



OUR PERFORMANCE EXCELLENCE MANAGEMENT SYSTEM FRAMEWORK

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INTRODUCTION

Could Dover's non-profit municipal business management system improve its performance and better engender Citizen buy-in if we could but somehow more transparently communicate what our City strategy is? This is but one of many fundamental questions prefacing the Dover City Council's consideration for implementing a best-practices management system framework. The challenge addressed by this important question centers on the issue of organizational alignment.

City Councils are increasingly concerned about measuring and managing the city's performance. While the use of a Balanced Scorecard (BSC) for performance management is widespread, its use is less well known in the context of non-profit municipal management systems. This introductory summary is intended to describe the adaptation of the BSC to City Councils and City Managers. Its purpose is not to provide empirical support for the use of the BSC, but rather to highlight its application for the City of Dover intending to implement a non-profit municipal business management system that is seeking sustainable transparent excellence. Several examples of implementation will be provided.

Public institutions have increasingly come under pressure in recent years to become more economically viable and customer-oriented. The shift from government department to a business management oriented, targeted organization requires many changes both inside the company and in the way it is presented to the consumer public. Pressures on governments during fiscal austerity have contributed to the adoption of "performance management and measurement;" a focus on program and service outputs and outcomes, and on "managing for results." Specifically, state and local governments are becoming increasingly accountable for results and the cost-effective use of taxpayer money spent on programs and services.

With public institutions in particular, however, key financial figures are not in any way meaningful enough to provide a basis for measuring and controlling the performance of the organization. This Dover City Council Workshop Read-Ahead discusses how state and local governments can benefit from a strategic management system based on the Balanced Scorecard (BSC). We seek to introduce how a BSC can lead to improved results, processes, and culture change in government organizations. Doing this well will cause the City of Dover to be a minority "stand-out community" in both the Granite State and in America, with the resultant opportunity for important recognition that will contribute to the reputation and competitive edge that is consistent with the Garrison City's Dover 2023 goals and challenges.

This gains more importance as cities strive to improve their global ranking in by internationally ranked survey firms and credit-rating agencies. For example, detailed assessments and evaluations could be categorically grouped, as follows:

1. Political & Social Environment (political stability, crime, law enforcement, etc.)
2. Economic Environment (currency exchange regulations, banking services, etc.)
3. Socio-Cultural Environment (censorship, limitations on personal freedom, etc.)
4. Community Health (med. supplies/services, infectious diseases, sewage, waste disposal, air pollution, etc.)
5. Schools & Education (standard and availability of international schools, etc.)
6. Public Services & Transportation (water & sewer, public transport, traffic congestion, etc.)
7. Quality of Life (recreation, to include restaurants, theatres, cinemas, sports and leisure, etc.)
8. Consumer Goods (availability of food/daily consumption items, cars, etc.)
9. Housing (housing, household appliances, furniture, maintenance services, etc.)
10. Natural Environment (climate, record of natural disasters)

While the Balanced Scorecard (BSC) has been touted as an effective tool for creating organizational alignment, the actual success of this alignment tool can vary. This will depend on the strategic focus of the BSC, the success of its implementation, and whether or not the organization successfully cascades the BSC down to the lowest appropriate business or support level and /or appropriate management accountability level.

The Balanced Scorecard (BSC) is a strategic performance management framework that allows us to manage and measure the delivery of our strategy. The concept was initially introduced by Robert Kaplan and David Norton in



1992, and has since been voted as one of the most influential business ideas in 75 years.

Like most good ideas, the concept of the BSC is very simple. Kaplan and Norton identified four generic perspectives that cover the main strategic focus areas of an organization. The idea is to develop metrics or key performance indicators (KPIs), collect data, and analyze it relative to each of these perspectives.

BALANCED SCORECARD BASICS

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance.

While the phrase balanced scorecard was coined in the early 1990s, the roots of this type of approach are deep, and include the pioneering work of General Electric on performance measurement reporting in the 1950's and the work of French process engineers (who created the *Tableau de Bord* – literally, a "dashboard" of performance measures) in the early part of the 20th century.

The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The "new" balanced scorecard transforms an organization's strategic plan from an attractive but passive document into the "marching orders" for the organization on a daily basis. It provides a framework that not only provides performance measurements, but helps planners identify what should be done and measured. It enables executives to truly execute their strategies.

