Balanced Scorecard

2012 IAS Conference

11 October 2012

Karim Moueddene
Agenda

1. Why of any interest for the Public Sector today

2. What is a Balanced Scorecard

3. Contribution to performance audit
1. Why of any interest for the Public Sector today

In recent years there has been increasing pressure on public sector organisations to improve their performance.

Expectations of the public are rising and citizens now expect their services to be delivered more effectively and with greater responsiveness to their personal needs. The current economic context means that the resources to deliver services are becoming scarce and even reducing.

**DO MORE**

Performance management has become crucial for public sector organisations because of a significant reduction in funding with increased community demand for quality services.

**WITH LESS**

More than ever, public sector organisations must ensure budget is allocated intelligently and must be able to measure and report whether strategic objectives are being met.
1. Why of any interest for the Public Sector today

Governments worldwide are introducing reforms to enhance performance management in the organisations that report to them.

In the **US**, Barack Obama appointed the US Government’s first Chief Performance Officer in January 2009.

In **Canada**, the government has introduced a management framework for departments and agencies that includes a commitment to measurable improvements in client satisfaction.

In **Australia**, all government departments, agencies and business enterprises that deal with the public are required to develop customer service charters.

In **Belgium**, strategic planning and the monitoring and evaluation of policy outcomes will become even more important for Flemish municipalities and other local bodies with the introduction of the Beheers- en Beleidscyclus (BBC).

In the **UK**, the Comprehensive Area Assessment (CAA), being the new framework for the assessment of local public services, came into effect on 1 April 2009. It replaces Comprehensive Performance Assessment (CPA) and sets out a framework by which the Authority’s performance is measured by looking at how particular services are performed against key indicators and examining whether the expected outcomes of policies and services are being achieved.

Reforms to move towards a more result-oriented management and efficient functioning of the public sector has been continuously on the agenda of the **Dutch** government. The VRD (Vernieuwing Rijksdienst) program that ended in 2011 promoted, amongst other, more effectiveness and efficiency in policy execution.
1. Why of any interest for the Public Sector today

The role of performance management is...

"Some people achieve the top of the ladder and only then realize it was standing against the wrong wall"
Stephen Covey, 1932-, Author of The Seven Habits of Highly Effective People

"Management is doing things right; leadership is doing the right things"
Peter F. Drucker, American Management Guru

"There’s nothing so useless than executing a task efficiently when it actually never should have been executed at all"
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"Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat"
Sun Tzu c. 490 BC, Chinese military strategist

...about aligning an organisation with its strategic objectives...
1. Why of any interest for the Public Sector today

... and to measure the success of the organisation in the execution of its strategic objectives...

“If you can’t measure something, you can’t improve it”
H. James Harrington, American author and consultant in performance improvement

“Organizations should decide what processes and competencies they must excel at and specify measures for each”
Robert S. Kaplan, Co-creator of the balanced scorecard

“Measurement is potentially one of the highest leverage activities any organisation can perform”
Dean Spitzer, Performance measurement expert

...therefore enabling to monitor and improve the effectiveness, efficiency and overall performance of the organisation.
1. Why of any interest for the Public Sector today

Successful performance management entails providing an holistic picture of strategy taking into account all its components

According to a recent API survey, public sector organisations mainly focus on outputs while only 23% balances their measures between inputs, outputs, and outcomes
1. Why of any interest for the Public Sector today

Enablers must be considered as a key component of strategy as they provide a better indication of future performance.
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Once identified, strategic objectives must be articulated in a clear and concise way showing their cause-and-effect relationships

Only 10% of public sector organisations were found to create strategic cause-and-effect maps to visualise the link between the different strategic perspectives, while only 4% show the cause-and-effect linkages between their different strategic elements (Advance Performance Institute)
1. Why of any interest for the Public Sector today

The Balanced Scorecard (BSC), created by Kaplan and Norton, is a leading strategic performance management framework that offers a balanced view between outcomes and enablers of strategy.
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1. Why of any interest for the Public Sector today

2. What is a Balanced Scorecard

3. Contribution to performance audit
2. What is a Balanced Scorecard

The BSC is a performance measurement tool organised around four balanced perspectives

- **Financial**: “How should we allocate our resources for maximum social impact?”
- **Vision & Strategy**: “Which internal processes should we optimise to increase our effectiveness?”
- **Stakeholder/Citizens**: “How do we have a social impact with our citizens?”
- **Learning & Growth**: “Which skills and capabilities should we emphasize?”

- Successful organisations must consider all the different dimensions of business performance at the same time, including intangible assets.
- As purposefully developed for commercial organisations, the basic framework of the BSC should be modified for enabling public sector organisations to utilise it to full advantage.
2. What is a Balanced Scorecard

*The BSC is one of the leading methodology for approaching performance management*

- **Vision**: Overall strategic vision of the organisation. What the organisation is trying to be.
- **Strategic themes**: Support the overall vision and provide areas of emphasis for the organisation to focus its activities (critical success factors).
- **Strategic objectives**: Further break down the vision and themes into more actionable elements.
- **Measurements**: How to monitor the achievement of the strategic objectives (key performance indicators).
- **Targets**: What level of performance is needed to successfully achieve the strategic objectives.
- **Initiatives**: Actions taken to improve current performance.

**“DOING THINGS WELL”**
**“DOING THE RIGHT THINGS WELL”**
2. What is a Balanced Scorecard

By cascading performance measures and targets, the BSC provides a framework for communicating strategic objectives throughout the organisation.
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2. What is a Balanced Scorecard

3. Contribution to performance audit
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The Balanced Scorecard can help internal auditors assess the efficiency and effectiveness of an entity.

