# *Balanced Scorecard*

*" Choosing to be accountable for results is different and better than being held accountable."*

Peter Block, author, *The Empowered Manager*

For more than 25 years, Charlotte City government has measured performance because it subscribes to the belief that measurement matters. Over the years, City staff measured everything from workload, response time, and cost per unit to efficiency and effectiveness. One unintended result was an information overload -- lengthy reports that few people read or utilized.

The City's Management By Objectives (MBO) process served the organization well over the years and helped staff track performance against targets. However, it did not reflect the City's emerging emphasis on strategic goals, mission-driven government, and rapid change. The old measurement system focused the City's attention backward not forward. It was an audit tool, not a planning tool. It did not relate to the City's vision, mission, or goals.

## A Strategic Focus

Charlotte wanted a performance measurement tool and report that gave a quick but comprehensive view of progress in strategic areas, and translated mission and strategy into tangible objectives and measures. In 1992 the City Council developed and articulated five Focus Areas where they wanted to direct budget resources and city staff emphasis. Focus Areas have changed little over time and include C*ommunity Safety, City-Within- a-City, Transportation, Economic Development,* and *Restructuring Government*.

In order to communicate to the Council that the priorities in their focus areas were being addressed, the City needed a better performance measurement system that reflected the strategic focus of the City Council. The City Manager became familiar with the "Balanced Scorecard" concept through articles in the *Harvard Business Review,* and directed staff to assess its potential.

Staff found that traditional performance measurement systems often concentrate on improving the cost, quality, and cycle times of existing processes. However, the Balanced Scorecard highlights processes an organization must excel at to be successful. Robert Kaplan and David Norton, the architects of the Balanced Scorecard, describe it as the next generation of performance measurement. Kaplan says,

> " A Balanced Scorecard provides substantial focus, motivation, and accountability in government … the scorecard provides the rationale for their existence and communicates to external constituents and internal employees the outcomes and performance drivers by which the organization will achieve its mission and strategic objectives."

While the Balanced Scorecard was first utilized in the private sector, its concentration on four "balanced" perspectives, and not just financial results (the traditional focus), appealed to the City Manager. The Balanced Scorecard summarizes the most critical performance measures in a single management report and the Manager believed the City could adapt these concepts for use in the public sector, especially to put the focus on the citizen, or the Customer Perspective. The City customized the Balanced Scorecard, with Kaplan and Norton's concurrence, to put the Customer Perspective at the top of the Scorecard, instead of the Financial Perspective as originally designed. This Scorecard arrangement provided more flexibility for use in the public sector. In 1994, the City of Charlotte was the first municipality to implement the Balanced Scorecard.

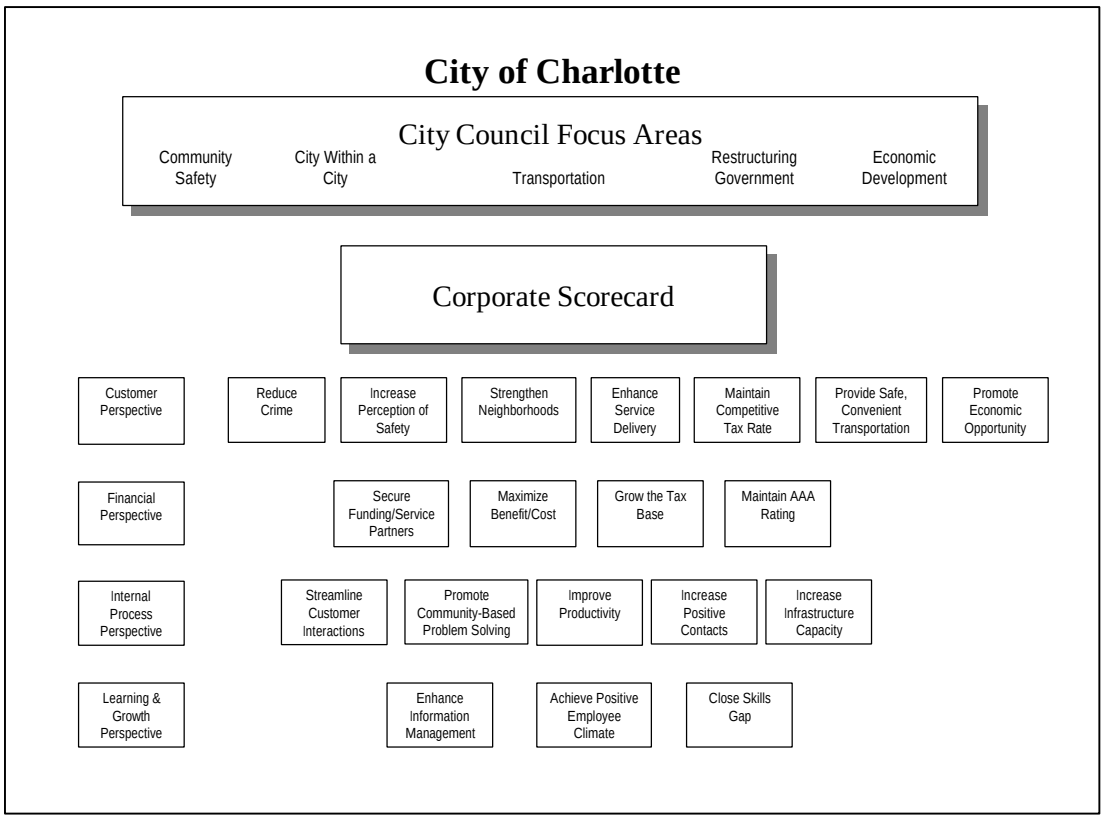
## The Balanced Scorecard as a Strategic Tool

