

UTILIZATION OF BALANCED SCORECARD IN PUBLIC ADMINISTRATION

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ABSTRACT

This report highlights the importance and necessity of formulation, implementation, monitoring and evaluation of strategy implementation as a way to attain a determined vision and strategic goals of public sector. Taking into account the existing problems in strategic management of public sector one of the solutions (as described in the part dealing with drawbacks of current strategic management in organizations) could be seen in the use of a tool Balanced Scorecard (BSC). Therefore, the opening part of the article focuses on the tool Balanced Scorecard, strategic maps and their merits. What follows is a formulation of strategic focus of organization. In addition to Balanced Scorecard characterization the article includes also the integration principle of this tool into strategic management of organization. The conclusion not only describes pros of Balanced Scorecard but also the essential steps of implementing Balanced Scorecard method into organization.

Keywords: balanced scorecard, strategy map, perspectives, public sector, strategic direction, strategy, mission, vision, strategic goals, strategic objectives

1. Introduction

From among the most frequent insufficiencies of strategic management mainly in public sector organizations we can point out the absence of strategic management system (strategy hierarchy) in particular. Another one is a lack of definition of generally accepted terminology (e.g. the relation between accepted concepts, strategies and

transformations). In case that strategic management is implemented in an organization then the processed document contain a number of methodological insufficiencies (such as an absence of specification in terms of responsibility for actions defined by strategy; goals are often defined vaguely without any possibility for verification of their success, etc.). Strategic management process is often concluded by

a creation of a document that is not implemented afterwards. As a rule strategies and concepts are created without a relation to budgets and budgeting. Strategic management is not carried out comprehensively, it is not based on quality made analyses and evaluations, and the concerned personnel who prepare and execute it lacks essentials of theory and practice for its implementation.

To eliminate these insufficiencies mentioned above we can use a tool Balanced Scorecard. Strategic map and Balanced Scorecard are mainly tools for formulation, implementation, monitoring, and for strategy implementation evaluation and by no means they are tools to create strategic focus. Kaplan and Norton (2006) say that strategy can be defined as a unit of detailed (specific) objectives and actions. Strategy is a means of attaining vision and strategic goals.

2. Balanced Scorecard Characterization

Balanced Scorecard (BSC) was first introduced by *Robert Kaplan and David Norton in an article published in Harvard Business Review in 1992. In the same journal BSC was recently chosen along with other 75 to be the most influential business idea of 20th century.*

BSC concept is very simple as it is true about most of good ideas. Kaplan and Norton (1992) identified four major perspectives that cover the main areas of organization strategic focus. The essential idea was to use this model as a pattern for objectives and indicators proposition in each of the following perspectives (see Figure 1):

- Financial Perspective involves financial objectives of an organization and it helps managers to monitor financial success and values for shareholders.

- Customer Perspective consists of objectives such as customer satisfaction, share, and also attributes of products and services.

- Internal Processes Perspective involves internal objectives and results of key processes necessary for customer perspectives accomplishment.

- Learning and Growth Perspective concerns intangible drives of future success, for instance human resources, organizational capital and information capital including skills, learning, organization culture, leadership, systems and database.

BSC was originally designed as a four-quadrant model (see Figure 1). *A great number of organizations created a management "panel" with these four perspectives that provides complex view on efficiency. However, this classic four-quadrant model is nowadays considered to be old-fashioned since it has been substituted by Strategic Map (see Figure 2). Strategic map illustrates four perspectives of BSC in causal hierarchy which shows that objectives are in the inter-supportive relationship in terms that appropriate efficiency at lower perspectives help to accomplish objectives of the "highest" perspective. Causal logic of Strategic Map is based on the fact that objectives of learning and growth perspective support objective attainment of internal processes perspective, which consequently supports objective attainment of customer perspective. Then objective attainment of customer perspective should lead to financial objectives accomplishment in financial perspective. This causal logic is one of the most significant components of modern Balanced Scorecards. Strategic map enables organizations to create a truly integrated set of objectives.*