- Clarifies strategic objectives
- Establishes performance indicators
- Measures performance
- Provides feedback on efficiency
- Provides feedback on effectiveness
- Includes all perspectives of an organisation
Appendix

Full Presentation
Balanced Scorecard

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1. Why of any interest for the Public Sector today
2. What is a Balanced Scorecard
3. Critical success factors
4. Challenges for the Public Sector
5. Contribution to performance audit
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*In recent years there has been increasing pressure on public sector organisations to improve their performance*

Expectations of the public are rising and citizens now expect their services to be delivered more effectively and with greater responsiveness to their personal needs

DO MORE

Performance management has become crucial for public sector organisations because of a significant reduction in funding with increased community demand for quality services

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Once identified, strategic objectives must be articulated in a clear and concise way showing their cause-and-effect relationships

- Stakeholder relationships
- “Customer” satisfaction
- Economic outturn
- Budget spending rate
- Effective communication channels
- Standardised processes
- Highly skilled workforce
- Integrated knowledge management structure

Only 10% of public sector organisations were found to create strategic cause-and-effect maps to visualise the link between the different strategic perspectives, while only 4% show the cause-and-effect linkages between their different strategic elements (Advance Performance Institute)

- Stakeholders/Citizens perspective
  - ... And satisfy our internal and external stakeholders.

- Financial perspective
  - ... That will enable sound financial management and the effective allocation of resources...

- Business Process perspective
  - ... In order to effectively execute the processes ...

- Lean ing & Growth perspective
  - What are the necessary skills our employees need ...
1. Why of any interest for the Public Sector today

The Balanced Scorecard (BSC), created by Kaplan and Norton, is a leading strategic performance management framework that offers a balanced view between outcomes and enablers of strategy.

- **Vision & Strategy**
  - Business Process: “Which internal processes should we optimise to increase our effectiveness?”
  - Stakeholder/Citizens: “How do we have a social impact with our citizens?”
- **Financial**
  - “How should we allocate our resources for maximum social impact?”
- **Learning & Growth**
  - “Which skills and capabilities should we emphasize?”
1. Why of any interest for the Public Sector today

*If implemented correctly, the BSC can help to address a lot of today’s perceived issues within public sector organisations*

- Alloc
- Lack of comprehensive view on strategy
- Not output-driven while increasing demand
- Diminishing resources
- Intensified scrutiny to see how budgets are spent (transparency)
- Not enough “customer-focused” organisation
- Inability to prioritise projects
- Lack of any sense of urgency to improve
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1. Why of any interest for the Public Sector today

2. What is a Balanced Scorecard

3. Critical success factors

4. Challenges for the Public Sector

5. Contribution to performance audit
2. What is a Balanced Scorecard

The BSC is a performance measurement tool organised around four balanced perspectives

- **Business Process**
  - **Objectives**
  - **Measures**
  - **Targets**
  - **Initiatives**
  - “Which internal processes should we optimise to increase our effectiveness?”

- **Vision & Strategy**
  - **Objectives**
  - **Measures**
  - **Targets**
  - **Initiatives**

- **Stakeholder/Citizens**
  - **Objectives**
  - **Measures**
  - **Targets**
  - **Initiatives**
  - “How do we have a social impact with our citizens?”

- **Learning & Growth**
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  - “Which skills and capabilities should we emphasize?”

- Successful organisations must consider all the different dimensions of business performance at the same time, including intangible assets.

- As purposefully developed for commercial organisations, the basic framework of the BSC should be modified for enabling public sector organisations to utilise it to full advantage.
2. What is a Balanced Scorecard

**The BSC is one of the leading methodology for approaching performance management**

| Vision | Overall strategic vision of the organisation  
What the organisation is trying to be |
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“**DOING THINGS WELL**”

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2. What is a Balanced Scorecard

By cascading performance measures and targets, the BSC provides a framework for communicating strategic objectives throughout the organisation.
2. What is a Balanced Scorecard

BSC’s are commonly associated with Strategy Maps in order to develop clearly articulated strategic objectives.

According to a survey by the Balanced Scorecard Collaborative, 84% of organisations that prepared a Strategy Map reported bottom line benefits from the exercise.

1. Strategy Maps begin with several explicit strategic themes and breaks them down into a series of tactical objectives.

2. Each of these objectives is mapped to both a strategic theme and a Scorecard perspective.

3. Each of the objectives is related to each other in a web of cause and effect relationships, which creates a coherent and holistic view of the tactical objectives needed to support the strategic themes.

Each tactical objective will then have a performance measure assigned to it which will populate the BSC.
2. What is a Balanced Scorecard

*BSC’s do not replace traditional reporting*

- **Strategic reporting**
  - **Balanced Scorecard**
  - **Management reporting**
    - Budget, treasury, financial performance, balances

- **Operational/Technical**
  - **Operational reporting**
    - Aged payables, project follow-up

- **Organisation-wide**

**KPI**

**Data**

**Historical**

**Specific**

**Actuals**

BSC’s do not replace traditional reporting
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3. Critical success factors

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3. Critical success factors

In order to successfully implement a BSC, an organisation must consider the following critical success factors:

- Top management commitment and support
- Cascading strategy down through the organisation
- Awareness and understanding
- Right metrics
- Limited number of measures
- Organisational alignment
- Integrated in overall IPM process
- Continuous process
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4. Challenges for the Public Sector

Whereas implementing and adopting the BSC requires tremendous effort in any industry, the public sector offers some unique challenges:

- Ability to measure
- No clear vision
- Consensus
- Transparency
- Political cycle
- Too much private-oriented
- No burning platform for change
- Technological capability
- Incentives
- Staff skills
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