The Balanced Scorecard is different from other performance measurement systems because it uses four balanced perspectives to answer critical service delivery questions. The Balanced Scorecard consists of the following four perspectives and helps the City to address the accompanying questions:

- **Customer Perspective** – "Is the City delivering the services the citizens want?"
- **Financial Perspective** – "Is the service delivered at a good price?"
- **Internal Process Perspective** – "Can the City change the way the service is delivered and improve it"
- **Learning and Growth Perspective** – "Is the City maintaining technology and employee training for continuous improvement?"

City management prepared a Corporate scorecard that presently includes 19 objectives and is centered on the five focus areas – C*ommunity Safety, City-Within-a-City, Transportation, Economic Development,* and *Restructuring Government.* The Renaissance Worldwide Consulting firm was used to develop the scorecard. The linkage of the scorecard to the five focus areas has made the Balanced Scorecard the strategic management tool the City was looking for. The City Council's Focus Areas and Corporate Scorecard, as it is referred to by staff, are shown in the chart on the next page.

The corporate level linkage model, below, illustrates the relationship between the five focus areas, the four balanced perspectives, and the 19 corporate objectives. Each perspective has anywhere from three to seven objectives associated with it, which directly links to a Council Focus Area.




## Corporate Objectives

Each of the 19 corporate objectives has a broad definition, which provides context for what is to be achieved. For example, the definitions for four of the 19 objectives are:

- *Customer Perspective*

  Reduce Crime – Decrease crime throughout the city through the use of community-oriented policing and other strategies that target specific crime categories or offenders.

- *Financial Perspective*

  Grow the Tax Base – Increase tax revenue by increasing new business development, retaining existing businesses, and encouraging residential/commercial developments.

- *Internal Process Perspective*

  Increase Infrastructure Capacity -- Increase City's capability to support growth by optimizing existing infrastructure and increasing infrastructure capacity.

- *Learning and Growth Perspective*

  Close the Skills Gap – Increase availability of leadership, customer service, problem-solving, technology skills, plus other skills required to support City priorities.

By using the objectives and linking those to the focus areas, all key business units are better able to identify their role in achieving the strategic objectives of the organization. The Corporate Scorecard does not and cannot represent every important service delivered. Instead, it encapsulates the strategic focus areas of the organization. However, there are a number of the 19 corporate objectives that every City business unit can embrace or impact, such as *enhance service delivery, maximizing benefit/cost, improve productivity,* and *close the skills gap.*