This new approach to strategic management was first detailed in a series of articles and books by Drs. Kaplan and Norton. Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective. The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise.

THE FOUR PERSPECTIVES

The balanced scorecard suggests that we view the organization from four perspectives, and to develop metrics or key performance indicators (KPIs), collect data, and analyze it relative to each of these perspectives.

The Learning & Growth Perspective

This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people -- the only repository of knowledge -- are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Metrics can be put into place to guide managers in focusing training funds where they can help the most. In any case, learning and growth constitute the essential foundation for success of any knowledge-worker organization.

Kaplan and Norton emphasize that 'learning' is more than 'training'; it also includes things like mentors and tutors within the organization, as well as that ease of communication among workers that allows them to readily get help on a problem when it is needed. It also includes technological tools; what the Baldrige criteria call "high performance work systems."

The Business Process Perspective

This perspective refers to internal business processes. Metrics based on this perspective allow the managers to (themission). These metrics have to be carefully designed by those who know these processes most intimately;



with our unique missions these are not something that can be developed by outside consultants.

The Customer Perspective

Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good.

In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups.

The Financial Perspective

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, there often is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the "unbalanced" situation with regard to other perspectives. There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category.

FROM MEASUREMENT DASHBOARDS TO STRATEGY MAPS

When it was first introduced, the BSC perspectives were presented in a four-box model. (See Figure 1 for a first generation Strategy Map) Early adopters created Balanced Scorecards that were primarily used as improved performance measurement systems, and many organizations produced management dashboards to provide more comprehensive key performance indicators at a glance across these four perspectives.

However, this four box model has now been superseded by the Strategy Map, which is the heart of the current best-practices Balanced Scorecard. A Strategy Map places the four perspectives in relation to each other, to show that objectives are mutually supporting. (See Figure 2 for a Generic Framework to Develop a Strategy Map, and Figure 3 is an example of Non-Profit Municipal Business System Strategy Map)

CAUSE-AND-EFFECT LOGIC

A Strategy Map highlights that delivering right performance in one perspective (e.g. financial success) can only be achieved by delivering the objectives in the other perspectives (e.g. delivering what customers want). You basically create a map of interlinked objectives. For example:

1. Objectives in the Learning and Growth Perspective (e.g. developing the right competencies) underpin the objectives in the Internal Process Perspective (e.g. delivering high quality business processes).
2. Objectives in the Internal Process Perspective (e.g. delivering high quality business processes) under-pin the objectives in the Customer Perspectives (e.g. gaining market share and repeat business).
3. The customer objectives should then lead to achieving the objectives in the Financial Perspective.

Strategy Maps, therefore, outline what organizations want to accomplish (financial and customer objectives) and how it plans to accomplish it (internal process and learning and growth objectives). This cause-and-effect logic is one of the most important elements of best-practice Balanced Scorecards (BSC). It allows companies to create a truly integrated set of strategic objectives.

The danger with the initial four-box model was that companies can easily create a number of objectives and measures for each perspective without ever linking them. This can lead to silo activities, as well as a strategy that is not cohesive or integrated.

HOW MANY COMPANIES USE THE BALANCED SCORECARD?

About half of major companies in the US, Europe and Asia are using BSC approaches. The official figures vary slightly but the Gartner Group suggests that over 50% of large US firms have adopted the BSC. A study by Bain &



Co finds that about 44% of organizations in North America use the BSC, and a study in Germany, Switzerland, and Austria finds that 26% of firms use BSCs. The widest use of the BSC approach can be found in the US, the UK, Northern Europe and Japan.

