A primary purpose of performance measurement is to evaluate the effectiveness of the services being provided (Mayne 1999). There is a growing trend toward results-based evaluation, based on the measurement of outcomes rather than process measures. Even auditing, which has traditionally been focused on process measures, is moving to the measurement of program outcomes (Radburn and Barados 1994). Although the need for simplicity will not allow most Balanced Scorecards to contain a sufficient range of measures to achieve this, the measures, like other performance indicators, should contribute to the evaluation process (Mayne 1999).

Replacing Financial Indicators with Community Outcome Indicators

The K&N version of the Balanced Scorecard approach identifies financial indicators as the final outcome which the other perspectives, Learning and Growth, Internal Process and Customer Service, contribute to achieving.

The Balanced Scorecard Institute in its World Wide Web page says that:

in government settings, outcomes are based on mission success rather than profit.

In discussing this K&N say:

Success for government and not-for-profit organisations should be measured by how they meet the needs of their constituencies. Tangible objectives must be defined for customers and constituencies. Financial considerations can play an enabling or constraining role, but will rarely be the primary objective (Kaplan and Norton 1996b:180).

Charlotte City in the USA is recorded as the first local government to utilise the Balanced

Scorecard approach, beginning its development in 1994. It put the Customer Perspective at the top of the scorecard rather than the Financial Perspective. This was to provide greater flexibility to the scorecard for use in the public sector and gained the concurrence of Kaplan and Norton.

For local government, financial success is a lead indicator for the achievement of local government outcomes linked to the wellbeing of the community serve it. In other words sound financial management ensures that the resources are available to achieve community objectives such as a safe city, a well-planned city, recreation opportunities, well-maintained roads and the many other objectives of public organisations. It is not an end in itself.

Linkages to Final Outcomes

Adding community outcome, however, results in a fundamental shift from the K&N model. The nexus between the perspectives is different. The K&N model assumes that improved customer service will result in improvements in financial objectives thus providing a strategic link between the two. Customer service does not necessarily have a direct link to financial objectives as the majority of services are provided from public funds.

This does not reduce the usefulness of the measures, but does have a bearing on how they are developed and used, particularly if they are to drive strategy.

A scorecard for health care organisations was developed for Lawrence Hospital, Westchester, New York, which has four perspectives:

1. Patient-value added — patient perspective
2. Employee-value added — internal perspective
3. Business-value added — learning perspective
4. Business-value added — financial perspective

For each of the perspectives the vision of what was to be achieved was translated into changes in behaviour, performance and other's perception of Lawrence Hospital. The Baldrige quality assessment criteria was used as a guide. They then developed a Balanced Scorecard for the vision and a list of actions to achieve it. A quality management self-assessment of the

organisation was used to provide baseline information to monitor improvement (Castaneda-Mendez et al. 1998).

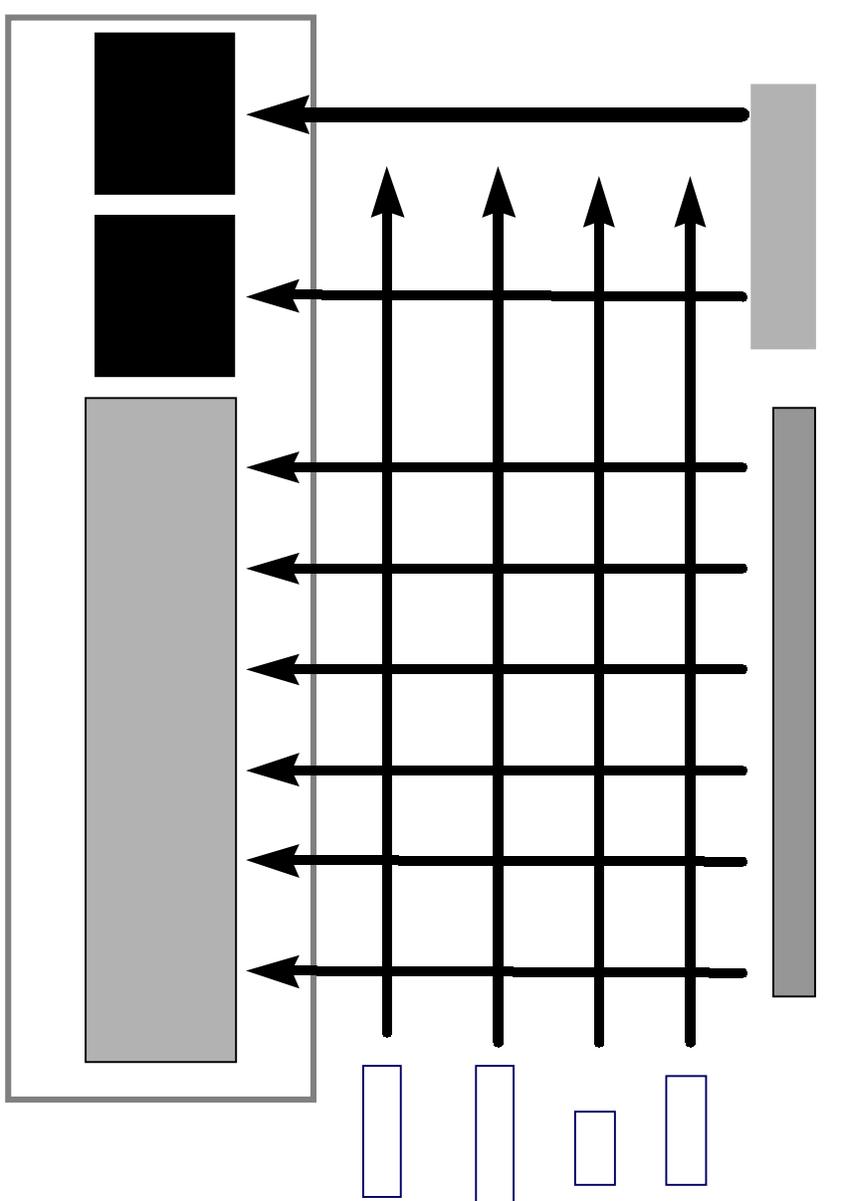
An alternative to the K&N perspectives is to use the Lawrence Hospital approach, but using the Australian Business Excellence Framework categories instead of the Baldrige criteria. The categories have proven to be important dimensions of an organisation's ability to deliver effective service.¹ With the new