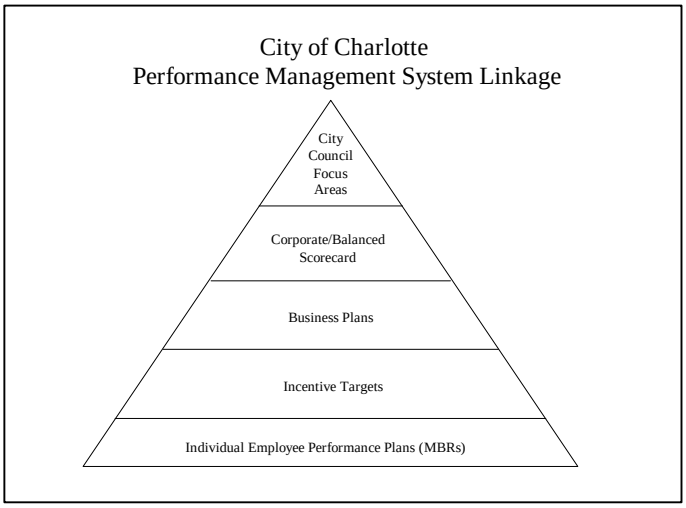
For example, basic city services such as fire suppression, garbage collection or animal control are not represented individually on the corporate scorecard, yet all three services can strive to "enhance service delivery." These basic services are better addressed at the business unit level scorecard, where some efficiency, effectiveness or activity-type measures may be more appropriate. The key is to identify on a high or macro level those corporate objectives that will maintain a strategic focus.

A next step for the Charlotte Corporate scorecard is to identify one critical measure for each of the 19 objectives. The Balanced Scorecard's designer, Robert Kaplan, felt this was a key step because it helps the City to advance towards its original goal to develop a quick, but comprehensive summary of progress on the City's strategic goals. It will also show how well the City is performing, while recognizing the day-to-day activities of "running the business" are measured in each business unit, and will support the critical measure identified. Budget and Evaluation staff has already begun the process of identifying one critical measure for each objective. Preliminary efforts reveal that a potential corporate measure for the "strengthen neighborhood" objective under the Customer Perspective could be the number of neighborhoods determined to be "stable" as reported in the Quality of Life index of all Charlotte neighborhoods. This Quality of Life index has been developed by the University of North Carolina at Charlotte and is being applied to all of Charlotte's neighborhoods.

## Cascading Through the Organization

The City's goal is to use the Corporate scorecard to meet the City Council's priorities in each focus area. To do this, the Corporate scorecard has been "cascaded" throughout the organization.

Scorecards are developed at the business unit level through



business plans. The business plan outlines how each business unit intends to address the strategic focus areas and Corporate scorecard objectives. It also identifies the measures that will be used to evaluate how well the business unit is addressing City Council priorities and providing service delivery. Not only are the objectives in the Corporate scorecard reflected in business unit scorecards, but also those initiatives and projects each business unit undertakes as simply a part of "running the business." Results for both the Corporate objectives and individual business unit initiatives are tracked at the business unit level.

This "cascading" of the Corporate scorecard is also reflected in each employee's performance compensation. Since 1995, the city has rewarded employees for achieving budget cost savings, if their business unit met predetermined productivity and cost savings goals that were identified in the unit's business plan as incentive targets. The link to employee evaluations has also been enhanced to where several business units now tailor individual pay-for-performance objectives to the business unit's business plan, as shown above. Thus, the goals for employees are directly linked to goals of the organization. This cascading feature of the scorecard also serves as a feedback loop. If business units are not meeting their objectives, then objectives of City Council are not being met and problems can be isolated and identified.

## Budget Integration

One of the City's most significant information tools is the budget document. Like many other municipalities, the City of Charlotte has struggled to link its performance measurement system to the budget. The budget presentation for Fiscal Year 2000 marked the first comprehensive attempt to show the City Council and citizens how the budget was tailored to meet the goals and focus areas of City Council. The integration of the focus areas and Balanced Scorecard with the budget included an overview of expenditures by focus area. In the City Manager's FY2000 budget transmittal letter, she recommended:

> "130 additional community safety officers, 20 fire fighters, and 24 positions for animal control to address the Community Safety Focus Area … the recommended budget also includes $32 million in neighborhood improvement bonds for the City Within a City Focus Area, the development of an Eastside Strategy Plan for the Economic Development Focus Area, more than $155 million in General Obligation Bonds for roads to address the Transportation Focus Area … and a reduction of 31 positions in Solid Waste Service due to a Managed Competition bid which addresses the Restructuring Government Focus Area."

In addition to highlighting the focus areas in the transmittal letter, the numerous program budgets of each business unit were also examined and placed under one of the five focus areas. Those program budgets which did not directly impact a focus area were

placed in a category titled "general government" to better reflect the cost of providing municipal services that fall outside the focus areas.

The FY 2000 budget also includes performance measurement information on the cover page of each business unit's budget section. These cover pages include basic budget information such as total budget amount with a comparison to the prior year, the number of funded positions, a bulleted list of the significant budget changes, and a list of measurements that were taken from business plans, which link to the Corporate scorecard. This approach will help Councilmembers to better determine how taxpayer dollars are being spent, based upon the measures provided.