Figure 1

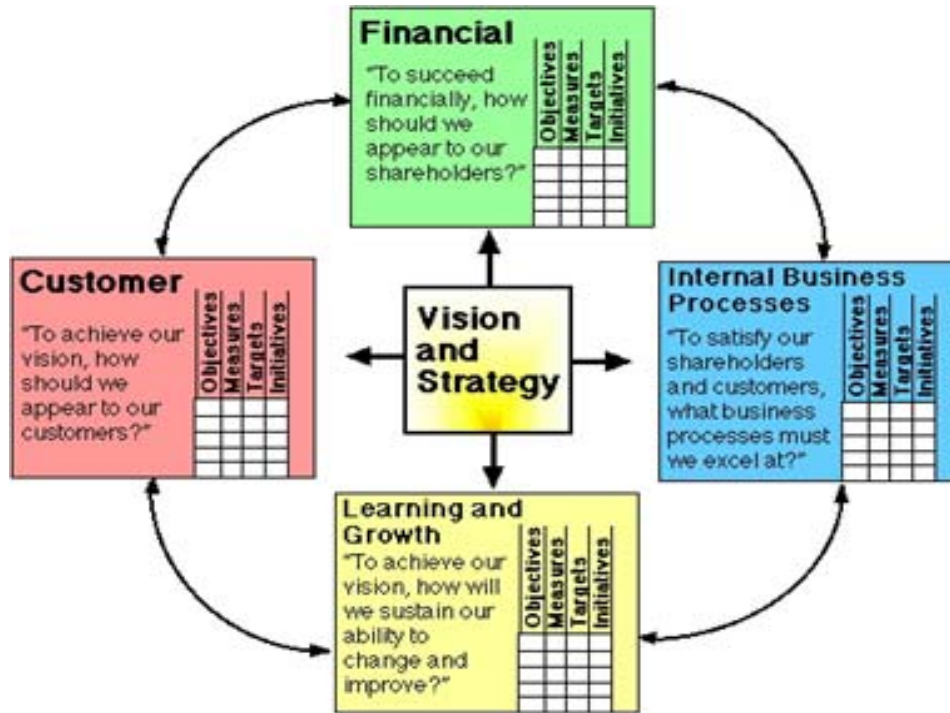


Figure 2

Framework for Developing a Strategy Map

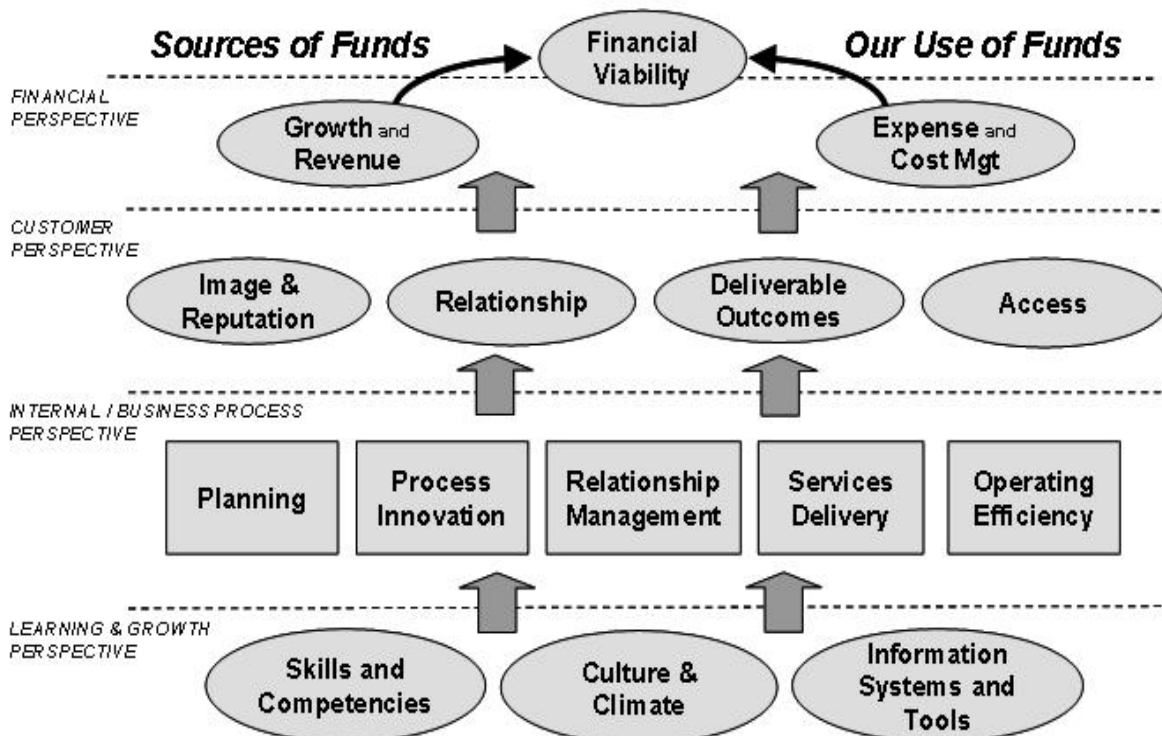
