Managing Public Sector Organizations
With The Balanced Scorecard

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Briefing Objectives

- Explain the balanced scorecard
- Understand how balanced scorecard systems are constructed and implemented in private and public sector organizations
- Understand issues surrounding balanced scorecard performance systems
- Understand a nine-step methodology for building and implementing a balanced scorecard system
“People and their managers are working so hard to be sure things are done right, that they hardly have time to decide if they are doing the right things.”

Stephen R. Covey
Focusing On Organization Strategy

- Operationalize Strategy
- Executive Leadership
- Continual Strategic Change
- Strategy Alignment
- Individualize Strategy
- Performance Management

Balanced Scorecard

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Objective</th>
<th>Measure</th>
<th>Target</th>
<th>Initiative</th>
</tr>
</thead>
</table>

Adapted from Kaplan & Norton
Understanding Balanced Scorecards
## The Evolution Of Measurement

<table>
<thead>
<tr>
<th>Century</th>
<th>Financial</th>
<th>Strategic</th>
<th>Operational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Late 20th Century</td>
<td>Shareholder Value</td>
<td>Competencies/Capabilities</td>
<td>Six Sigma</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Baldrige</td>
<td>Business Process Reengineering</td>
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<tr>
<td></td>
<td></td>
<td>Customer Satisfaction</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Competitive Advantage</td>
<td></td>
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<tr>
<td></td>
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<td>Comparative Benchmarking</td>
<td></td>
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<tr>
<td></td>
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<td>Operational Improvement</td>
<td></td>
</tr>
<tr>
<td>19th Century</td>
<td>Management Accounting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15th Century</td>
<td>Double-entry Bookkeeping</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Balanced Scorecard**

- Financial
- Strategic
- Operational
Why Use a BSC?
Address Organization Pain

- Non-competitive or low competitive position
- New vision/mission; merger or acquisition
- Poor mission and strategy execution
- New technological advances
- Changing labor markets
- Employee shifts/downsizing
- Low morale
- Government reform
- Over-emphasis on tactics and operations, under-emphasis on strategy
- Poor communications
- Too many measures, too little information

“Burning Platform”
BSC History

- 1990 - Nolan Norton Institute study:
  - David Norton, study leader
  - Robert Kaplan, academic consultant from Harvard

- *Harvard Business Review* articles:
  - Jan-Feb 1992: balanced performance measures
  - Sep-Oct 1993: tie to strategic goals and objectives
  - Jan-Feb 1996: strategic management system

- BSC soon expected to be used by 40% of Fortune 1000 companies; increasingly being adopted by Federal agencies, by state and local organizations, and internationally
Advantages of the BSC

- Emphasizes achieving results and implementing strategy in shortest possible time frame
- Focuses on high-impact performance measures
- Is easy to use and economical to maintain
- Focuses on customers
- Empowers process owners to make improvements
- Allows comparisons to best-in-class performance
- Facilitates communication
- Accelerates cultural change in an organization
Balanced Scorecard Success Stories

- Chemical Bank -- increased profits almost 20 times in three years
- Brown & Root Engineering -- went from losing money in early 1990s to No 1 in growth and profitability three years later
- Charlotte, NC -- voted in Top 5, Best cities to live in the U.S., People Magazine
- Duke Children's Hospital – Achieved $30 million cost reduction and $50 million net margin increase
Employee Survey -- RSE Hospital (Switzerland)

The *Balanced Scorecard*:

- Increases transparency
- Is a useful management tool
- Is *not* relevant for daily use
- Serves managers only
- Serves all employees
- Is useful for daily work

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Public Sector Balanced Scorecards
Typical Public Sector Performance Management System

- Mission
- Strategy
- Goals
- Plans
- Resources

EVALUATE

EXECUTE

Customer & Other Requirements

Inputs

Outcomes

Outputs
Why Use a BSC in the Public Sector?
Achieve Government Reform Objectives

- Align mission, strategy, workflow, and personal performance
- Set program priorities to match Congressional priorities
- Demonstrate value of programs to the public
- Develop meaningful performance measures (especially outcome measures) to gauge program success
- Link mission and strategy to budget requests
- Determine resource and contract costs for each strategy
- Increased interagency coordination, to eliminate waste and duplication
To prudently manage public resources, how should we add value and control costs?