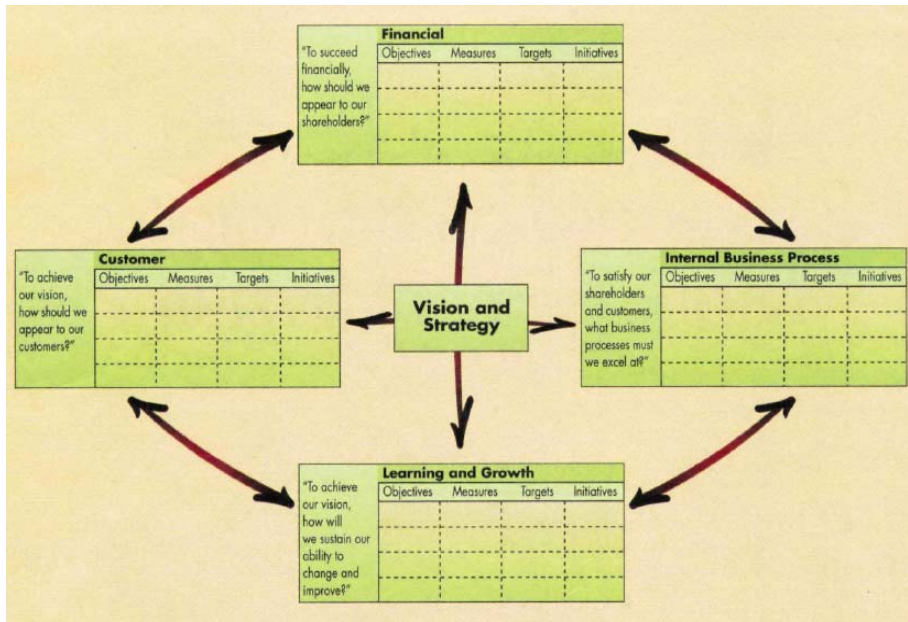


Fig. 1 Traditional Balanced Scorecard Template (Source: Kaplan, Norton, 1992)

The main drawback of the original four-quadrant model was the fact that organizations propose several objectives for each perspective without any relation between these perspectives. This absence of

objective interrelation between individual four perspectives could lead to unnecessary activities, and could also cause that strategy is not integrated.

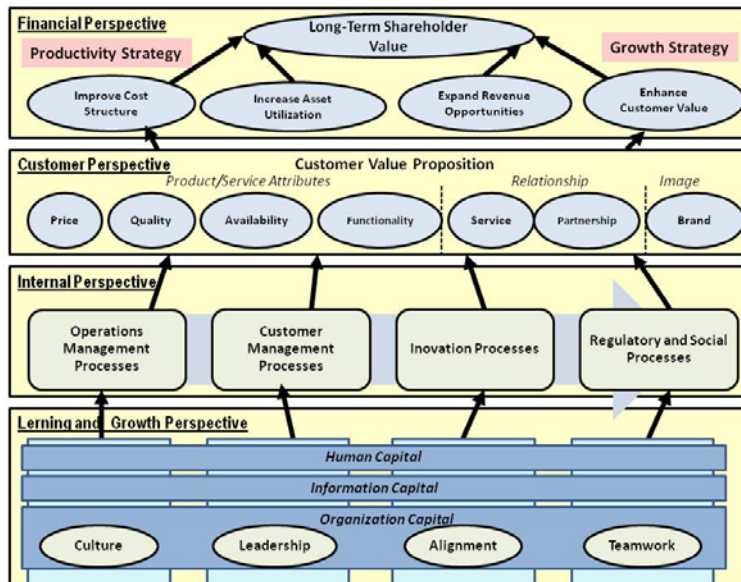


Fig. 2 The Strategy Map Framework (Source: Kaplan, Norton, 2004)

3. Balanced Scorecard Perspectives in Public Administration Organizations

Four standard perspectives of Balanced Scorecard (see Figure 2) create basic view on logic of company activities and its organizational units. Financial perspective does not always have to be initial perspective – this is the case of organizations of public sector. In this case the priority is not profit maximization but usually maximizing of a certain benefit within budget estimation. Organizations of public and non-profitable sector – compared with private sector – work mostly with the following perspectives in particular (these are in terms of strategic map often used in different order):

Perspective of the Public and Concerned Parties.