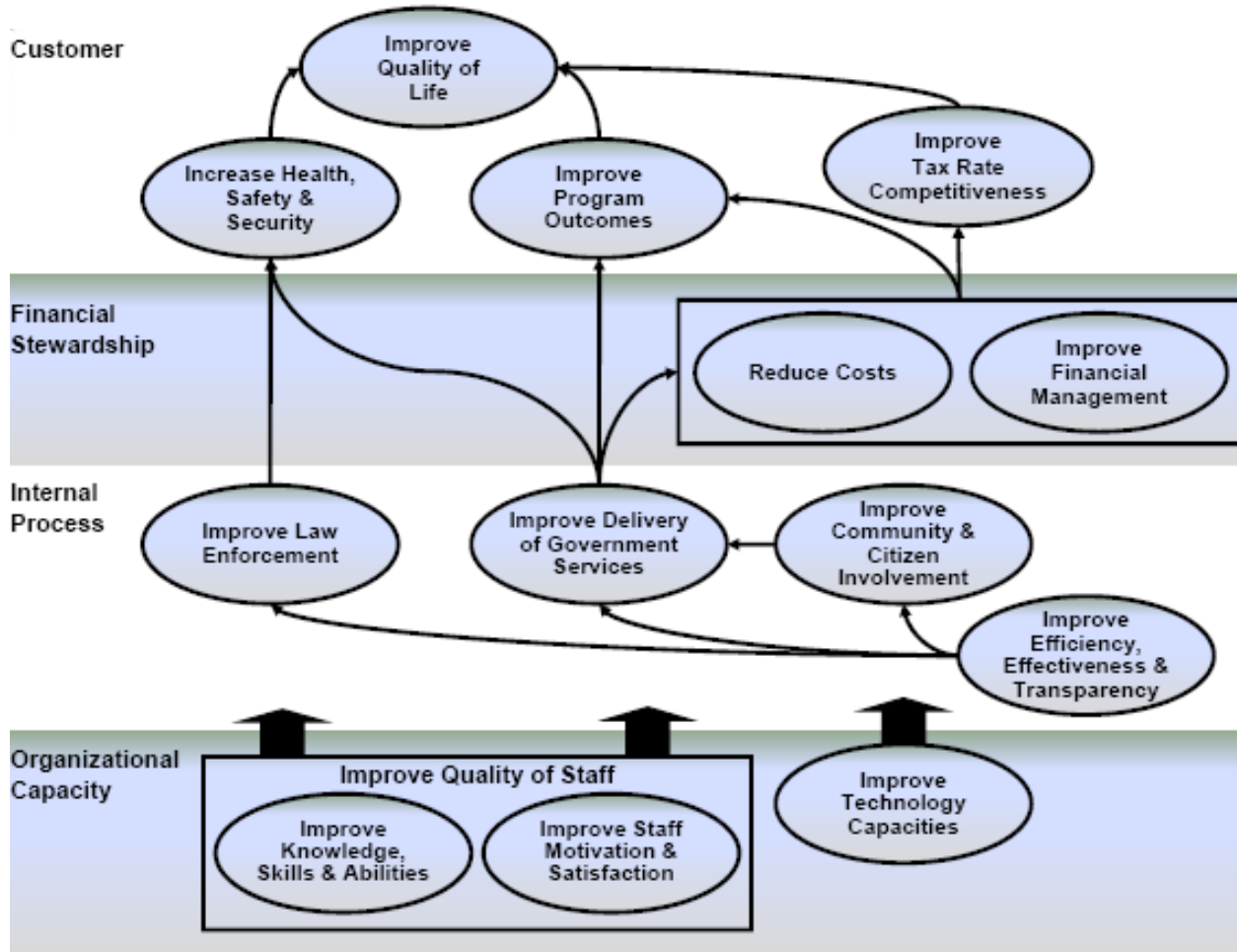


Figure 3



WHAT ARE THE KEY BENEFITS OF USING BALANCED SCORECARDS?