What is our mission? What services and programs do we need to provide? What programs are required?

Strategy

To satisfy taxpayers, regulators, and citizens, at what business processes must we excel?

Key Questions

What benefits should we provide, and how should we create value?

How will we sustain our ability to change and improve?
Public Sector Strategic Map

Citizens
- Increased Involvement
- Increase Safety
- Increase Satisfaction
- Lower Wait Time

Budget
- Reduce Costs
- Grow Tax Base

Internal Business Process
- Improve Cycle Time
- Reduce Procurement Steps

Learning and Growth
- Improve Skills
- Increase Network Capability

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Typical Public Sector Performance Measures

- Reduce crime
- Increase safety
- Improve education
- Improve service
- Improve timeliness

- Grow the tax base
- Maximize benefit/cost ration
- Reduce cost of service
- Increase information value

- Reduce payment time
- Improve accuracy
- Innovate benefit arrangements

Adapted from Kaplan and Norton
## Linking Scorecard Components

<table>
<thead>
<tr>
<th>Objective</th>
<th>Measure</th>
<th>Target</th>
<th>Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Change program mix</td>
<td>Budget mix</td>
<td>• Analyze other programs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• New pilot program</td>
</tr>
<tr>
<td>Customer</td>
<td>Increase citizen satisfaction</td>
<td>Citizen survey rating</td>
<td>• Citizen’s Watch Program</td>
</tr>
<tr>
<td>Internal</td>
<td>Reduce benefit payment time</td>
<td>Time to receive payment</td>
<td>• Test e-transfer payment system</td>
</tr>
<tr>
<td>Learning &amp; Growth</td>
<td>Develop strategic skills</td>
<td>Skill coverage</td>
<td>• Eliminate process steps</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Custom training</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Knowledge library</td>
</tr>
</tbody>
</table>

10% Program A
40% Program B
50% Program C

95%

1999 -- 7 weeks
2000 -- 5 weeks
2001 – 4 weeks

Performance expectation

How success will be measured and tracked

What strategy must be achieved and what is critical to its success

Performance Counts...
Building and Implementing A Balanced Scorecard: Nine Steps to Success
Balanced Scorecard Methodology: Nine Steps To Success
Step One: Conducting an Organizational Assessment
Achieving Customer Satisfaction: Developing the Value Proposition

Step One:

- Product (Service) Attributes
  - Function
  - Quality
  - Timeliness
  - Economics
- Relationship
- Image

Step Two:

<table>
<thead>
<tr>
<th>Strategy Focus</th>
<th>Product Attributes</th>
<th>Relationship</th>
<th>Image</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Build the business</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>2. Increase customer value</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>3. Improve operational effectiveness</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>4. Enhance the community</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>
Step Two: Define Strategic Themes

**Mission:** Manage the Nation’s space program in a cost-effective manner, ensuring that safety and quality are never compromised.

**Vision:** Place a man on the moon and return him safely to the earth.

**Strategic Themes:**
1) Develop safe launch and reentry vehicles
2) Maintain a ground infrastructure
3) Develop a scientific exploration and research program
4) Ensure a safe space crew environment
Develop Business Strategies

Strategic Themes:
1) Develop safe launch and reentry vehicles
2) Maintain a ground infrastructure
3) Develop a scientific exploration and research program
4) Ensure a safe space crew environment

Strategies:
• Develop shuttle capable of sustaining multiple earth orbits and re-entries
• Develop materials capable of surviving multiple earth re-entries
• Test airframe properties of space shuttle at Langley test facility
Step Three: Choosing Perspectives and Developing Objectives