The initial point in strategic maps of organization of public and non-profitable sector is usually set out mission. The mission is a foundation for goals determination in the perspective of the public and concerned parties (CP) while **mission** must express the purpose of existence of a given organization. Within this perspective we seek answers to the following questions: who are those concerned parties and what are their expectations and requirements? This is true about those organizations of state administration (e.g. Ministry of Defense, MD) which do not have a direct relation to a citizen (client). Within communities and non-profitable organizations this perspective is usually focused on a citizen, or a client for provided services. Finding out the key concerned parties in public administration organizations is rather difficult. Unlike in private sector within public administration there is one CP that proposes a service, another CP pays for the service, and the last but not least is the CP (client) as a user of the service. We should include all CPs into strategic map if we assume them to have key roles, in terms of mission accomplishment especially. However, they might be included in

different perspectives, for instance one of CPs – personnel will be included into learning and growth perspective, on the other hand the CP that proposes the service can be included into internal processes perspective, and CP that pays for the service can be included into budget perspective.

Budgeting Perspective.

Financial perspective is often set out in strategic maps of public and non-profitable sector organizations as a perspective of financial resources or budget perspective which enable these organizations meet expectations and requirements of concerned parties (citizens) or represent constraints of function of these organizations. The essential questions that must be answered in terms of this perspective are these: What financial resources does an organization need to accomplish its mission (and vision) meeting at the same time requirements of concerned parties/citizens? Does an organization use its financial resources effectively and efficiently? What resources have to be ensured by an organization to attain proposed goals in perspective of concerned parties?

Internal Processes Perspective.

When proposing goals and indicators for internal processes perspective an organization seeks answers to the following question: What key processes have to be improved in order to meet requirements of concerned parties (citizens/customers)? In what way can the key processes help to fulfill the determined vision and strategic goals? Here the key processes should be understood as those from the category of major, controlling or supportive processes which are for the given period critical in accomplishment of vision and strategic goals of an organization. Effectiveness and efficiency improvement of internal processes in organizations of public and non-profitable sector is always related to an improvement of overall satisfaction of concerned parties, or citizens/clients, but

not through financial means since they can be seen as a limitative factor. Internal processes perspective is defined by capabilities that are attained in learning and growth perspective, and by available resources.

Learning and Growth Perspective.

This perspective refers to personnel and organizational infrastructure that is necessary for accomplishment of a long-lasting success. Personnel and organizational infrastructure stand for a future focus because the success of the other three perspectives is mainly based on personnel capabilities and on the tools used for vision and strategic goals enforcement. According to Niven (2003) learning and growth perspective in public and non-profitable sector is related to these three areas: personnel capabilities and competence, information capital, and organizational climate (motivation, delegation of powers, and personal involvement). Specific objectives and indicators of this perspective help to identify gaps between current personnel potential, organizational culture and information systems, and future requirements.

The perspectives of an organization are not strictly limited by given patterns and thus they can deviate significantly from their standard counterparts in private sector, and still they express organization strategy of public or non-profitable sector reliably and conclusively. Generally speaking, in perspectives that are set out in public and non-profitable sector organizations there are the following differences when comparing with private sector:

- Perspectives objectives are quite often related to mission.
- Sometimes there is the fifth perspective established – vision perspective. In different case there can be pictured strategic subjects over or within the perspectives (priorities).
- Customer perspective is divided into client perspective (receivers of

services) and concerned parties (promoters, fund providers, etc.). This perspective can be also replaced with the perspective of concerned parties (e.g. government, the public, international organizations).

- Financial perspective is usually replaced with budget or resources perspective which is in some cases (state administration especially) placed under learning and growth perspective.

- Perspectives names are determined so that they clearly illustrate their specific focus.

- Links between goals of strategic map are often indicated only roughly.

4. Parts of Organizational Strategic Focus

Strategic focus of an organization or its part is usually composed by five parts and these are mission, vision, values, strategic areas and general (strategic) goals of an organization or its part. We are going to introduce all these strategic focus parts and the fact is that some organizations do not work with vision, and they refer all other activities (establishing general and specific objectives and actions) to mission. Or there is another situation when they have not determined mission and work only with vision. Values are mentioned quite often, and as a rule these are in strategic plans of foreign organizations. However, in Czech Republic values are often assumed to be something formal and unnecessary. It is also worth noticing that specialists differentiate in the use of terms for these five parts. The truth is that a choice of name for a given part is not so important. But essential point about the term is that it ought to be clearly defined and explained, and to be used uniformly. If you already use any of the further described terms in a different meaning, carry on using it, but definitely determine its role and meaning within strategic planning and within strategy implementation.

Mission must express the purpose of existence of a given organization.