Research has shown that organizations that use a Balanced Scorecard approach tend to outperform those without a formal approach to strategic performance management. The key benefits of using a BSC include:

1. **Better Strategic Planning** – The Balanced Scorecard provides a powerful framework for building and communicating strategy. The business model is visualized in a Strategy Map which forces managers to think about cause-and-effect relationships. The process of creating a Strategy Map ensures that consensus is reached over a set of interrelated strategic objectives. It means that performance outcomes as well as key enablers or drivers of future performance (such as the intangibles) are identified to create a complete picture of the strategy.
2. **Improved Strategy Communication & Execution** – The fact that the strategy with all its interrelated objectives is mapped on one piece of paper allows companies to easily communicate strategy internally and externally. We have known for a long time that a picture is worth a thousand words. This 'plan on a page' facilitates the understanding of the strategy and helps to engage staff and external stakeholders in the delivery and review of strategy. In the end it is impossible to execute a strategy that is not understood by everybody.
3. **Better Management Information** – The Balanced Scorecard approach forces organizations to design key performance indicators for their various strategic objectives. This ensures that companies measure what actually matters. Research shows that companies with a BSC approach tend to report higher quality



management information and gain increasing benefits from the way this information is used to guide management and decision making.

4. **Improved Performance Reporting** – companies using a Balanced Scorecard approach tend to produce better performance reports than organizations without such a structured approach to performance management. Increasing needs and requirements for transparency can be met if companies create meaningful management reports and dashboards to communicate performance both internally and externally.
5. **Better Strategic Alignment** – Organizations with a Balanced Scorecard are able to better align their organization with the strategic objectives. In order to execute a plan, organizations need to ensure that all business and support units are working towards the same goals. Cascading the Balanced Scorecard into those units will help to achieve that and link strategy to operations.
6. **Better Organizational Alignment** – Well implemented Balanced Scorecards also help to align organizational processes such as budgeting, risk management and analytics with the strategic priorities. This will help to create a truly strategy focused organization.

These are compelling benefits; however, they won't be realized if the BSC is implemented half-heartedly or if too many short cuts are taken during the implementation.

GOVERNMENT AND NOT-FOR-PROFIT BALANCED SCORECARDS

While the Balanced Scorecard was initially designed for commercial companies, the framework has found wide-spread use in the public and not-for-profit sector. However, it is important to make a few changes to the strategy map template in order to make it suitable to government, public sector and not-for-profit organizations:

1. Move the Financial Perspective from top spot on the strategy map template. The overall objective of most public sector, government and not-for-profit organizations is not to make money, maximize profits or deliver shareholder return. While finance is important, it is usually not the overall reason why the organization exists.
2. Instead, the main objective of public sector, government and not-for-profit organizations is to deliver services to their key stakeholders, which can be the public, central government bodies or certain communities. This perspective usually sits at the top of the template to highlight the key stakeholder deliverables and outcomes.
3. A decision that needs to be made is where to put the financial perspective? Here organizations have basically a number of options:
 - a. Put the financial perspective at the bottom of the template. Here, money and infrastructure are seen as important resources that have to be managed as effectively and efficiently as possible to enable the delivery of the strategic output and outcome objectives.
 - b. Put the financial perspective in second place underneath the stakeholder perspective. Here, making money is still seen as an important accomplishment of the organization but delivering services to the beneficiary stakeholders is still the primary reason for its existence. The problem with this option is that it breaks the cause-and-effect logic and can therefore cause unnecessary confusion about the strategy.
 - c. Put financial perspective next to the stakeholder perspective. Here, the strategy map indicates that these two perspectives are equally as important. For example, an organization has to cover its costs to continue to operate and deliver benefits to its stakeholders.
4. Strategy maps have to represent the strategy of the organization. Since the strategies of public and not-for-profit organizations differ widely; there are no right or wrong answers as to where the financial perspectives should go. For example, the American Diabetes Association has embedded the financial perspective within its stakeholder perspective while others have embedded it into their internal process perspective (e.g. delivering value for money processes).
5. The two remaining perspectives will stay as they are. Any public sector, government and not-for-profit organizations needs to build the necessary human, information and organizational capital to deliver its key processes to support its overall objectives of serving its stakeholders.



For more in-depth information of how government, public sector and not-for profit organizations have put scorecards into practice, please see the book: *Managing and Delivering Performance: How government, public sector and not-for-profit organizations can measure and manage what really matters.*

BALANCED SCORECARDS IN CITY COUNCILS

The government's missions are fixed – they cannot be changed. *How* they do the missions is not fixed: this is strategy. The problem is what if there are multiple strategies being pursued at once? How will we know if this is happening? A single framework for strategy is necessary to meet the challenges. The balanced scorecard is a strategic management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise. The most important benefit of the BSC is that it allows the top leadership to formulate cause-effect hypotheses and align everyone to strategy in a single framework. The balanced scorecard raises the visibility of government activities, facilitates feedback, and supports accountability.