Financial
- Reduce costs

Customer
- Increase degree of satisfaction

Internal Business Process
- Reduce cycle time

Learning and Growth
- Improve workforce skills
- Modernize IT infrastructure
Step Four: Build A Strategic Map

- **Financial**
  - Lower costs → Increased profits

- **Customer**
  - Increased customer satisfaction

- **Internal processes**
  - Fewer trucks → Shorter turnaround time → Increased efficiency

- **Learning and growth**
  - Employee training
Example: Wells Fargo Theme One – Increase High-Value Customers

Increase Customer Satisfaction
- Random interviews
- Mystery shopper
- Surveys
- Complaint analysis

Develop New Products
- Costing models
- Test marketing
- Brainstorming
- Industry intelligence
- Partnerships

Increase Brand Recognition
- Branding studies
- Promotions

Reduce Turnover
- Individual training plans
- Cross-training

Step Five: Defining Performance Measures

Are We Doing Things Right?
Business Planning (How?)

Are We Doing The Right Things?
Strategic Planning (What?)

Input: Resources, including cost and workforce
Process: Activities, efforts, workflow
Output: Products and services produced
Outcome: Results, accomplishments, impacts
### Example: Finding the Right Measures

**Goal:** Play in the World Series

<table>
<thead>
<tr>
<th>Inputs:</th>
<th>Current players</th>
<th>Player draft</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budgeted payroll</td>
<td>Trades</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategies:</th>
<th>Trade for quality players</th>
<th>spend big lower cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Build strong farm club</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Output:</th>
<th>Games played</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Outcomes:</th>
<th>Games won</th>
<th>Win the pennant</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Impacts:</th>
<th>Increase attendance by xx percent and revenues by xx percent over last year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Increase club recognition</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance Measures:</th>
<th>Runs scored</th>
<th>Division Ranking</th>
<th>Games won and lost</th>
<th>Players’ Composite Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Runs allowed</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Step Six: Developing Initiatives

Candidate Initiatives
- Marketing campaigns
- Pre-promotion studies
- Business process re-engineering
- Process improvement
- TQM proposals
- Training courses
- Policy analysis
- R & D efforts
- Branding studies
- Workflow improvements

Selection Criteria
- Resources required
- Impact potential ranking on strategy
- Multiple objectives covered
- Time required/needed

Prioritized Funded Initiatives
1.
2.
3.
4.
Implementing the BSC

Balanced Scorecard

Perspective

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<tr>
<th>Objective</th>
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Strategic Direction

Planning

Budget Formulation & Costing

Management

Input → Process → Output

Programs & Operations

Adapted from: Balanced Scorecard Collaborative

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Step Seven: Computerizing & Communicating Performance Information

Customer Requirements → Mission & Vision → Strategy, Goals, & Objectives → Plans

Outputs → Processes

Performance Measures

Strategy, Goals, & Objectives

Performance Counts...
Visualizing Performance and Communicating Information

Program Goals

Performance Measures

Time

Program Manager's View

Customer's View

Policy/Planning View

Corporate/Enterprise View (Ad Hoc)
Example: Performance Views

Financial Perspective Measures

Financial Perspective Section
- Return on Assets (World)
- Cash Flow (World)
- Profit (World)

Financial Perspective Document Links

Financial Perspective Reports
- Financial Multi-Measure Report
- Sales by location (Pie Chart)

Return on Assets (World)

Description
This measure demonstrates how effectively we are using our assets.