Business Results category the framework provides a cause and effect link to business outcomes.

Value-Adding Management

The overall performance of an organisation is based on its value-adding activities. A process flow chart can identify the value-adding activities of the organisation. The value-adding

Figure 2: A Local Government Framework for the Balanced Scorecard



Note: Australian Business Excellence categories reproduced with the permission of the Australian Quality Council

activities will vary from one service to another. There may be some common themes throughout the organisation; others may be specific, but vital to a particular service.

This is the basis of the Heart of the Business (HOB) model proposed by Eleanor O' Higgins and John Weigel (1999). In this model the unique capabilities of the firm and its organisational infrastructure which contribute to its success are identified. The core competencies vary according to the type of firm. Referring to the Balanced Scorecard O' Higgins and Weigel say:

While composite measures are an improvement, especially when they include internal factor assessments, they still fail to delineate the integration of the various performance factors. Thus, the user does not gain clear insights about factors and outcomes. More over, the results cannot be readily applied across firms (O' Higgins and Weigel 1999:66).

The ABEF can assist in linking value-adding activities within specific categories as a basis to drive strategic priorities.

McArthur and Womack (1995) propose that organisations can best be understood and explained by differentiating 'infrastructural' improvement from 'real output' improvement. Combining this with the Balanced Scorecard, the HOB model and the ABEF we arrive at the model in Figure 2. The organisation can focus on the categories it wishes to strengthen. Improvement of the value adding processes should result in improvements in the seventh category of the ABEF, being business results, or in most cases for local government, more effective services to the community.

Linking Business Outcomes

Many people would argue that local government is the most diverse business to be in with most of the larger organisations delivering over 80 services. The perspectives chosen for the Balanced Scorecard need to focus on the major strategies required to make each of the services successful.

However, it is also necessary to understand how the business results of each business unit, team and individual staff member together contribute to strategic objectives. This can be achieved through the use of logic charts or

objective trees which link activities together (Mayne 1999; Quinlivan 1993).

This approach has been utilised by Charlotte City. Their Balanced Scorecard focuses on five key areas identified in their strategic plan: Community Safety, City-Within-a-City, Transportation, Economic Development, and Restructuring Government.

There are 19 corporate objectives that are cascaded down the organisation. With the four focus areas of the Balanced Scorecard all areas of the organisation are able to link into corporate objectives. The result has been a clearer focus on key areas of performance and a reduction in the number of measures used from 900 to 266.

Since 1995 the corporate scorecard has been reflected in each employee's performance compensation. However, it is interesting to note that the link is to financial objectives and not to all four perspectives. It may be argued that this runs counter to the basis of the Balanced Scorecard approach.

Must Haves for a Balanced Scorecard

In order to achieve an effective Balanced Scorecard it is necessary to:

- have a well-defined strategic and business planning framework with clear links between strategic objectives, business unit objectives and team and individual objectives;
- understand the relationship between internal value-adding processes (core competencies) and delivery of business outcomes; and
- have a clear objective for the use of the Balanced Scorecard, that is, strategic management (the K&N model), performance management, staff rewards or a combination of these.

If it is intended to link scorecard measures to staff rewards it is also necessary to have well established performance measures at each level of the scorecard including reliable and valid measures of customer service and measures of outcomes. The City of Charlotte make extensive use of a Quality of Life Survey.

A final observation is that performance management and quality assessment do not improve service. It is the learning from them that helps to identify areas for improvement and to focus resources on priority areas. The organisation must balance the effort it put into measurement with the effort it put into

improvement. As with any new management program the implementation process is an important factor. Equally, the order in which the above must have been achieved must be considered to ensure that the Balanced Scorecard is a tool for effective management and does not become an end in itself. The Australian Business Excellence Framework provides a tool to achieve integration. The Balanced Scorecard approach provides an additional tool to communicate, motivate and evaluate key business strategies.

Note

1. PhD study by Alexander Hausen and the University of Wollongong, 1999.

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