City councils are no doubt different from companies in terms of objectives and goals. Nevertheless, it is possible to map the features of a private corporation on to a public organization. The stakeholders in a corporation are stockholders, customers, managers etc. Similarly, in case of a public organization, the stakeholders are taxpayers, legislators etc.

City councils contemplating on implementing the BSC need to define the four perspectives of BSC in the context of a city. While the Financial perspective, for example, is always the top line or bottom line perspective in the private sector, its location in balanced scorecards for governmental application reflects the reality of the environment in which it functions. For example, a "top line" Financial Perspective would indicate that certain activities or programs, which are not profitable, and not contributing to profit should be discontinued.

In the governmental application, the scorecard structure recognizes the fact that profitability of most governmental services is not the driving force behind the reason for providing services. In fact, profitability is not a part of the mission of the governmental unit. The financial goals of a private corporation are profit, growth, market share, and increase in shareholder value. A public organization, in contrast, aims at productivity and efficiency.

The Financial perspective, however, remains vitally important to a city in all of its activities. It should measure and identify deliverable services at a good price, support maintenance of sound financial position, identify funding mechanisms, and support accountable and responsible use of funds in citywide strategic scorecards. In more limited scope scorecards such as the communication scorecard (or departmental scorecards) the financial perspective may be more likely to identify objective-specific resource requirements and identify resources needed to support the internal process and customer objectives.

The Internal Process perspective encourages a city to change and improve the way it delivers services, specifies certain strategy-related objectives, and encourages productive use of resources geared toward achievement of the City's mission and vision. This perspective deals with strategic objectives emphasizing not only "how to" but also "through what means" the City pursues the adopted focus areas.

The Customer perspective as the "top line" perspective represents a structural departure from the Balanced Scorecard structure of the private sector. The Customer perspective in this "top line" position on the scorecard reflect the fact that the City is a service delivery organization and typically should contain objectives representing key strategy-related services delivered to citizens.

The Learning and Growth perspective should be designed to support the objectives of all three other perspectives. This perspective identifies the City's needs to ensure that employee skills and technological capabilities allow for successful strategic action. Learning and Growth also indicates the types of training, skills, and technology that are needed to carry the organization forward.

There is no consensus on whether the same or same number of perspectives is to be chosen. Dundee City Council, Scotland, for instance, chooses five perspectives-Public interest, private customer, continuous improvement, finance and internal business. Nevertheless, it is possible to condense measures into four perspectives. Further,



managers would be more comfortable in handling a small number of high priority measures lest their efforts get wasted on marginal activities.

Many federal departments, state governments and city councils in the US and elsewhere have adopted the BSC for strategic management.

CONCLUSION

The Balanced Scorecard (BSC) provides a framework needed for strategic alignment and organizational learning. Names of tools and techniques may change, but some features will continue:

1. **Performance measurements:** The BSC provides an objective way of measuring a council's performance. In the absence of a coherent framework managers would use ad hoc measures that have little or no connection to overall objective.
2. **Results-based planning and management:** The BSC is a results based planning and management tool. It links strategy and performance measures and defines interdependencies between measures. The inter linkages provide a framework for aligning employee objectives with the organizational objective.
3. **Increased use of information technology:** Implementing BSC is increasingly becoming IT intensive in order to collect & report data and cascade the scorecard across the organization. Once the metrics and data collection procedures have been defined, an information infrastructure can help greatly in managing the data flows. A database-backed web intranet can be used both for data collection and data reporting. This can be developed at relatively low cost. Web technology can support survey data collection and data reporting fairly easily.
4. **Increased sharing of data for benchmarking:** While all organizations have some form of benchmarking with peer group in place, the use of BSC makes it more explicit. Further, deployment of BSC requires sharing of organization-wide data. This facilitates greater employee involvement in strategy execution.

A good Performance Measurement System should be a balanced and integrated combination of the following measures:

1. Leading and lagging measures.
2. Financial & non-financial measures.
3. Input, process, output and outcome measures.
4. Internal & external measures.

It is important to understand that managing the performance of city councils should be viewed in the same context of managing the performance all governance systems. Big countries like the US or India cannot be managed from the top. The BSC provides a framework to integrate cities and states and drive performance throughout the nation.

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