Commentary
2000/09
Our Return on Assets has been performing...
Example: Performance Views
Example: Balanced Scorecard Application Portal

Source: SAS Institute
Step Eight: Cascading Scorecards

Support Strategy

- Customer
  - Goal
  - Measure
  - Target
  - Initiative

- Mission
  - Strategy

- Learning and Growth
  - Goal
  - Measure
  - Target
  - Initiative

- Financial
  - Goal
  - Measure
  - Target
  - Initiative

- Internal Business Process
  - Goal
  - Measure
  - Target
  - Initiative

- Corporate
- Business Units
- Support Units
- Team/
- Individual
Alignment from the Customer Downward

Customer → Products/Services → Effort/Workflow → Delivery → Employees
# Align Strategy and Work Processes

<table>
<thead>
<tr>
<th>Corporate Strategic Themes</th>
<th>Strategic Business Units</th>
<th>Support Units</th>
<th>Teams/Individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SBU1</td>
<td>SU1</td>
<td>TI1</td>
</tr>
<tr>
<td>1.</td>
<td>X</td>
<td>XX</td>
<td>X</td>
</tr>
<tr>
<td>2.</td>
<td>XX</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>3.</td>
<td>XX</td>
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<td>.</td>
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</tbody>
</table>
Step Eight: Evaluate and Use Performance Information

Objectives

Goal 1
Goal 2
Goal 3
Goal 4
Goal 5
Goal 6
Goal 7
Goal 8
Goal 9

Performers

Suppliers
Contractors
Other

Budget Items

Computer Requirements
People Resources
Program 4
Program 2
Program 3
Program 5
Program 6

Outcomes

Performance Counts...
Best Practices

- Measure performance of all strategic goals
- Maintain a balanced set of measures
- Hold people personally accountable for results
- Develop solid baseline date
- Use performance information to manage
- Match resources to goals
Attributes of Good Scorecard Performance Systems

Management commitment—senior executive buy-in to change management philosophy and to adopt performance-based management principles.

Actionable strategies—realistic, "stretch" goals that are easily understood and workable.

Linked objectives—clear, cause-effect relationships among strategies, objectives, measures, initiatives, and resources.

Balanced measures—leading and lagging measures that help validate strategies and chart new directions.

Employee involvement—good communications that enable everyone to contribute to dynamic changes to meet customer requirements.
Challenges of Building and Implementing a BSC

- Visions and strategies that are poorly defined and understood and not actionable
- Strategies and goals that are not linked to performance drivers, measures, initiatives, and individual goals and incentives
- Strategies that are not linked to resource allocation and budget
- Measures that are set independently of a complete BSC system
- Performance targets that are too high or too low
- Feedback that is tactical rather than strategic
- Lack of meaningful employee involvement
### Typical BSC Cycle: One Iteration

<table>
<thead>
<tr>
<th>Preparation</th>
<th>Organization assessment</th>
<th>Build scorecard system</th>
<th>Implement scorecard system</th>
<th>Collect preliminary data and review results</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-4 weeks</td>
<td>1 week</td>
<td>2-8 weeks</td>
<td>6-24+ weeks</td>
<td>3-6+ weeks</td>
</tr>
</tbody>
</table>
“It’s about management and change first; measurement and technology are second”

Howard Rohm
"The government are very keen on amassing statistics. They collect them, add them, raise them to the $N^{th}$ power, take the cube root and prepare wonderful diagrams.

But you must never forget that every one of these figures comes in the first instance from the village watchman, who just puts down what he damn pleases."

But, Beware The Watchman!!
The BSC Is Easy to Understand – Building and Implementing A BSC Performance System Is Not

From the e-mail bag:

“Mr. Rohm:

I am new to BSC. Could you email me a list of measures for each of the four perspectives?”

(Name withheld to protect the poor man!)
Acknowledgements

- *Performance Drivers*, Niles-Goram Olve, Jan Roy and Magnus Wetter, Wiley
- *Balanced Scorecard Functional Standards*, The Balanced Scorecard Collaborative
- *City of Charlotte and Wells-Fargo Online Financial Services*, Case Studies, Harvard Business School
- *Keeping Score*, Mark Graham Brown, Quality Resources
- *Various articles*, Harvard Business Review
Thank you, and good luck on your balanced scorecard journey!

Howard Rohm