Determined mission should include key services provided or products, and key customers. In order to be able to define mission of an organization or its part it is necessary to have all management regulators revised; these are laws, regulations, norms and internal normative acts that influence the existence and running of a given organization. As soon as all management regulators for a given organization (of public sector in particular) undergo an audit we can formulate its mission. The basis for mission definition of public sector organization is competency specified by a legal regulation. For instance, competency of central organs in Czech state administration is regulated by Act ČNR N. 2/1969 Coll., *on foundation of ministries and other central organs of state administration of Czech Republic*, as amended and supplemented (the so called. Competency Act).

Vision is formulated as a required target state, or a generally shared idea what an organization is ideally supposed to look like in a certain time in future (usually in terms of 15-20 years). Vision can also include a description of customers and concerned parties who are supposed to benefit from services and/or products provided by an organization. Vision answers a question: "What will the success of our organization look like in 15-20 years?" In other words "Where will organization be under ideal conditions in future (in what position, situation, state)? Vision expresses target (planned) state of an organization in future. The point by which we today distinguish long-term successful organizations from those short-term or even unsuccessful is a capability to formulate visions, gain personnel for them and aim at them together by means of well worked-out ways (strategy). We should not get into a situation where top managers set out a vision that everyone agreed on, however, personnel do not understand it, or even worse, they know nothing about it. Therefore, it is vital that vision is shared by entire personnel of an

organization, which in other words means that they know and understand it.

Value is a feature that is accepted by an individual or an organization. It is possible to distinguish according its nature a financial, social, cultural and moral value. Moral values are more or less universal, while cultural values can alternate depending on organizations as well as countries. Cultural values in an organization should be related to organization's mission.

Organization's values usually look like a list that contains complex priorities in terms of how an organization is to work. Very often is there a case when organization's values are expressed as moral values. Moral values are those by which complex priorities are proposed: in what way personnel should act, e.g. honestly, with respect. Values are determined as a common conviction which is to be accepted by a whole organization and they can be an important tool for changing organizational culture and for personnel motivation.

On the basis of mission, vision, values and performed strategic analysis we set out **strategic subjects** which identify areas critical for success and organization's advancement. When determining strategic subjects the essential point is specification of areas that carry key roles for organization's vision accomplishment. In technical literature there is a number of terms used for strategic subjects or areas, and these terms contain the above mentioned meaning. These are among the most frequent used terms: key success factors, key areas, problematic (critical) areas, priorities etc.

A type of strategic analysis that enables determination of strategic subjects depends on decision made by members of a strategic team. In case of strategic plans of towns SWOT analysis, or sometimes situational analysis, is often used for this kind of activity.

Strategic (general, global, 0-range goal, aim) **goal** expresses AIM, in other words WHAT we want to accomplish usually in long-term time horizon. Strategic goals describe important (crucial) results in organization's strategic areas (subjects) that

are essential for vision fulfillment while an organization works on accomplishing of its mission. Or when rephrase, strategic goals illustrate what an organization must accomplish to be successful in future. Then strategic goals determine how a vision shall be fulfilled in individual strategic areas (subjects) and further work a vision into another level of detail expressing what is should happen. It is possible to say that they make up a heart of strategic plans because the very strategic goals determine what strategy will look like. We can estimate the success of organization according to a level of goals accomplishment. Determining of strategic goals should not stem from current problems (tactical extinguishing of fires). The number of strategic goals is limited, at individual organizations it usually ranges from four to seven.

STRATEGY must be understood as a group of specific objectives and ways of their implementations (means of attainment, game-plans) usually including assignment of available resources that are necessary for their implementations. In other words strategy is a way by which organization (or its part) intends to accomplish its vision and strategic goals.

5. Balanced Scorecard and its Role in Strategic Management of Organization

Specified strategic focus of an organization is specified in details by the use

of strategic map and Balanced Scorecard, and is transformed into a feasible form through suitable and interrelated specific objectives of individual perspectives and of appropriate indicators determined for each specific objective, target values and strategic actions. Assignment to perspectives should eliminate subjective, one-way thinking in deriving and observing goals. Thinking in terms of perspectives and connecting specific objectives within individual perspectives illustrates main relationships important for strategy implementation. Consequently, it seems that by means of a strategic map and Balanced Scorecard it would be possible to successfully implement even an inappropriate organizational strategic focus.