### A Strategic Organization

One premise of the Balanced Scorecard is that it is more important to report on strategic processes such as promoting community-based problem solving than routine processes such as building sidewalks. The City's expectations regarding measures have changed with the development of the Corporate scorecard. In other words, it is not enough to know the level of workload or the cost of activities. It is more important to know outcomes and results.

Staff continues to strive for those measures that indicate the City's resources make a difference. For instance, the City's use of the Quality of Life index has helped to determine the impact of strategic activities in "fragile" or "threatened" neighborhoods. This index is a leap from merely measuring housing code enforcement activities to being more strategic to show what it takes to have a "stable" neighborhood.

Another measure to determine impact is the crime rate. In the past, police had measured response time which has proven to have no effect on the crime rate. The real issue with the crime rate is to prevent the next crime. The new police measures are concentrating on prevention through community–oriented policing and increasing citizen perception of safety.

The Balanced Scorecard has reinforced several important points:

1. Measurement gives clarity to vague concepts such as strategic goals.
2. Measure what matters.
3. Measurement is for communicating, not to control.
4. Building the scorecard develops consensus and teamwork throughout the organization.
5. Developing an effective performance management system takes time.

Implementing Charlotte's Corporate scorecard has helped the City become a more strategic organization by narrowing its focus and identifying better measures. This in turn has positively impacted the focus areas and those areas outside of the focus area that are part of "running the business" of providing municipal services.

## Benefits

One of the biggest benefits of the Scorecard is just being realized, which is the ability to provide strategic information to City Council -- information they can easily understand and use. By measuring what matters, the City has been able to move from the Management By Objectives system that had between 800 – 900 measures to the Balanced Scorecard, which in FY1998 incorporated 266 measures, including those used at the business unit level. "Measuring less" has worked better because the measures used are results-oriented or outcome-based, instead of activity measures, which do not tend to provide the full context as to what was accomplished or how money was spent.

One of the reasons the scorecard has worked so well is the tremendous support and leadership from the City Manager and City Council. The City Council is interested in performance outcomes and endorses the Balanced Scorecard because they get better information/reports that more clearly shows what a citizen gets for their tax dollar. The City Council members are also individually attuned to performance measurement and are comfortable discussing performance measurement; thus, they ask for performance information from staff. The Scorecard also represents the City Manager's commitment to performance measurement, which began with her first job with the City as an Evaluation Analyst more than 20 years ago.

The City Manager now publishes a quarterly Corporate Performance Report, which centers on the progress in each of the five focus areas and the 19 objectives of the Corporate scorecard. By linking the performance measurement system and reporting on the Council's focus areas and priorities, the City has truly developed a strategic organization that can report outcomes and progress in a simple manner. This process has produced two intended benefits:

1. City Council receives reports that include strategic results.
2. Strategy is communicated to citizens and employees.

Through its reporting structure, the Balanced Scorecard has provided the City of Charlotte with a strategic feedback loop. The loop begins with City Council setting strategic goals in the focus areas to drive budgetary decisions and concludes with reports in a strategic format that tells Council and others how well the city is progressing on its priorities and the many facets of "running of the business."

## Lessons Learned

***Developing a Balanced Scorecard is hard work***

Identifying focus areas and 19 objectives that strategically reflects how the organization wants to proceed or direct resources takes a strong introspection and ability to determine measures that matter.

***Expect resistance***

Change is hard, no matter what it is called or what form it is presented. Using a pilot or test-driver approach will assist in working out the "bugs" and help others to see the benefits being realized by their peers.

***Have a high-level Champion***

Having the City Manager and Deputy City Manager promote the Balanced Scorecard has helped guarantee its success, knowing they are committed to seeing the initiative succeed. Given that it could take up to five years to fully implement, it has been helpful to have high-level support over the long term.

***The process takes time and commitment***

Given that the Balanced Scorecard is an encompassing system, it takes commitment by people to learn how to develop the Balanced Scorecard and teach it to others. The learning, teaching, and implementation phase can take several years, thus the time commitment can be enormous. Pilot business units spent 12 –20 hours per week for nine weeks developing their scorecards and the City has committed approximately 1.5 full time equivalent (FTE) to coordinate the City-wide Balanced Scorecard Project since 1994.