Nevertheless, what cannot be included in a strategic map or Balanced Scorecard at a strategy creation is: (1) Strategic analysis of opportunities and threats, strong and weak points, life-cycle stages and concerned parties. (2) Strategic focus determination on the basis of strategic analysis. A strategic focus must be unanimously agreed on by a top organization management. As long as a strategic focus is not clarified a creation of a strategic map cannot start, or Balanced Scorecard sooner than strategic focus is finished (see Figure 3).

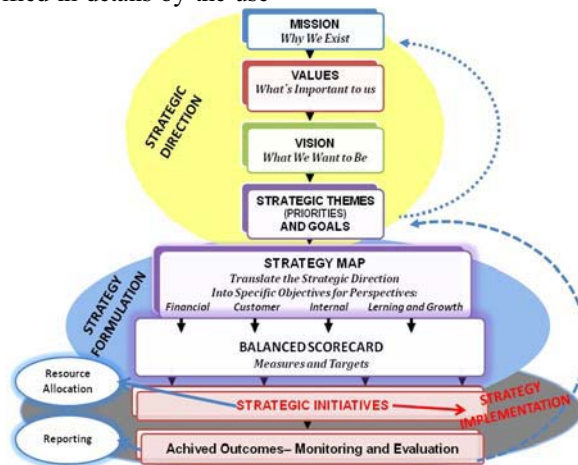


Fig. 3 Conditions for Implementation of the Method of Balanced Scorecard and its Role in the System of Strategic Management (Source: Kaplan, Norton, 2004, p. 34; Niven, 2003, p. 156)

As soon as a strategic focus is established we can proceed to a strategic map creation. We derive specific objectives for individual perspectives of a strategic map from strategic subjects (priorities), or strategic goals. In order to be able to plan strategy implementation (action plans processing) and observe its accomplishment is necessary to attach appropriate financial and non-financial indicators to specific objectives, as well as planned (in individual e.g. years of specific objectives accomplishment) and target values (result). Monitoring of strategy implementation is then carried out on the basis of a comparison of planned, or target values of an indicator with real attained values of these indicators. Strategic actions should ensure accomplishment of specific objectives which are also assigned to individual goals. With every strategic action there must be defined a term of accomplishment, budget and an individual responsible. Initial conditions for a strategic map creation and an implementation of the method of Balanced Scorecard, and its role in the system of strategic management are illustrated in Figure 3.

Specific objectives as well as their indicators, target values and strategic actions are not separated from each other. In fact the links between cause and effect in terms of a strategic map are closely interrelated. One specific objective accomplishment helps to attain other specific objectives that are parts of an integrated and balanced system of goals. Identification and demonstration of strategically important relations is a significant output of a strategic map. A strategic map and Balanced Scorecard helps us to attain strategic results that are satisfied concerned parties (e.g. promoters, taxpayers, citizens), pleased (satisfied) service users, effective and efficient processes and motivated and prepared personnel.

6. Conclusion

The major reason for Balanced Scorecard implementation is a current need for a swift transfer of strategic focus of an organization into a routine. Validity of strategies shortens due to many factors for

instance: fusions between customers and competitors, or opportunities provided by new information and communication technologies. It is not exception any more that companies operating in fast developing fields need structured strategic planning even twice a year. It means that fast and effective strategy implementation is critical for a success. However, this very fact is the major cause of most of the problems throughout the entire strategic management. Simply put strategic management can be divided into a strategy searching phase and a phase of its implementation. There have been developed many tools and methods for the search phase. For planning and management of operative processes there is available a lot of tools and good procedures as well. However, what is unclear is an interrelation between these two phases, and how to transfer strategies into operative processes, and this is the very impulse for Balanced Scorecard implementation.

BSC principal is very simple, and extraordinarily useful in case that it is properly implemented and used. The key principals of BSC concepts are: (1) Strategic map creation illustrating relations between established specific objectives at determined perspectives. (2) Determination of indicators, planned and target values, and strategic actions assignment. (3) Getting onto lower levels of management. (4) Monitoring and evaluation of strategy implementation. (5) Revision and updating of strategy on the basis of strategic focus changes and/or in external conditions development.

Balanced Scorecard helps you not only to do things properly but also to do proper things. When implementing BSC organizations often tend to underestimate the need of communication and learning, and so it is appropriate not to neglect these two significant success factors.

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